



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2017 & 2016

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MARYLAND LOTTERY AND  
GAMING CONTROL AGENCY

Enterprise Fund of the State of Maryland

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## **INTRODUCTORY SECTION**

IN FISCAL YEAR 2017, THE MARYLAND  
LOTTERY AND GAMING CONTROL AGENCY  
(MLGCA) CELEBRATED 43 YEARS OF SUPPORTING  
MARYLANDERS. THE MLGCA IS THE FOURTH  
LARGEST CONTRIBUTOR TO THE STATE AFTER  
INDIVIDUAL TAX, CORPORATE TAX, AND  
SALES AND USE TAX.

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# Maryland Lottery and Gaming Control Agency

Larry Hogan, Governor • Gordon Medenica, Director



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December 23, 2017

The Honorable Larry Hogan, Governor

Maryland Lottery and Gaming Control Commission

## INTRODUCTION

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Maryland Lottery and Gaming Control Agency (MLGCA) for the fiscal years ended June 30, 2017, and June 30, 2016. This report has been prepared by the Accounting Department of the MLGCA. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the MLGCA. To the best of our knowledge and belief, the enclosed data is accurate and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the MLGCA. All disclosures necessary to enable the reader to gain an understanding of the MLGCA's financial activities have been included.

Presented in this report is information about the MLGCA, an independent agency of the State of Maryland. The MLGCA was established by the Maryland General Assembly through the enactment of Chapter 365 of Laws of Maryland of 1972 and the voters' approval that same year of a constitutional amendment. The amendment was ratified on November 7, 1972, and operations commenced on January 2, 1973. During the 2007 special session of the Maryland General Assembly, Chapter 4 was enacted relating to the legalization of Video Lottery Terminals (VLTs; essentially slot machines) in the State, subject to the passage of a voters' constitutional referendum. In 2008, voters approved the installation of up to 15,000 VLTs at five casinos in the State. On August 14, 2012, Senate Bill 1 – Gaming Expansion – Video Lottery Terminals and Table Games – passed the 2012 Second Special Session of the Maryland General Assembly. This bill contained many provisions concerning gaming operations and certain provisions that were subject to voter referendum. The provisions that were subject to voter referendum passed during the November 6, 2012, election and allowed for a sixth casino, increased the number of VLTs allowed in the State from 15,000 to 16,500, established table games and allowed for 24/7 casino operations. The MLGCA, in conjunction with a seven-member Commission, administers the gaming program while also managing lottery operations. The MLGCA is an enterprise fund of the State and is included in the State's Comprehensive Annual Financial Report. MLGCA activity is reported as a major enterprise fund type and includes all activity for which the MLGCA is financially accountable.

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

The MLGCA is operated as a business enterprise within the framework of State laws and regulations. Its primary mission is to generate revenue for the State, both through the sale of traditional lottery products and through the administration of the casino gaming program. The MLGCA fulfills this mission by offering the sale of both draw games and instant tickets, as described further on pages 18 through 24. Since its inception in 1973, traditional lottery sales have exceeded \$45.2 billion and have contributed \$15.5 billion in revenue to the State. The majority of the revenue from the traditional lottery is contributed to the State's General Fund and is used to support various programs and services, such as education, public health and safety, human resources and the environment. In addition, the MLGCA is required by statute to contribute a defined amount of traditional lottery revenue each year to the Maryland Stadium Authority, 10% of the ITLM revenue to the Veterans Trust Fund and beginning in fiscal year 2017, \$1 million to the International Racing Fund. Throughout the years, lotteries have evolved and have become more diversified, offering players a variety of choices. Today, 44 states and the District of Columbia operate lotteries selling both draw games and instant tickets. During fiscal year 2017, these lotteries generated \$80.4 billion in sales nationwide. The Maryland Lottery ranked ninth among state lotteries in per capita sales during this time period.

The mission of the casino gaming program is both to generate revenue for the State of Maryland and to create good-paying jobs, while maintaining integrity, security, transparency and fair play. Since the inception of the gaming program in 2011, video lottery gross terminal revenues generated by the casinos total in excess of \$3.7 billion. Since the inception of table games in fiscal year 2013, revenues generated from table games total \$1.5 billion. The distribution of gaming revenue is directed by statute and described more fully on page 60 of this report. Today, eight state lotteries have the responsibility of regulating casino operations. During fiscal year 2017, casinos regulated by lotteries generated \$3.3 billion in government revenues in their respective states.

## **ECONOMIC OUTLOOK AND MLGCA PRODUCTS**

Please see Appendix A on page 15 for Maryland's Bureau of Revenue Estimates economic outlook and Appendix B on page 18 for MLGCA products, both of which are an integral part of this transmittal letter.

## **HIGHLIGHTS OF FISCAL YEAR 2017**

In fiscal year 2017, the MLGCA contributed more than \$1.117 billion to the State of Maryland to support good causes, such as the Maryland Education Trust Fund; public health and safety; small, minority and women-owned businesses; horse racing; veterans' organizations; and more. \$524.9 million was generated by the Lottery and \$592.0 million was generated by the casinos.

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## TRADITIONAL LOTTERY

In 2017, the Lottery established a new all-time sales record of \$1.935 billion and instant ticket sales set an all-time record totaling \$676.8 million, an increase of \$65.5 million (10.7 percent) over 2016. The Lottery continued to work towards an overall goal of increasing the percentage contribution of instant games to overall sales. As a result, the Lottery continued to leverage both the popularity of national entertainment brands such as Monopoly, Family Feud, Scrabble and Yahtzee and consumers' affinity for Maryland-based institutions to drive growth in the scratch-off game category. Additionally, the Lottery introduced Maryland's first \$30 scratch-off game with top prizes of \$2,000,000 to drive category growth.

In fiscal year 2017, the Maryland Lottery continued its marketing partnership with the Baltimore Ravens, Baltimore Orioles, Washington Redskins, Towson University and the University of Maryland.

Other noteworthy product and sales initiatives included a Powerball Power Cruise promotion which gave players the chance to win a five-night cruise with Powerball Power Cruise winners from across the country. Several short-term product promotions were executed across all draw and monitor games during the course of fiscal year 2017 to boost sales by rewarding players with second-chance contests, extra ways to win and other prizes.

In May 2017, the Lottery awarded a seven-year contract to Scientific Games for a new lottery system. This new contract will provide a new gaming system and staffing that will meet all of the MLGCA's requirements for supporting its current games while providing improved flexibility for future development efforts. The new central system and new retailer equipment will provide operational efficiencies and expanded capabilities. New equipment at retailer locations will enhance the image and appeal of the MLGCA to both the public and its retailers, resulting in increased player and retailer satisfaction. These improvements are expected to contribute to increased sales and revenue. Within its scope, the new contract will:

- Replace and upgrade the existing lottery system, which is over 12 years old and is now obsolete. The existing central computer will be replaced by new state-of-the-art systems;
- Replace all terminals, monitors and other equipment at over 4,500 retailer locations throughout the State, including: new clerk operated terminals, larger monitors with higher resolution for monitor games (Keno and Racetrax) and two types of self-service terminals to reach a broader retailer base;
- Replace the existing communications network with a faster and more reliable dual cellular-based telecommunications network which allows much faster installation of new retailers and includes superior HD video capability for supporting monitor games and advertising;
- Provide additional staff and technology to assist the MLGCA with retailer recruitment, data analysis, marketing and promotions; and
- Provide additional equipment to improve instant ticket order fulfilment, thereby increasing sales.

The Lottery anticipates the new system will be fully implemented by the end of fiscal year 2018.

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## CASINO GAMING

Maryland's casino industry continued to grow and set revenue and contribution records in fiscal year 2017.

Maryland's newest and largest casino opened on December 8, 2016, in Prince George's County to enormous crowds and tremendous media attention. The MGM National Harbor casino includes 3,300 slot machines, 167 table games, a 3,000-seat theater, a 300-room hotel, multiple celebrity chef food outlets and retail stores, with total employment nearing 4,000.

Additionally, fiscal year 2017 saw development of expansion plans for Horseshoe Baltimore, Rocky Gap, Ocean Downs and Maryland Live!, which broke ground on a new hotel/conference facility adjacent to the casino in Anne Arundel County. Also, the state began the process of turning over the ownerships of VLT machines to the casinos at Rocky Gap and Ocean Downs, to be consistent with all other casinos.

## RESPONSIBLE GAMING

The MLGCA is committed to an organization-wide effort to emphasize the importance of responsible gaming initiatives.

During fiscal year 2017, the Maryland Lottery received certification from the Responsible Gambling Best Practices Program run jointly by the National Council on Problem Gambling (NCPG) and the North American Association of State and Provincial Lotteries (NASPL) at the Implementation Level standard for a period of three years. The program requires lotteries to identify and develop specific responsible gambling research, employee training, retailer training and education/awareness initiatives. It also requires the tracking of budgetary resources committed to responsible gambling, and the development of policies and procedures that support responsible gambling for new and existing products.

In March 2017, during Problem Gambling Awareness Month, MLGCA staff gained insights from one of the nation's foremost responsible gambling authorities, Marlene Warner, Executive Director of the Massachusetts Council on Responsible Gambling. Ms. Warner spent two days in March 2017 visiting the Agency's Baltimore headquarters and speaking to staff from all divisions, including a presentation for the Lottery's Sales team.

MLGCA staff members also began working on the Agency's application for Level 3 status in the World Lottery Association (WLA), a global organization comprised of nearly 150 lotteries. The WLA maintains a set of responsible gambling principles that provide the framework for four levels of certification. WLA members are required to engage in the continual development of responsible gambling initiatives, including training programs for Agency staff and Lottery retailers. The MLGCA currently is a WLA Level 2 member and plans to submit its application for Level 3 status during 2018.

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## **FINANCIAL INFORMATION**

### **ACCOUNTING SYSTEMS AND POLICIES**

The MLGCA operates enterprise activities, which include sales of instant and draw game tickets, ITLMs, the oversight of gaming operations and the related support functions: personnel, finance, administration, marketing, security, information technology and licensing. No general government functions or operations are managed by the MLGCA or included in this report. The MLGCA, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred.

### **BUDGETARY SYSTEMS AND CONTROLS**

Budgetary control for all State agencies is maintained through the Governor's approval and the enactment of the State's budget by the General Assembly. Each year, the MLGCA submits its budget to the Governor for approval. The budget includes all costs to operate the traditional lottery and to oversee gaming operations. Excluded from the budget are lottery prizes paid to winners, commissions paid to lottery retailers and commissions paid to casino operators. Lottery prizes and commissions are funded from the sale of lottery tickets and are not included as part of the annual budget submitted for approval. Commissions paid to the casino operators are funded from VLT and table game revenue.

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

### **DEBT ADMINISTRATION**

The MLGCA's long-term liabilities are primarily payments owed to jackpot, annuity and lifetime winners and capital lease obligations. The payments due to winners are fully funded by amounts invested primarily in United States Government Agency Obligations (coupon bonds). Some investments also are held in annuity contracts. Capital lease obligations are for video lottery terminals leased through the VLT manufacturers.

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## INTERNAL CONTROL ENVIRONMENT

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

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

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

- employing specialized compliance staff who are present at the casinos on a 24-hours-a-day/7-days-a-week basis;
- maintaining secure facilities and limiting access to them;
- performing background checks on retailers, vendors, employees and anyone requiring a gaming license;
- printing lottery tickets with special security features;
- performing unannounced inspections at the drawing studio to ensure compliance with established operating procedures;
- processing daily transactional data of all vendor activity by MLGCA personnel using internal control system programs and reconciling transactions to reports generated by the online lottery gaming vendor;
- comparing, on a daily basis, gross terminal revenue recorded on the MLGCA's central system to gross terminal revenue reported by the casinos' slot accounting systems, and reconciling any differences;
- employing auditors at the casinos to ensure table game revenue is accurately accounted for and that the casinos are adhering to the required internal controls; and
- providing a variety of access and other controls in the MLGCA's computer systems.

The MLGCA has 329 employees, including contractual employees. The drawing studio is located at the broadcast facility of a television station located in Baltimore, Maryland, which produces various draw game nightly drawings. Keno and Racetrax drawings are conducted by random number generators and are maintained and secured at the lottery draw game vendor's office located in Baltimore, Maryland. Mega Millions and Powerball drawings are held in Georgia and Florida, respectively. Cash4Life drawings are held in New Jersey.



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## **FUTURE PROJECTS**

Fiscal year 2018 will be a challenging year for the MLGCA as it strives to meet and exceed both the high level of State contributions achieved in fiscal year 2017 and State BRE estimates. Listed below are a few projected highlights for fiscal year 2018.

### **TRADITIONAL LOTTERY**

The most significant project will be the installation of a new central system and subsequent conversion of hardware and software across the entire retail network to take the Maryland Lottery into the next decade. This conversion will provide business intelligence tools, salesforce software, new point-of-sale terminals and new game monitor screens that provide more information to assist in decision making as well as offering players new and exciting promotions.

The lottery is looking forward to a full year of results from a Mega Millions game change which, similar to changes made to Powerball, will result in higher jackpots and more second-tier prizes for players. Fiscal year 2018 will also mark the 25th anniversary of Keno in Maryland, and the lottery expects to offer players additional opportunities to win to celebrate the milestone. In terms of scratch-off games, the lottery is evaluating a number of newly available licensed game opportunities for potential product introductions in calendar year 2018. Plus, the lottery expects to introduce a second \$30 scratch-off game in March 2018 on the heels of the successful introduction of the price category this year.

Finally, the lottery will be refreshing its player rewards program, My Lottery Rewards, to offer more benefits in order to increase engagement with players and to grow sales. As part of this initiative, the lottery expects to migrate its longstanding jackpot subscription program to the My Lottery Rewards platform, allowing for more integrated administration and the ability to offer additional games via subscription purchase.

### **CASINO GAMING**

In the year ahead, all Maryland casinos are expected to respond to changing player preferences by reorganizing their existing game space, game mix or proposed expansions. Highlights of these efforts that have been announced to date include the projected opening of the Live! Hotel attached to the Maryland Live! Casino, a renovation and expansion of the Ocean Downs facility (including the addition of table games), and other enhancements at Horseshoe Baltimore and the Rocky Gap Casino and Resort.

### **INDEPENDENT AUDIT**

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

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## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the MLGCA for its CAFR for the fiscal year ended June 30, 2016. This marked the twelfth consecutive year the MLGCA received this prestigious national award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the Accounting Department. A special note of thanks is also given to the MLGCA's Creative Services Division and current creative services partner for assisting in the layout of this report; Andrew Schaufele, Director of the State's Bureau of Revenue Estimates, for his assistance in providing information concerning the Maryland economy; and the MLGCA's independent auditors for providing assistance in developing this report.

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

Respectfully Submitted,

MARYLAND LOTTERY AND GAMING CONTROL AGENCY



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

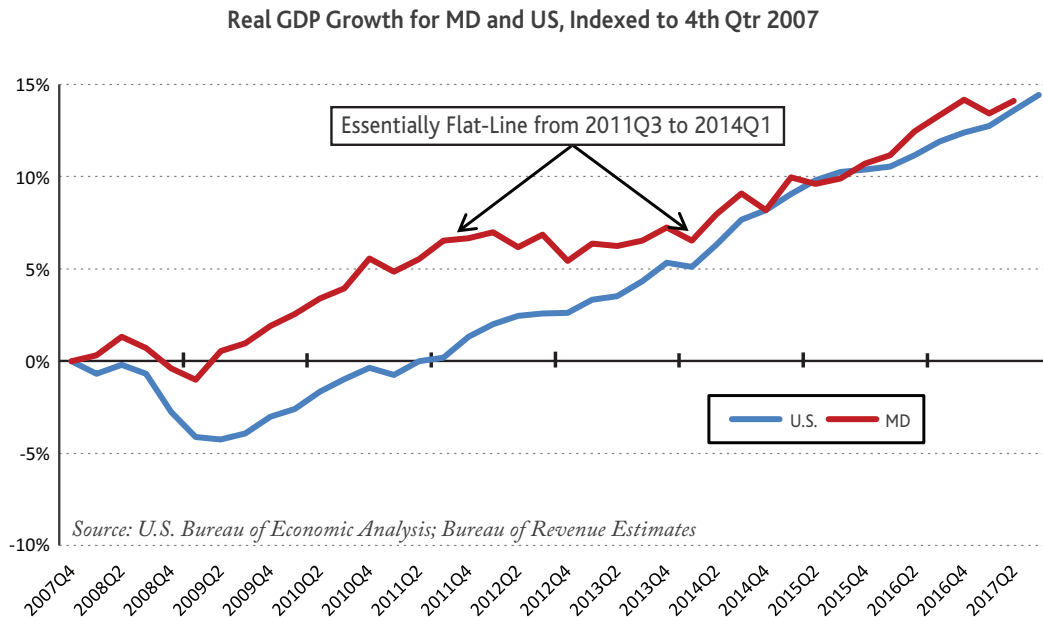


Gordon Medenica  
Director

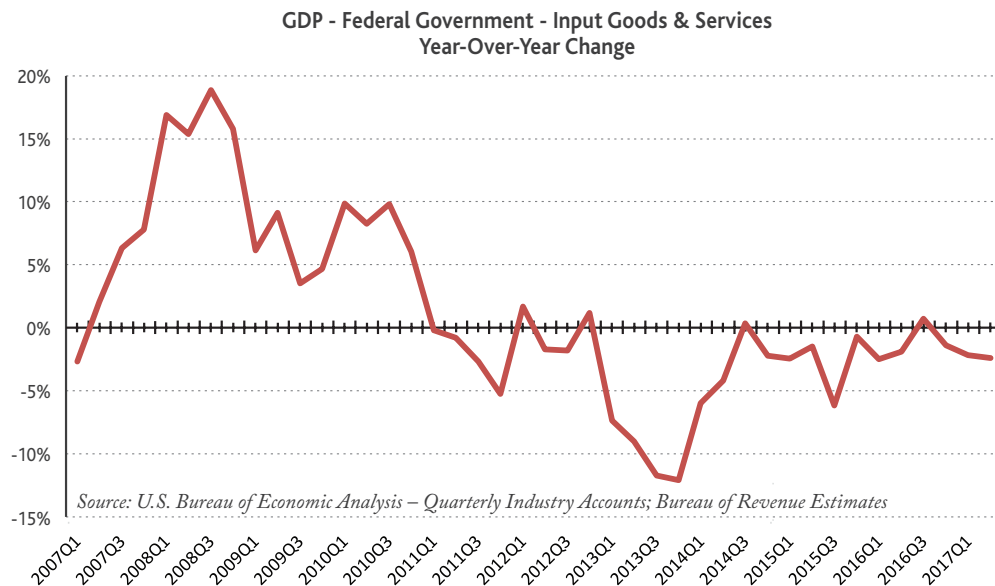


## APPENDIX A: MARYLAND AND FEDERAL FISCAL POLICY

Maryland's economic growth between 2012 and 2015 was tepid at best, particularly relative to national growth. This coincides with federal budget sequestration. The following chart illustrates the relative weakness of Maryland's recovery over this period compared to the national recovery, a clear indication of the relative fiscal drag. Fortunately, as the worst of the sequester passed, Maryland's economy returned to growth in line with the nation as a whole.



The chart below helps illustrate the timing of the sequester impacts. The data are somewhat esoteric, but it shows the growth in the value of intermediate inputs purchased by the federal government. Intermediate inputs represent the value of the private sector's sales to the federal government, an important component of Maryland's economy. While these data are not Maryland specific, we are far more affected than any other jurisdiction outside of Virginia and the District of Columbia.



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As the previous chart shows, the decline in the value of intermediate inputs purchased by the Federal Government leveled out at around the same time Maryland's economy returned to growth. That said, the sector will likely continue to be a drag. The sequester targets will restrain growth in discretionary spending until 2019; therefore, an important sector of our economy will remain limited. In light of present federal budget uncertainty, this remains a risk to our forecast. A lower spending and hiring trajectory for the federal government will have impacts on Maryland similar to the sequester, whereas fiscal stimulus in the form of tax cuts will benefit the State's relatively-wealthier-on-average residents. At the same time, the Federal Reserve is tightening monetary policy, resulting in a higher federal funds rate; additional fiscal stimulus in this context is likely to lead to tighter monetary policy in order for the Federal Reserve to accomplish its dual mandate of low and stable unemployment and inflation.

Fiscal policy will also be a possible positive risk to this forecast. Federal sequestration did essentially nothing to fix the federal fiscal quagmire or address national debt. In fact, it may have had a negative effect; the economic impact of the half-measures reduced economic growth without solving longer-term spending issues. The real issues for the federal fiscal outlook are entitlements (also related to demographics). Should Congress address the real problem and remove the sequester altogether, Maryland will grow at a higher trajectory.

## THE MARYLAND OUTLOOK

Maryland's economy will expand in 2017, and growth in employment is expected to be 1.3%, down from 1.4% in 2016. Employment growth in 2018 is expected to slow as a result of having reached full employment and declining working age population growth. Growth in the average wage for 2017 is expected to rise to 2.3% from 1.6% in 2016. In addition to the reasons that have been discussed throughout this summary, there appear to have been timing issues, such as an extra pay period at the end of 2015, which has brought artificial volatility to year-over-year wage growth statistics. The rate of wage growth is expected to increase as the labor market tightens and workers gain experience, but remain low relative to historical norms. Aggregate wage growth and personal income measures increase as employment and the average wage improve. The outlook for the largest general fund revenue source, the income tax, is relatively strong. This is due to Maryland's strong concentration of wealthy taxpayers. However, comparing the number of taxpayers to population estimates, the share of Maryland residents filing tax returns has been declining. This suggests that a lesser share of residents are paying Personal Income Taxes, though the reasons are not known with certainty and the issue requires further analysis.

Revenue growth of the Sales and Use Tax (SUT) per unit of overall economic growth as well as per dollar spent by consumers appears to have declined. This is due in part to demographic forces. Beyond middle age, individuals tend to consume less overall and consume a greater share of non-taxable services. In addition to the rise of online retailing and digital goods, the internet has enabled a sharing economy and more frequent consumer-to-consumer sales of used goods. Real estate and construction, however, are relative bright spots in the recent history and outlook. The number of houses in foreclosure has declined back to rates observed in the late 1990s and early 2000s, while sales have been strong. The median existing house price grew 3.7% in 2016 and is up 4.9% this year to date as of October. Employment in residential construction grew 3.2% in 2016. SUT receipts point to strength in the construction sector as a whole. In fiscal year 2017, SUT receipts from the construction sector grew by 4.2%, following growth of 4.4% in fiscal year 2016.

Inflation has been historically low since the Great Recession. As measured by the Consumer Price Index, inflation has risen to 1.8% as of October. All else equal, lower inflation would mean lower nominal wage growth, as employers do not need to increase nominal wages by as much to keep up with inflation. An increase in inflation and nominal wage growth would result in higher income tax revenues than would otherwise be the case. Increasing nominal prices could, by the same logic, lead to faster growth in nominal SUT revenue. However, inflation has been driven lately by increasing prices of services rather than taxable goods. When all else is not equal, the net effect depends on the cause of inflation. If the source is negative supply shock, such as during the 1970's oil price spike, real growth, and ultimately tax collections, may be harmed.

Outlook For Key Maryland Economic Variables				
Calendar Year	Non-Farm Employment Growth	Personal Income	Aggregate Wage & Salary Income	Average Wage
2015	1.6%	4.5%	4.6%	3.0%
2016	1.4%	3.6%	3.0%	1.6%
2017E	1.3%	3.6%	3.7%	2.3%
2018E	0.8%	3.7%	4.0%	3.2%
2019E	0.5%	3.8%	3.8%	3.2%
2020E	0.6%	4.1%	4.0%	3.4%
2021E	0.4%	3.8%	3.3%	2.9%

Source: Bureau of Revenue Estimates

## RISKS

As usual, risks abound. Federal Reserve action to tighten monetary policy is ongoing; there is a risk that the market reacts in a negative manner that gains traction or that resulting higher interest rates slow broader growth in such a way that the economy again falters. Additionally, there continues to be considerable federal policy uncertainty. Some policies that may or may not come to be could help the Maryland economy, while others could hurt it. Another risk, as ever, is oil prices. A resulting increase in oil prices would be a drag on average consumer spending in Maryland. Where oil prices end up depends predominantly on the size of OPEC production cuts and the ability of shale oil producers in the United States to increase output in response to a rise in prices. While oil price changes still impact the economy, the rise of domestic shale oil producers and their ability to respond quickly to price changes means the U.S. economy is affected to a lesser extent by swings in the international oil market than was the case in the past.

Positive risks include the aforementioned reduction or abolition of federal sequester, increased infrastructure spending and the expansion of the Panama Canal. The Panama Canal widening allows larger cargo ships, called “post-Panamax ships,” to sail from Asia to the East Coast. Prior to the project’s completion in June 2016, that cargo was typically delivered to the West Coast and then transported by rail and road throughout the country. Baltimore is one of the few ports on the East Coast with the depth and infrastructure to handle these types of ships, and will see increased need for labor and capital. 2016 was a record year in terms of containers and general cargo tons processed. Should there be a meaningful surge in activity and jobs, there will also be positive indirect and induced impacts.

Source: Andrew Schaufele, Director, Maryland Bureau of Revenue Estimates

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## APPENDIX B: MARYLAND LOTTERY PRODUCTS

The MLGCA has introduced a number of different traditional lottery games since its inception and continues to provide players with the opportunity to participate in a variety of draw and instant ticket games. Draw games allow players to pick their numbers or utilize automatic computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won. Instant games are played by scratching a latex covering off a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner. Instant Ticket Lottery Machines give players the same experience of playing an instant ticket but through a machine.

Lottery games offered during fiscal year 2017 included the following:



**FISCAL YEAR 2017 STATISTICS — POWERBALL:**

**\$94.6 million in net sales**

**4.9% of total net sales**

**\$42.4 million decrease from fiscal year 2016 Powerball net sales**

**FISCAL YEAR 2017 STATISTICS — POWER PLAY:**

**\$5.5 million in net sales**

**0.3% of total net sales**

**\$954 thousand decrease from fiscal year 2016 Power Play net sales**

**POWERBALL®** is a multi-state Jackpot draw game. The MLGCA began selling Powerball/Power Play in January 2010. Currently, 47 lotteries sell Powerball/Power Play. The base price of Powerball is \$2 and has a starting Jackpot of \$40 million. In Powerball, players choose or request the computer to generate a total of six numbers from two different fields. Players pick five numbers from a field of 69 and one Powerball from a field of 26. Players matching all numbers and the Powerball win the Jackpot. If there are multiple winners, the Jackpot prize is divided evenly among all winners. The odds of winning the jackpot are 1 in 292 million. Players also can win prizes ranging from \$4 to \$1 million. **POWER PLAY®** is a special feature of Powerball that allows a winner to increase their original Powerball prize amount. For an extra \$1, Powerball players can win \$12 to \$2 million. Drawings are held on Wednesday and Saturday evenings.



**FISCAL YEAR 2017 STATISTICS — MEGA MILLIONS:**

**\$60.7 million in net sales**

**3.1% of total net sales**

**\$6.5 million decrease from fiscal year 2016 Mega Millions net sales**

**FISCAL YEAR 2017 STATISTICS — MEGAPLIER:**

**\$5.7 million in net sales**

**0.3% of total net sales**

**\$377 thousand decrease from fiscal year 2016 Megaplier net sales**

**MEGA MILLIONS®** is a multi-state Jackpot draw game. The MLGCA began selling Mega Millions in September 1996. Currently, 46 lotteries sell Mega Millions. In October 2013, Mega Millions changed its matrix to give players better odds of winning any prize. The overall odds of winning any prize are 1 in 15. While players still select five white balls and one Mega ball, the number of white balls available to select from increased to 75, up from 56, and the number of Mega balls available to select from decreased to 15, down from 46. Jackpots now start at \$15 million, up from the previous \$12 million, and grow by a guaranteed \$5 million per draw. Players matching all numbers and the Mega ball win the Jackpot. If there are multiple winners, the Jackpot prize is divided evenly among the winners. The odds of winning the Jackpot are 1 in 259 million, up from 1 in 175 million. A second tier prize of \$1 million is now available, up from the previous \$250,000. Megaplier, a special feature that allows players to multiply their non-Jackpot winnings for an extra \$1, also changed. Players can now multiply their non-Jackpot winnings by 5 times, meaning they can win up to \$5 million. Winnings can still be multiplied by two, three or four as previously offered. Drawings are held on Tuesday and Friday evenings.



**FISCAL YEAR 2017 STATISTICS:**

**\$24.0 million in net sales**

**1.2% of total net sales**

**\$7.1 million decrease from fiscal year 2016 Multi-Match net sales**

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



**FISCAL YEAR 2017 STATISTICS:**

**\$16.2 million in net sales**

**0.8% of total net sales**

**\$4.2 million increase from fiscal year 2016 Cash4Life net sales**

CASH4LIFE® is a multi-state draw game. The MLGCA began selling Cash4Life in January 2016. Currently, nine lotteries sell Cash4Life. For \$2, players pick five numbers from 1 through 60 and one Cash Ball from 1 to 4. Players matching all five numbers drawn and the Cash Ball could win the top prize of \$1,000 a day for life and players who match the five numbers drawn but no Cash Ball could win \$1,000 a week for life. In all, there are nine different ways to win varying levels of cash prizes. The probability of winning any prize is roughly 1 in 8. Cash4Life drawings are held Monday and Thursday evenings.



**FISCAL YEAR 2017 STATISTICS:**

**\$239.2 million in net sales**

**12.4% of total net sales**

**\$2.4 million decrease from fiscal year 2016 Pick 3 net sales**

PICK 3 was introduced in July 1976 and was the first draw game offered. Players choose three numbers from zero to nine for the chance of winning prizes ranging from \$25 to \$500. Drawings are held twice daily, seven days a week.



**FISCAL YEAR 2017 STATISTICS:**

**\$291.6 million in net sales**

**15.1% of total net sales**

**\$10.8 million increase from fiscal year 2016 Pick 4 net sales**

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



**FISCAL YEAR 2017 STATISTICS:**

**\$19.8 million in net sales**

**1.0% of total net sales**

**\$813 thousand decrease from fiscal year 2016 Bonus Match 5 net sales**

**BONUS MATCH 5** is a draw game that was originally introduced in September 1995. The game was discontinued in January 1998 and re-introduced in February 2002. Players select or request the computer to generate five numbers from a field of 39. Players matching all five numbers, in any order, win \$50,000. In the event that there are more than 12 \$50,000 winners in one drawing, each winner will receive an equal share of the \$600,000 prize pool. Players also may win prizes ranging from \$2 to \$600. Drawings are held seven nights a week.



**FISCAL YEAR 2017 STATISTICS:**

**\$5.5 million in net sales**

**0.3% of total net sales**

**\$369 thousand decrease from fiscal year 2016 5 Card Cash net sales**

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





**FISCAL YEAR 2017 STATISTICS — KENO:**

**\$155.3 million in net sales**

**8.0% of total net sales**

**\$6.0 million decrease from fiscal year 2016 Keno net sales**

**FISCAL YEAR 2017 STATISTICS — KENO BONUS:**

**\$30.5 million in net sales**

**1.6% of total net sales**

**\$1.6 million increase from fiscal year 2016 Keno Bonus net sales**

**FISCAL YEAR 2017 STATISTICS — KENO SUPER BONUS:**

**\$117.5 million in net sales**

**6.1% of total net sales**

**\$658 thousand decrease from fiscal year 2016 Keno Super Bonus net sales**

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

**KENO BONUS®** is a draw game that was introduced statewide in April 1999 and is sold in conjunction with Keno. By matching a Keno wager, players have an opportunity to multiply their winnings by three, four, five or 10. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing. The maximum prize that can be won per game on any one Keno ticket when Keno Bonus is played is \$1 million.

**KENO SUPER BONUS™** is a draw game that was introduced in June 2009 and is sold in conjunction with Keno. The amount of the Keno Super Bonus wager is twice the amount of the Keno wager. By matching a Keno wager, players have an opportunity to multiply their winnings by two, three, four, five, six, 10, 12 or 20. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing and is part of the Keno Bonus wheel. The maximum prize that can be won on any Keno ticket when Keno Super Bonus is played is \$2 million.





**FISCAL YEAR 2017 STATISTICS — RACETRAX:**

**\$156.9 million in net sales**

**8.1% of total net sales**

**\$11.1 million increase from fiscal year 2016 Racetrax® net sales**

**FISCAL YEAR 2017 STATISTICS — RACETRAX BONUS:**

**\$23.5 million in net sales**

**1.2% of total net sales**

**\$2.2 million increase from fiscal year 2016 Racetrax® Bonus net sales**

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

**RACETRAX® BONUS** is a draw game that was launched statewide in August 2009 and is sold in conjunction with Racetrax. By matching a Racetrax wager, players have an opportunity to multiply their winnings by three, four, five or 10. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing. The maximum prize that can be won per game on any Racetrax ticket when Racetrax Bonus is played is \$3.15 million.



**FISCAL YEAR 2017 STATISTICS:**

**\$676.8 million in net sales**

**35.0% of total net sales**

**\$65.5 million increase from fiscal year 2016 Instant Ticket net sales**

**INSTANT TICKETS**, also known as scratch-offs, were first introduced in 1976. Similar to today's instant ticket games, the first instant ticket game launched in Maryland provided players with the opportunity to win by scratching a latex play area. From 1976 to 1985, a limited number of instant tickets games were launched; however, by 1986, instant games were launched on a more frequent basis. During fiscal year 2017, the MLGCA launched 55 new instant ticket games.

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# **INSTANT TICKET LOTTERY MACHINES**

## **FISCAL YEAR 2017 STATISTICS:**

**\$8.3 million in net sales**

**0.4% of total net sales**

**\$1.4 million increase from fiscal year 2016 ITLM net sales**

INSTANT TICKET LOTTERY MACHINES (ITLMs) were introduced in September 2014 and placed at qualified veterans' organizations. The ITLM is an electronic device that dispenses pre-printed instant scratch tickets and utilizes a touchscreen monitor. The device accumulates winnings for the player and prints out a voucher at the conclusion of play that can be redeemed for cash or inserted into another ITLM for continued play.

## **MARYLAND CASINOS**

Maryland casinos offered the following during fiscal year 2017:

### **Video Lottery Terminals (Slot Machines)**

#### **FISCAL YEAR 2017 STATISTICS:**

**\$885.9 million in gross terminal revenue**

**11,591 total video lottery terminals as of June 30, 2017**

**\$144.2 million increase from fiscal year 2016 gross terminal revenue**

VIDEO LOTTERY TERMINALS were approved during the 2007 special session of the Maryland General Assembly. As of June 30, 2017, six casinos had opened and 11,591 video lottery terminals were in operation.

## **TABLE GAMES**

#### **FISCAL YEAR 2017 STATISTICS:**

**\$535.1 million in revenue**

**585 total table games**

**\$132.8 million increase from fiscal year 2016 table game revenue**

TABLE GAMES became operational in fiscal year 2013 after the Maryland General Assembly passed the Gaming Expansion Act, making table games available to the casinos, subject to the passage of the voter referendum. As of June 30, 2017 there were 585 table games in operation.



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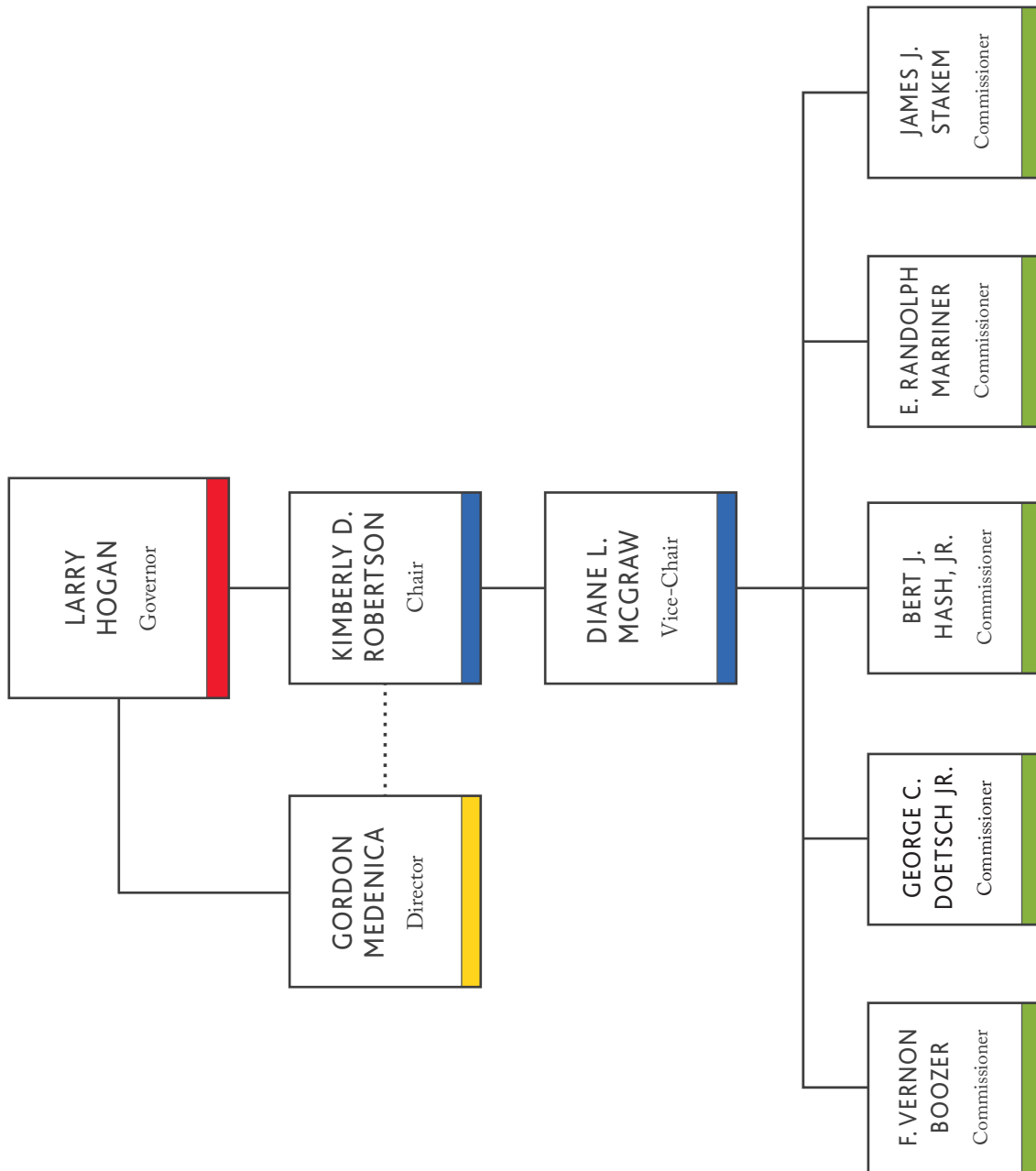
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

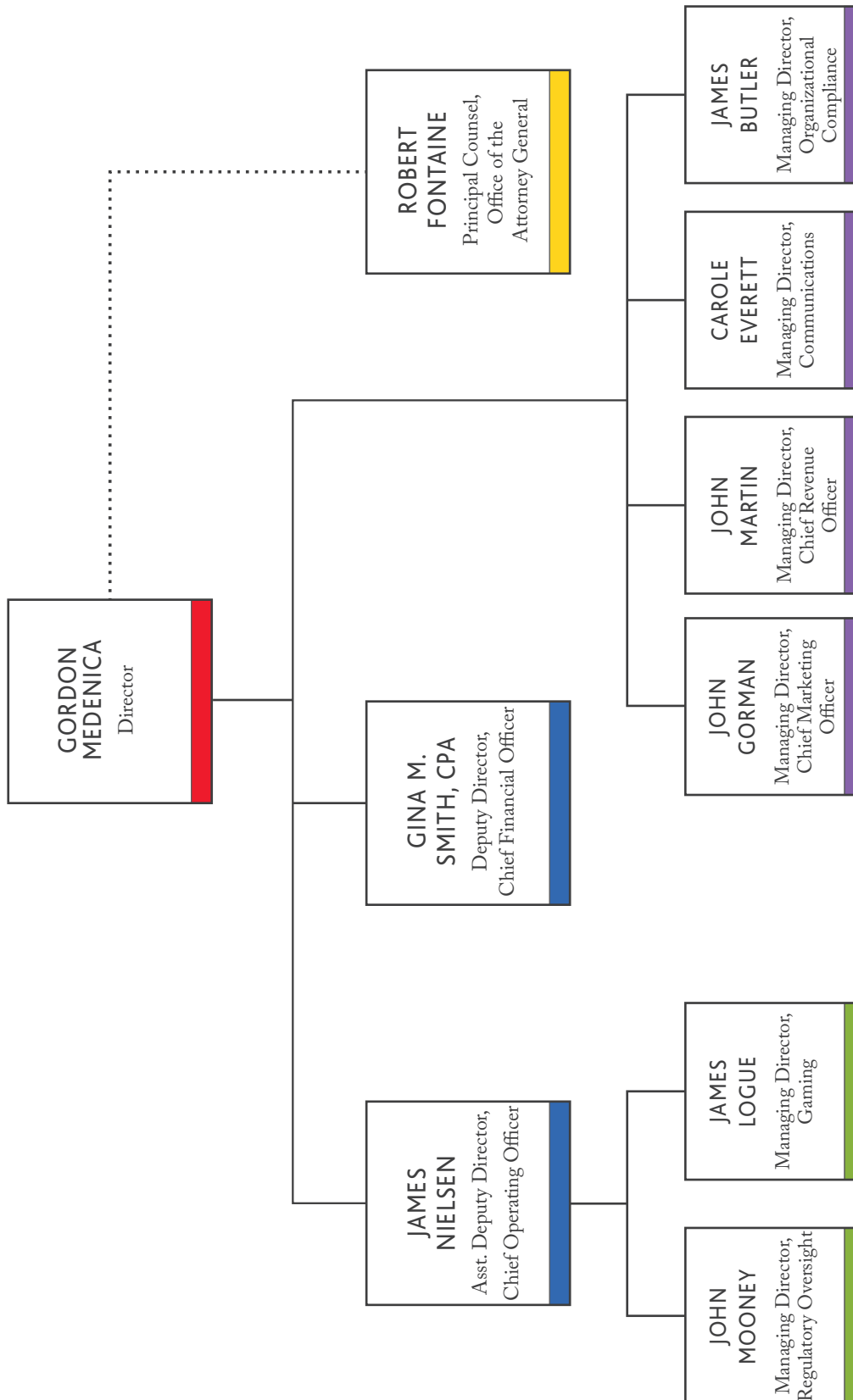
A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is fluid and cursive.

Executive Director/CEO

PRINCIPAL OFFICIALS AS OF JUNE 30, 2017



# ORGANIZATION CHART



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## **FINANCIAL SECTION**

IN FISCAL YEAR 2017, THE MLGCA CONTRIBUTED \$524.9 MILLION TO THE STATE OF MARYLAND IN LOTTERY REVENUE. CASINO GAMING ACTIVITIES CONTRIBUTED MORE THAN \$592.3 MILLION TO OTHER GOVERNMENTAL FUNDS.

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
FOR THE YEARS ENDED JUNE 30, 2017 & 2016

Enterprise Fund of the State of Maryland

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To the Maryland Lottery and Gaming Control Agency:

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities of the Maryland Lottery and Gaming Control Agency (an agency of the State of Maryland) (Agency), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

## **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

## **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Maryland Lottery and Gaming Control Agency as of June 30, 2017 and 2016 and the respective changes in financial position and cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **EMPHASIS OF MATTER**

As discussed in Note 1, the financial statements of the Agency are intended to present the financial position and the changes in financial position and cash flows, where applicable, of the Agency. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2017 and 2016, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **OTHER MATTERS**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 34 through 49 and 50 through 53, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **OTHER INFORMATION**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Maryland Lottery and Gaming Control Agency's basic financial statements.

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 do not express an opinion or provide any assurance on them.

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## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the Maryland Lottery and Gaming Control Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Maryland Lottery and Gaming Control Agency's internal control over financial reporting and compliance.

*Stout, Causey & Horning, P.A.*  
September 29, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis (MD&A) provides an overview of the Maryland Lottery and Gaming Control Agency's (Agency) performance for the fiscal years ended June 30, 2017 and 2016. As you read the MD&A, 2017 refers to the fiscal year ended June 30, 2017, 2016 refers to the fiscal year ended June 30, 2016 and 2015 refers to the fiscal year ended June 30, 2015. 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 54.

**FINANCIAL HIGHLIGHTS**

- Net lottery sales were \$1.93 billion in 2017, an increase of \$26.0 million or 1.36% compared to 2016 which increased by \$144.68 million or 8.22% as compared to 2015.
- Gross video lottery terminal revenue (VLT) was \$885.87 million in 2017, an increase of \$144.17 million or 19.44% as compared to 2016 which increased by \$59.87 million or 8.78% as compared to 2015.
- Table game revenue was \$535.07 million in 2017, an increase of \$132.80 million or 33.01% compared to 2016 which increased \$45.88 million or 12.87% compared to 2015.
- Cost of sales increased by \$263.97 million or 13.65% in 2017 compared to 2016 which increased by \$185.53 million or 10.61% compared to 2015.
- Operating expenses increased by \$7.06 million or 12.05% in 2017 compared to 2016 which decreased by \$31.11 million or 32.61% compared to 2015.
- Transfers from lottery proceeds to the State of Maryland, the Stadium Authority, the International Racing Fund and the Veterans Trust Fund in 2017 were \$524.90 million, a decrease of \$44.91 million or 7.88% as compared to 2016 which increased \$43.29 million or 8.22% as compared to 2015.
- Transfers to Other Governmental Funds/Agencies totaled \$599.63 million in 2017, an increase of \$85.47 million or 16.62% compared to 2016 which increased \$14.48 million or 2.90% as compared to 2015.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Maryland Lottery and Gaming Control Agency is an independent agency of the State of Maryland (the State) that was created to generate revenue through the operation of a lottery. On November 4, 2008, a constitutional amendment was approved by voters which set up broad parameters for the operations of VLTs and the establishment of five casinos in the State. During the 2012 Second Special Session of the Maryland General Assembly, legislation passed, subject to voter referendum, that allowed, among other things, the implementation of table games as well as a sixth casino. During the November 2012 election, voters approved both table games and the sixth casino. The Agency is responsible for regulating the operations of the casinos. As of June 30, 2017, there were six casinos operating in the State with 11,591 VLTs and 585 table games.

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

### **Financial Statements**

The financial statements included in this report are: the statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. The statements of net position present the assets and deferred outflows of resources, and liabilities and deferred inflows of resources of the Agency with the difference being reported as net position. The statements of revenues, expenses, and changes in net position report the revenues and expenses of the Agency and are used to measure the success of its operations for a given period of time as it relates to contributions to the State of Maryland and other government agencies. The statements of cash flows reconcile the changes in cash and cash equivalents with the activities of the Agency 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 54 to 77 of this report.

### **Implementation of GASB Statement No. 68**

The Agency implemented GASB No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* for the fiscal year ended June 30, 2015. Under this statement, the Agency, a cost-sharing employer, is required to recognize a liability for its proportionate share of the State's overall net pension liability. Net pension liability is recorded on the statements of net position as a non-current liability. In addition, the Agency is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. Furthermore, the effects of a change in the Agency's proportion of the collective net pension liability and the differences during the measurement period between the Agency's contributions and its proportionate share of total contributions in the collective net pension liability are to be recorded as pension expense. The proportions of the effect not recognized in pension expense are reported as deferred outflows of resources or deferred inflows of resources related to pensions.

## **FINANCIAL ANALYSIS**

Table 1 is a summarized version of the statements of net position as of June 30, 2017, 2016 and 2015. The table reflects the Agency's overall change in financial resources and claims on those resources. The majority of the assets consist of cash held by the State Treasury, investments, accounts receivable and net capital assets. The Agency's investments and the majority of accounts receivable, as well as the majority of cash held by the State Treasury, are used to pay lottery winners or are transferred as

## MANAGEMENT'S DISCUSSION AND ANALYSIS

income to the State of Maryland and other government agencies. Most liabilities represent prize awards payables, annuities payable, amounts due to the State of Maryland, amounts due to other government agencies and capital lease obligations.

**Table 1 — Net Position (in thousands)**

	2017	2016	2015
Current Assets	\$ 171,954	\$ 209,910	\$ 238,535
Other Non-Current Assets	29,024	30,292	29,918
Capital Assets, net	35,735	48,717	61,756
<b>Total Assets</b>	<b>\$ 236,713</b>	<b>\$ 288,919</b>	<b>\$ 330,209</b>
Deferred Outflows of Resources	\$ 13,879	\$ 11,394	\$ 2,514
<b>Total Assets and Deferred Outflows</b>	<b>\$ 250,592</b>	<b>\$ 300,313</b>	<b>\$ 332,723</b>
Current Liabilities	\$ 175,137	\$ 210,685	\$ 242,059
Non-Current Liabilities	52,126	63,384	74,682
Net Pension Liability	27,137	22,831	13,724
<b>Total Liabilities</b>	<b>\$ 254,400</b>	<b>\$ 296,900</b>	<b>\$ 330,465</b>
Deferred Inflows of Resources	\$ 1,104	\$ 1,436	\$ 1,502
<b>Total Liabilities and Deferred Inflows</b>	<b>\$ 255,504</b>	<b>\$ 298,336</b>	<b>\$ 331,967</b>
Net Position			
Net Investment in capital assets	\$ 67	\$ 433	\$ 1,042
Unrestricted	(4,978)	1,544	(286)
<b>Total Net Position</b>	<b>\$ (4,910)</b>	<b>\$ 1,977</b>	<b>\$ 756</b>

### Current Assets

The Agency's current assets decreased by \$37.96 million or 18.08% in 2017 compared to 2016 which decreased by \$28.63 million or 12.00% compared to 2015.

Cash held with State Treasury decreased by \$43.71 million or 27.95% in 2017 compared to 2016 which decreased by \$33.93 million or 17.83% compared to 2015. At the end of 2017, there was one month worth of lottery income waiting to be transferred to the General Fund versus two months of income in 2016. At the end of 2016, there were two months of lottery income waiting to be transferred to the General Fund versus three months of income in 2015.

Accounts receivable increased by \$6.35 million or 14.92% in 2017 compared to 2016 which increased \$9.13 million or 27.30% compared to 2015. Accounts receivable is primarily comprised of amounts due from lottery retailers from the sale of lottery tickets and revenue due from the casino operators. Accounts receivable from lottery retailers increased by \$4.32 million or 11.58% in 2017 compared to 2016 which



### **Current Assets (continued)**

increased \$6.20 million or 19.93% compared to 2015. On a weekly basis, amounts due from retailers are collected electronically from the retailers' bank accounts. In 2017, five days' worth of sales activity was waiting to be collected compared to four days in 2016 and two days in 2015.

Accounts receivable from casino operators increased by \$2.05 million or 38.93% in 2017 compared to 2016 which increased by \$2.94 million or 126.91% compared to 2015. Gross terminal revenue is electronically transferred to the Agency on a daily basis and table game revenue is electronically transferred to the Agency every two days. Corresponding increases and decreases in accounts receivables from casino operators is a function of the change in gaming revenue for the last days of the fiscal year and timing of when the revenue is received.

The current portion of investments for annuity payments decreased by \$1.28 million or 27.08% in 2017 compared to 2016 which decreased by \$2.67 million or 36.16% compared to 2015. The continued decreases during these years resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that expired.

### **Non-Current Assets**

The Agency's non-current assets consist of investments for annuity payments, net of current portion and capital assets, net of depreciation. Non-current assets decreased by \$14.25 million or 18.04% in 2017 compared to 2016 which decreased by \$12.66 million or 13.81% compared to 2015.

Capital assets, net of depreciation, decreased by \$12.98 million or 26.65% in 2017 compared to 2016 which decreased \$13.04 million or 21.11% compared to 2015. The reduction in both periods was the result of depreciation of existing assets which primarily related to VLTs. Effective April 1, 2015, the gaming law changed and, as a result, the VLTs for the majority of the casinos are now leased directly by the casinos and the Agency's assets consist of the VLTs in place at the Casino at Ocean Downs and Rocky Gap Casino and Resort. These VLTs are leased by the Agency under agreements which include purchase options at the end of their five-year terms and, as such, are treated as capital leases and are being amortized over the five-year life of the related leases.

The Agency's investments for annuity payments, net of current portion, decreased by \$1.27 million or 4.18% in 2017 compared to 2016 which increased by \$374,000 or 1.25% in 2015. The decrease in 2017 resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that have expired.

### **Deferred Outflows of Resources**

In 2015, the Agency recognized deferred pension outflows as a result of the implementation of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The amount recognized represents the Agency's contributions subsequent to the measurement date and the changes in the Agency's proportionate share of the State Retirement and Pension Funds total pension liability and the changes in actuarial assumptions as described in Note 9 to the financial



**MANAGEMENT'S DISCUSSION AND ANALYSIS****Deferred Outflows of Resources (continued)**

statements. Deferred outflows increased in 2017 by \$2.49 million or 21.81% compared to 2016 which increased by \$8.88 million or 353.21% from 2015. The increase in both years is attributed to the increase in the Agency's proportionate share of the overall pension liability.

**Current Liabilities**

Current liabilities decreased by \$35.55 million or 16.87% in 2017 compared to 2016 which decreased by \$31.37 million or 12.96% compared to 2015. The majority of the decreases each of the years is related to a decrease in the amount due to the General Fund. This amount decreased by \$52.74 million or 53.83% in 2017 compared to 2016 and \$33.80 million or 25.65% in 2016 compared to 2015. At the end of 2017, there was one month of lottery income waiting to be transferred, in comparison to two months of lottery income waiting to be transferred in 2016 in comparison to three months of lottery income in 2015. The decrease in amounts due to the General Fund in 2017 was offset by an increase in transfers due to other government fund/agencies in 2017. Transfers due to other government fund/agencies increased by \$12.47 million or 29.03% in 2017 in comparison to 2016. These transfers increased due to the opening of the MGM casino.

**Non-Current Liabilities**

Non-current liabilities decreased by \$11.26 million or 17.76% in 2017 compared to 2016 which decreased by \$11.30 million or 15.13% compared to 2015. The decreases are primarily the result of payments made on the capital leases which related primarily to the VLTs leased by the Agency for the Casino at Ocean Downs and Rocky Gap Casino and Resort.

**Net Pension Liability**

Net pension liability increased by \$4.31 million or 18.86% in 2017 compared to 2016 which increased \$9.11 million or 66.36% as compared to 2015. The Agency began recognizing net pension liability in 2015 as a result of implementing GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The total pension liability represents the Agency's proportionate share of the State of Maryland's total net pension liability. The increase in both 2017 and 2016 is primarily the result of an increase in the Agency's proportionate share of the State Retirement and Pension Funds overall pension liability.

**Deferred Inflows of Resources**

Deferred inflows decreased by \$332,000 in 2017 compared to 2016 which increased by \$66,000 or 4.39% compared to 2015. In 2015, the Agency recognized deferred pension inflows as a result of the implementation of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The amount recognized represents the Agency's contributions subsequent to the measurement date and the change in actuarial assumptions as described in Note 9 to the financial statements.

**Net Position**

Net position decreased by \$6.89 million or 348.43% in 2017 compared to 2016 which increased by \$1.22 million or 161.50% compared to 2015. Because the Agency is required by law to transfer its entire budgetary basis net position to the State of Maryland and its gaming revenue to government agencies, changes in net position do not reflect the results of the Agency's operating activities. Rather, changes in net position reflect differences between budgetary basis net income and net income in accordance with accounting principles generally accepted in the United States and the unclaimed prize fund.

The decrease in 2017 is related to the recognition of pension expense and deferred inflows. Net position increased in 2016 as a result of normal operating results.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Table 2 is a summarized version of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2017, 2016 and 2015.

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

	2017	2016	2015
Revenue			
Draw games	\$ 1,246,420	\$ 1,287,323	\$ 1,211,000
Instant games	676,753	611,286	546,054
ITLMs	8,373	6,934	3,812
<b>Total sales</b>	<b>1,931,546</b>	<b>1,905,543</b>	<b>1,760,866</b>
Gaming revenue — gross terminal revenue	885,868	741,694	681,823
Gaming revenue — state grant	20,706	20,275	66,263
Gaming revenue — table games	535,074	402,279	356,401
Gaming revenue — facility applicants	2,957	1,921	2,813
Gaming revenue — machine assessments	4,650	3,845	3,968
ITLM lease revenue	3,495	2,894	1,588
<b>Total revenue</b>	<b>3,384,296</b>	<b>3,078,451</b>	<b>2,873,722</b>
Cost of sales	2,198,274	1,934,303	1,748,772
<b>Gross profit</b>	<b>1,186,022</b>	<b>1,144,148</b>	<b>1,124,950</b>
Operating expenses	65,674	58,609	95,408
<b>Income from operations</b>	<b>1,120,348</b>	<b>1,085,539</b>	<b>1,029,542</b>
Non-operating revenues (expenses)			
Unrealized gain (loss) on investments	(2,108)	394	(1,016)
Gain on sale of VLTs	—	—	4,206
Voluntary exclusion program	38	76	17
Interest expense	(633)	(820)	(641)
Payments to State of Maryland General Fund, Stadium Authority and Veterans Trust Fund	(524,903)	(569,814)	(526,527)
Payments to other government funds/agencies — gaming	(599,628)	(514,154)	(499,677)
<b>Total non-operating expenses</b>	<b>(1,127,234)</b>	<b>(1,084,318)</b>	<b>(1,023,638)</b>
<b>Change in net position</b>	<b>(6,886)</b>	<b>1,221</b>	<b>5,904</b>
Total net position — beginning of year	1,977	756	(5,148)
<b>Total net position — end of year</b>	<b>\$ (4,909)</b>	<b>\$ 1,977</b>	<b>\$ 756</b>

## Sales

Net sales were \$1.93 billion in 2017, an increase of \$26.0 million or 1.36% as compared to 2016 which increased \$144.68 million or 8.22% as compared to 2015.

Lottery sales are categorized as jackpot games, draw games, monitor games, instant ticket games and instant ticket lottery machine sales (ITLMs).

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Jackpot	\$ 206,691	\$ 259,796	\$ 206,028
Draw	556,086	548,879	545,723
Monitor	483,643	478,648	457,656
Instant	676,753	611,286	546,054
ITLM	8,373	6,934	3,812
<b>Total</b>	<b>\$1,931,546</b>	<b>\$1,905,543</b>	<b>\$1,759,273</b>

Sales for Jackpot games, which includes Powerball, Power Play, Mega Millions, Multi-Match, Megaplier, and Cash4Life decreased by \$53.11 million or 20.444% in 2017 compared to 2016 which increased by \$53.77 million or 26.10% compared to 2015.

The decrease in the Jackpot games between 2016 and 2017 and the increase in these games between 2015 and 2016 is attributed mostly to Powerball. Powerball sales decreased by \$43.39 million or 30.23% in 2017 compared to 2016 and increased by \$54.02 million or 60.35% in 2016 compared to 2015. In 2016, Powerball set a world record jackpot of \$1.6 billion. Sales increase as jackpots grow. 2017 and 2015 did not experience a jackpot anywhere near \$1.6 billion resulting in lower sales for these years.

Sales for Mega Millions, Megaplier, and Multi-Match decreased in 2017 and 2016. Mega Millions and Megaplier sales decreased by \$6.87 million or 9.39% in 2017 compared to 2016 which decreased by \$8.80 million or 10.73% compared to 2015. Multi-Match sales decreased by \$7.08 million or 22.76% in 2017 compared to 2016 which decreased by \$3.40 million or 9.87% compared to 2015. Sales for these games are jackpot dependent and the lottery industry overall is experiencing jackpot fatigue.

The decreases in Mega Millions, Megaplier, and Multi-Match were slightly offset by Cash4Life sales. Cash4Life was launched in January 2016 and brought in sales of \$11.96 million in 2016. Cash4Life sales increased by \$4.24 million or 35.41% in 2017 compared to 2016. Cash4Life is a multi-jurisdictional game played in the states of Maryland, New York, New Jersey, Pennsylvania, Virginia, Florida, Georgia, Indiana and Tennessee.

**MANAGEMENT'S DISCUSSION AND ANALYSIS****Sales (continued)**

Sales for Draw games, which are Pick 3, Pick 4, Bonus Match 5 and 5 Card Cash, increased by \$7.21 million or 1.31% in 2017 compared to 2016 which increased \$3.16 million or .58% in 2016 compared to 2015. Pick 4 sales increased in years 2017 and 2016 over the previous years by \$10.81 million or 3.85% and \$3.83 million or 1.38% respectively. The 2017 increase in Pick 4 sales is attributed to the game paying out more than both the theoretical payout and the payout in 2016. In 2017, Pick 4 paid out 55% of sales, which is higher than the theoretical payout of 50% and more than the 45% payout in 2016. As payouts increase, players tend to reinvest their winnings, generating additional sales. The increase between 2015 and 2016 is attributed to players choosing Pick 4 over Pick 3 due to a higher top prize. Pick 4 offers a top prize of \$5,000, whereas the top prize for Pick 3 is \$500.

Pick 3 sales decreased \$2.42 million or 1.00% in 2017 compared to 2016 which increased by \$658,000 or .27% compared to 2015. Pick 3 sales continue to slowly decline as the top prize of \$500 is no longer attractive to players.

Sales for Bonus Match 5 and 5 Card Cash remained relatively flat between 2015 and 2017. Bonus Match 5 sales decreased by \$812,000 or 3.94% in 2017 compared to 2016 which decreased by \$709,000 or 3.32% compared to 2015. 5 Card Cash sales decreased by \$369,000 or 6.24% in 2017 compared to 2016 which decreased \$620,000 or 9.49% in 2016 compared to 2015.

Sales for the Monitor games, which includes Racetrax® and Keno increased \$5.0 million or 1.04% in 2017 compared to 2016 which increased by \$20.99 million or 4.59% in 2016 compared to 2015. Racetrax® sales increased by \$13.31 million or 7.96% in 2017 compared to 2016 which increased \$12.42 million or 8.03% in 2016 compared to 2015. Racetrax® continues to grow as players find the HD graphics appealing. It is further believed that players have traded Pick 3 play for Racetrax® play as Racetrax® plays much like Pick 3 and has a higher top prize.

The increase in Racetrax® sales in 2017 was offset by a decrease in Keno sales. Keno sales decreased by \$8.31 million or 2.67% in 2017 compared to 2016 which increased by \$8.57 million or 2.83% in 2016 compared to 2015.

Instant ticket games continue to be a growth product for the Agency. Instant ticket game sales increased by \$65.47 million or 10.71% in 2017 compared to 2016 which increased \$65.23 million or 11.95% compared to 2015 as shown in Table 4.

**Sales (continued)**

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
\$1	\$ 31,569	\$ 30,761	\$ 29,393
\$2	51,468	41,263	42,851
\$3	41,999	38,609	39,664
\$5	231,118	240,356	230,885
\$10	182,396	161,362	127,962
\$20	106,020	98,935	75,299
\$30	32,183	—	—
<b>Total</b>	<b>\$676,753</b>	<b>\$611,286</b>	<b>\$546,054</b>

Instant ticket sales growth in 2017 was fueled by the launch of the first \$30 ticket in March 2017 and continued growth in the \$10 and \$20 tickets. Players gravitate towards higher price point tickets as the payouts are more rewarding. Furthermore, key components set in place in 2016 (noted below) continued throughout 2017. Instant ticket sales growth in 2016 was fueled by three key components: inventory management, an aggressive planning and development schedule and increased advertising. By closing older games and replenishing inventory with newer games, retailer and player interest and enthusiasm remained high throughout the fiscal year. Planning the right product mix and marketing, with games such as \$2 Crab Cash, \$5 Home Run Riches, \$5 The Price Is Right and \$20 Monopoly, also helped attract core and new players to our games. Lastly, an increased advertising budget along with a strategic approach to invest more money towards the Instant ticket product category was essential to the sales growth.

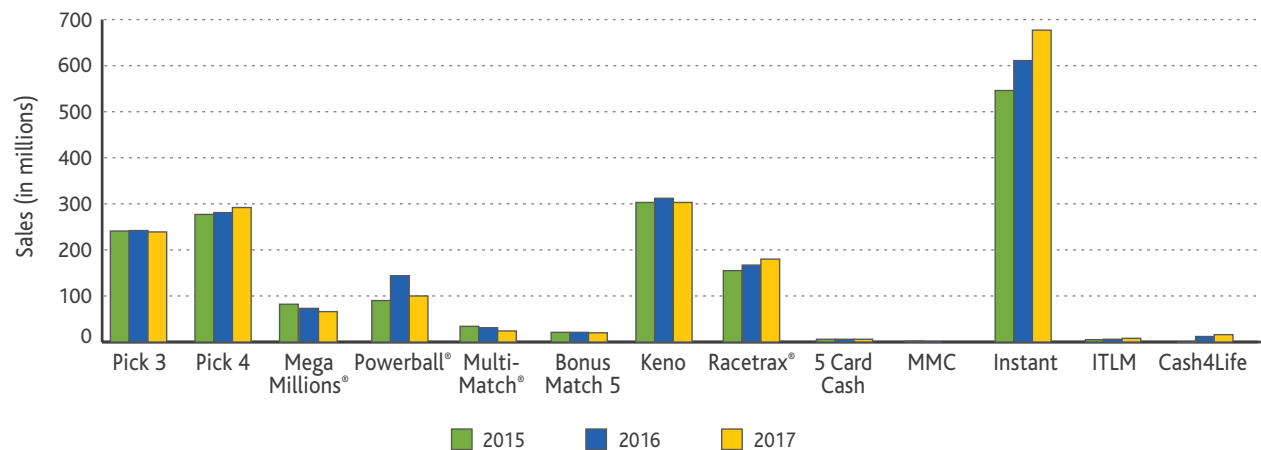
Instant ticket lottery machines (ITLMs) is the last category of lottery games offered. Instant ticket lottery machines were first introduced in September 2014 and under law are allowed only in veterans' organizations in certain counties in Maryland. An ITLM is an electronic device that dispenses pre-printed instant scratch tickets and utilizes a touch screen monitor. The device accumulates winnings and prints out a voucher at the conclusion of play. ITLM sales (which are accounted for as amount bet less amount won) increased by \$1.44 million or 20.75% in 2017 compared to 2016 which \$3.12 million or 81.90% compared to 2015. The continued increases can be attributed to a further roll-out of the product and a gain in popularity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Sales (continued)

The following graph depicts sales for 2015, 2016, and 2017.

**Sales - Fiscal Years 2015, 2016, and 2017**



### Gaming Revenue — Gross Terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue

Gaming revenue – gross terminal revenue (GTR) represents the revenue generated by the VLTs net of total prize payouts. Gross terminal revenue in 2017 totaled \$885.87 million, an increase of \$144.17 million or 19.44% over 2016 which increased \$59.87 million or 8.78% over 2015. The increase in 2017 is attributed to the opening of the MGM casino in December 2016. During the first seven months of operations, MGM generated \$177.46 million in gross terminal revenue. This increase was offset by a decrease in gross terminal revenue at Maryland Live! Casino. Gross terminal revenue decreased by \$36.88 million or 9.02% in 2017 compared to 2016. Maryland Live! Casino is the closest casino to MGM and lost some play to MGM. Gross terminal revenue at all of the other casinos remained relatively consistent.

The increase in total gross terminal revenue in 2016 is primarily attributed to a full year of operations at Horseshoe Casino. Maryland Live! Casino, the Casino at Ocean Downs as well as Rocky Gap Casino Resort also saw increases in GTR during 2016. GTR at the Hollywood Casino Perryville decreased slightly in 2016 from 2015.



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

**Gaming Revenue — Gross Terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)**

**Table 5 — Gross Terminal Revenue Statistics**

<b>Casino</b>	<b>Date Opened</b>	<b>Number of Machines as of June 30, 2017</b>	<b>2017 GTR (in millions)</b>	<b>2016 GTR (in millions)</b>	<b>2015 GTR (in millions)</b>
Hollywood Casino — Perryville	September 27, 2010	822	\$ 63.1	\$ 65.7	\$ 66.2
Casino at Ocean Downs	January 4, 2011	800	59.6	57.6	53.2
Maryland Live! Casino	June 6, 2012	3,978	371.9	408.8	392.5
Rocky Gap Casino Resort	May 22, 2013	663	45.1	41.3	38.1
Horseshoe Casino	August 24, 2014	2,202	168.7	168.3	131.8
MGM Casino	December 8, 2016	3,126	177.5	—	—
<b>Total</b>		<b>11,591</b>	<b>\$ 885.9</b>	<b>\$ 741.7</b>	<b>\$ 681.8</b>

Gaming revenue – table games revenue generated in 2017 increased by \$132.80 million or 33.01% compared to 2016 which increased by \$45.88 million or 12.87% compared to 2015. The following table shows table game statistics for the casinos. The overall increase in 2017 is attributed to the opening of the MGM casino in December 2016. In its first seven months of operations, MGM casino generated \$160.95 million in table game revenue. This increase was offset by a decline in table game revenue at Maryland Live! Casino and Horseshoe Casino as players shifted their play from these casinos to the MGM casino. Table game revenue at Maryland Live! Casino decreased by \$22.17 million or 9.16% in 2017 compared to 2016 and decreased by \$6.78 million or 4.77% at Horseshoe Casino. Table game revenue at the other two casinos remained relatively consistent between 2016 and 2017. Table game revenue in 2016 increased by \$45.87 million or 12.87% compared to 2015. This increase was attributed to a full year of table game operations at Horseshoe Casino. Table 6 on the next page shows the table game revenue statistics for each casino.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Gaming Revenue — Gross Terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)****Table 6 — Table Game Revenue Statistics**

Casino	Date Tables Games Debuted	Number of Tables as of June 30, 2017	2017 Table Game Revenue (in millions)	2016 Table Game Revenue (in millions)	2015 Table Game Revenue (in millions)
Hollywood Casino — Perryville	March 6, 2013	20	\$ 11.3	\$ 11.6	\$ 12.0
Maryland Live! Casino	April 11, 2013	202	219.8	242.0	233.8
Rocky Gap Casino Resort	May 22, 2013	17	7.6	6.6	6.6
Casino at Ocean Downs	N/A	—	—	—	—
Horseshoe Casino	August 24, 2014	178	135.3	142.1	104.0
MGM Casino	December 8, 2016	168	160.9	—	—
<b>Total</b>		<b>585</b>	<b>\$ 535.1</b>	<b>\$ 402.3</b>	<b>\$ 356.4</b>

For the gaming operations, the gross terminal revenue and table game revenue (gaming revenue) are required to be transferred to specified Government agencies to be used for certain purposes or are retained by the casinos and the Agency to assist in covering the costs of the operations. Effective with the opening of MGM casino in December 2016, five percent of the table game proceeds were redirected from the Education Trust Fund to the local jurisdictions in which the casino is located. The table below shows the overall disbursements and allocations.

**Table 7 — Gaming Revenue Disbursements/Allocations**

Fund	2017 Disbursements (in millions)	2016 Disbursements (in millions)	2015 Disbursements (in millions)
Casino Operators	\$ 819.4	\$ 626.1	\$ 539.0
Maryland Education Trust Fund	451.2	402.5	387.8
Horse Racing	63.0	57.1	53.1
Local Impact Grants	47.5	39.7	36.5
Maryland Lottery and Gaming Control Agency	9.3	7.8	11.9
Small, Minority and Women-Owned Business	12.9	10.8	9.9
Local Jurisdictions	17.6	—	—
<b>Total</b>	<b>\$ 1,420.9</b>	<b>\$ 1,144.0</b>	<b>\$ 1,038.2</b>

**Gaming Revenue — Gross Terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)**

Gaming revenue – state grant represents funds received from the State of Maryland to help pay for the costs of the gaming operations. Gaming revenue – state grant increased by \$432,000 or 2.13% in 2017 compared to 2016 which decreased by \$45.99 million or 69.40% compared to 2015. The decrease in 2016 is the result of a change in the gaming law that specified, effective April 1, 2015, the Agency would no longer own/lease VLTs at Hollywood Casino Perryville and Maryland Live! Casino. As a result, less funding was needed to pay for the VLTs.

Gaming revenue – facility applicants represents money received to perform background investigations on applicants who have applied for a gaming license. Gaming revenue – facility applicants increased by \$1.03 million or 53.91% in 2017 compared to 2016 which decreased by \$892,000 or 31.70% compared to 2015. This account fluctuates based on the number of license applications received. The increase in 2017 is a result of the opening of MGM casino. The decrease in 2016 is attributed to no major casino openings.

Gaming revenue – machine assessments represents assessments made to casino operators based on the maximum number of VLTs on the floor during the fiscal year and the number of table games on the floor as of the end of the fiscal year. In accordance with the law, casino operators are assessed a yearly fee of \$425 per VLT and \$500 per table. These funds are collected by the Agency and subsequently remitted to the Department of Health and Mental Hygiene's Problem Gambling Fund. Machine assessments increased by \$805,121 or 20.94% in 2017 compared to 2016 due to the partial year assessment for MGM casino. Assessments between 2015 and 2016 remained consistent.

Gaming revenue – ITLM lease revenue increased by \$601,000 or 20.75% in 2017 compared to 2016 which increased \$1.31 million or 82.27% compared to 2015. ITLM lease revenue represents the amount collected from the veterans' organizations that is used to pay the machine fees to the ITLM vendor. The ITLM program began operations in 2015.

**Cost of Sales**

Cost of sales consists of lottery prize expense, lottery retailer commissions, casino operator commissions, costs paid to vendors to operate and maintain the lottery system and the gaming system, and costs paid for the printing and delivery of instant games. Cost of sales increased by \$263.97 million or 13.65% in 2017 compared to 2016 which increased by \$185.53 million or 10.61% compared to 2015.

Commission paid to casino operators increased by \$193.29 million or 30.87% in 2017 compared to 2016 which increased \$87.10 million or 16.16% compared to 2015. The increase in commissions in 2017 was the result of overall higher gaming revenue due to the opening of the MGM casino and an increase in commission rates for the Maryland Live! Casino and the Horseshoe Baltimore Casino. In accordance with the law, in order to compensate Maryland Live! Casino and Horseshoe Baltimore Casino for lost revenue due to the opening of the MGM casino, the commission rates for these two casinos increased by 8% and 7%, respectively. The increase in commissions in 2016 was the result of overall higher slot machine and table game revenue and it was the first full year of operation for Horseshoe Casino.

**MANAGEMENT'S DISCUSSION AND ANALYSIS****Cost of Sales (continued)**

Commissions paid to lottery retailers increased by \$4.73 million or 3.35% in 2017 compared to 2016 which increased by \$12.56 million or 9.77% compared to 2015. Typically, increases and decreases in commission are a function of sales as retailers receive a percentage of all tickets sold and cashed at their location. Sales in both 2017 and 2016 increased resulting in an increase in commission paid to retailers.

Prize expense increased by \$63.21 million or 5.58% in 2017 compared to 2016 which increased \$81.82 million or 7.78% compared to 2015. There is a direct correlation between prize expense and sales. As such, the increase in both 2017 and 2016 was the result of an increase in sales.

**Operating Expenses**

Operating expenses increased by \$7.06 million or 12.05% in 2017 compared to 2016 which decreased by \$31.11 million or 32.61% compared to 2015.

Salaries, wages and benefits increased by \$2.3 million or 9.43% in 2017 compared to 2016 which increased by \$1.28 million or 5.51% compared to 2015. Increases are due to promotions, cost of living increases and an increase in number of employees due to growth of Agency activity. Advertising and promotions increased by \$2.73 million or 17.47% in 2017 compared to 2016 which increased by \$3.28 million compared to 2015. The increase between 2017 and 2016 is related to an overall increase in the advertising budget. The increase in 2016 is related to advertising encumbrances that were carried over from 2015 and spent in 2016.

While depreciation and amortization remained constant between 2017 and 2016, it increased by \$3.2 million or 32.68% in 2016 compared to 2015. The increase in 2016 is attributed to a full year's worth of amortization of the VLTs compared to three months in 2015.

**Non-operating Revenue (Expenses)**

Non-operating expenses increased by \$42.92 million or 3.96% in 2017 compared to 2016 which increased by \$60.68 million or 5.93% compared to 2015. Non-operating expenses primarily consist of unrealized gains or losses on investments held to fund obligations to annuitants and payments to the State of Maryland General Fund, the Stadium Authority, the Veterans Trust Fund and other government funds/agencies. The Agency 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 Agency is discussed in more detail on page 65.

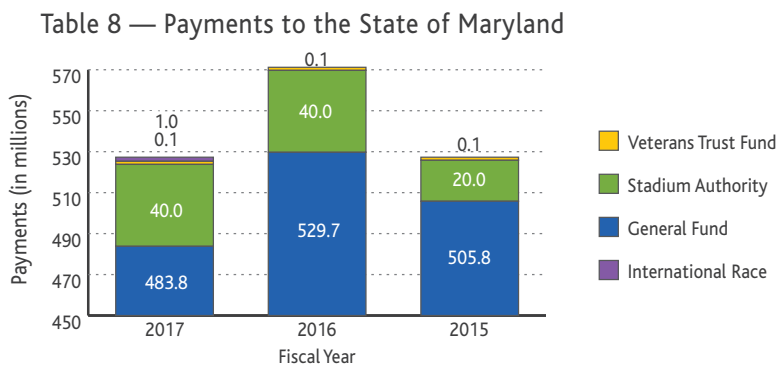
The increase in 2017 is attributed to increases in payments made to other government funds/agencies as a result of the opening of the MGM casino. Transfers to other government funds/agencies increased by \$85.47 million or 16.62% in 2017 compared to 2016. This increase was offset by a decrease in transfers to the State of Maryland General Fund which decreased by \$45.92 million or 8.67% compared to 2016. As previously mentioned, lower profitability in Powerball and Pick 4 led to the decline in transfers to the General Fund.

### **Non-operating Revenue (Expenses) (continued)**

The increase in 2016 is attributed to increases in payments made to the State of Maryland General Fund, the Stadium Authority, the Veterans Trust Fund and other governmental agencies due to higher lottery profits and casino revenue. Transfers made to the Stadium Authority increased by \$20 million or 100% in 2016 from 2015 as the law required the Agency to transfer an additional \$20 million for Baltimore City school construction.

The Agency is required by State law to transfer its budgetary basis net income to the State of Maryland (General Fund, Stadium Authority, the Veterans Trust Fund and beginning in 2017, the International Race Fund) from its lottery operations. Furthermore, it is required to transfer revenue from its gaming operations to various government agencies. Accordingly, the Agency's success can be measured by the income it transfers.

Transfers to the State of Maryland from lottery operations totaled \$524.90 million, a decrease of \$45.91 million or 8.06% from 2016, which increased \$43.29 million or 8.22% compared to 2015. The decrease in 2017 was the result of lower profitability in Powerball in 2017 due to the lack of a \$1.6 billion jackpot which occurred in 2016 and higher payouts in Pick 4 in 2017 compared to 2016 (55% in 2017 compared to 45% in 2016) which led to decreased profits. The increase in 2016 is the result of an increase in lottery sales and profits. The graph below depicts the payments made to the State of Maryland for 2017, 2016, and 2015.



Transfers to other government funds/agencies increased by \$85.47 million or 16.62% in 2017 compared to 2016 which increased by \$14.48 million or 2.90% compared to 2015. Table 7 on page 46 provides a breakdown of the various accounts. The increase in 2017 is the result of the opening of the MGM casino and the increase in 2016 is the result of overall higher gaming revenues and a full year of operations at Horseshoe Casino Baltimore.

### **Contacting the Agency's Financial Management**

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**STATEMENTS OF NET POSITION**

	As of June 30	
	2017	2016
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,982,789	\$ 1,986,913
Cash and cash equivalents — gaming	40,747	40,743
Cash and cash equivalents — gaming licensing deposits	1,304,822	1,178,918
Cash and cash equivalents — agent	224,051	262,449
Cash held with State Treasury	112,662,276	156,369,397
Accounts receivable — lottery	41,589,506	37,273,376
Accounts receivable — gaming	—	15,423
Accounts receivable — casino operators	7,306,496	5,258,957
Prepaid commissions	58,728	86,739
Current portion of investments for annuity payments	3,437,992	4,714,992
MUSL reserves	3,346,866	2,721,941
Total current assets	171,954,273	209,909,848
Non-current assets:		
Capital assets, net of accumulated depreciation	35,735,318	48,717,332
Investments for annuity payments, net of current portion	29,024,020	30,291,605
Total non-current assets	64,759,338	79,008,937
Total assets	\$ 236,713,611	\$ 288,918,785
<b>Deferred Outflows of Resources:</b>		
Deferred pension outflows	13,879,612	11,394,100
Total deferred outflows of resources	13,879,612	11,394,100
Total assets and deferred outflows of resources	\$ 250,593,223	\$ 300,312,885
<b>Liabilities:</b>		
Current liabilities:		
Current portion of annuity prizes payable	\$ 3,352,069	\$ 4,609,201
Current portion of employee related payables	2,098,414	1,855,926
Current portion of capital lease obligation	13,249,883	13,249,883
Transfer due to State of Maryland General Fund	45,241,525	97,981,903
Transfer due to other government agencies — gaming	55,412,571	42,944,649
Transfer due to local jurisdictions	2,485,917	—
Prize awards payable	45,198,987	42,808,921
Accounts payable and accrued expenses	4,196,666	2,849,865
Gaming licensing deposits	1,146,411	1,017,530
Gaming escrow payable	40,747	40,744
Agent escrow payable	344,051	262,449
Unearned revenue	2,236,563	2,824,337
Taxes and other liabilities	132,978	239,683
Total current liabilities	175,136,782	210,685,091
Non-current liabilities:		
Annuity prizes payable, net of current portion	25,567,763	24,746,922
Employee related payables, net of current portion	793,040	880,493
Capital lease obligation, net of current portion	22,418,085	35,034,542
Pension Liability	27,137,095	22,831,102
MUSL reserves	3,346,866	2,721,941
Total non-current liabilities	79,262,849	86,215,000
Total liabilities	\$ 254,399,631	\$ 296,900,091
<b>Deferred Inflows of Resources:</b>		
Deferred pension inflows	1,104,003	1,436,195
Total deferred inflows of resources	1,104,003	1,436,195
Total liabilities and deferred inflows of resources	255,503,634	298,336,286
Commitments and contingencies (Note 7)		
<b>Net Position:</b>		
Net investment in capital assets	\$ 67,350	\$ 432,907
Unrestricted	(4,977,761)	1,543,692
Total net position	(4,910,411)	1,976,599
Total liabilities, deferred inflows of resources and net position	\$ 250,593,223	\$ 300,312,885

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

	Years ended June 30	
	2017	2016
Revenue:		
Draw Games	\$ 1,246,420,103	\$ 1,287,322,924
Instant Games	676,752,574	611,286,137
ITLMs	8,372,989	6,934,191
Total Sales	1,931,545,666	1,905,543,252
Gaming revenue — gross terminal revenue	885,867,966	741,694,172
Gaming revenue — state grant	20,706,322	20,274,795
Gaming revenue — table games	535,074,397	402,278,788
Gaming revenue — facility applicants	2,957,020	1,921,206
Gaming revenue — machine assessments	4,649,746	3,844,625
ITLM lease revenue	3,494,887	2,894,330
Total revenue	3,384,296,004	3,078,451,168
Cost of sales:		
Prize expense	1,196,511,295	1,133,301,463
Retailer commissions	145,883,312	141,157,005
Casino commissions	819,389,044	626,102,299
Gaming vendor and data processing fees	29,026,085	27,744,841
Instant ticket printing and delivery	7,464,342	5,997,088
Total cost of sales	2,198,274,078	1,934,302,696
Gross profit	1,186,021,926	1,144,148,472
Operating expenses:		
Salaries, wages and benefits	26,873,983	24,476,879
Advertising and promotions	18,379,694	15,645,932
Depreciation and amortization	12,982,014	13,038,756
Other general and administrative expenses	7,438,231	5,448,107
Total operating expenses	65,673,922	58,609,674
Income from operations	1,120,348,004	1,085,538,798
Non-operating revenues (expenses):		
Investment (loss) revenue	(699,524)	2,047,498
Amortization of discount for annuity prize liabilities	(1,408,770)	(1,653,828)
Voluntary exclusion program	37,603	75,642
Interest expense	(633,426)	(819,905)
Payments to State of Maryland General Fund	(483,832,419)	(529,753,849)
Payments to State of Maryland Stadium Authority and Veterans Trust	(40,070,173)	(40,059,507)
Payments to International Racing Fund	(1,000,000)	—
Payments to Other Governmental Funds/Agencies — Gaming	(599,628,305)	(514,154,133)
Total non-operating revenues (expenses)	1,127,235,014	(1,084,318,082)
Change in net position	(6,887,010)	1,220,716
Total Net Position — beginning of year, as adjusted (Note 1)	1,976,599	755,883
Total Net Position — end of year	\$ (4,910,411)	\$ 1,976,599

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



## STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 3,378,929,602	\$ 3,071,212,219
Payments to suppliers	(63,756,879)	(55,439,333)
Payments to employees	(23,794,464)	(24,566,342)
Payments to agents	(965,244,344)	(767,295,576)
Prize payments/awards to players	(1,191,358,003)	(1,127,064,224)
Net cash and cash equivalents provided by operating activities	1,134,775,912	1,096,846,744
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland General Fund and Stadium Authority	(577,572,799)	(603,549,800)
Transfers to DHMH	(3,879,818)	(4,043,621)
Transfers to other government funds/agencies — gaming	(580,827,216)	(509,717,749)
Prize payments/awards	(4,714,992)	(7,392,159)
Net cash and cash equivalents used in noncapital financing activities	(1,166,994,825)	(1,124,703,329)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(12,616,457)	(12,430,047)
Interest payments	(633,426)	(819,905)
Net cash and cash equivalents used in capital and related financing activities	(13,249,883)	(13,249,952)
Cash flows from investing activities:		
Coupon bonds purchased	(2,869,931)	(3,047,677)
Proceeds from matured annuities and bonds	4,714,992	7,392,159
Net cash and cash equivalents provided by investing activities	1,845,061	4,344,482
Net increase (decrease) in cash and cash equivalents	(43,623,735)	(36,762,055)
Cash and cash equivalents, beginning of year	159,838,420	196,600,475
Cash and cash equivalents, end of year	\$ 116,214,685	\$ 159,838,420
Noncash investing and financing activities:		
Change in fair value of investments	\$ (2,109,294)	\$ 393,670

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

	Years ended June 30	
	2017	2016
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 1,120,348,004	\$ 1,085,538,798
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	12,982,014	13,038,756
Deferred prize payments	2,869,930	3,047,677
Deferred inflows pension	(332,192)	(65,953)
Deferred outflows pension	(2,485,512)	(8,879,992)
Effect of changes in operating assets and liabilities:		
Accounts receivable	(6,348,246)	(9,125,399)
Prepaid commissions	28,011	(36,272)
Accounts payable and accrued expenses	1,557,288	422,995
Employee related payables	155,035	(89,463)
Taxes and other liabilities	(106,705)	(277,259)
Prize awards payable	2,390,066	3,554,475
Unearned revenue	(587,774)	610,977
Pension liability	4,305,993	9,107,404
Net cash and cash equivalents provided by operating activities	<u>\$ 1,134,775,912</u>	<u>\$ 1,096,846,744</u>

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



**NOTES TO THE FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****LEGISLATIVE ENACTMENT**

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

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

During the 2007 special session of the Maryland General Assembly, Chapter 4 was enacted relating to the legalization of video lottery terminals (VLTs) in the State subject to the passage of a voters' constitutional referendum. In 2008, voters approved the installation of up to 15,000 VLTs at five privately owned casinos at specified locations throughout the State.

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

Effective October 1, 2012, the bill also authorized the Agency to issue certain veterans' organizations a license for up to five instant ticket lottery machines (ITLMs). Veterans' organizations in counties on the Eastern Shore and in Montgomery County are not eligible. After deductions for commissions and prize payouts, 10% of the proceeds are distributed to the Maryland Veterans Trust Fund and the remainder goes to the General Fund. An ITLM is an electronic device that dispenses pre-printed instant scratch tickets and utilizes a touchscreen monitor. The device scans and validates the barcode on the instant ticket as it is dispensed and displays the result of the ticket on the touchscreen monitor. The device accumulates winnings for the player and prints out a voucher at the conclusion of play that can be redeemed for cash or inserted into another ITLM for continued play.

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

### **USE OF ESTIMATES**

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

### **LOTTERY GAMES – REVENUE RECOGNITION AND PRIZE OBLIGATIONS**

Revenue from lottery games originates from three product lines: draw games, instant games and instant ticket lottery machines (ITLMs). The Agency develops multiple game themes and prize structures to comply with its enabling legislation and customer demand. Independent and corporate retailers comprised principally of grocery and convenience stores, package goods stores, and restaurants serve as the primary distribution channel for draw and instant lottery sales. Veterans' organizations are the only distribution channel for ITLMs. Retailers receive a sales commission of 5.5% of net sales and a cashing commission of 3% of prizes redeemed. Veterans' organizations earn an additional ½% sales commission on ITLM sales.

Licensed lottery retailers sell draw game lottery tickets to the public through the use of computerized terminals. Draw games are categorized as: Daily Draw (Pick 3, Pick 4, Bonus Match 5 and 5 Card Cash), Jackpot (Multi-Match, Mega Millions/Megaplier, Powerball/Power Play and Cash4Life) and Monitors (Keno, Keno Bonus®, Keno Super Bonus, Racetrax®, and Racetrax® Bonus). Draw revenue is recognized in the month in which the related drawings are held. Revenue from the sale of

**NOTES TO THE FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. Licensed veterans' organizations offer ITLMs to their customers. The Agency recognizes ITLM revenue as "gross terminal revenue" equivalent to all wagers, net of related prizes.

Prize obligations for draw games are determined and recognized after each drawing is held. For all draw games, winners are paid a certain amount depending upon the number of winners and the order of the winning numbers drawn. The Multi-Match, Mega Millions and Powerball jackpots are calculated as a percentage of total game revenue. If there is no jackpot winner, the prize pool is carried forward until there is a winner. The remaining Multi-Match, Mega Millions and Powerball prize levels are based on a predetermined set amount. Prize obligations are recognized monthly for instant games based on the books activated by retailers and the related prize expense based on the specific game's prize structure. Prize expense for ITLM is recorded as amounts are won and is used in determining the "gross terminal revenue" for ITLM.

**GAMING OPERATIONS (VLTS AND TABLE GAMES) - REVENUE RECOGNITION AND PRIZE OBLIGATIONS**

As of the end of fiscal year 2017, six casinos were in operation with a total of 11,591 VLTs. VLTs are a self-activated video version of lottery games which allow for a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The prize structures of these video lottery games are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expenses are netted against total video credits played. The Agency recognizes VLT revenue as "gross terminal revenue" equivalent to all wagers, net of related prizes.

In accordance with the law, the casino operators receive a specified percentage of gross terminal revenue to operate their casinos. The percentage varies by casino. In fiscal year 2016, two casinos received 39% of the gross terminal revenue, one casino received 41%, one casino received 43% and one casino received 50%. On December 8, 2016, when the sixth casino opened, two of the existing casinos received an increase in their percentage of gross terminal revenue. The one casino increased from 39% to 46% and the other casino increased from 41% to 49%. The sixth casino receives 44% of the gross terminal revenue.

To help fund its operations, the Agency retains 1% of the gross terminal revenue from all of the casinos with the exception of one casino where the Agency retains 2% of the gross terminal revenue. The enabling legislation requires the Agency to disburse the remainder of the gross terminal revenue to other Government agencies, which in turn are responsible for making further distributions.

As of the end of fiscal year 2017, there were 585 table games in operation at five of the casinos. Table games include blackjack, roulette, craps, baccarat, big six wheel and various poker games. Table game revenue is equivalent to all wagers, net of related prizes. Casino operators receive 80% of the table

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

game revenue to operate their casino. Prior to December 8, 2016 the remaining 20% was remitted to the Agency who in turn transferred it to the Education Trust Fund in accordance with the enabling legislation. Effective December 8, 2016, with the opening of the sixth casino, enabling legislation required the Agency to transfer 15% to the Education Trust Fund and the remaining 5% to a Local Jurisdiction Fund.

The casino operators' share of the revenue from both VLTs and table games is recorded as a cost of sales.

To further help fund the operations of the Gaming program, the State provided grants to the Agency during fiscal years 2017 and 2016 in the amount of \$20,706,322 and \$20,274,795 respectively.

License related revenues (application, license, fingerprint, principal applicant background investigation, and vendor fees) are recorded as licensing deposits until the receipt is identified as being for a specific applicant and type of fee which usually occurs in the same month that the deposit is received. After the specific applicant and fee type is ascertained, the related deposit amount is recognized as revenue, except for principal applicant investigation fees which are recognized as revenue when the background investigation is completed and the applicant is either invoiced for any investigation costs in excess of the deposit received or the portion of the deposit in excess of investigation costs is returned to the applicant.

Administrative expenses for the Gaming program are recognized as they are incurred. The majority of the expenses incurred for the VLT program are for the lease of the VLTs and salaries. All of these leases met the criteria for capital leases and are treated as such for financial statement purposes.

### **OPERATING AND NON-OPERATING REVENUES AND EXPENSES**

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

### **CASH AND CASH EQUIVALENTS**

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

**NOTES TO THE FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****CASH AND CASH EQUIVALENTS – GAMING LICENSE DEPOSITS**

Cash and cash equivalents – gaming license deposits account is used to record the receipt of license related fees and investigation deposits that are received from applicants wanting to obtain a gaming license. For the majority of applicants, fees are recorded as revenue after the specific applicant and type of fee received is determined. At the end of each month, these fees are transferred to the Gaming Special Fund account.

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

**CASH AND CASH EQUIVALENTS – AGENT**

Cash and cash equivalents – agent consists of lottery agency funds deposited with a financial institution and the related interest earned. Monies deposited into the accounts were received from select retailers who deposited monies with the Agency in lieu of obtaining a bond.

**ACCOUNTS RECEIVABLE – LOTTERY**

Accounts receivable – lottery represents the amounts due from lottery retailers from the sale of lottery tickets. The Agency utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of accounts receivable. The Agency 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, 2017 and 2016, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

**ACCOUNTS RECEIVABLE – GAMING**

Accounts receivable – gaming represents outstanding amounts due that have been billed to applicants for completed background investigations.

**ACCOUNTS RECEIVABLE – CASINO OPERATORS**

Accounts receivable – casino operators represents the amount of gross terminal revenue and table games revenue due from the casino operators. Gross terminal revenue is collected on a daily basis. Table game revenue is collected every two days. Also included in the June 2017 and 2016 balances is the amount due from the casino operators for the \$425 per VLT assessment and the \$500 per



## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

table game assessment that is due to the Problem Gambling Fund. Management believes that all accounts receivable are collectible, and as such, no allowance for doubtful accounts has been recorded as of June 30, 2017 and 2016.

### **CAPITAL ASSETS AND LEASEHOLD IMPROVEMENTS**

The Agency has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000 and all leased assets. These assets are comprised principally of VLTs. The purchased assets are recorded at cost and depreciation is computed using the straight-line method over three-to-five year useful lives. Assets acquired through capital leases are initially recorded at the 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 Agency and stated at fair value based on quoted market prices. Investments in annuity contracts are purchased in the name of the Agency and stated at present value, which approximates fair value.

### **COMPENSATED ABSENCES**

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

### **PAYMENTS TO THE STATE OF MARYLAND**

The law requires the Agency to transfer its lottery revenue in excess of funds allocated to prize awards and operating expenses to the State of Maryland General Fund and to a lesser extent the Maryland Stadium Authority, the Veteran's Trust Fund and, beginning in fiscal year 2017, the International Race Fund. These payments are recorded as a non-operating expense in the accompanying statements of revenues, expenses, and changes in net position.

The law further requires the Agency to transfer its gaming revenue to various governmental agencies. On a monthly basis, in accordance with percentages specified in the law, the Agency transfers funds to the State's Department of Education into the Maryland Education Trust Fund; the State's Racing Commission into accounts for Local Impact Grants, Purse Dedication, Racetracks Facility Renewal

## NOTES TO THE FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

and Local Jurisdictions and to the State's Board of Public Works into the Small, Minority, and Women-Owned Business Account. These transfers are recorded as non-operating expenses in the accompanying statements of revenues, expenses and changes in net position.

A summary of the total game revenue and the distributions for the years ended June 30, 2017 and 2016, respectively, follows:

<b>Fund</b>	<b>Fiscal Year 2017</b>	<b>Fiscal Year 2016</b>
Education Trust Fund	\$ 451,206,896	\$ 402,504,945
Local Impact Grants	47,481,444	39,656,342
Horse Purse Dedication	54,641,341	50,058,359
Racetracks Facility Renewal	8,407,300	7,003,586
Small, Minority and Women Owned Businesses	12,949,485	10,815,365
Local Jurisdictions	17,556,796	—
Maryland Lottery and Gaming Control Agency	9,310,058	7,832,058
Casino Operators	819,389,044	626,102,299
<b>Total</b>	<b>\$ 1,420,942,364</b>	<b>\$ 1,143,972,954</b>

**NET POSITION**

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

**NEW ACCOUNTING PRONOUNCEMENTS**

The Agency implemented GASB Statement No 72 (GASB No. 72), *Fair Value Measurement and Application* for the fiscal year ended June 30, 2016. The Agency's investments are reported at fair value and are classified and disclosed in accordance with this Statement as disclosed in Note 3.

The Agency implemented GASB Statement No 82 (GASB No. 82), *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73* for the fiscal year ended June 30, 2017. Required information is included in Note 9.

GASB has issued Statement No. 75 (GASB No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for fiscal years beginning after June 15, 2017. The Agency will implement this statement as of the effective date.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

GASB has also issued GASB Statement No. 80 (GASB No. 80), *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, GASB Statement No. 81 (GASB No. 81), *Irrevocable Split-Interest Agreements* and GASB Statement No. 74 (GASB No. 74), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016, GASB Statement No. 85 (GASB No. 85) *Omnibus 2017*, GASB Statement No. 86 (GASB No. 86) – *Certain Debt Extinguishment Issues* effective for fiscal years beginning after June 15, 2017. These statements have no effect on the Agency.

GASB has also issued GASB Statement No. 83 (GASB No. 83), *Certain Asset Retirement Obligations* effective for reporting periods beginning after June 15, 2018, GASB Statement No. 84 (GASB No. 84), *Fiduciary Activities* for reporting periods beginning after December 15, 2018 and GASB Statement No. 87 (GASB No. 87), *Leases*, for reporting periods beginning after December 15, 2019. The Agency is in the process of assessing the impact of these statements and will implement them as of the effective date, if appropriate.

## **2. CASH AND CASH EQUIVALENTS**

As of June 30, 2017 and June 30, 2016, the carrying amounts of deposits with financial institutions were \$3,552,409 and \$3,469,023, respectively. The corresponding bank balances were \$3,528,737 and \$3,153,215 as of June 30, 2017 and June 30, 2016, respectively.

As of June 30, 2017 and June 30, 2016, the amount on deposit with the Maryland State Treasury (State Treasury) was \$112,662,276 and \$156,369,397, respectively. The corresponding State Treasury balances were \$16,171,679 and \$21,792,628, 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 State Treasury maintains these and other Maryland State agency funds on a pooled basis in accordance with State statute. The Agency does not obtain interest on funds deposited with the State Treasury. As of June 30, 2017 and 2016, the Agency's deposits with the State Treasury were 1.8% and 2.2% of the total deposits with the State Treasury, respectively.

**Custodial credit risk** – Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits will not be returned to it. The Agency'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.

**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



**NOTES TO THE FINANCIAL STATEMENTS****2. CASH AND CASH EQUIVALENTS (CONTINUED)**

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

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

Concentration of credit risk – The State Treasury's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5% of government fund investments are in the FNMA and the Federal Home Loan Mortgage Corporation. As of June 30, 2017, these investments are 14.20% and 45.57% of the State of Maryland's internal investment pool total investments, respectively. As of June 30, 2016, these investments were 23.63% and 40.35% of the State of Maryland's internal investment pool total investments, respectively.

**3. INVESTMENTS****UNITED STATES GOVERNMENT TREASURY BONDS**

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

The Agency 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 yields to maturity of 0.582% to 6.942%. As of June 30, 2017 and June 30, 2016, the Agency's United States Government Treasury Bonds totaled \$32,366,349 and \$34,899,597, respectively. The investments in United States Government Treasury Bonds are carried at fair value based on quoted market prices on the accompanying statements of net position and the related unrealized gains (losses) and interest income are recorded as investment revenue (loss) on the accompanying statements of revenues, expenses, and changes in net position.

During fiscal year 2016, 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 lent United States Government securities to broker-dealers and other entities (borrowers). As of June 30, 2016, Agency United States Government Treasury Bonds totaling \$13,121,921 were lent as part of this program. The State Treasurer's Office controls the program and authorizes all transactions. The State's (and Agency's) custodial bank managed the securities lending program by contracting with a lending agent who received cash as collateral. The lending agent would use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally,

### **3. INVESTMENTS (CONTINUED)**

under the terms of the lending agreement, the lending agent indemnified the State against any credit loss arising from investment of the collateral. The collateral would be returned for the same securities by the next business day if the aggregate value of the collateral fell to less than 100% of the market value of the securities lent against the collateral. Cash collateral is initially pledged at greater than the market value of the securities.

At year-end, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceed the amounts the borrowers owed the State. As of June 30, 2016, the related collateral for the Agency securities lent totaled \$13,357,610, resulting in 101.8% as of June 30, 2016, collateralization of the fair value of the Agency securities lent. The benefit of collateral received or income earned was not passed onto the Agency and therefore not reflected in the Agency's financial statements.

Either the State or the borrower could terminate the lending agreements on demand. Lending agreements were usually short in duration. The duration of the lending agreements was 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 was 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. In May 2017, the State Treasurer's Office discontinued its securities lending program. The State did not experience any losses on their securities lending transactions for the year ended June 30, 2016 or up until the time the program was discontinued in 2017.

### **ANNUITY CONTRACTS**

As of June 30, 2017 and June 30, 2016, the annuity contracts totaled \$95,663 and \$117,000, respectively. The annuity contracts were purchased in 1976 to satisfy the Agency'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.

### **INVESTMENT RISK**

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 Agency is not subject to interest rate risk because it is the Agency's policy to hold the investments until maturity, unless an annuitant through a court order forces the sale of an investment to settle the Agency'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 Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency is not subject to custodial risk because the United States Government Treasury Bonds are held in the Agency's name by its custodian and annuity contracts are not evidenced by securities that exist in physical or book entry form.

### 3. INVESTMENTS (CONTINUED)

#### UNITED STATES GOVERNMENT TREASURY BONDS AND ANNUITY CONTRACTS

As of June 30, 2017, the Agency 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
Investments in prize annuities:								
United States Treasury Bonds	\$32,366,349	1	99.7%	\$3,393,507	\$14,927,630	\$9,820,023	\$3,943,344	\$ 281,845
Annuity Contracts	95,663	2	.3%	25,534	44,410	18,983	6,736	–
Total Investments	\$32,462,012		100.0%	\$3,419,041	\$14,972,040	\$9,839,006	\$3,950,080	\$ 281,845

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

2 Annuity contracts not rated.

As of June 30, 2016, the Agency 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
Investments in prize annuities:								
United States Treasury Bonds	\$34,889,597	1	99.7%	\$4,681,839	\$13,709,286	\$12,163,910	\$4,018,215	\$ 316,347
Annuity Contracts	117,000	2	.3%	25,464	62,795	18,857	9,884	–
Total Investments	<u>\$35,006,597</u>		<u>100.0%</u>	<u>\$4,707,303</u>	<u>\$13,772,081</u>	<u>\$12,182,767</u>	<u>\$4,028,099</u>	<u>\$ 316,347</u>

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.

### 3. INVESTMENTS (CONTINUED)

Investments are measured and reported at fair value and are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
<u>Investments by fair value level</u>				
U.S. Treasury Obligations	\$ 32,366,349	\$ –	\$ –	\$ 32,366,349
Annuities	–	95,663	–	95,663

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
<u>Investments by fair value level</u>				
U.S. Treasury Obligations	\$ 34,889,597	\$ –	\$ –	\$ 34,889,597
Annuities	–	117,000	–	117,000

**NOTES TO THE FINANCIAL STATEMENTS****4. CAPITAL ASSETS**

A summary of capital asset activity for the year ended June 30, 2017 is as follows:

	<u>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>2017</u>
Capital Assets				
Machinery and Equipment	\$ 94,438,354	\$ —	\$ —	\$ 94,438,354
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	95,051,594	—	—	95,051,594
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	45,721,022	12,982,014	—	58,703,036
Leasehold Improvements	613,240	—	—	613,240
Total Accumulated Depreciation and Amortization	46,334,262	12,982,014	—	59,316,276
Net Capital Assets	<u>\$ 48,717,332</u>	<u>\$ 12,982,014</u>	<u>\$ —</u>	<u>\$ 35,735,318</u>

A summary of capital asset activity for the year ended June 30, 2016 is as follows:

	<u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016</u>
Capital Assets				
Machinery and Equipment	\$ 94,438,354	\$ —	\$ —	\$ 94,438,354
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	95,051,594	—	—	95,051,594
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	32,682,266	13,038,756	—	45,721,022
Leasehold Improvements	613,240	—	—	613,240
Total Accumulated Depreciation and Amortization	33,295,506	13,038,756	—	46,334,262
Net Capital Assets	<u>\$ 61,756,088</u>	<u>\$ 13,038,756</u>	<u>\$ —</u>	<u>\$ 48,717,332</u>

## 5. ANNUITY PRIZE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,352,069	\$ 85,923	\$ 3,437,992
2019	3,188,187	249,805	3,437,992
2020	4,104,720	652,209	4,756,929
2021	2,710,323	514,873	3,225,196
2022	3,410,789	906,407	4,317,196
2023-2027	8,228,638	3,307,342	11,535,980
2028-2032	2,635,173	1,336,848	3,972,021
2033-2037	1,004,407	605,593	1,610,000
2038-2041	285,526	233,406	518,932
Total	<u>\$ 28,919,832</u>	<u>\$ 7,892,406</u>	<u>\$ 36,812,238</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 Agency 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, 2017 and 2016 was as follows:

<u>Fiscal Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
June 30, 2017	\$ 29,356,123	\$ 4,278,701	\$ 4,714,992	\$ 28,919,832	\$ 3,352,069
June 30, 2016	\$ 32,045,777	\$ 4,701,505	\$ 7,392,159	\$ 29,356,123	\$ 4,609,201

## NOTES TO THE FINANCIAL STATEMENTS

## 6. EMPLOYEE RELATED PAYABLES

Changes in long-term employee related payables were as follows for the years ended June 30, 2017 and 2016. The employee related payables due within one year are included in the current portion of the employee related payables on the accompanying statements of net position, which also includes salaries payable in the amount of \$751,914 and \$621,576 as of June 30, 2017 and 2016, respectively.

	2017		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 1,685,843	\$ 429,000	\$ 2,114,843
Additions	1,229,333	(39,560)	1,189,773
Reductions	(1,085,636)	(79,440)	(1,165,076)
Ending Balance	<u>\$ 1,829,540</u>	<u>\$ 310,000</u>	<u>\$ 2,139,540</u>
Amount Due Within One Year	\$ 1,300,000	\$ 46,500	\$ 1,346,500
Non-Current Portion	<u>529,540</u>	<u>263,500</u>	<u>793,040</u>
	<u>\$ 1,829,540</u>	<u>\$ 310,000</u>	<u>\$ 2,139,540</u>

	2016		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 1,782,630	\$ 222,000	\$ 2,004,630
Additions	1,169,700	275,865	1,445,565
Reductions	(1,266,487)	(68,865)	(1,335,352)
Ending Balance	<u>\$ 1,685,843</u>	<u>\$ 429,000</u>	<u>\$ 2,114,843</u>
Amount Due Within One Year	\$ 1,170,000	\$ 64,350	\$ 1,234,350
Non-Current Portion	<u>515,843</u>	<u>364,650</u>	<u>880,493</u>
	<u>\$ 1,685,843</u>	<u>\$ 429,000</u>	<u>\$ 2,114,843</u>

## 7. COMMITMENTS AND CONTINGENCIES

### LEASES

The Agency leases office space, warehouse facilities, and draw and instant product equipment over periods extending through July 2025. Rent expense for the years ended June 30, 2017 and 2016 totaled \$1,132,041 and \$1,157,241, respectively. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Machinery and Equipment	\$ 91,983,613	\$ 91,983,613
Accumulated Amortization	(56,856,945)	(44,083,611)
	<u>\$ 35,126,668</u>	<u>\$ 47,900,002</u>

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

<b>Year Ending June 30:</b>	<b>Operating Leases</b>	<b>Capital Leases</b>
2018	\$ 1,175,341	\$ 13,249,935
2019	1,220,473	13,249,915
2020	1,267,252	9,919,753
2021	1,316,013	—
2022	1,366,697	—
2023	703,049	—
<b>Total</b>	<b>\$ 7,048,825</b>	<b>\$ 36,419,603</b>
Less amount representing interest		751,635
Present value of minimum lease payments		35,667,968
Less current maturities		13,249,883
Long-term portion of capital lease obligations		<u>\$ 22,418,085</u>

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

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 48,284,425	\$ 60,714,472
Acquisitions	—	—
Disposals	—	—
Payments	(12,616,457)	(12,430,047)
Ending Balance	<u>\$ 35,667,968</u>	<u>\$ 48,284,425</u>



## NOTES TO THE FINANCIAL STATEMENTS

**8. PARTICIPATION IN THE MULTI-STATE LOTTERY**

In July 2014, the Agency became a member of the Multi-State Lottery (MUSL), which operates several jackpot lottery games on behalf of other participating lotteries. The Agency participates in two of these games: Mega Millions and Powerball. MUSL is managed by a Board of Directors, which is comprised of lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer these multi-state games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and independent contractors serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the independent audit.

Each MUSL member sells game tickets through its lottery retailers and makes weekly wire transfers to MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for Powerball and Mega Millions is 50% of each drawing period's sales, within minimum jackpot levels.

MUSL places a percentage of game sales from each game in separate prize reserve funds that serve as a contingency reserve to protect from unforeseen liabilities. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to the members if MUSL disbands or, after one year, if a member leaves MUSL.

The Agency's share of the prize reserve fund balances with MUSL as of June 30, 2017 was as follows (in thousands):

	<b>Total Prize Reserve</b>	<b>Agency Share</b>
Powerball	\$ 114,888	\$ 2,125
Mega Millions	35,962	1,222
	<u>\$ 150,850</u>	<u>\$ 3,347</u>

Lottery prize reserves held by MUSL are invested according to a Trust agreement the participating lotteries have with MUSL outlining investment policies. The policies restrict investments to direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to the payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio is never more than one year, except that up to one third of the portfolio may have an average maturity of up to two years. The maximum maturity for any one security does not exceed five years.

On October 31, 2016, the Agency withdrew from MUSL and rejoined the Mega Millions consortium. The Mega Millions consortium is made up of lottery directors from member party states. Unlike MUSL, the consortium does not require reserves. Instead, settlements between states occur after

## **8. PARTICIPATION IN THE MULTI-STATE LOTTERY (CONTINUED)**

each jackpot win and annually for all other prizes unless non-jackpot prize settlements exceed a specified amount. The Agency will receive its MUSL reserve balances on October 31, 2017.

## **9. RETIREMENT BENEFITS**

The Agency 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 Agency'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 or located at <http://www.sra.state.md.us/Agency/Downloads/CAFR/>.

### **PLAN DESCRIPTIONS**

Agency 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.

The Pension Plan provides retirement, death and disability benefits to its members. Certain aspects of eligibility and benefit calculations are different for employees hired on or after July 1, 2011. Those differences are explained below.

Members of the Pension Plan who were active participants prior to July 1, 2011 are generally eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member equals 1/55 (1.8%) of the member's AFS, multiplied by the number of years

**NOTES TO THE FINANCIAL STATEMENTS****9. RETIREMENT BENEFITS (CONTINUED)**

of creditable service. A member may retire with reduced benefits upon attaining age 55 with at least 15 years of eligible service. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

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

**FUNDING POLICY**

Active members and the employers of the members are required to contribute to the Employees’ Retirement and Pension Systems. The Agency’s required contribution is established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. For service earned after July 1, 2011, members of the Employees’ Retirement System and the Employee’s Pension System are required to contribute 7% of earnable compensation.

The Agency contributions, which equal 100% of the required contributions, for the years ended June 30, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
Agency contribution	\$3,115,271	\$2,424,201
Percentage of payroll	11.60%	10.11%

## 9. RETIREMENT BENEFITS (CONTINUED)

### GASB NO. 68 – PENSION DISCLOSURES

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No 27.* GASB Statement No. 68 requires the Agency to recognize the long-term obligations for pension benefits as a liability for the first time on the Statements of Net Position and to more comprehensively and comparatively measure the annual cost of pension benefits.

As of June 30, 2017 and 2016, the Agency reported a liability of \$27,137,095 and \$22,831,103 for its proportionate share of the State of Maryland's pension liability.

On June 30, 2017 and 2016, the Agency's proportion of the State of Maryland's net pension liability of \$22,173,456,403 and \$19,536,332,680, respectively (State pool only) was \$27,137,095 and \$22,831,103 or .122% and .117%, respectively of the total State's pension liability.

The Agency reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources as of June 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Agency's contributions during the year	\$ (2,424,201)	\$ –
Amortization of prior year deferred outflows and inflows	(1,975,902)	(629,522)
Change of proportionate share of contributions	1,078,536	–
Net difference between projected and actual earnings on pension plan investments	2,691,808	–
Net difference between projected and actual experience	–	297,330
Agency's contributions subsequent to the measurement date	3,115,271	–
Total	<u>\$ 2,485,512</u>	<u>\$ (332,192)</u>

The Agency's contributions of \$3,115,271 reported as a deferred outflows of resources resulted from contributions subsequent to the measurement date. This amount will be recognized as a reduction in the net pension liability for the year ended June 30, 2018.

## NOTES TO THE FINANCIAL STATEMENTS

**9. RETIREMENT BENEFITS (CONTINUED)**

The Agency reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources as of June 30, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Agency's contributions during the year	\$ (2,315,584)	\$ —
Amortization of prior year deferred outflows and inflows	(70,509)	(533,514)
Change of assumptions	1,142,877	—
Change of proportionate share of contributions	5,688,061	—
Net difference between projected and actual experience	2,010,945	467,561
Agency's contributions subsequent to the measurement date	2,424,202	—
Total	<u>\$ 8,879,992</u>	<u>\$ (65,953)</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pensions will be recognized in pension expense as follows:

	2017 Balanced Amortization		
	Deferred Outflows		Deferred Inflows
	Net Difference in Investment Earnings	Change in Proportionate Share of Contributions	Projected and Actual Experience
Year End June 30,			
2018	\$ 538,362	\$ 215,707	\$ (59,466)
2019	538,362	215,707	(59,466)
2020	538,362	215,707	(59,466)
2021	538,362	215,707	(59,466)
2022	538,361	215,708	(59,466)
Total	<u>\$ 2,691,808</u>	<u>\$ 1,078,536</u>	<u>\$ (297,330)</u>

## 9. RETIREMENT BENEFITS (CONTINUED)

Year End June 30,	2016 Balanced Amortization				2015 Balanced Amortization	
	Deferred Outflows			Deferred Inflows	Deferred Outflow	Deferred Inflow
	Net Difference in Investment Earnings	Change in Assumptions	Change in Proportionate Share of Contributions	Projected and Actual Experience	Change in Assumptions	Net Difference in Investment Earnings
2018	\$ 502,736	\$ 234,677	\$ 1,167,980	\$ (96,008)	\$ 70,509	\$ (533,514)
2019	502,736	234,677	1,167,980	(96,008)	70,509	(533,513)
2020	502,738	234,677	1,167,980	(96,008)	—	—
2021	—	204,169	1,016,141	(83,529)	—	—
2022	—	—	—	—	—	—
Total	<u>\$ 1,508,209</u>	<u>\$ 908,200</u>	<u>\$ 4,520,081</u>	<u>\$ (371,553)</u>	<u>\$ 141,018</u>	<u>\$(1,067,027)</u>

### Assumptions and Other Inputs:

Valuation method .....	Individual Entry Age Normal Cost Method
Amortization method .....	Level Percentage of Payroll, Closed
Salary increases.....	3.30% to 9.20% including inflation
Inflation .....	2.70% general, 3.20% wage
Investment rate of return .....	7.55%
Discount rate .....	7.55%
Retirement age.....	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality .....	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

## **9. RETIREMENT BENEFITS (CONTINUED)**

### *Discount Rate*

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## **10. OTHER POST-EMPLOYMENT BENEFITS**

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

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

### **PLAN DESCRIPTION**

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



## **10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

### **FUNDING POLICY**

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, 2017 and June 30, 2016, the State did not allocate postemployment health care costs to participating employers and as a result no contribution was made by the Agency.

## **11. RISK MANAGEMENT**

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

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

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

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

	For the Year ended June 30, 2017			
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget over (under)
Revenues:				
Cash revenue receipts from all sources	\$ 3,355,373,000	\$3,309,727,000	\$3,378,929,602	\$ 69,202,602
Expenditures and encumbrances:				
Gaming vendor and information technology fees	28,272,851	28,272,851	29,026,085	753,234
Instant ticket printing and delivery	8,070,604	8,070,604	7,464,342	(606,262)
Salaries, wages, and benefits	26,446,755	26,446,755	26,873,983	427,228
Advertising and promotions	16,278,691	16,278,691	18,379,694	2,101,003
Other general and administrative expenses	20,552,404	20,552,404	7,438,230	(13,114,174)
Reversions VLT general fund	—	(1,355,206)	—	1,355,206
Reversions — lottery	—	(801,529)	—	801,529
Total expenditures and encumbrances	99,621,305	97,464,570	89,182,334	(8,282,236)
Excess of revenues over expenditures	3,255,751,695	3,212,262,430	3,289,747,268	77,484,838
Other uses of financial resources:				
Transfers in (out):				
State of Maryland Stadium Authority and Veterans Trust and International Racing Fund	(41,063,000)	(41,063,000)	(41,070,173)	(7,173)
State of Maryland General Fund	(492,309,000)	(493,791,000)	(483,832,420)	9,958,580
Other government agencies/funds — VLT	—	—	(599,590,698)	(599,590,698)
Excess of revenues over expenditures and other sources of financial resources	\$ 2,722,379,695	\$2,677,408,430	\$2,165,253,977	\$ (512,154,453)
<b>Reconciliation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures</b>				
Change in net position	\$ (6,887,009)			
Non-budgetary expenditures:				
Prize expense	1,196,511,295			
Retailer and casino commissions	965,272,356			
Depreciation	12,982,014			
Accounting principle differences:				
Accounts receivable	6,348,246			
Unearned revenue	(587,774)			
Increase in fair value of investments	699,524			
Amortization of discount prize liabilities	1,408,770			
Compensated absences	143,697			
Workers' compensation	(119,000)			
Capital lease payments and related interest	(13,249,883)			
Cash received for VLT	1,602,091			
Deferred inflows pension	(332,192)			
Deferred outflows pension	(2,485,512)			
Prize Awards payable	2,390,066			
Accounts payable and accrued expenses	1,557,288			
Excess of revenues over expenses	\$ 2,165,253,977			

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

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

- Lottery player prize payments are not budgeted;
- Lottery retailer commissions are not budgeted;
- Casino operator 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 Agency maintains budgetary control by not permitting the total expenditures to exceed appropriations without executive and legislative branch approval.

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

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2017	2016	2015
Agency's proportion of the collective NPL	0.12%	0.11%	0.08%
Agency's proportionate share of the collective NPL	\$ 27,137,095	\$ 22,831,103	\$ 13,723,698
Agency's covered payroll	16,262,945	14,459,261	13,597,365
Proportionate share of the collective NPL as a percentage of covered payroll	166.86%	157.90%	100.93%
Plan fiduciary net position as a percentage of total pension liability	65.79%	68.78%	71.87%

## SCHEDULE OF CONTRIBUTIONS

	2017	2016	2015
Actuarially determined contributions	\$ 3,115,271	\$ 2,424,201	\$ 2,315,584
Contributions in relation to the actuarially determined contribution	3,115,271	2,424,201	2,315,584
Contribution deficiency (excess)	\$ —	\$ —	\$ —
Covered payroll	16,262,945	14,459,261	13,597,365
Contributions as a percentage of covered-employee payroll	19.16%	16.77%	17.03%

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

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

**NOTES TO REQUIRED SCHEDULES**

*Assumptions and Other Inputs:*

Valuation date .....	June 30	Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions are reported.
Valuation method .....	Individual Entry Age Normal Cost Method	
Amortization method .....	Level Percentage of Payroll, Closed	
Asset valuation method .....	5-years smoothed market; 20% collar	
Salary increases.....	3.30% to 9.20% including inflation	
Inflation .....	2.70% general, 3.20% wage	
Investment rate of return .....	7.55%	
Discount rate .....	7.55%	
Retirement age.....	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.	
Mortality .....	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.	
Notes.....	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the inflation assumption change in the 2016 valuation from 2.90% to 2.70%.	

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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

To the Maryland Lottery and Gaming Control Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Maryland Lottery and Gaming Control Agency (an agency of the State of Maryland) (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Maryland Lottery and Gaming Control Agency's basic financial statements, and have issued our report thereon dated September 30, 2017.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Maryland Lottery and Gaming Control Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Maryland Lottery and Gaming Control Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Maryland Lottery and Gaming Control Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Maryland Lottery and Gaming Control Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

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

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

September 29, 2017



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## STATISTICAL SECTION

SINCE ITS INCEPTION IN 1973, THE LOTTERY HAS CONTRIBUTED MORE THAN \$15.5 BILLION IN REVENUE TO THE STATE OF MARYLAND. MARYLAND'S CASINO PROGRAM, WHICH BEGAN IN SEPTEMBER 2010, HAS GENERATED MORE THAN \$2.5 BILLION IN REVENUE, WITH MORE THAN \$2.0 BILLION SUPPORTING EDUCATION IN THE STATE.

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
FOR THE YEARS ENDED JUNE 30, 2017 & 2016

Enterprise Fund of the State of Maryland

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

## **CONTENTS**

### **FINANCIAL TRENDS 87**

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

### **REVENUE CAPACITY 113**

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

### **DEBT CAPACITY 124**

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

### **DEMOGRAPHIC AND ECONOMIC INFORMATION 125**

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

### **OPERATING INFORMATION 127**

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

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

**MARYLAND LOTTERY AND GAMING CONTROL AGENCY**  
**NET POSITION AND CHANGES IN NET POSITION – FISCAL YEAR 2017**

**NET POSITION BY COMPONENT – FISCAL YEARS 2008 THROUGH 2017**

FISCAL YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net investment in capital assets	\$ 189,292	\$ 29,504	\$ (791,434)	\$ (6,881,872)	\$ (6,982,992)	\$ (7,197,022)	\$ (6,954,587)	\$ 1,041,616	\$ 432,907	\$ \$67,350
Unrestricted	28,739,711	27,343,816	22,748,793	12,829,364	19,140,536	(1,153,072)	1,806,301	(285,733)	1,543,692	(4,977,761)
<b>Total net position</b>	<b>\$ 28,929,003</b>	<b>\$ 27,373,320</b>	<b>\$ 21,957,359</b>	<b>\$ 5,947,492</b>	<b>\$ 12,157,544</b>	<b>\$ (8,350,094)</b>	<b>\$ (5,148,286)</b>	<b>\$ 755,883</b>	<b>\$ 1,976,599</b>	<b>\$ (4,910,411)</b>
<b>CHANGE IN NET POSITION – FISCAL YEARS 2008 THROUGH 2017</b>										
<b>OPERATING REVENUES:</b>										
Daily Draw games	\$ 533,942,104	\$ 549,445,926	\$ 534,380,485	\$ 536,852,735	\$ 542,002,339	\$ 545,591,321	\$ 545,173,973	\$ 545,723,393	\$ 548,878,901	\$ 556,086,319
Monitor games	459,453,415	482,713,930	491,999,734	496,730,733	521,672,673	493,569,979	466,230,592	457,655,976	478,647,528	483,643,007
Jackpot games	160,602,826	158,857,176	189,339,267	187,270,788	224,413,737	231,119,295	232,954,540	207,620,879	259,796,495	206,690,778
Instant games	513,859,583	507,057,024	490,853,089	493,548,322	506,803,706	485,838,672	479,631,463	546,053,764	611,286,137	676,752,574
Raffle games	5,180,800	—	—	—	—	—	—	—	—	—
ITLMs	—	—	—	—	—	—	—	3,812,016	6,934,191	8,372,989
<b>Total net sales</b>	<b>1,673,038,728</b>	<b>1,698,074,056</b>	<b>1,706,572,575</b>	<b>1,714,402,578</b>	<b>1,794,892,455</b>	<b>1,756,119,267</b>	<b>1,723,990,568</b>	<b>1,760,866,028</b>	<b>1,905,543,252</b>	<b>1,931,545,666</b>
Gaming Revenue - Gross Terminal Revenue	—	—	—	103,132,793	195,093,073	560,679,031	579,133,667	681,822,742	741,694,172	885,867,966
Gaming Revenue - State Grant	—	185,724	1,120,566	9,605,152	28,959,177	73,690,820	81,648,408	66,263,057	20,274,795	20,706,322
Gaming Revenue - Table Games	—	—	—	—	—	48,037,794	254,869,582	356,401,074	402,278,788	535,074,397
Gaming Revenue - Facility Applicants	—	896,234	3,591,922	1,341,779	1,791,260	2,703,989	3,282,340	2,812,897	1,921,206	2,957,020
Gaming Machine Assessment	—	—	—	—	1,708,825	2,964,174	3,035,800	3,967,980	3,844,625	4,649,746
ITLM Lease Revenue	—	—	—	—	—	—	—	1,587,896	2,894,330	3,494,887
<b>Total operating revenues</b>	<b>1,673,038,728</b>	<b>1,699,156,014</b>	<b>1,711,285,063</b>	<b>1,828,482,302</b>	<b>2,022,444,790</b>	<b>2,444,195,075</b>	<b>2,645,960,365</b>	<b>2,873,721,674</b>	<b>3,078,451,168</b>	<b>3,384,296,004</b>
<b>COST OF SALES:</b>										
Prize expense	956,887,051	1,025,901,163	1,034,157,126	1,029,040,616	1,065,553,665	1,038,475,788	1,022,033,738	1,051,485,747	1,133,301,463	1,196,511,295
Retailer commissions	117,824,367	121,888,107	113,130,686	113,687,526	118,305,427	119,788,227	122,109,073	128,596,268	141,157,005	145,883,312
Casino commissions	—	—	—	34,033,822	64,380,714	223,930,473	406,227,926	538,999,870	626,102,299	819,389,044
Gaming vendor and data processing fees	15,615,384	15,975,142	16,201,910	19,360,974	20,077,153	21,368,102	20,772,228	23,522,186	27,744,841	29,026,085
Instant ticket printing and delivery	691,0073	6,621,144	6,784,297	6,275,995	6,206,543	6,435,341	7,940,317	6,167,461	5,997,088	7,464,342
<b>Total cost of sales</b>	<b>1,097,236,875</b>	<b>1,170,385,556</b>	<b>1,170,274,019</b>	<b>1,202,398,933</b>	<b>1,274,623,502</b>	<b>1,409,997,931</b>	<b>1,579,083,282</b>	<b>1,748,771,532</b>	<b>1,934,302,696</b>	<b>2,198,274,078</b>
<b>OPERATING EXPENSES:</b>										
Salaries, wages, and benefits	12,224,124	12,981,499	13,044,796	14,498,108	15,662,232	16,929,270	20,205,985	23,198,757	24,476,879	26,873,983
Advertising and promotions	19,805,039	19,036,583	13,767,713	13,811,939	12,592,589	13,297,155	11,593,907	12,369,906	15,645,392	18,379,694
Other general and administrative expenses	3,663,424	4,101,836	6,859,044	16,008,540	17,293,017	59,032,711	74,392,476	50,011,479	54,488,107	7,438,231
Depreciation and amortization	627,947	649,441	1,308,073	7,256,951	10,817,070	25,403,648	13,300,598	9,827,449	13,038,756	12,982,014
<b>Total operating expenses</b>	<b>36,320,534</b>	<b>36,769,359</b>	<b>34,979,626</b>	<b>51,575,598</b>	<b>56,364,908</b>	<b>114,662,784</b>	<b>119,492,966</b>	<b>95,407,591</b>	<b>58,609,134</b>	<b>65,673,922</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>										
Unrealized gains (losses) on investments	4,709,628	(334,042)	(782,726)	(3,785,475)	811,093	(4,231,655)	(1,876,860)	(1,016,538)	393,670	(2,108,294)
Interest income (expense)	(30,449)	(16,480)	(56,021)	(113,167)	(911,404)	(719,832)	(567,607)	(641,187)	(819,905)	(633,426)
Payments to State of Maryland - Lottery	(529,403,554)	(493,206,260)	(510,608,632)	(519,393,853)	(556,264,804)	(545,225,121)	(521,106,646)	(526,526,916)	(569,813,356)	(524,902,592)
Payments to other Government Funds/Agencies — Gaming	—	—	—	(67,225,143)	(128,881,213)	(376,536,947)	(420,631,196)	(499,677,022)	(514,154,133)	(599,628,305)
Gain on Sale of VLTs	—	—	—	—	—	—	—	4,206,207	—	—
Voluntary Exclusion Program	—	—	—	—	—	—	—	17,047	75,642	37,603
<b>Total non-operating revenues (expenses)</b>	<b>(524,724,375)</b>	<b>(493,556,782)</b>	<b>(511,447,379)</b>	<b>(590,517,638)</b>	<b>(685,246,328)</b>	<b>(926,713,555)</b>	<b>(944,182,309)</b>	<b>(1,023,638,409)</b>	<b>(1,084,318,082)</b>	<b>(1,127,235,014)</b>
<b>CHANGES IN NET POSITION:</b>	<b>14,756,944</b>	<b>(1,555,683)</b>	<b>(5,415,961)</b>	<b>(16,009,867)</b>	<b>6,210,052</b>	<b>(7,179,195)</b>	<b>3,201,808</b>	<b>5,904,169</b>	<b>1,220,716</b>	<b>(6,887,010)</b>
<b>TOTAL NET POSITION, BEGINNING OF YEAR:</b>	<b>14,172,059</b>	<b>28,929,003</b>	<b>27,373,320</b>	<b>21,957,359</b>	<b>5,947,492</b>	<b>(8,350,094)</b>	<b>(5,148,286)</b>	<b>(5,148,286)</b>	<b>755,883</b>	<b>\$1,976,599</b>
<b>TOTAL NET POSITION, END OF YEAR:</b>	<b>\$ 28,929,003</b>	<b>\$ 27,373,320</b>	<b>\$ 21,957,359</b>	<b>\$ 5,947,492</b>	<b>\$ 12,157,544</b>	<b>\$ (8,350,094)</b>	<b>\$ (5,148,286)</b>	<b>\$ (755,883)</b>	<b>\$ 1,976,599</b>	<b>\$ (4,910,411)</b>

# MARYLAND LOTTERY AND GAMING CONTROL AGENCY **SALES – FISCAL YEAR 2017**

## SALES BY CATEGORY AND GAME

FISCAL YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>DAILY DRAW GAMES</b>										
Pick 3	\$ 274,291,763	\$ 276,347,705	\$ 266,948,839	\$ 260,815,333	\$ 254,590,816	\$ 245,523,090	\$ 244,538,835	\$ 240,910,861	\$ 241,569,648	\$ 239,153,635
Pick 4	234,893,726	249,174,312	246,669,690	254,647,830	265,544,065	267,800,219	270,825,588	276,957,939	280,783,133	291,588,159
Bonus Match 5	23,414,509	23,460,022	20,761,956	21,389,572	21,867,458	21,078,755	21,444,445	21,320,570	20,611,878	19,799,308
5 Card Cash	–	–	–	–	–	11,189,257	8,365,105	6,534,023	5,914,242	5,545,217
Maryland Hold 'Em™	1,342,106	463,887	–	–	–	–	–	–	–	–
Daily Draw Games Total	533,942,104	549,445,926	534,380,485	536,852,735	542,002,339	545,591,321	545,173,973	545,723,393	548,878,901	556,086,319
<b>MONITOR:</b>										
Keno	248,684,056	247,910,424	206,957,090	202,589,646	203,853,846	181,166,747	162,018,268	158,309,484	161,269,437	155,258,912
Keno Bonus®	137,893,276	134,381,213	48,713,189	45,186,127	43,746,000	38,373,084	32,940,922	31,349,393	32,093,454	30,450,539
Keno Super Bonus™	–	11,910,933	136,129,031	132,789,271	139,808,393	125,262,206	113,145,777	113,328,742	118,192,920	117,535,011
Racetraz®	72,876,083	88,511,360	90,826,725	102,471,436	117,329,306	129,391,042	137,795,943	134,880,805	145,787,716	156,934,268
Racetraz® Bonus	–	–	9,373,699	13,694,253	16,935,128	19,376,900	20,329,682	19,787,552	21,304,001	23,464,277
Monitor Games Total	459,453,415	482,713,930	491,999,734	496,730,733	521,672,673	493,569,979	466,230,592	457,655,976	478,647,528	483,643,007
<b>JACKPOT GAMES</b>										
Mega Millions	129,402,134	125,960,400	125,262,563	98,654,558	105,655,325	66,734,374	94,213,017	75,774,728	67,168,430	60,672,871
Megaplier®	–	–	–	2,959,179	5,191,647	4,285,050	6,280,278	6,245,909	6,049,133	5,671,822
Multi-Match®	31,200,692	32,896,776	35,226,810	27,949,729	30,709,705	28,755,909	26,699,000	34,499,811	31,095,004	24,018,675
Powerball®	–	–	26,512,016	52,734,546	78,014,723	126,245,964	100,804,309	84,760,845	137,083,015	94,644,905
Power Play®	–	–	2,337,878	4,972,776	4,842,337	5,097,998	4,957,936	4,746,751	6,442,309	5,488,801
Cash4Life	–	–	–	–	–	–	–	–	11,958,604	16,193,704
Monopoly Millionaires' Club	–	–	–	–	–	–	–	1,592,835	–	–
Jackpot Games Total	160,602,826	158,857,176	189,339,267	187,270,788	224,413,737	231,119,295	232,954,540	207,620,879	259,796,495	206,690,778
INSTANT:	513,859,583	507,057,024	490,853,089	493,548,322	506,803,706	485,838,672	479,631,463	546,053,764	611,286,137	676,752,574
RAFFLE:	5,180,800	–	–	–	–	–	–	–	–	–
ITLM:	–	–	–	–	–	–	–	3,812,016	6,934,191	8,372,989
TOTAL SALES:	\$ 1,673,038,728	\$ 1,698,074,056	\$ 1,706,572,575	\$ 1,714,402,578	\$ 1,794,892,455	\$ 1,756,119,267	\$ 1,723,990,568	\$ 1,760,866,028	\$ 1,905,543,252	\$ 1,931,545,666

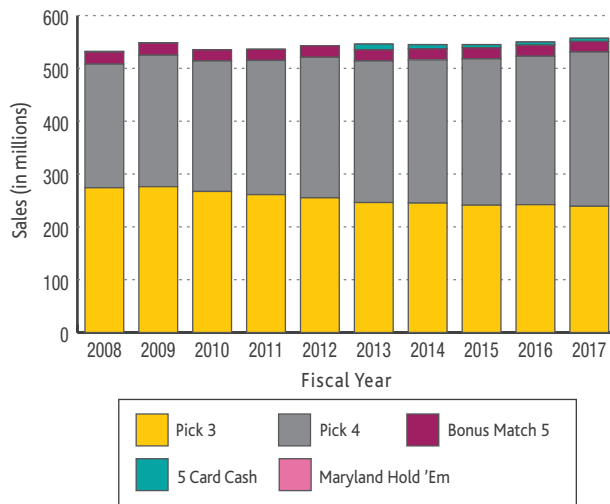
## PRODUCT MIX BY CATEGORY

FISCAL YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Daily Draw Games	31.91%	32.36%	31.31%	31.31%	30.20%	31.07%	31.62%	30.99%	28.80%	28.79%
Monitor Games	27.46%	28.43%	28.83%	28.97%	29.06%	28.11%	27.04%	25.99%	25.12%	25.04%
Jackpot Games	9.60%	9.36%	11.09%	10.92%	12.50%	13.16%	13.51%	11.79%	13.63%	10.70%
Instant Games	30.71%	29.86%	28.76%	28.79%	28.24%	27.67%	27.82%	31.01%	32.08%	35.04%
Raffle Games	0.31%	–%	–%	–%	–%	–%	–%	–%	–%	–%
ITLMs	–%	–%	–%	–%	–%	–%	–%	0.22%	0.36%	0.43%

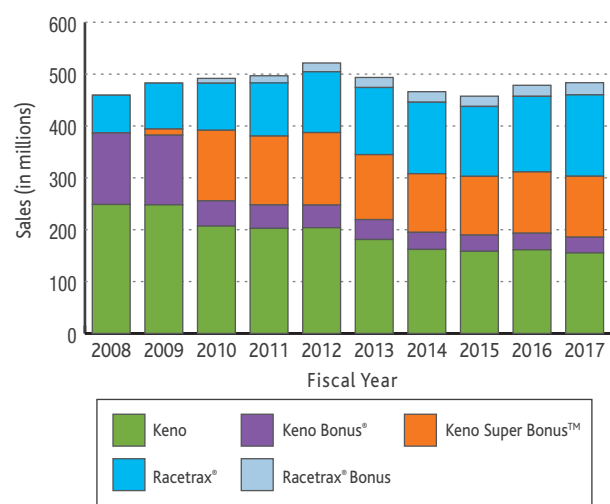
# MARYLAND LOTTERY AND GAMING CONTROL AGENCY

## SALES – FISCAL YEAR 2017 (CONTINUED)

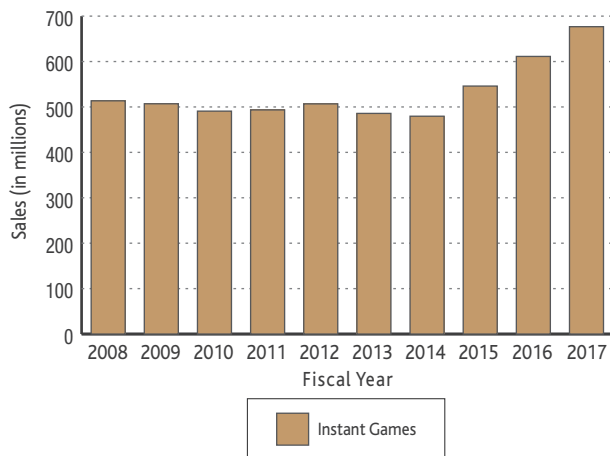
### DAILY DRAW GAMES



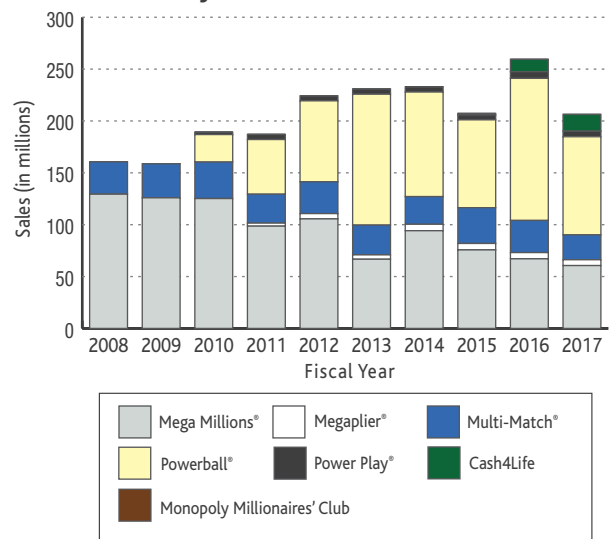
### MONITOR GAMES



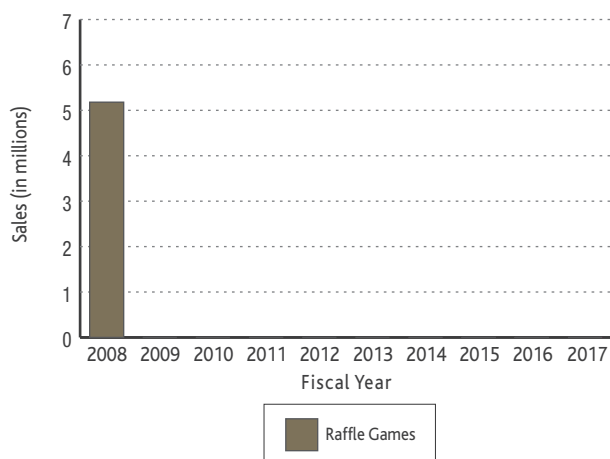
### INSTANT GAMES



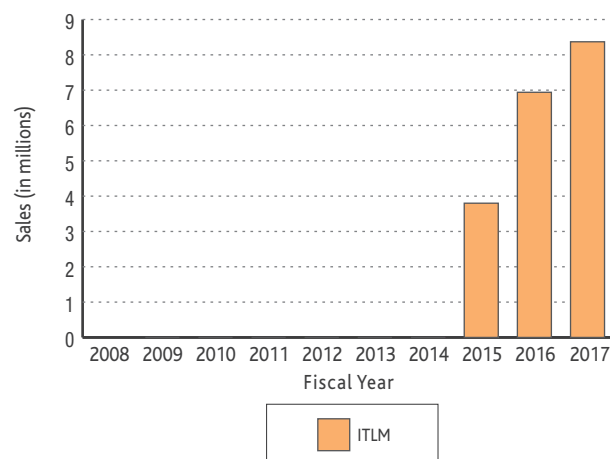
### JACKPOT GAMES



### RAFFLE GAMES

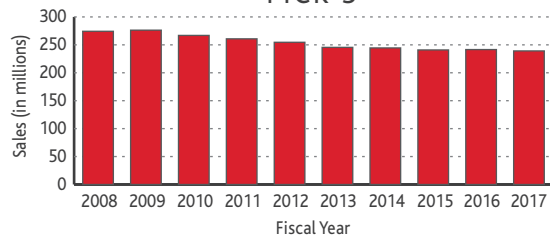


### ITLM

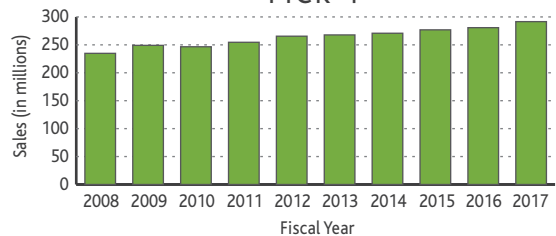


MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**SALES – FISCAL YEAR 2017 (CONTINUED)**

**PICK 3**



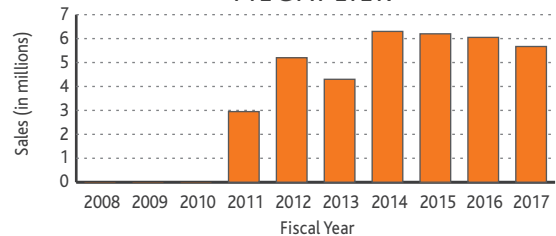
**PICK 4**



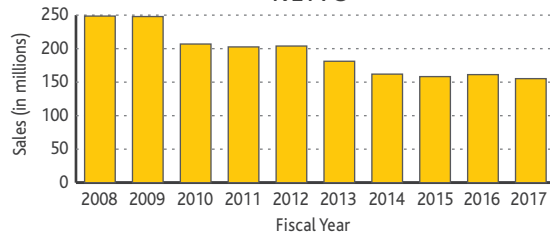
**MEGA MILLIONS®**



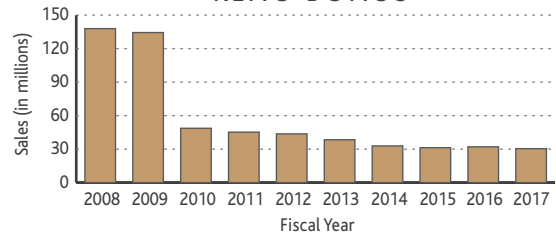
**MEGAPLIER®**



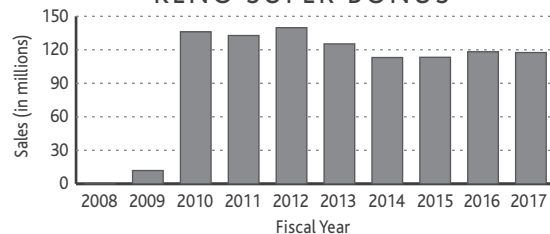
**KENO**



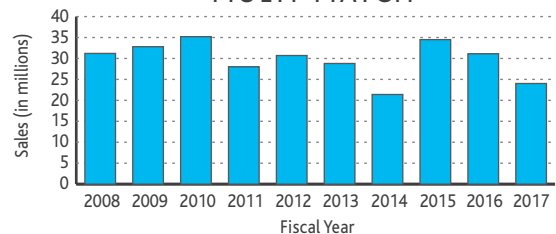
**KENO BONUS®**



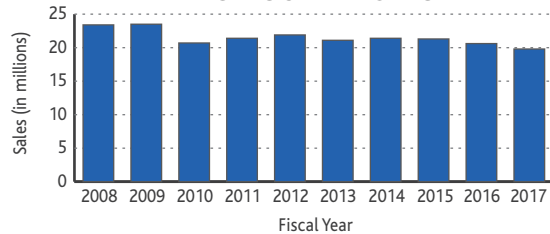
**KENO SUPER BONUS™**



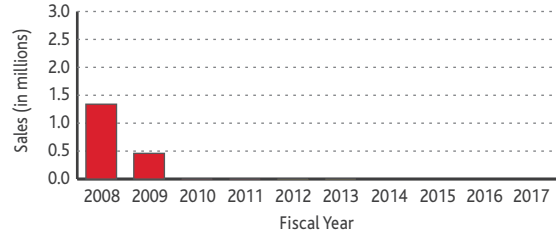
**MULTI-MATCH®**



**BONUS MATCH 5**

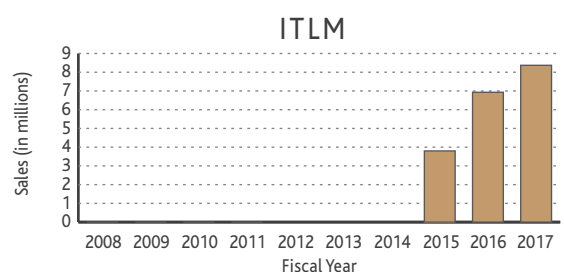
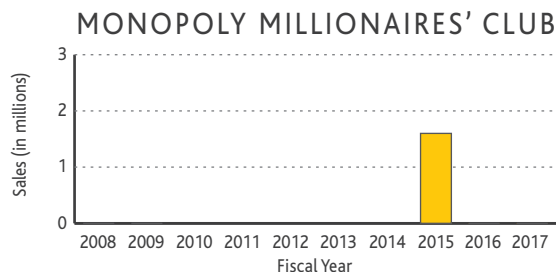
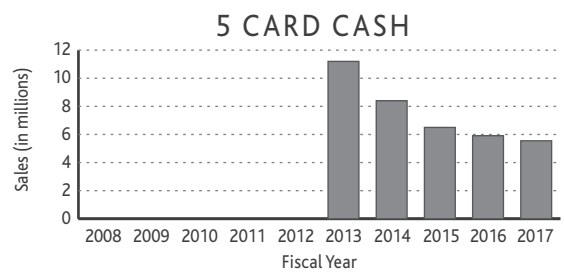
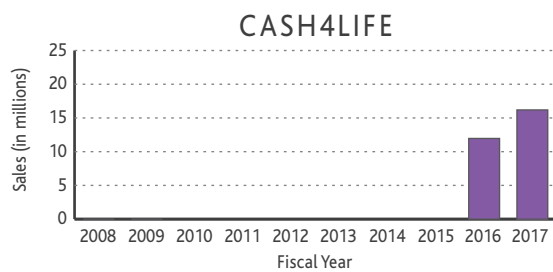
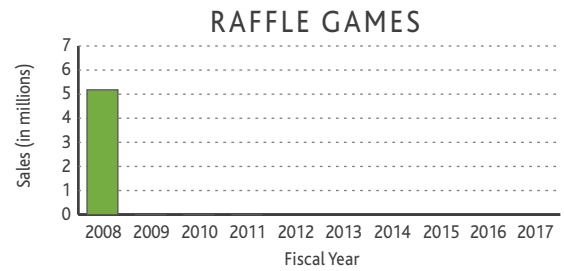
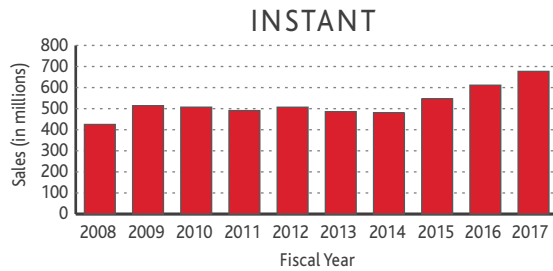
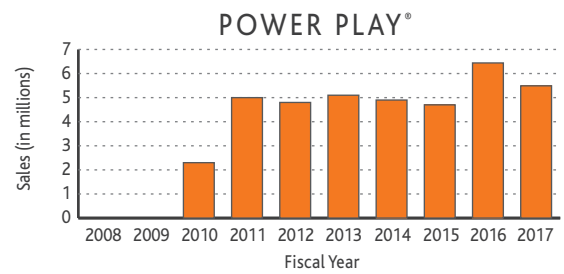
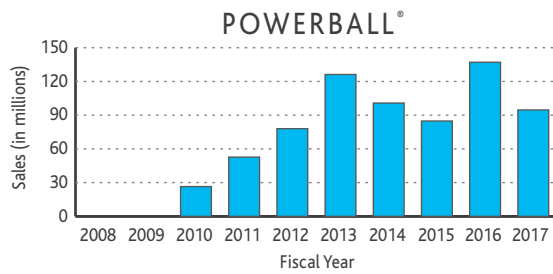
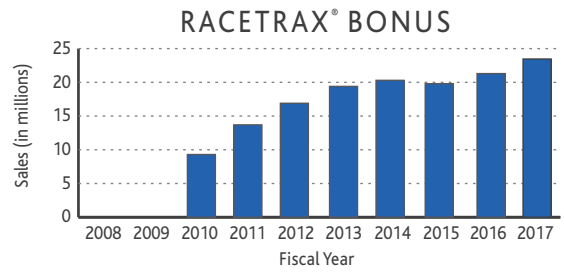
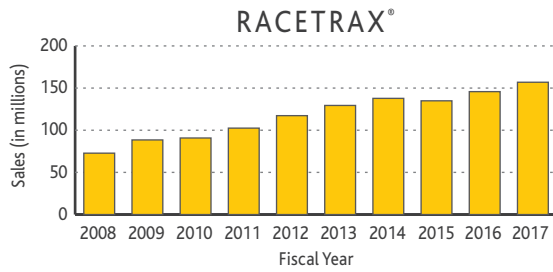


**MARYLAND HOLD'EM™**

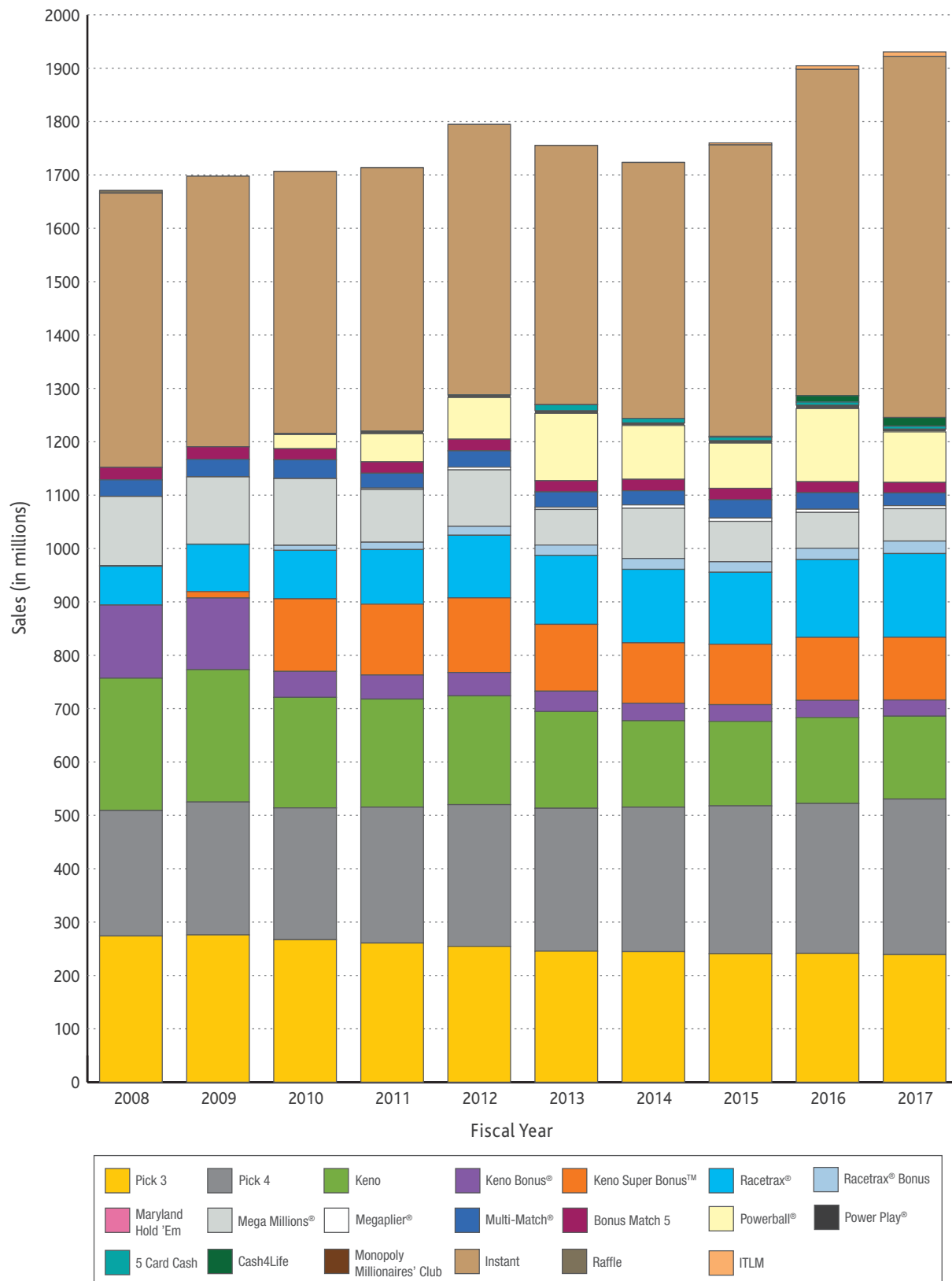




MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
SALES – FISCAL YEAR 2017 (CONTINUED)



MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**SALES – FISCAL YEAR 2017 (CONTINUED)**



## U.S. LOTTERIES PER CAPITA SALES – FISCAL YEAR 2017

Rank	State	Population (M)	Total Sales (\$M)	Per Capita*
1	Massachusetts	6.8	\$ 5,077.8	\$ 745
2	Georgia	10.3	4,528.9	439
3	New York	19.7	7,666.8	388
4	New Jersey	8.9	3,186.7	356
5	Connecticut	3.6	1,216.3	340
6	South Carolina	5.0	1,635.7	330
7	Michigan	9.9	3,221.1	324
8	Washington, D.C.	0.7	218.6	321
9	<b>Maryland</b>	<b>6.0</b>	<b>1,923.2</b>	<b>320</b>
10	Pennsylvania	12.8	4,001.0	313
11	Florida	20.6	6,156.5	299
12	Ohio	11.6	2,997.4	258
13	North Carolina	10.1	2,428.1	239
14	Rhode Island	1.1	249.9	237
15	Virginia	8.4	1,989.9	237
16	Kentucky	4.4	1,000.5	225
17	New Hampshire	1.3	297.5	223
18	Illinois	12.8	2,844.0	222
19	Maine	1.3	270.4	203
20	Missouri	6.1	1,235.9	203
21	Vermont	0.6	122.4	196
22	Indiana	6.6	1,202.6	181
23	Texas	27.9	5,000.2	179
24	Delaware	1.0	169.8	178
25	California	39.3	6,244.7	159
26	Arkansas	3.0	449.5	150
27	Idaho	1.7	239.6	142
28	Arizona	6.9	852.0	123
29	Iowa	3.1	352.3	112
30	Wisconsin	5.8	602.8	104
31	Minnesota	5.5	563.5	102
32	Colorado	5.5	555.3	100
33	Louisiana	4.7	455.0	97
34	Kansas	2.9	272.2	94
35	Washington	7.3	672.2	92
36	Nebraska	1.9	173.5	91
37	West Virginia	1.8	166.5	91
38	Oregon	4.1	332.2	81
39	New Mexico	2.1	126.0	61
40	South Dakota	0.9	49.2	57
41	Montana	1.0	52.7	51
42	Wyoming	0.6	28.1	48
43	Oklahoma	3.9	151.5	39
44	North Dakota	0.8	27.6	36
<b>Total</b>		<b>300.3</b>	<b>\$ 71,007.6</b>	<b>\$ 200</b>

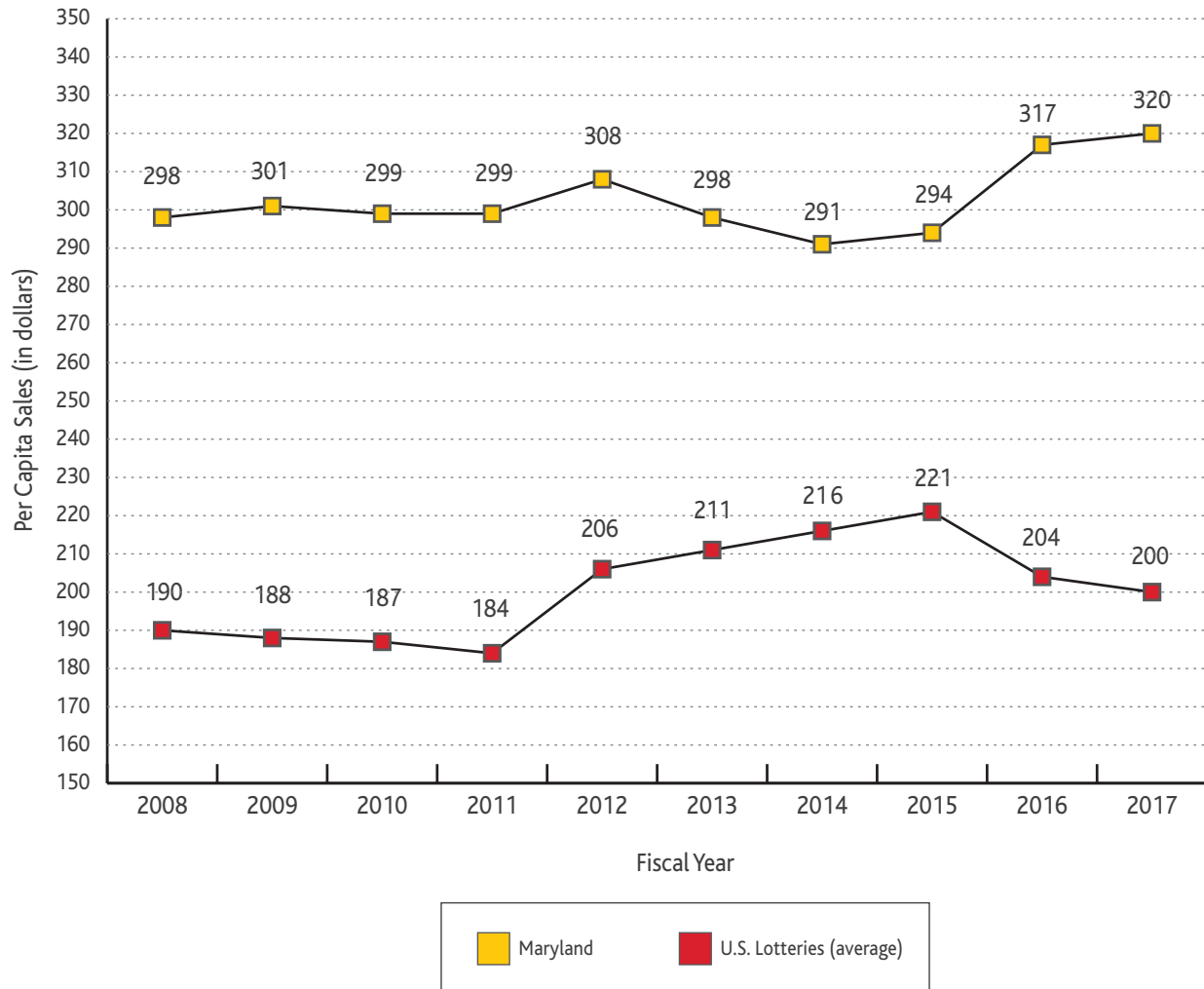
Source: *La Fleur's Magazine*, September/October 2017 Edition

\* Subject to rounding.

Fiscal year ends June 30 except New York (March 31), Texas (August 31) and Michigan (September 30).

The following Lottery was excluded: Tennessee.

# U.S. LOTTERIES PER CAPITA SALES – FISCAL YEARS 2008 THROUGH 2017

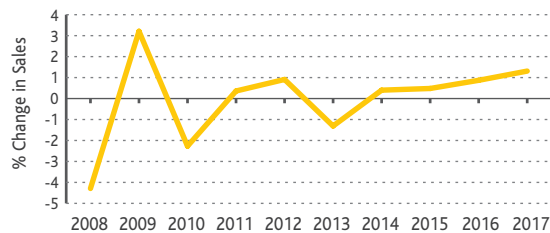


Sources: *La Fleur's Magazine*, September/October 2017 Edition

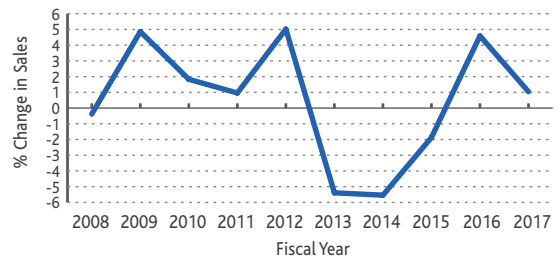
MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**PERCENTAGE CHANGE IN SALES – FISCAL YEARS  
 2008 THROUGH 2017**

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Numbers Games	-3.78%	2.90%	-2.74%	0.46%	0.96%	0.66%	-0.08%	0.10%	0.58%	1.31%
Monitor Games	-0.66%	5.06%	1.92%	0.96%	5.02%	-5.39%	-5.54%	-1.84%	4.59%	1.04%
Jackpot Games	25.17%	-1.09%	19.19%	-1.09%	19.83%	2.99%	0.79%	-10.87%	25.13%	-20.44%
Instant Games	20.88%	-1.32%	-3.20%	0.55%	2.69%	-4.14%	-1.28%	13.85%	11.95%	10.71%
Raffle Games	-20.23%	–%	–%	–%	–%	–%	–%	–%	–%	–%
ITLM	–%	–%	–%	–%	–%	–%	–%	–%	81.90%	20.75%
<b>Total Sales</b>	<b>6.07%</b>	<b>1.50%</b>	<b>0.50%</b>	<b>0.46%</b>	<b>4.70%</b>	<b>-2.16%</b>	<b>-1.83%</b>	<b>2.14%</b>	<b>8.22%</b>	<b>1.36%</b>

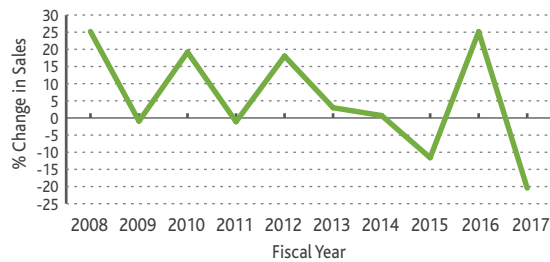
NUMBER GAMES



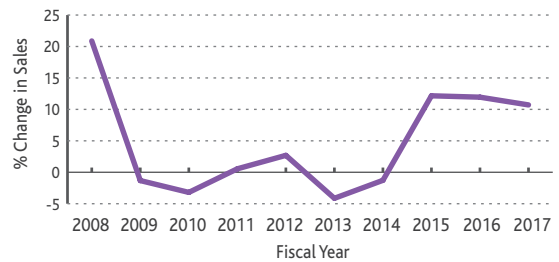
MONITOR GAMES



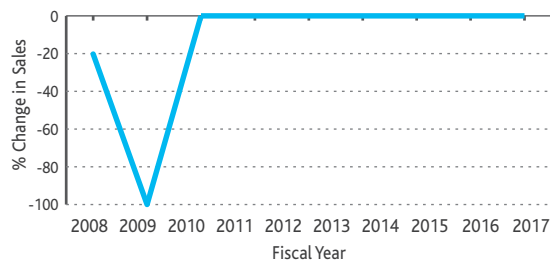
JACKPOT GAMES



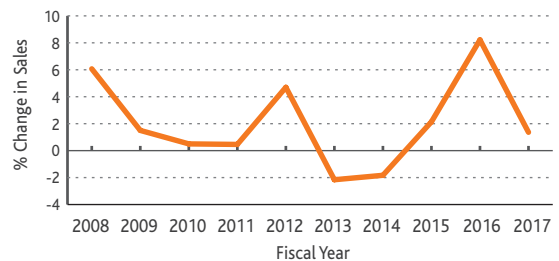
INSTANT GAMES



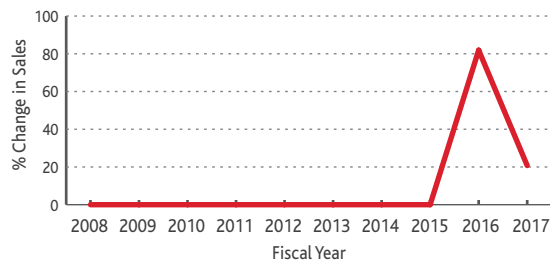
RAFFLE GAMES



TOTAL SALES



ITLM



# U.S. LOTTERIES PERCENTAGE CHANGE IN SALES – FISCAL YEAR 2017

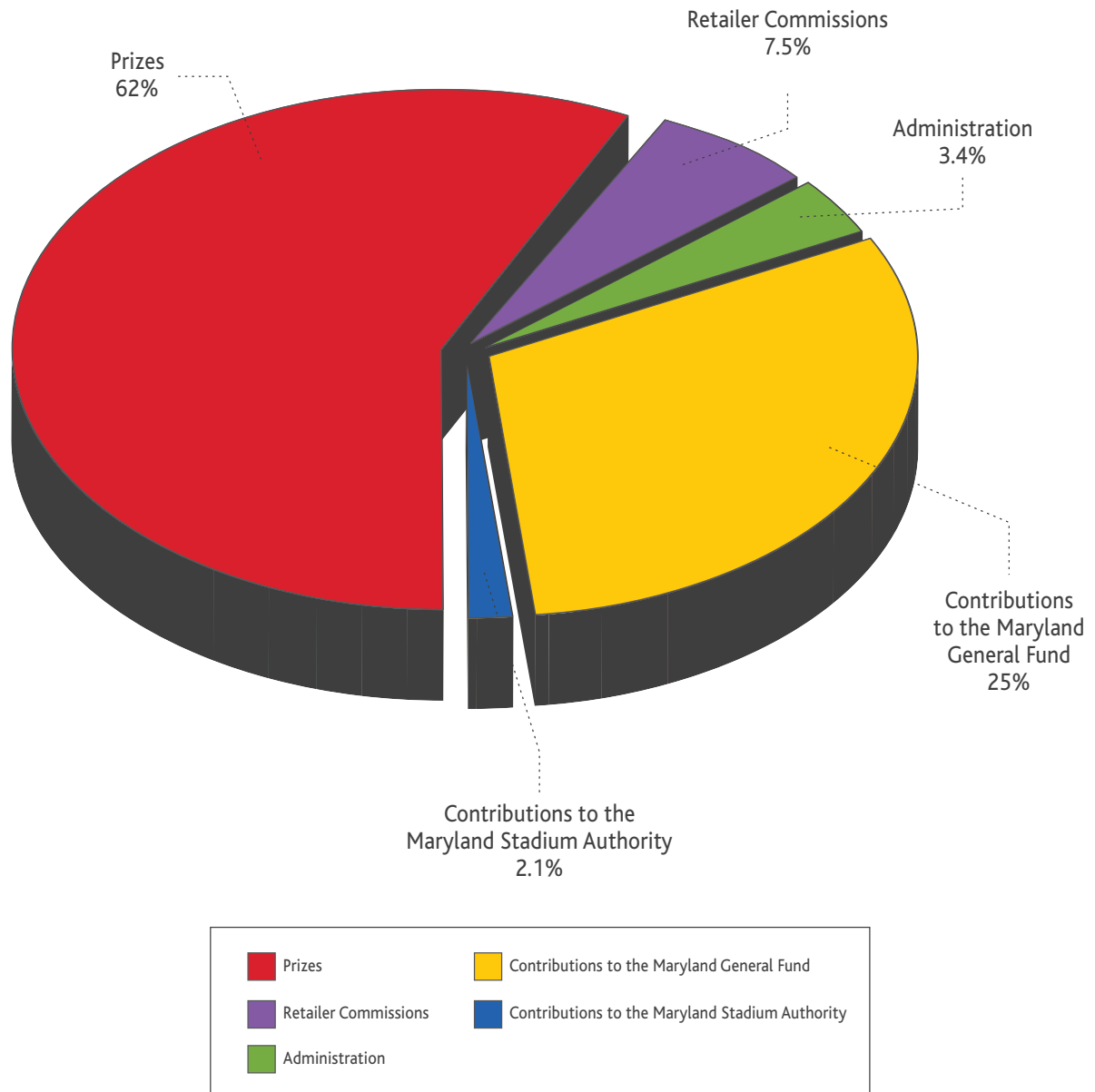
Rank	State	Total Sales (\$M)	% Change
1	Michigan	\$ 3,221.1	4%
2	South Carolina	1,635.7	2
3	North Carolina	2,428.1	2
4	Florida	6,156.5	2
5	Idaho	239.6	1
6	<b>Maryland</b>	<b>1,923.2</b>	<b>1</b>
7	Kentucky	1,000.5	0
8	Indiana	1,202.6	0
9	California	6,244.7	0
10	Illinois	2,844.0	0
11	Georgia	4,528.9	-1
12	Missouri	1,235.9	-1
13	Virginia	1,989.9	-1
14	Maine	270.4	-1
15	Connecticut	1,216.3	-1
16	Texas	5,000.2	-1
17	Arkansas	449.5	-1
18	New Hampshire	297.5	-1
19	Vermont	122.4	-2
20	New York	7,666.8	-2
21	Ohio	2,997.4	-2
22	Arizona	852.0	-2
23	Massachusetts	5,077.8	-2
24	Delaware	169.8	-3
25	New Jersey	3,186.7	-3
26	Pennsylvania	4,001.0	-3
27	Nebraska	173.5	-3
28	Washington	672.2	-3
29	Wisconsin	602.8	-4
30	Iowa	352.3	-4
31	Rhode Island	249.9	-4
32	Washington, D.C.	218.6	-4
33	Minnesota	563.5	-5
34	Kansas	272.2	-5
35	Oregon	332.2	-6
36	Colorado	555.3	-7
37	Louisiana	455.0	-10
38	Montana	52.7	-11
39	West Virginia	166.5	-12
40	South Dakota	49.2	-12
41	New Mexico	126.0	-18
42	Oklahoma	151.5	-20
43	North Dakota	27.6	-23
44	Wyoming	28.1	-24

Source: *La Fleur's Magazine*, September/October 2017 Edition

U.S. lotteries ranked % chg. FY17 total (in US\$). Excludes VLT revenue.

The following Lottery was excluded: Tennessee.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**EXPENSES AND CONTRIBUTIONS – CUMULATIVE  
 FOR FISCAL YEARS 2008 THROUGH 2017**



Note: Contributions to the Veterans Trust Fund for fiscal years 2015 through 2017 and the International Racing Fund for fiscal year 2017 were less than 1% and were therefore not included in this graph.



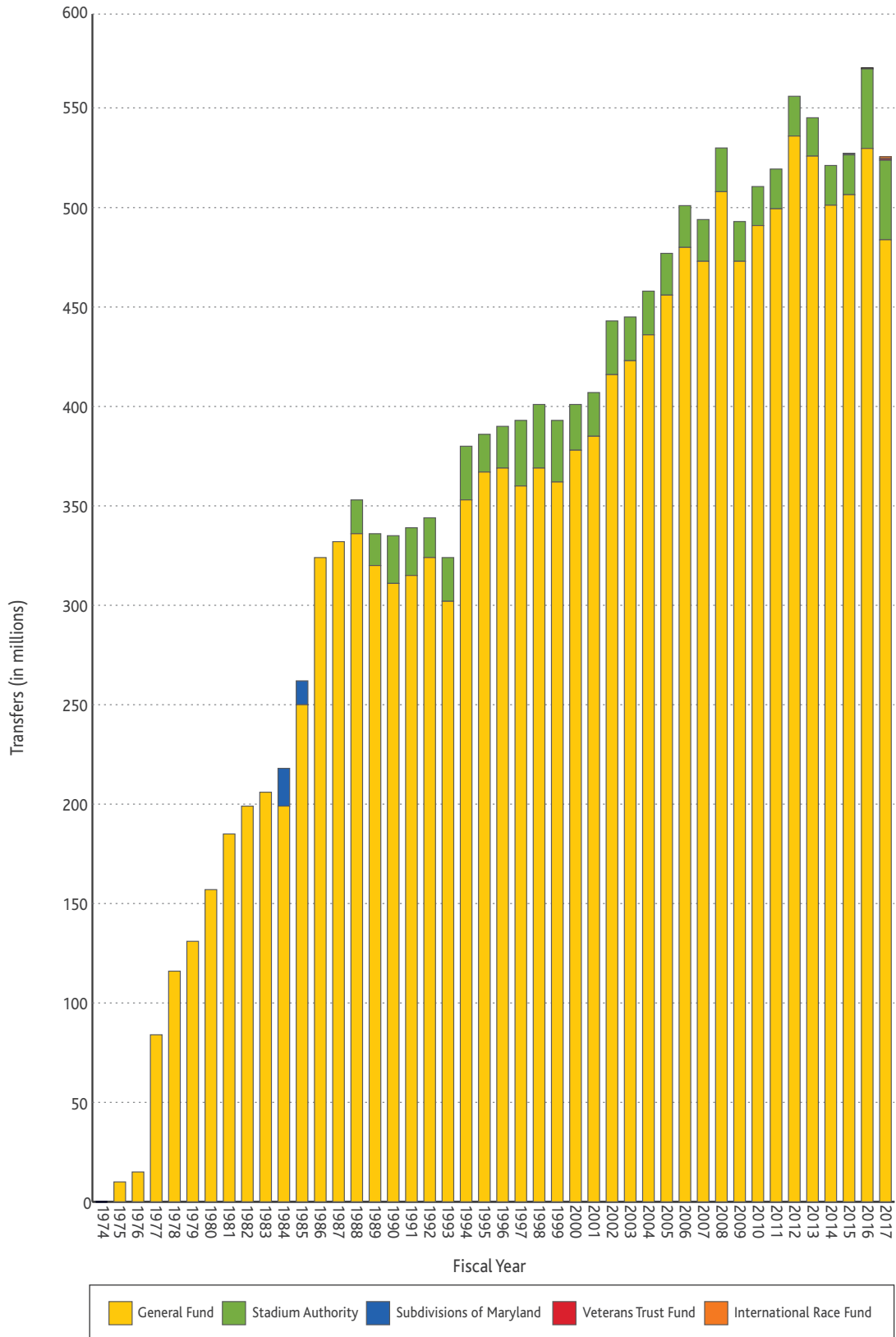
# LOTTERY CONTRIBUTIONS – INCEPTION TO DATE

Fiscal Year	The State of Maryland General Fund	The Maryland Stadium Authority	Subdivisions of Maryland	Veterans Trust Fund	International Racing Fund	Total Contributions
1975*	\$ 10,025,000	\$ –	\$ –	\$ –	\$ –	\$ 10,025,000
1976	15,374,000	–	–	–	–	15,374,000
1977	83,928,000	–	–	–	–	83,928,000
1978	116,182,000	–	–	–	–	116,182,000
1979	131,271,000	–	–	–	–	131,271,000
1980	156,768,000	–	–	–	–	156,768,000
1981	185,224,000	–	–	–	–	185,224,000
1982	199,080,000	–	–	–	–	199,080,000
1983	206,236,000	–	–	–	–	206,236,000
1984	199,194,000	–	19,095,000	–	–	218,289,000
1985	250,123,000	–	12,158,000	–	–	262,281,000
1986	323,423,000	–	–	–	–	323,423,000
1987	332,366,000	–	–	–	–	332,366,000
1988	335,928,000	16,750,000	–	–	–	352,678,000
1989	319,605,000	16,221,000	–	–	–	335,826,000
1990	311,254,000	24,040,000	–	–	–	335,294,000
1991	315,247,000	24,004,000	–	–	–	339,251,000
1992	323,814,000	19,752,000	–	–	–	343,566,000
1993	301,563,000	21,612,000	–	–	–	323,175,000
1994	353,308,000	26,743,000	–	–	–	380,051,000
1995	366,577,000	19,077,000	–	–	–	385,654,000
1996	369,161,000	20,749,000	–	–	–	389,910,000
1997	359,835,000	32,818,000	–	–	–	392,653,000
1998	368,501,000	31,625,000	–	–	–	400,126,000
1999	362,145,000	31,076,000	–	–	–	393,221,000
2000	377,763,000	23,250,000	–	–	–	401,013,000
2001	385,045,000	22,000,000	–	–	–	407,045,000
2002	416,274,000	27,230,000	–	–	–	443,504,000
2003	422,948,000	21,949,000	–	–	–	444,897,000
2004	436,373,000	22,000,000	–	–	–	458,373,000
2005	455,863,000	21,235,000	–	–	–	477,098,000
2006	480,471,000	20,500,000	–	–	–	500,971,000
2007	473,119,000	21,000,000	–	–	–	494,119,000
2008	507,904,000	21,500,000	–	–	–	529,404,000
2009	473,206,260	20,000,000	–	–	–	493,206,260
2010	491,008,632	19,600,000	–	–	–	510,608,632
2011	499,393,853	20,000,000	–	–	–	519,393,853
2012	536,264,804	20,000,000	–	–	–	556,264,804
2013	525,960,121	19,265,000	–	–	–	545,225,121
2014	501,106,646	20,000,000	–	–	–	521,106,646
2015	506,492,648	20,000,000	–	34,267	–	526,526,915
2016	529,753,849	40,000,000	–	59,507	–	569,813,356
2017	483,832,419	40,000,000	–	70,173	1,000,000	524,902,592
<b>Total</b>	<b>\$ 14,798,911,232</b>	<b>\$ 703,996,000</b>	<b>\$ 31,253,000</b>	<b>\$ 163,947</b>	<b>\$ 1,000,000</b>	<b>\$ 15,535,324,179</b>
<b>TOTAL LIFETIME CONTRIBUTIONS</b>						<b>\$ 15,535,324,179</b>

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

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

**TOTAL LIFETIME CONTRIBUTIONS: \$15,535,324,179**



# GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017 \*

## Fiscal Year 2017

	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 28,747,273	\$ 24,736,512	\$ 146,094,799	\$ 18,957,952	\$ 72,760,024	\$ 70,452,252	\$ 361,748,812
Casino	24,598,981	25,614,481	168,308,643	22,568,992	78,083,929	72,154,501	391,329,526
Horse Racing	4,682,111	4,452,083	27,778,076	1,128,450	12,422,443	12,585,478	63,048,641
Local Impact Grants	3,469,087	3,276,271	20,456,504	1,241,295	9,760,491	9,277,796	47,481,444
MLGCA	630,743	595,686	3,719,364	902,759	1,774,635	1,686,872	9,310,058
Small, Minority, Woman Business	946,115	893,528	5,579,047	338,535	2,661,952	2,530,308	12,949,485
<b>Total</b>	<b>\$ 63,074,309</b>	<b>\$ 59,568,560</b>	<b>\$ 371,936,432</b>	<b>\$ 45,137,982</b>	<b>\$ 177,463,474</b>	<b>\$ 168,687,208</b>	<b>\$ 885,867,966</b>

## Fiscal Year 2016

	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 29,551,720	\$ 23,603,536	\$ 175,797,317	\$ 17,360,640	\$ –	\$ 75,735,976	\$ 322,049,189
Casino	25,611,063	24,755,093	167,605,867	20,667,429	–	65,639,822	304,279,274
Horse Racing	5,253,619	4,605,599	32,705,161	1,033,371	–	13,464,193	57,061,944
Local Impact Grants	3,611,853	3,166,349	22,484,798	1,136,709	–	9,256,633	39,656,342
MLGCA	656,743	575,858	4,089,156	826,696	–	1,683,605	7,832,058
Small, Minority, Woman Business	985,051	863,550	6,132,218	310,011	–	2,524,536	10,815,366
<b>Total</b>	<b>\$ 65,670,049</b>	<b>\$ 57,569,984</b>	<b>\$ 408,814,517</b>	<b>\$ 41,334,857</b>	<b>\$ –</b>	<b>\$ 168,304,764</b>	<b>\$ 741,694,172</b>

## Fiscal Year 2015

	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 32,132,350	\$ 21,339,142	\$ 188,614,536	\$ 15,990,426	\$ –	\$ 58,418,945	\$ 316,495,398
Casino	22,874,704	22,869,694	137,642,186	19,036,222	–	51,456,205	253,879,011
Horse Racing	5,377,867	4,335,568	31,897,607	951,811	–	10,556,257	53,119,111
Local Impact Grants	3,639,165	2,925,193	21,585,264	1,046,992	–	7,256,644	36,453,259
MLGCA	1,150,047	917,958	6,832,861	761,448	–	2,271,851	11,934,165
Small, Minority, Woman Business	992,499	797,780	5,886,890	285,543	–	1,979,085	9,941,798
<b>Total</b>	<b>\$ 66,166,633</b>	<b>\$ 53,185,336</b>	<b>\$ 392,459,345</b>	<b>\$ 38,072,442</b>	<b>\$ –</b>	<b>\$ 131,938,986</b>	<b>\$ 681,822,742</b>

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

**GROSS TERMINAL REVENUE DISTRIBUTIONS –  
FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)**

<b>Fiscal Year 2014</b>							
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 35,512,839	\$ 20,427,271	\$ 206,655,949	\$ 14,858,393	\$ –	\$ –	\$ 277,454,452
Casino	23,795,405	22,378,315	138,469,975	17,688,565	–	–	202,332,260
Horse Racing	6,309,388	4,553,786	36,715,524	884,428	–	–	48,463,126
Local Impact Grants	3,965,901	2,862,380	23,078,329	972,871	–	–	30,879,481
MLGCA	1,442,146	1,040,865	8,392,120	707,542	–	–	11,582,673
Small, Minority, Woman Business	1,081,609	780,648	6,294,090	265,328	–	–	8,421,675
<b>Total</b>	<b>\$ 72,107,288</b>	<b>\$ 52,043,265</b>	<b>\$ 419,605,987</b>	<b>\$ 35,377,127</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 579,133,667</b>

<b>Fiscal Year 2013</b>							
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 37,296,321	\$ 24,718,054	\$ 211,723,265	\$ 1,176,388	\$ –	\$ –	\$ 274,914,028
Casino	25,087,932	16,644,463	142,367,381	1,400,462	–	–	185,500,238
Horse Racing	6,797,622	4,535,851	38,498,191	70,023	–	–	49,901,687
Local Impact Grants	4,181,322	2,774,077	23,727,897	77,025	–	–	30,760,321
MLGCA	1,520,481	1,008,755	8,628,327	56,018	–	–	11,213,581
Small, Minority, Woman Business	1,140,360	756,566	6,471,243	21,007	–	–	8,389,176
<b>Total</b>	<b>\$ 76,024,038</b>	<b>\$ 50,437,766</b>	<b>\$ 431,416,304</b>	<b>\$ 2,800,923</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 560,679,031</b>

<b>Fiscal Year 2012</b>							
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Horseshoe Casino	Total
Education Trust Fund	\$ 57,275,940	\$ 23,286,167	\$ 14,058,033	\$ –	\$ –	\$ –	\$ 94,620,140
Casino	38,971,258	15,844,197	9,565,259	–	–	–	64,380,714
Horse Racing	11,218,999	4,561,208	2,753,635	–	–	–	18,533,842
Local Impact Grants	6,495,210	2,640,699	1,594,210	–	–	–	10,730,119
MLGCA	2,361,894	960,255	579,713	–	–	–	3,901,862
Small, Minority, Woman Business	1,771,421	720,190	434,785	–	–	–	2,926,396
<b>Total</b>	<b>\$ 118,094,722</b>	<b>\$ 48,012,716</b>	<b>\$ 28,985,635</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 195,093,073</b>

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

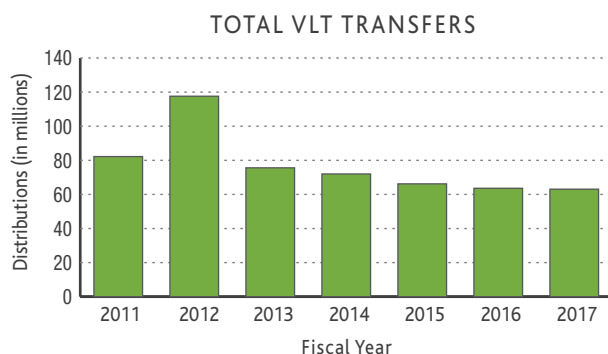
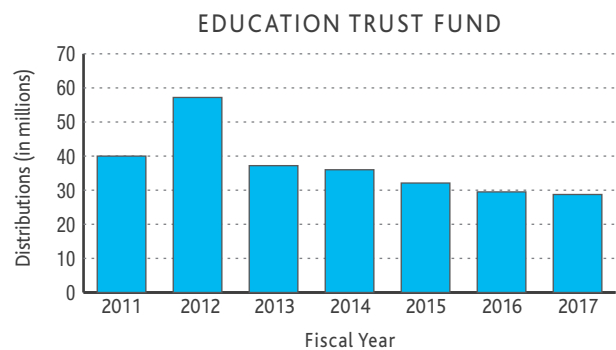
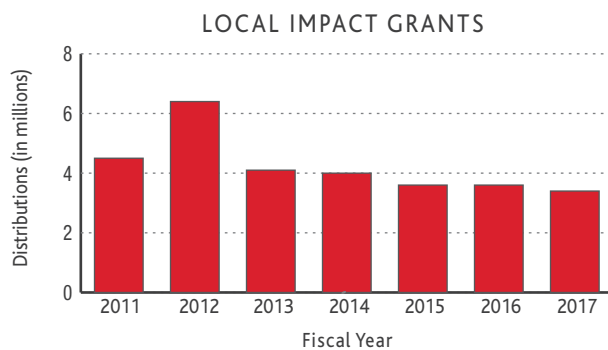
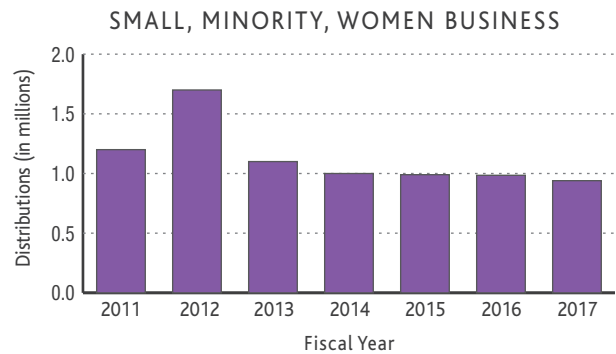
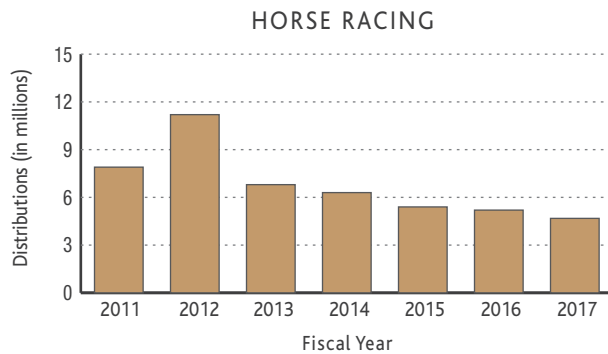
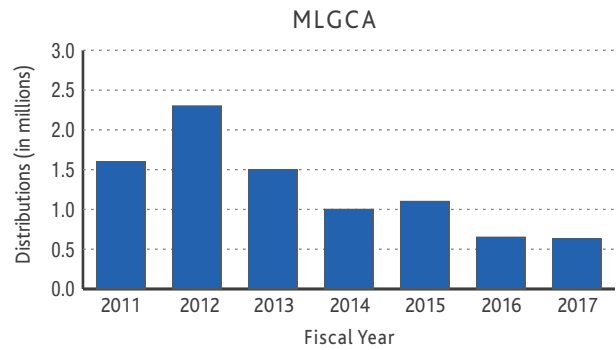
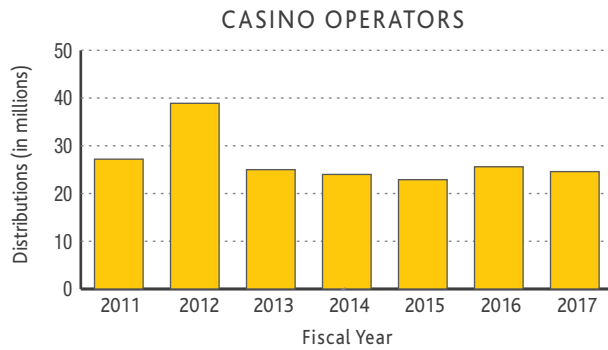
**GROSS TERMINAL REVENUE DISTRIBUTIONS –  
FISCAL YEARS 2011 THROUGH 2017 (CONTINUED)\***

<b>Fiscal Year 2011</b>							
	<b>Hollywood Casino — Perryville</b>	<b>Casino at Ocean Downs</b>	<b>Maryland Live! Casino</b>	<b>Rocky Gap Casino Resort</b>	<b>MGM National Harbor Casino</b>	<b>Horseshoe Casino</b>	<b>Total</b>
Education Trust Fund	\$ 40,108,178	\$ 9,911,227	\$ –	\$ –	\$ –	\$ –	\$ 50,019,405
Casino	27,290,101	6,743,721	–	–	–	–	34,033,822
Horse Racing	7,856,241	1,941,374	–	–	–	–	9,797,616
Local Impact Grants	4,548,350	1,123,954	–	–	–	–	5,672,304
MLGCA	1,653,975	408,710	–	–	–	–	2,062,686
Small, Minority, Woman Business	1,240,459	306,533	–	–	–	–	1,546,992
<b>Total</b>	<b>\$ 82,697,304</b>	<b>\$ 20,435,520</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 103,132,824</b>

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**GROSS TERMINAL REVENUE DISTRIBUTIONS –  
 FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)**

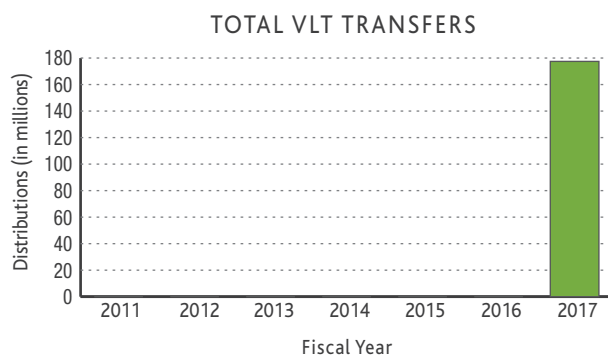
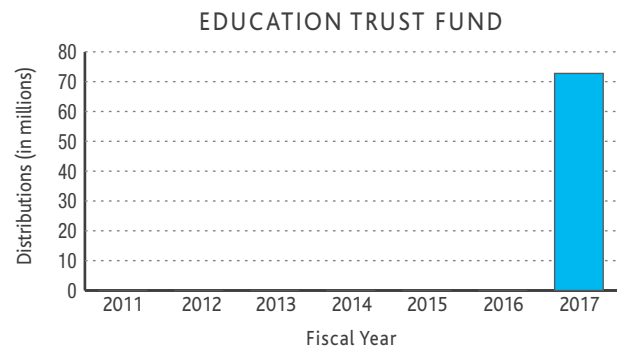
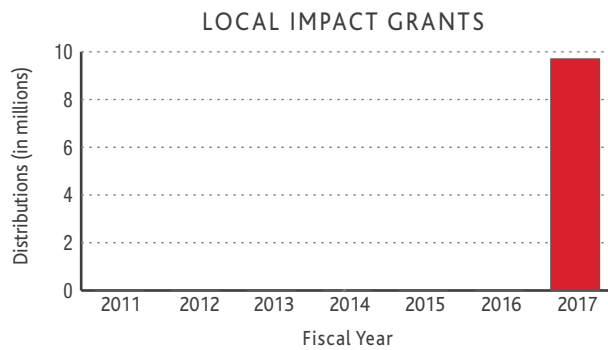
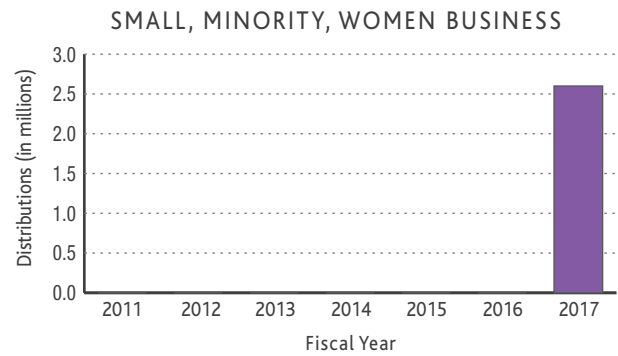
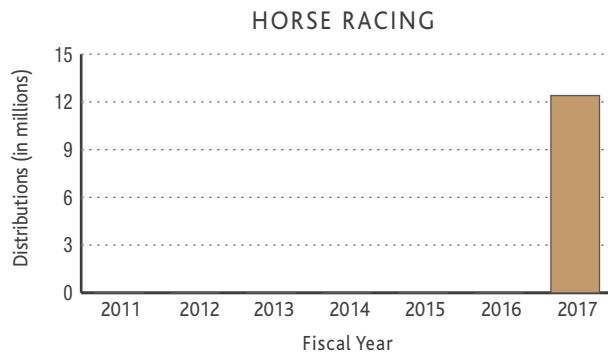
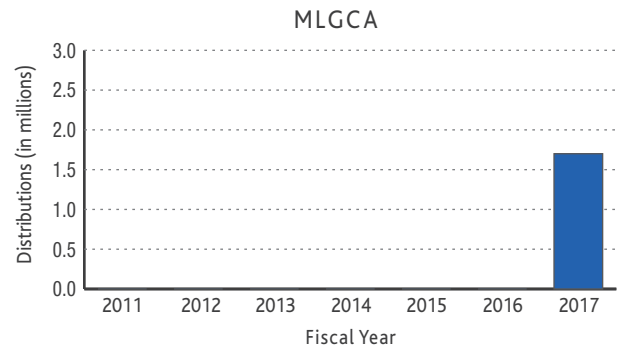
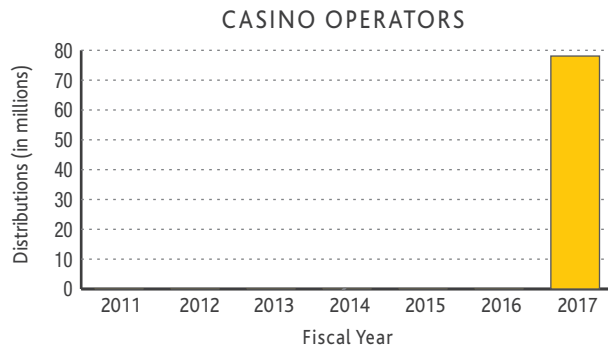
**HOLLYWOOD CASINO — PERRYVILLE**



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

# GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

## MGM NATIONAL HARBOR CASINO



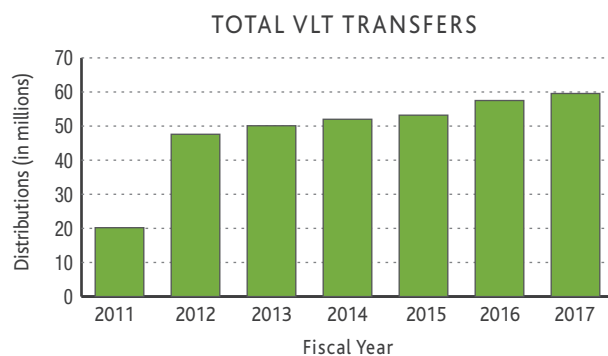
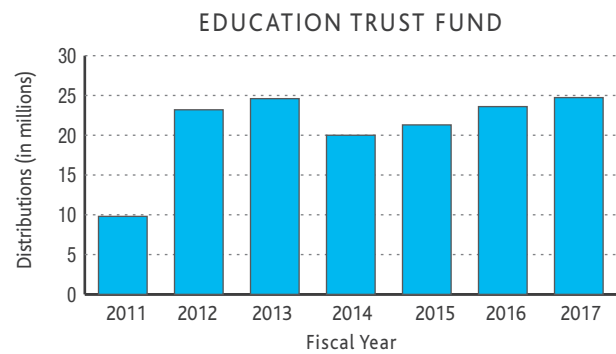
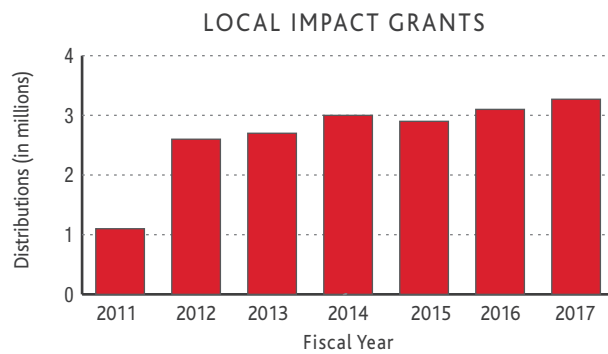
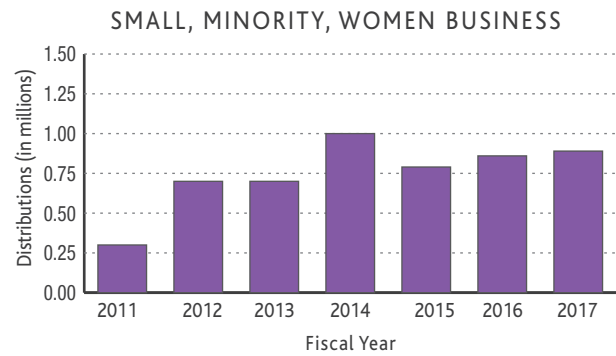
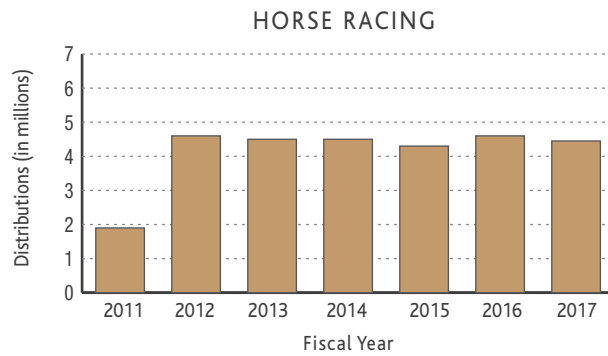
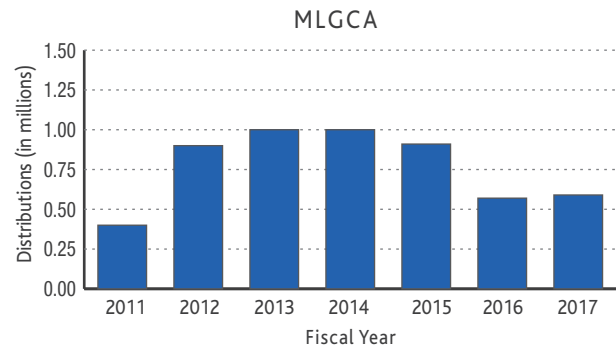
\* MGM National Harbor Casino began operation in December 2016.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY

## GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

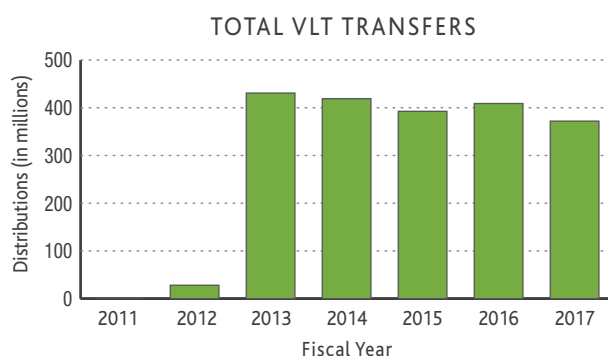
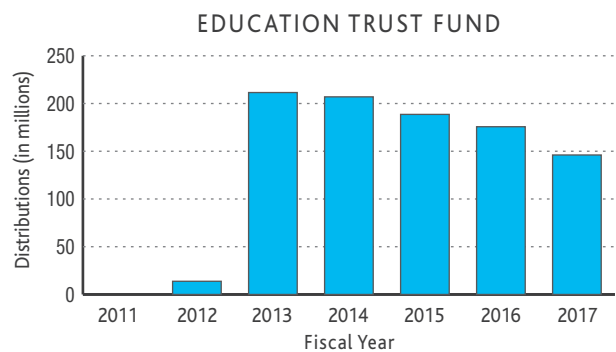
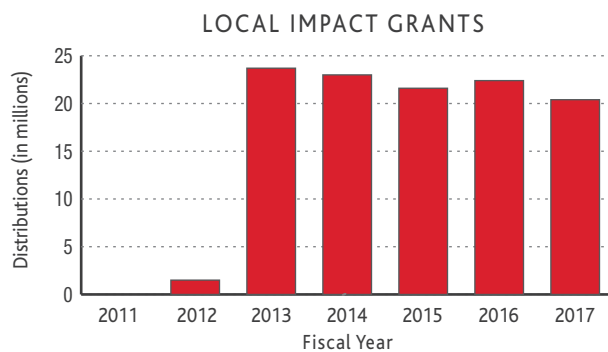
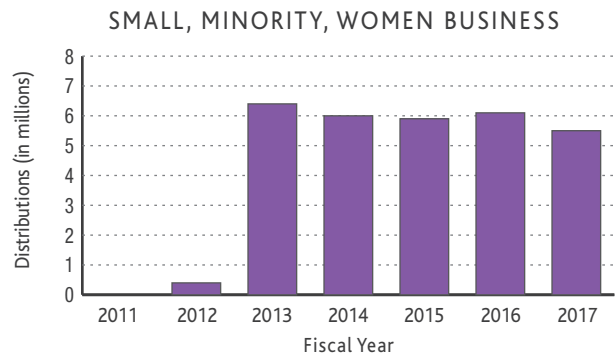
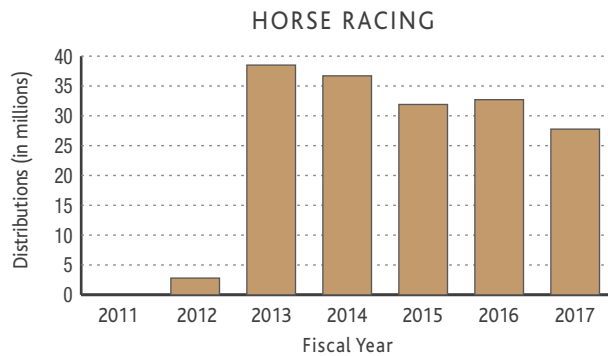
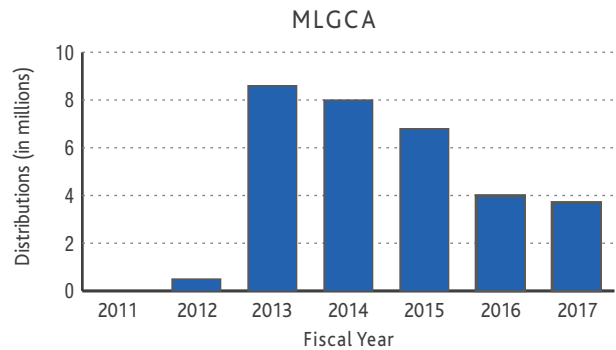
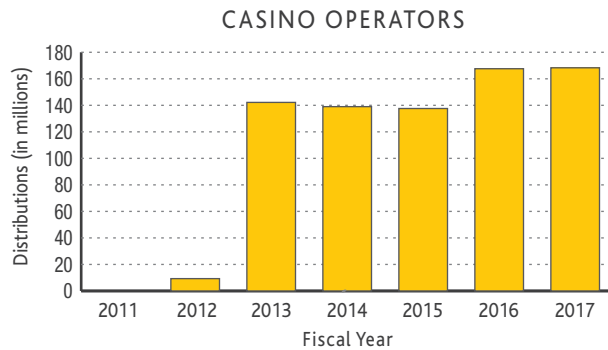
### CASINO AT OCEAN DOWNS



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

# GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

## MARYLAND LIVE! CASINO

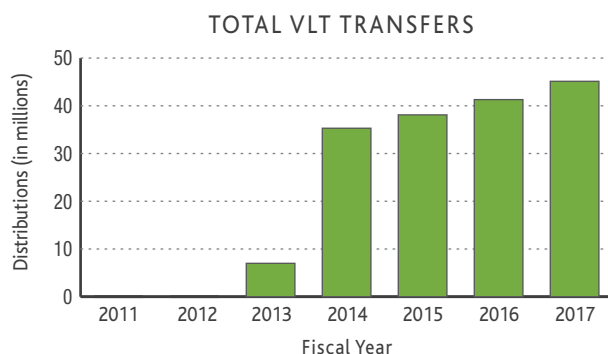
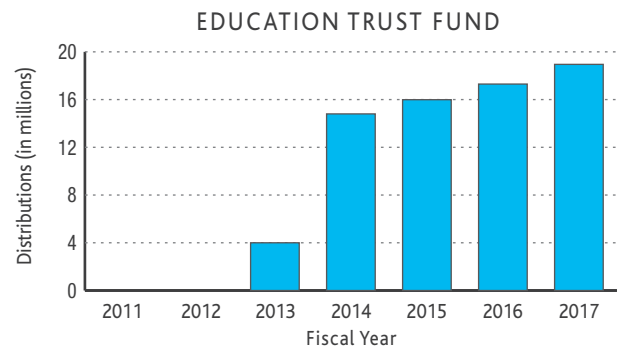
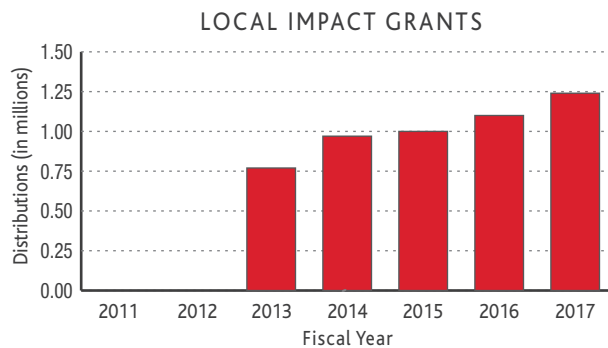
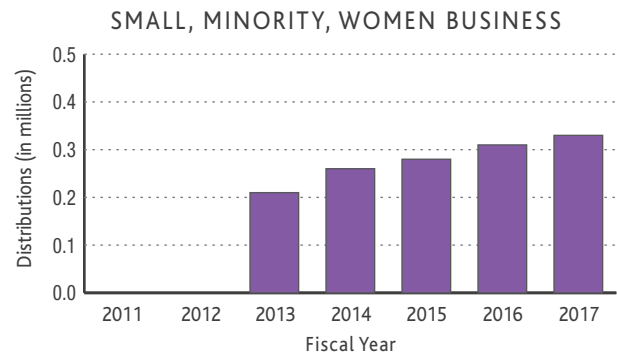
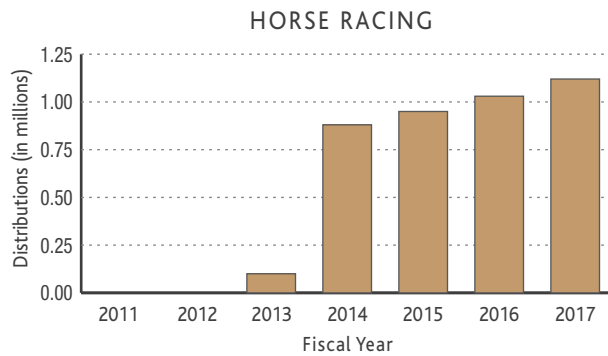
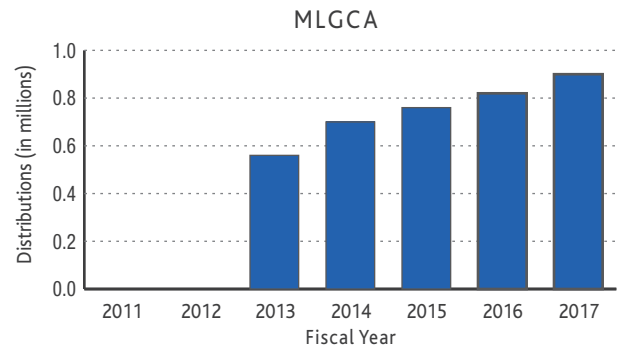
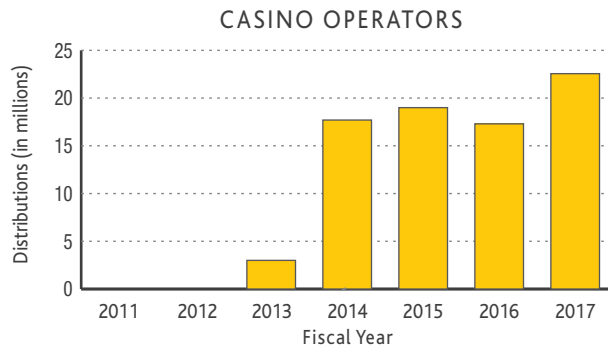


\* Maryland Live! Casino began operation in June 2012.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

## GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

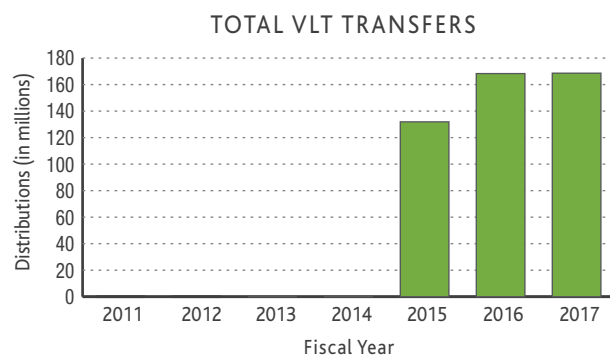
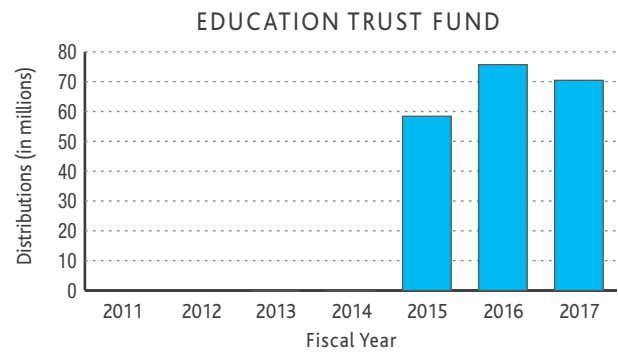
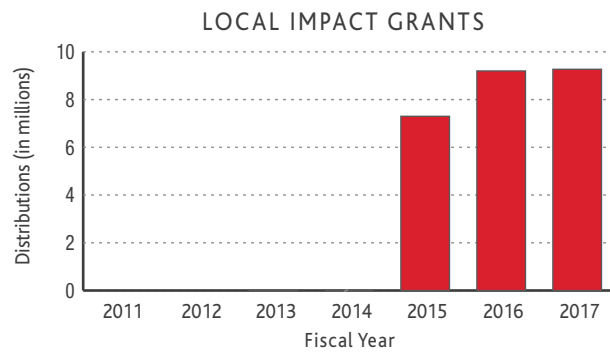
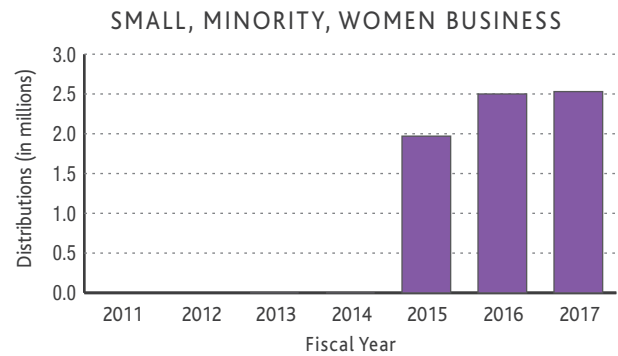
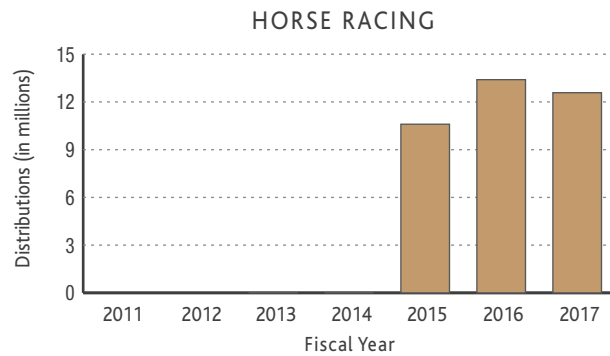
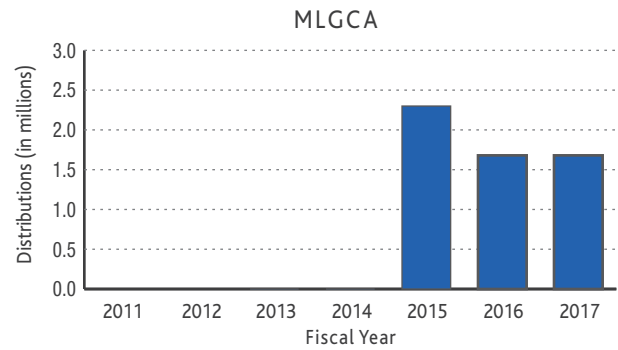
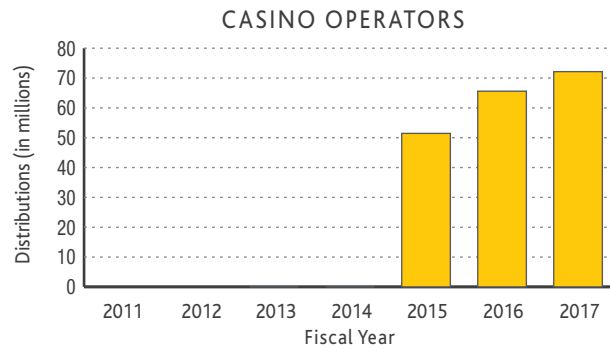
### ROCKY GAP CASINO RESORT



\* Rocky Gap Casino Resort began operation in May 2013.

# GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

## HORSESHOE CASINO

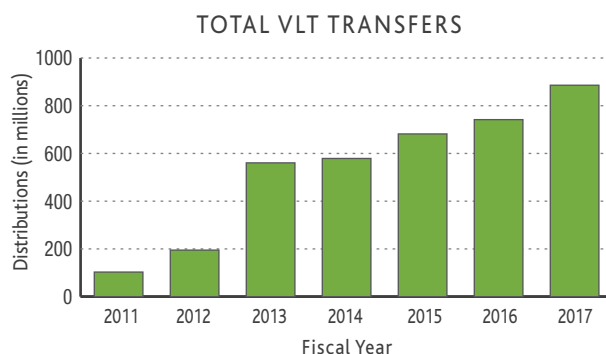
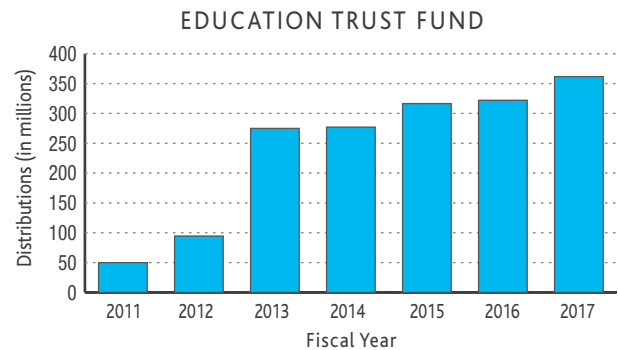
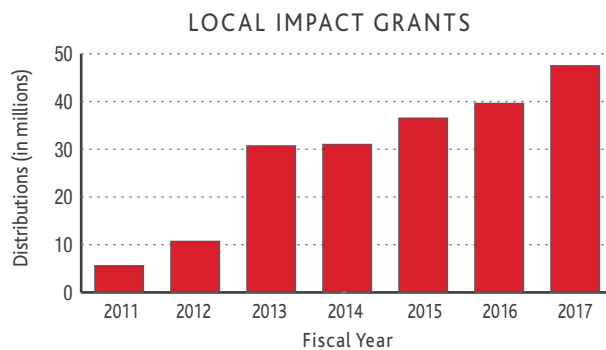
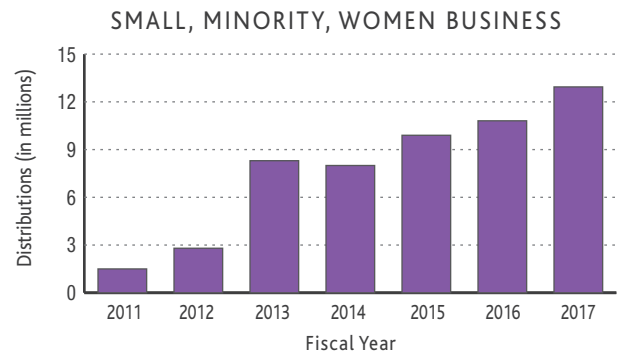
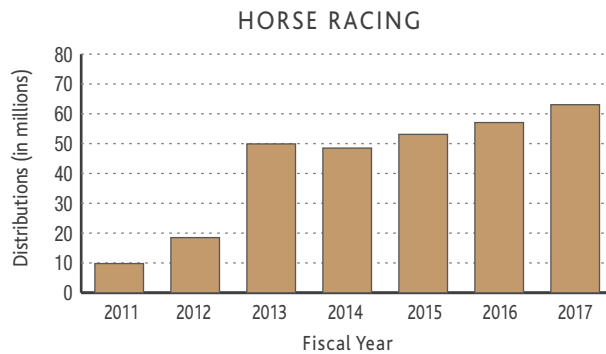
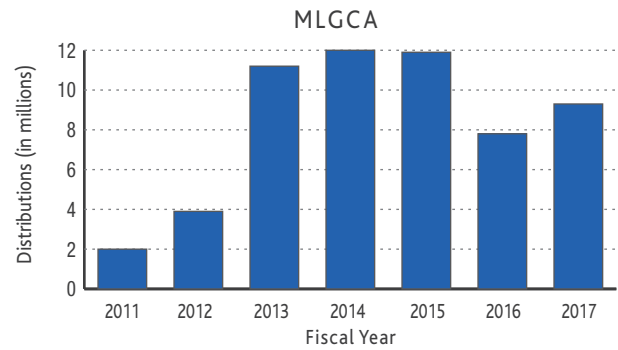
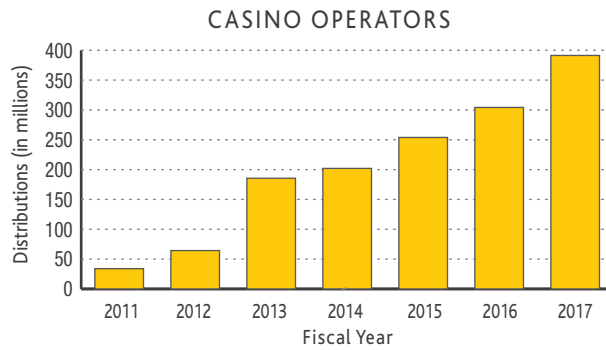


\* Horseshoe Casino began operation in August 2014.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

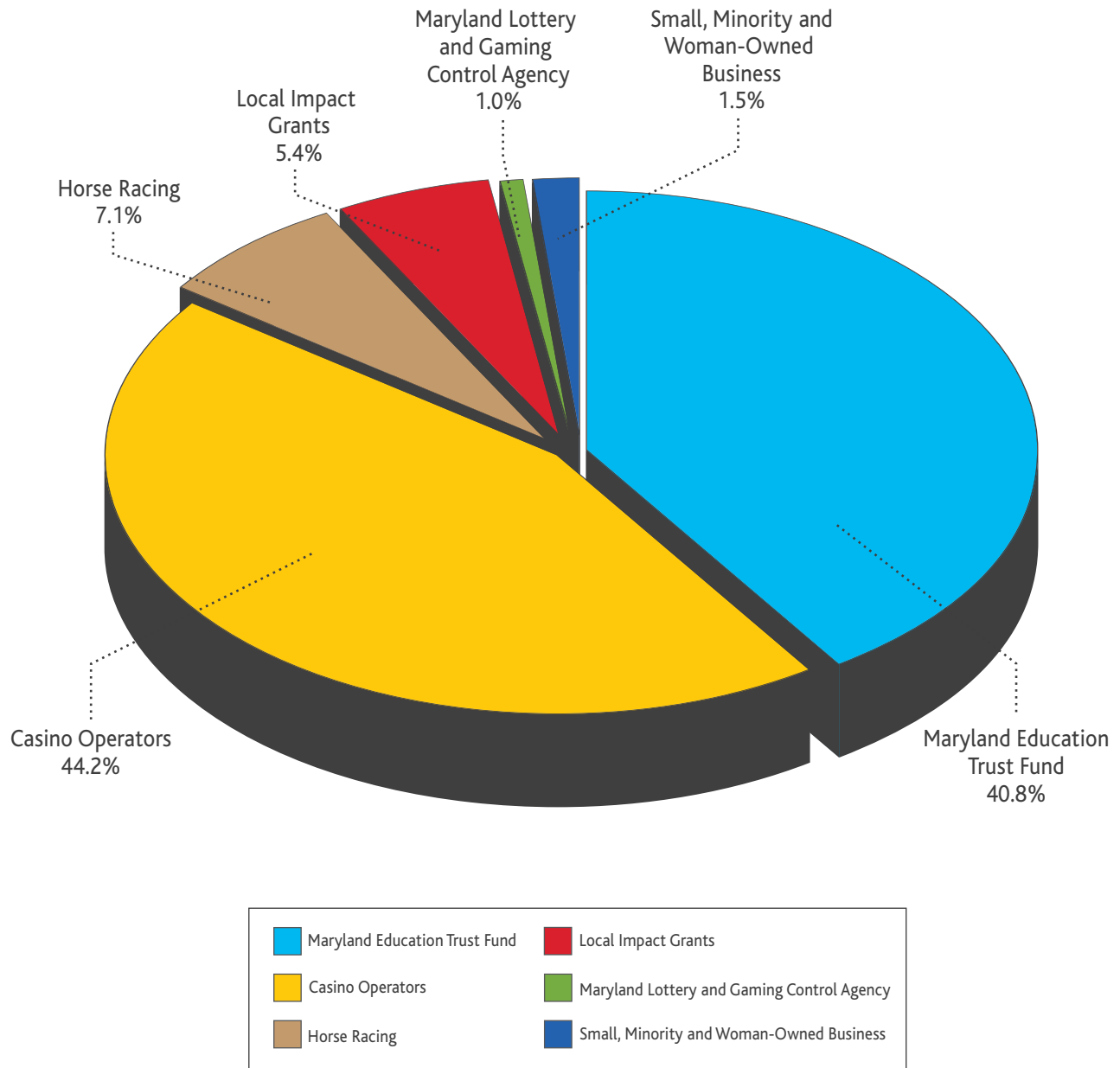
## GROSS TERMINAL REVENUE DISTRIBUTIONS – FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)

### ALL CASINOS COMBINED



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

**GROSS TERMINAL REVENUE DISTRIBUTIONS –  
FISCAL YEARS 2011 THROUGH 2017\* (CONTINUED)**



MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**TABLE GAME REVENUE DISTRIBUTIONS –  
FISCAL YEARS 2013 THROUGH 2017\***

<b>Fiscal Year 2017</b>						
	Horseshoe Casino	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Total
Education Trust Fund	\$ 23,460,713	\$ 1,943,775	\$ 38,595,825	\$ 1,315,368	\$ 24,142,402	\$ 89,458,083
Casino	108,272,221	9,070,367	175,857,826	6,099,629	128,759,475	428,059,518
Local Jurisdictions	3,607,342	323,816	5,368,631	209,539	8,047,467	17,556,796
<b>Total</b>	<b>\$ 135,340,277</b>	<b>\$ 11,337,959</b>	<b>\$ 219,822,282</b>	<b>\$ 7,624,536</b>	<b>\$ 160,949,343</b>	<b>\$ 535,074,397</b>

<b>Fiscal Year 2016</b>						
	Horseshoe Casino	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Total
Education Trust Fund	\$ 28,424,630	\$ 2,316,981	\$ 48,398,026	\$ 1,316,121	\$ –	\$ 80,455,758
Casino	113,698,520	9,267,922	193,592,103	5,264,484	–	312,823,029
Local Jurisdictions	–	–	–	–	–	–
<b>Total</b>	<b>\$ 142,123,150</b>	<b>\$ 11,584,903</b>	<b>\$ 241,990,129</b>	<b>\$ 6,580,605</b>	<b>\$ –</b>	<b>\$ 402,278,787</b>

<b>Fiscal Year 2015</b>						
	Horseshoe Casino	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Total
Education Trust Fund	\$ 20,809,553	\$ 2,387,304	\$ 46,760,192	\$ 1,323,165	\$ –	\$ 71,280,215
Casino	83,238,214	9,549,216	187,040,768	5,292,661	–	285,120,859
Local Jurisdictions	–	–	–	–	–	–
<b>Total</b>	<b>\$ 104,047,767</b>	<b>\$ 11,936,520</b>	<b>\$ 233,800,960</b>	<b>\$ 6,615,826</b>	<b>\$ –</b>	<b>\$ 356,401,074</b>

<b>Fiscal Year 2014</b>						
	Horseshoe Casino	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Total
Education Trust Fund	\$ –	\$ 2,713,278	\$ 47,078,737	\$ 1,181,901	\$ –	\$ 50,973,916
Casino	–	10,853,113	188,314,949	4,727,604	–	203,895,666
Local Jurisdictions	–	–	–	–	–	–
<b>Total</b>	<b>\$ –</b>	<b>\$ 13,566,391</b>	<b>\$ 235,393,687</b>	<b>\$ 5,909,505</b>	<b>\$ –</b>	<b>\$ 254,869,582</b>

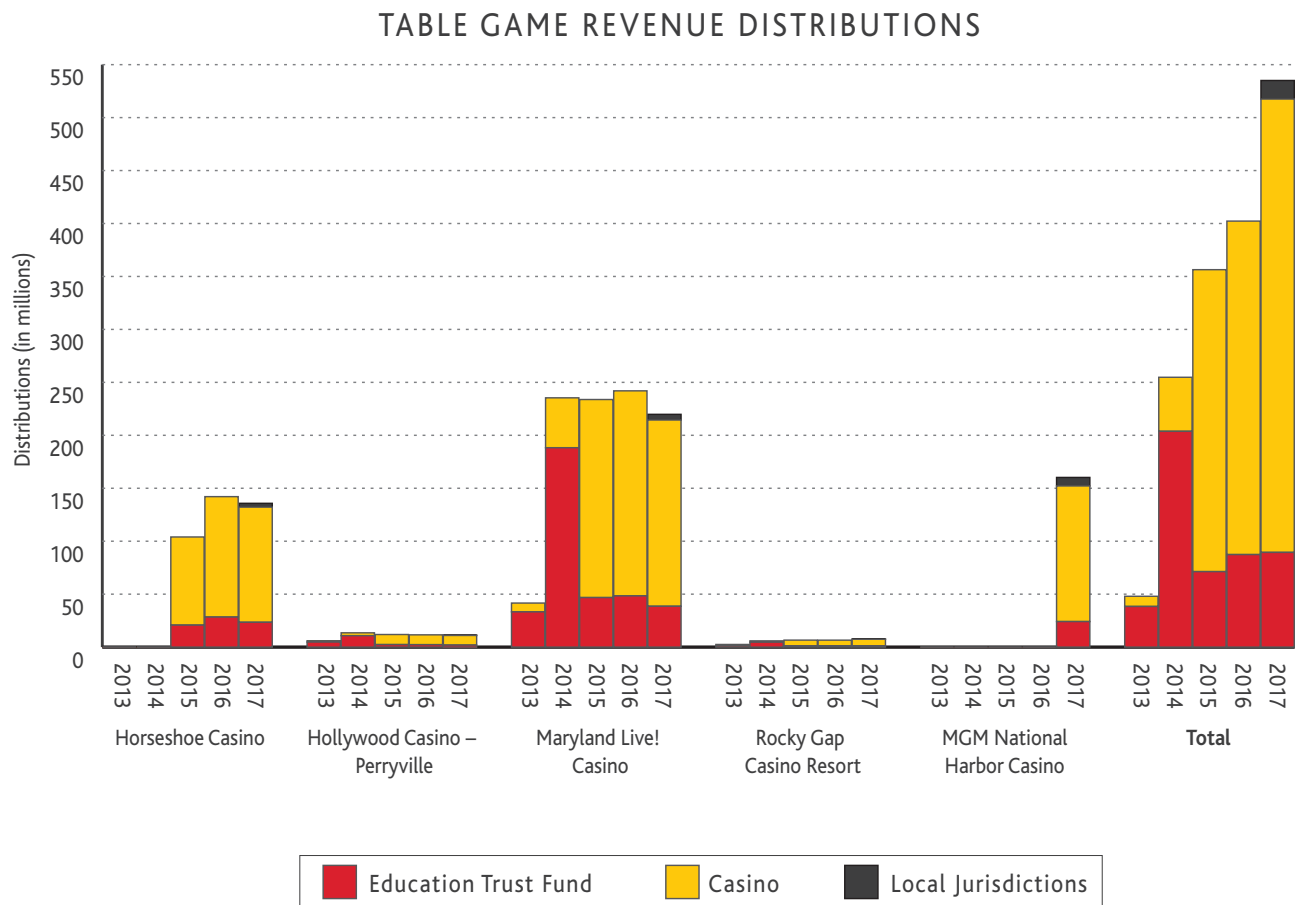
<b>Fiscal Year 2013</b>						
	Horseshoe Casino	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	MGM National Harbor Casino	Total
Education Trust Fund	\$ –	\$ 1,191,443	\$ 8,323,862	\$ 92,254	\$ –	\$ 9,607,559
Casino	–	4,765,772	33,295,447	369,016	–	38,430,235
Local Jurisdictions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

\* Fiscal year 2013 was the first year for table game revenue.

As of June 30, 2017, the Casino at Ocean Downs had not implemented table games.

MGM National Harbor Casino began operation in December 2016.

**TABLE GAME REVENUE DISTRIBUTIONS –  
FISCAL YEARS 2013 THROUGH 2017\* (CONTINUED)**



\* Fiscal year 2013 was the first year for table game revenue.

As of June 30, 2017, the Casino at Ocean Downs had not implemented table games.

MGM National Harbor Casino began operation on December 8, 2016.



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

**Fiscal Year 2017**

	Allegany County	Anne Arundel	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	60	431	704	69	29	128	98	139
% of Total Retailers	1.34%	9.70%	15.85%	1.55%	0.64%	2.88%	2.20%	3.14%
Population	73,869	550,175	817,682	89,694	32,644	167,210	101,684	150,710
% of Total Population	1.26%	9.35%	13.89%	1.52%	0.55%	2.84%	1.73%	2.56%
% of Sales	0.72%	11.18%	18.95%	1.83%	0.52%	2.50%	1.51%	4.41%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	30	152	28	188	154	16	427	596
% of Total Retailers	0.68%	3.41%	0.63%	4.24%	3.46%	0.37%	9.62%	13.42%
Population	32,554	239,520	29,850	248,540	299,356	20,112	1,004,476	881,419
% of Total Population	0.55%	4.07%	0.51%	4.22%	5.09%	0.34%	17.07%	14.98%
% of Sales	0.72%	2.80%	0.22%	4.16%	3.24%	0.29%	12.81%	24.44%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	53	103	17	39	113	83	98	687
% of Total Retailers	1.20%	2.32%	0.37%	0.88%	2.55%	1.87%	2.20%	15.46%
Population	48,542	108,993	26,206	38,040	149,087	100,521	51,567	622,417
% of Total Population	0.82%	1.85%	0.45%	0.65%	2.53%	1.71%	0.88%	10.58%
% of Sales	0.82%	2.78%	0.44%	0.64%	1.87%	1.54%	1.62%	16.74%

# RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

## Fiscal Year 2016

	Allegany County	Anne Arundel	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	60	465	759	72	30	138	105	152
% of Total Retailers	1.24%	9.60%	15.67%	1.49%	0.62%	2.85%	2.17%	3.14%
Population	72,528	564,195	831,128	90,595	32,579	167,627	102,382	156,118
% of Total Population	1.21%	9.39%	13.84%	1.51%	0.54%	2.79%	1.70%	2.60%
% of Sales	0.61%	9.64%	16.32%	1.45%	0.42%	2.09%	1.29%	3.78%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	32	162	28	201	174	19	447	633
% of Total Retailers	0.66%	3.35%	0.58%	4.15%	3.59%	0.39%	9.23%	13.07%
Population	32,384	245,322	28,692	250,290	313,424	19,787	1,040,116	909,535
% of Total Population	0.54%	4.08%	0.48%	4.17%	5.22%	0.33%	17.32%	15.14%
% of Sales	0.60%	2.37%	0.19%	3.64%	2.78%	0.29%	10.91%	20.66%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	59	107	19	43	135	90	112	801
% of Total Retailers	1.22%	2.21%	0.39%	0.89%	2.79%	1.86%	2.31%	16.54%
Population	48,904	111,413	25,768	37,512	149,585	102,370	51,540	621,849
% of Total Population	0.81%	1.86%	0.43%	0.62%	2.49%	1.70%	0.86%	10.35%
% of Sales	0.72%	2.31%	0.35%	0.52%	1.62%	1.33%	1.33%	14.66%

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

**Fiscal Year 2015**

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	63	481	765	72	31	139	97	156
% of Total Retailers	1.29%	9.83%	15.63%	1.47%	0.63%	2.84%	1.98%	3.19%
Population	72,952	560,133	826,925	90,613	32,538	167,830	102,383	154,747
% of Total Population	1.22%	9.37%	13.84%	1.52%	0.54%	2.81%	1.71%	2.59%
% of Sales	0.57%	9.59%	16.14%	1.43%	0.39%	2.06%	1.18%	3.83%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	35	162	28	206	168	18	475	645
% of Total Retailers	0.72%	3.31%	0.57%	4.21%	3.43%	0.37%	9.70%	13.18%
Population	32,578	243,675	29,679	250,105	309,284	19,820	1,030,447	904,430
% of Total Population	0.55%	4.08%	0.50%	4.18%	5.18%	0.33%	17.24%	15.13%
% of Sales	0.52%	2.30%	0.19%	3.57%	2.73%	0.24%	10.52%	21.14%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	57	110	20	37	119	87	117	807
% of Total Retailers	1.16%	2.25%	0.41%	0.76%	2.43%	1.78%	2.39%	16.49%
Population	48,804	110,382	25,859	37,643	149,573	101,539	51,675	622,793
% of Total Population	0.82%	1.85%	0.43%	0.63%	2.50%	1.70%	0.86%	10.42%
% of Sales	0.68%	2.17%	0.35%	0.46%	1.52%	1.26%	1.23%	15.92%

# RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

## Fiscal Year 2014

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	60	468	752	69	31	134	91	148
% of Total Retailers	1.27%	9.91%	15.93%	1.46%	0.66%	2.84%	1.93%	3.13%
Population	73,521	555,743	823,015	90,484	32,693	167,564	101,913	152,864
% of Total Population	1.24%	9.37%	13.88%	1.53%	1.64%	8.39%	1.72%	2.58%
% of Sales	0.59%	9.56%	16.21%	1.45%	0.40%	2.07%	1.12%	3.58%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	33	155	36	186	167	17	435	616
% of Total Retailers	0.70%	3.28%	0.76%	3.94%	3.54%	0.36%	9.21%	13.05%
Population	32,660	241,409	29,889	249,215	304,580	19,944	1,016,677	890,081
% of Total Population	0.55%	4.07%	0.50%	4.20%	5.14%	0.34%	17.15%	15.01%
% of Sales	0.50%	2.30%	0.19%	3.48%	2.83%	0.25%	10.28%	21.20%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	57	100	21	34	126	81	107	797
% of Total Retailers	1.21%	2.12%	0.44%	0.72%	2.67%	1.72%	2.27%	16.88%
Population	48,517	109,633	26,273	37,931	149,588	100,896	51,620	622,104
% of Total Population	0.82%	1.85%	0.44%	0.64%	2.52%	1.70%	0.87%	10.49%
% of Sales	0.66%	2.15%	0.31%	0.47%	1.51%	1.21%	1.19%	16.47%

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

**Fiscal Year 2013**

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

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

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

# RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

## Fiscal Year 2012

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	64	462	749	72	32	142	96	143
% of Total Retailers	1.36%	9.8%	15.9%	1.53%	0.68%	3.02%	2.04%	3.03%
Population	75,087	537,656	805,029	88,737	33,066	167,134	101,108	146,551
% of Total Population	1.30%	9.31%	13.94%	1.54%	1.69%	8.55%	1.75%	2.54%
% of Sales	0.61%	10.16%	15.99%	1.39%	0.38%	1.98%	1.14%	3.39%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	34	168	30	191	178	16	429	611
% of Total Retailers	0.72%	3.57%	0.64%	4.05%	3.78%	0.34%	9.10%	12.97%
Population	32,618	233,385	30,097	244,826	287,085	20,197	971,777	863,420
% of Total Population	0.56%	4.04%	0.52%	4.24%	4.97%	0.35%	16.83%	14.95%
% of Sales	0.50%	2.23%	0.19%	3.52%	2.94%	0.23%	10.15%	20.86%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	52	100	22	34	123	79	108	777
% of Total Retailers	1.10%	2.12%	0.47%	0.72%	2.61%	1.68%	2.29%	16.49%
Population	47,798	105,151	26,470	37,782	147,430	98,733	51,454	620,961
% of Total Population	0.83%	1.82%	0.46%	0.65%	2.55%	1.71%	0.89%	10.76%
% of Sales	0.68%	2.14%	0.35%	0.49%	1.56%	1.16%	1.22%	16.74%

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

**Fiscal Year 2011**

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

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

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

# RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

## Fiscal Year 2010

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	57	454	711	73	29	141	94	142
% of Total Retailers	1.24%	9.90%	15.51%	1.59%	0.63%	3.08%	2.05%	3.10%
Population	72,532	521,209	789,814	89,212	33,367	170,089	100,796	142,226
% of Total Population	1.27%	9.14%	13.86%	1.56%	0.59%	2.98%	1.77%	2.49%
% of Sales	0.63%	10.20%	16.34%	1.37%	0.42%	2.01%	1.25%	3.21%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	34	159	28	179	165	16	429	599
% of Total Retailers	0.74%	3.47%	0.61%	3.90%	3.60%	0.35%	9.36%	13.07%
Population	32,043	227,980	29,555	242,514	281,884	20,247	971,600	834,560
% of Total Population	0.56%	4.00%	0.52%	4.26%	4.95%	0.36%	17.05%	14.64%
% of Sales	0.50%	2.11%	0.19%	3.54%	2.74%	0.25%	9.74%	20.10%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	53	103	21	33	121	78	112	753
% of Total Retailers	1.16%	2.25%	0.46%	0.72%	2.64%	1.70%	2.44%	16.43%
Population	47,958	102,999	25,959	36,262	145,910	94,222	49,122	637,418
% of Total Population	0.84%	1.81%	0.46%	0.64%	2.56%	1.65%	0.86%	11.18%
% of Sales	0.66%	2.10%	0.37%	0.50%	1.51%	1.19%	1.45%	17.62%



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

**Fiscal Year 2009**

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

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

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	50	102	20	36	124	81	103	749
% of Total Retailers	1.10%	2.25%	0.44%	0.80%	2.74%	1.79%	2.28%	16.55%
Population	40,563	86,211	24,747	33,812	131,923	84,644	46,543	651,154
% of Total Population	1.10%	2.25%	0.44%	0.80%	2.74%	1.79%	2.28%	16.55%
% of Sales	0.61%	2.19%	0.37%	0.50%	1.45%	1.22%	1.43%	18.22%

# 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%

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

**2017**  
**Employer (listed alphabetically)**

Applied Physics Laboratory  
 Byk Gardner  
 Clean Harbors Inc.  
 Cristal USA  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Electronic Systems  
 Sap America Inc.  
 Sinai Hospital  
 University of Maryland Medical Center

**2016**  
**Employer (listed alphabetically)**

Applied Physics Laboratory  
 Byk Gardner  
 Johns Hopkins University  
 Liberty Tax Service  
 Northrop Grumman Electronic Systems  
 Stephen James Associates  
 Sylvan Learning Center  
 University of Maryland Medical Center  
 Vitamin Shoppe  
 Werner Enterprises Inc.

**2015**  
**Employer (listed alphabetically)**

BAE Systems, Inc.  
 Exelon Corporation  
 Giant Food, LLC  
 H & R Block, Inc.  
 Johns Hopkins University  
 Lockheed Martin Corporation  
 McDonald's Corporation  
 Northrop Grumman Corporation  
 Safeway, Inc.  
 Walmart

**2014, 2013, 2012 and 2011**  
**Employer (listed alphabetically)**

Giant Food, LLC  
 Helix Health System, Inc.  
 Home Depot  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway, Inc.  
 Target  
 University of Maryland Medical Systems  
 Walmart

**2010 and 2009**  
**Employer (listed alphabetically)**

Adventist Health Care  
 Giant Food, LLC  
 Helix Health System, Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway, Inc.  
 Target  
 University of Maryland Medical Systems  
 Walmart

**2008**  
**Employer (listed alphabetically)**

Giant Food, LLC  
 Helix Health System, Inc.  
 Home Depot USA, Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway, Inc.  
 University of Maryland Medical Systems  
 United Parcel Service  
 Walmart

Source: Department of Labor, Licensing and Regulation; Office of Market Labor Analysis and Information and Performance - Major Employer List - March 2017. (1) Information such as the number of employees or the employers' percentage of total employment is not available for disclosure. (2) Beginning in 2015, the source for the State's largest employers is a private contractor rather than the agency's in-house system.

# **RATIO OF OUTSTANDING DEBT BY TYPE – FISCAL YEARS 2008 THROUGH 2017**

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Percentage of Annual Lottery Sales</b>
2008	\$ 648,070	0.04%
2009	5,748,257	0.34%
2010	5,261,122	0.31%
2011	4,094,609	0.24%
2012	2,933,939	0.16%
2013	1,780,253	0.10%
2014	600,149	0.00%
2015	–	0.00%
2016	–	0.00%
2017	–	0.00%

<b>Fiscal Year</b>	<b>VLT Capital Leases</b>	<b>Percentage of Gross Terminal Revenue</b>
2008	\$ –	–%
2009	–	–%
2010	–	–%
2011	40,791,831	39.60%
2012	53,278,861	27.30%
2013	29,242,927	5.22%
2014	16,880,000	2.91%
2015	60,714,472	8.90%
2016	48,284,425	6.51%
2017	35,667,968	4.02%

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

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

**DEMOGRAPHIC AND ECONOMIC STATISTICS –  
FISCAL YEARS 2008 THROUGH 2017**

Fiscal Year	Statewide Population <sup>(1)</sup>	Statewide Personal Income <sup>(2)</sup> (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate <sup>(3)</sup>
2008	5,618,344	\$ 262,071,799	\$ 46,646	3.70%
2009	5,633,597	270,923,822	48,091	5.90%
2010	5,699,478	275,143,448	48,275	7.40%
2011	5,773,552	283,919,505	49,070	7.00%
2012	5,828,289	295,235,516	50,656	6.80%
2013	5,884,563	316,681,620	53,816	6.80%
2014	5,773,552	323,543,299	56,038	6.00%
2015	5,976,407	323,778,035	54,176	5.10% <sup>(3)</sup>
2016	6,006,401	336,187,435	55,972	4.20% <sup>(3)</sup>
2017	6,016,447	349,266,576	58,052	4.10% <sup>(3)</sup>

Sources:

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

(2) U.S. Department of Commerce, Bureau of Economic Analysis. Data provided is as of December 2016.

(3) State Department of Labor, Licensing and Regulation. Data provided is as of October 2015, October 2016 and June 2017, respectively.

# **LOTTERY EMPLOYEES – FISCAL YEARS 2008 THROUGH 2017**

As of June 30,	Number of Employees (includes contractual)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agent Administration	5	5	7	7	7	5	5	5	5	5
Commissioners*	–	–	–	–	–	7	7	7	7	7
Communications	25	24	24	22	22	25	24	23	23	22
Customer Service	12	12	12	9	9	10	10	10	10	9
Executive	6	6	8	6	6	9	9	9	9	8
Facilities	5	5	5	4	4	4	4	5	5	5
Finance, Budget & Procurement and Special Projects	15	15	14	16	16	23	24	22	24	17
Information Technology	24	24	24	27	27	18	21	21	16	16
Instant Ticket Warehouse	7	7	7	7	7	7	6	7	7	7
Legal Services	6	7	7	7	7	8	8	8	8	7
Personnel	4	4	4	3	3	4	4	3	3	3
Product Development & Creative Services	8	10	9	8	8	12	13	15	12	11
Sales	63	61	60	61	61	60	61	56	60	59
Security	5	5	5	5	5	8	8	8	8	8
Gaming	–	1	3	36	36	94	124	128	141	145
<b>Total</b>	<b>185</b>	<b>186</b>	<b>189</b>	<b>218</b>	<b>218</b>	<b>294</b>	<b>328</b>	<b>327</b>	<b>338</b>	<b>329</b>

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY  
**OPERATING INDICATORS – FISCAL YEARS 2008  
 THROUGH 2017**

**Percentage of Lottery Administrative Expenses to Sales**

<b>Fiscal Year</b>	<b>Sales</b>	<b>Administrative Expenses</b>	<b>Percentage of Administrative Expenses to Sales</b>
2008	\$ 1,673,038,728	\$ 58,845,991	3.52%
2009	1,698,074,056	59,365,645	3.50%
2010	1,706,572,575	57,965,833	3.40%
2011	1,714,402,578	53,221,207	3.10%
2012	1,794,892,455	53,856,627	3.00%
2013	1,756,119,267	54,699,834	3.10%
2014	1,723,990,568	56,552,165	3.28%
2015	1,760,866,028	57,441,563	3.26%
2016	1,905,543,252	62,035,390	3.26%
2017	1,931,545,666	67,144,568	3.47%

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

**CAPITAL ASSETS, NET INFORMATION –  
FISCAL YEARS 2008 THROUGH 2017**

	<b>Lottery Equipment</b>	<b>Data Processing Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>VLTs</b>	<b>Total Capital Assets</b>
2008	173,689	202,273	190,553	270,847	–	837,362
2009	5,310,349	132,433	125,456	209,523	–	5,777,761
2010	4,192,381	65,926	63,182	148,199	–	4,469,688
2011	3,074,412	9,418	4,860	86,875	35,258,146	38,433,711
2012	1,956,444	–	–	25,551	47,247,813	49,229,808
2013	838,476	–	–	–	22,987,684	23,826,160
2014	–	–	–	–	10,525,562	10,525,562
2015	1,026,010	–	–	–	60,730,078	61,756,088
2016	817,330	–	–	–	47,900,001	48,717,331
2017	608,650	–	–	–	35,126,668	35,735,318



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