



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
an agency of the State of Maryland

FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

MARYLAND LOTTERY AND GAMING CONTROL AGENCY

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

To the Maryland Lottery and Gaming Control Agency:

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic 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*. 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.

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, 2021 and 2020, and the respective changes in financial position and cash flows 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, the changes in financial position and cash flows 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, 2021 and 2020, and the changes in its financial position and cash flows 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and changes in net pension liability contributions and related ratios information on pages 3 through 17 and 46 through 50, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2021, 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.

SC & H Attest Services, P.C.

December 22, 2021

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

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, 2021 and 2020. As you read the MD&A, 2021 refers to the fiscal year ended June 30, 2021, 2020 refers to the fiscal year ended June 30, 2020 and 2019 refers to the fiscal year ended June 30, 2019. 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 18.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a Public Health Emergency of International Concern. In March 2020, COVID-19 began to spread throughout the United States. Efforts to contain COVID-19, including restrictions mandated by U.S. Federal and State government, included the temporary closure of the casinos, bars and restaurants, and the veteran organizations in the State of Maryland in an effort to prevent COVID-19 from spreading more rapidly. These restrictions negatively impacted the revenues associated with the casinos, the ITLM program and the traditional lottery products. The casinos were closed from March 15, 2020 through June 19, 2020 at which time the casinos began reopening in line with individual county guidelines including limiting capacity to no greater than 50%. As of June 30, 2020 all six casinos had reopened at reduced capacity. As of June 30, 2021, all six casinos had reopened with no capacity restrictions. As of July 1, 2021, the State of Maryland lifted the remaining restrictions on the casinos, bars and restaurants, and the veteran organizations (Note 13).

FINANCIAL HIGHLIGHTS

- Net lottery sales were \$2.61 billion in 2021, an increase of \$421.38 million or 19.24% as compared to \$2.19 billion in 2020, which decreased by \$7.14 million or 0.33% compared to 2019.
- Gross video lottery terminal (VLT) revenue was \$1.16 billion in 2021 an increase of \$331.11 million or 39.93%, as compared to \$829.28 million in 2020, a decrease of \$295.93 million in 2020 or 26.30% as compared to \$1.13 billion in 2019. The decrease in 2020 was primarily due to the casinos being closed and subsequently reopened at reduced occupancy levels as a result of COVID-19.
- Table game revenue (TGR) was \$585.33 million in 2021, an increase of \$134.64 million or an increase of 29.87% as compared to \$450.69 million in 2020, a decrease of \$184.49 million or 29.04% as compared to \$635.19 million in 2019. The decrease in 2020 was primarily due to the casinos being closed and subsequently reopened at reduced occupancy levels as a result of COVID-19.
- Transfers from lottery proceeds to the State of Maryland, the Stadium Authority, and the Veterans Trust Fund in 2021 were \$667.44 million, an increase of \$78.77 million or 11.79% as compared to \$588.67 million in 2020, a decrease of \$3.78 million or 0.64% as compared to 2019.
- Transfers to Other Governmental Funds/Agencies - Gaming proceeds totaled \$725.31 million in 2021, an increase of \$201.67 million or 38.51% compared to \$523.65 million in 2020, a decrease of \$197.02 million or 27.34% compared to 2019. The decrease in 2020 was primarily due to the casinos being closed and subsequently reopened at reduced occupancy levels as a result of COVID-19. The increase in 2021 was due to the casinos being reopened and having no capacity restrictions as of June 30, 2021.

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
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OVERVIEW OF THE FINANCIAL STATEMENTS – (continued)

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, 2021, there were six casinos operating in the State with 8,943 VLTs and 575 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 22 to 44 of this report.

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

FINANCIAL ANALYSIS

Table 1 is a summarized version of the statements of net position as of June 30, 2021, 2020 and 2019. 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 and right-of-use 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 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, lease liabilities and pension obligations.

	Table 1		
	Net Position		
	(in thousands)		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current Assets	\$ 206,889	\$ 263,102	\$ 246,694
Other Non-Current Assets	33,659	33,134	32,623
Capital and Right-of-Use Assets, net	7,031	9,518	12,008
Total Assets	<u>\$ 247,579</u>	<u>\$ 305,754</u>	<u>\$ 291,325</u>
Deferred Outflows of Resources	\$ 11,529	\$ 12,640	\$ 16,212
Total Assets and Deferred Outflows	<u>\$ 259,108</u>	<u>\$ 318,394</u>	<u>\$ 307,537</u>
Current Liabilities	\$ 204,810	\$ 263,745	\$ 238,423
Non-Current Liabilities	37,494	36,326	40,085
Net Pension Liability	33,400	30,537	32,034
Total Liabilities	<u>\$ 275,704</u>	<u>\$ 330,608</u>	<u>\$ 310,542</u>
Deferred Inflows of Resources	\$ 3,539	\$ 4,768	\$ 3,606
Total Liabilities and Deferred Inflows	<u>\$ 279,243</u>	<u>\$ 335,376</u>	<u>\$ 314,148</u>
Net Position			
Net Investment in Capital Assets	\$ -	\$ -	\$ 100
Unrestricted	(20,135)	(16,982)	(6,711)
Total Net Position	<u>\$ (20,135)</u>	<u>\$ (16,982)</u>	<u>\$ (6,611)</u>

Current Assets

The Agency's current assets decreased by \$56.21 million or 21.37% in 2021 as compared to 2020 which increased by \$16.41 million or 6.65% in 2020 compared to 2019.

Cash held with the State Treasury decreased by \$55.31 million or 29.63% in 2021 compared to 2020 which increased by \$17.51 million or 10.35% in 2020 compared to 2019. At the end of 2021 there were four months of lottery income waiting to be transferred whereas at the end of 2020 there were three months of lottery income waiting to be transferred to the General Fund.

Maryland Lottery and Gaming Control Agency
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Current Assets – (continued)

Accounts receivable decreased by \$2.23 million or 3.55% in 2021 compared to 2020 which decreased by \$5.16 million or 7.61% in 2020 compared to 2019. 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 \$1.97 million or 3.78% in 2021 compared to 2020 which decreased by \$2.75 million or 5.02% in 2020 compared to 2019. On a weekly basis, amounts due from retailers are collected electronically from the lottery retailers' bank accounts. In 2021, three days of sales activity had not yet been collected. In 2020, two days of sales activity had not yet been collected compared to seven days' in 2019.

Accounts receivable from casino operators increased by \$809,977 or 14.35% in 2021 compared to 2020 which decreased by \$7.52 million or 57.12% in 2020 compared to 2019. 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 are a function of the change in gaming revenue for the last days of the fiscal year and timing of when the revenue is received.

Accounts receivable from a vendor was fully collected in 2021 compared to 2020 which increased by \$5.01 million in 2020 compared to 2019 and represents the amount due from the vendor for compensation of prize expense loss provisions of excess prizes paid.

Non-Current Assets

The Agency's non-current assets consist of investments for annuity payments, net of current portion and capital and right-of-use assets, net of depreciation and amortization. Non-current assets decreased by \$1.96 million or 4.60% in 2021 compared to 2020 which decreased by \$1.98 million or 4.44% in 2020 compared to 2019.

Capital assets, net of depreciation, were fully depreciated in 2020 decreasing by \$191,290 or 100% compared to 2019. The reduction in 2020 and 2019 was the depreciation. During the year ended June 30, 2020, the Agency disposed of \$6,924,851 of equipment resulting in a loss on disposal totaling \$104,340.

Right-of-use assets, net of amortization, decreased by \$2.49 million or 26.13% in 2021 compared to 2020 which decreased by \$2.3 million or 19.46% compared to 2019. The decrease in 2021 and 2020 was the result of amortization.

The Agency's investments for annuity payments, net of current portion, increased by \$525,885 or 1.59% in 2021 compared to 2020 increased by \$510,784 or 1.57% in 2020 compared to 2019. The increase in 2021 and 2020 resulted from more jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that have expired.

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Deferred Outflows of Resources

Deferred pension outflows represent 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 10 to the financial statements. Deferred outflows decreased by \$1.11 million or 8.79% in 2021 compared to 2020 which decreased by \$3.57 million or 22.03% in 2020 compared to 2019. The decrease in 2021 and 2020 resulted from amortization of the deferred outflows.

Current Liabilities

Current liabilities decreased by \$58.94 million or 22.35% in 2021 compared to 2020 which increased by \$25.32 million or 10.62% in 2020 compared to 2019. The change between years is related to decreases in the amount of lottery income due to the General Fund at year-end, increases in the amount due to local jurisdictions and an increase in prize awards payable. Amounts due to the General Fund decreased by \$117.71 million or 75.00% in 2021 compared to 2020 which increased by \$54.34 million or 52.96% in 2020 compared to 2019. The decrease in the amounts due to the General Fund was a result of one month's revenue being due as of June 30, 2021, versus three months being due as of June 30, 2020. Prize awards payable increased by \$1.52 million or 39.84% in 2021 compared to 2020 which increased by \$18.51 million or 37.08% in 2020 compared to 2019. The increases in 2021, and 2020 are related to overall higher sales. As sales increase, prizes won increases. These increases were offset by a decrease in amounts due Other Governmental Agencies – Gaming. Due to the COVID-19 pandemic, casinos were closed for three months of the year during 2020 and were only partially opened in June of 2020. As of June 30, 2021, the casinos were opened with no capacity restrictions. Amounts due to Other Governmental Agencies – Gaming increased by \$47.64 million or 313.28% in 2021 compared to 2020 which decreased by \$42.64 million or 73.71% in 2020 compared to 2019. The increase in the amounts due to Other Governmental Agencies – Gaming was a result of overall increase in gaming terminal revenue and table games revenue.

Non-Current Liabilities

Non-current liabilities increased by \$4.03 million or 6.03% in 2021 compared to 2020 which decreased by \$5.25 million or 7.29% in 2020 compared to 2019. Net pension liability increased by \$2.86 million or 9.37% in 2021 compared to 2020 which decreased by \$1.50 million or 4.67% compared to 2019. The net pension liability represents the Agency's proportionate share of the State of Maryland's total net pension liability. The changes between the years is primarily the result of the changes in the Agency's proportionate share of the State Retirement and Pension Funds overall pension liability. In addition, the annuity prizes payable liability increased by \$3.28 million or 11.77% due to an increase in annuity investments purchased. The non-current portion of lease liability decreased by \$2.57 million or 37.55% compared to 2020 which decreased by \$2.12 million or 23.62% in 2020 compared to 2019 due to lease payments made in line with the lease agreements.

Deferred Inflows of Resources

Deferred inflows decreased by \$1.22 million or 25.77% in 2021 compared to 2020 which increased by \$1.16 million or 32.20% compared to 2019. Deferred pension inflows represent the Agency's contributions subsequent to the measurement date and the change in actuarial assumptions as described in Note 10 to the financial statements.

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Net Position

Net position decreased by \$3.15 million or 18.56% in 2021 compared to 2020 which decreased by \$10.37 million or 156.86% in 2020 compared to 2019. 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.

Maryland Lottery and Gaming Control Agency
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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, 2021, 2020 and 2019.

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

	2021	2020	2019
Revenue			
Draw Games	\$ 1,607,218	\$ 1,329,164	\$ 1,374,831
Instant Games	993,407	852,739	812,426
ITLMs	10,525	7,865	9,651
Total sales	2,611,150	2,189,768	2,196,908
Gaming revenue - gross terminal revenue	1,160,393	829,281	1,125,215
Gaming revenue - state grant	4,943	6,461	6,716
Gaming revenue - table games	585,329	450,693	635,194
Gaming revenue - facility applicants	1,535	1,471	2,056
Gaming revenue - machine assessments	4,132	3,779	5,296
ITLM lease revenue	3,158	2,362	4,028
MDH Revenue	-	96	-
Total revenue	4,370,640	3,483,911	3,975,413
Cost of sales	2,924,405	2,330,243	2,606,785
Gross profit	1,446,235	1,153,668	1,368,628
Operating expenses	54,016	55,546	52,714
Income from operations	1,392,219	1,098,122	1,315,914
Non-operating revenues (expenses)			
Gain (loss) on investments for annuity payments and amortization of discount for annuity prize liabilities	(2,741)	3,700	1,258
Voluntary exclusion program	124	123	108
Payments to State of Maryland General Fund, Stadium Authority, and Veterans Trust Fund	(667,440)	(588,669)	(593,453)
Payments to Other Government Fund/Agencies - Gaming	(725,315)	(523,647)	(720,663)
Total non-operating expenses	(1,395,372)	(1,108,493)	(1,312,750)
Change in net position	(3,153)	(10,371)	3,164
Total net position - beginning of year	(16,982)	(6,611)	(9,775)
Total net position - end of year	\$ (20,135)	\$ (16,982)	\$ (6,611)

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

Sales

Net lottery sales were \$2.61 billion in 2021 compared to \$2.19 billion in 2020, an increase of \$421.38 million or 19.24% compared to 2020, which decreased by \$7.14 million or 0.33% compared to 2019.

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

Table 3
Net Sales
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Jackpot	\$ 255,740	\$ 198,537	\$ 293,177
Draw	779,284	641,145	583,596
Monitor	572,194	489,483	498,058
Scratch-Off	993,407	852,739	812,426
ITLM	10,525	7,864	9,651
Total	<u>\$2,611,150</u>	<u>\$2,189,768</u>	<u>\$2,196,908</u>

Sales for Jackpot games, which includes Mega Millions, Powerball, Multi-Match, and Cash4Life increased by \$57.20 million or 28.81% compared to 2020 which had decreased by \$94.64 million or 32.28% in 2020 compared to 2019. The decrease in 2020 is attributed to lower jackpots in both Mega Millions and Powerball. Lower jackpots result in lower sales. In 2021, Mega Millions sales increased by \$27.54 million or 37.40% while the game offered one jackpot that exceeded \$1 billion.

Sales for Draw games, which are Pick 3, Pick 4, Bonus Match 5, 5 Card Cash, and FAST PLAY increased by \$138.14 million or 21.55% compared to 2020 which had increased by \$57.55 million or 9.86% compared to 2019. In fiscal year 2021, Pick 4 sales increased by \$61.94 million or 18.56% over 2020. Pick 4 sales have continuously increased over the past several years as it offers an attractive top prize of \$5,000, for a \$1.00 play. Further, FAST PLAY increased by \$35.33 million or 113.22% compared to its launch in 2020.

Pick 3 sales increased \$39.12 million or 15.55% compared to 2020. Pick 3 sales have continuously increased over the past several years.

Sales for Bonus Match 5 declined between 2018 and 2020, but in 2021 it increased by \$1.98 million or 10.71% compared to 2020. In 2021, 5 Card Cash sales decreased by \$233,845 or 3.88% compared to 2020 which had decreased by \$191,000 or 3.07% compared to 2019.

Sales for the Monitor games, which includes Racetrax® and Keno increased by \$82.71 million or 16.90% compared to 2020 which had decreased by \$8.58 million or 1.72% compared to 2019. Racetrax® sales increased by \$68.37 million or 29.69% compared to 2020 which had increased by 19.10 million or 9.04% compared to 2019. Racetrax® continues to grow as players find the HD graphics appealing.

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Sales (continued)

Keno 2021 sales increased by \$14.34 million or 5.53% compared to 2020. Keno sales decreased by \$27.67 million or 9.65% in 2020 compared to 2019. The decrease in Keno sales in 2020 relates to the COVID-19 pandemic reduced capacity and temporary closure of restaurants and bars in the last three months of the year.

Scratch-off games continue to be a growth product for the Agency. Scratch-off game sales increased by \$140.67 million or 16.50% in 2021 compared to 2020 which had increased by \$40.31 million or 4.96% in 2020 compared to 2019. Scratch-off sales represent 38.04% of the net lottery sales.

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

	2021	2020	2019
\$1	\$23,814	\$26,151	\$29,420
\$2	38,701	40,397	44,742
\$3	39,413	39,279	31,911
\$5	251,434	245,211	249,561
\$10	309,356	270,601	256,280
\$20	172,170	126,748	105,857
\$30	158,519	104,352	94,655
Total	<u>\$993,407</u>	<u>\$852,739</u>	<u>\$812,426</u>

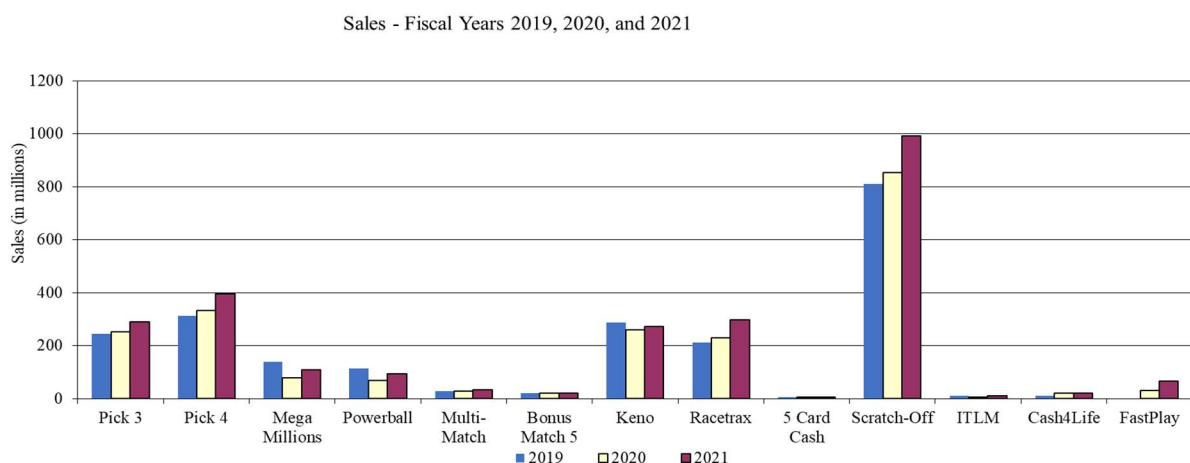
Scratch-off sales growth in 2021 and 2020 was fueled by the continued growth of the \$10, \$20 and \$30 tickets. Players gravitate towards higher price point tickets, as the payouts are more rewarding. Scratch-off sales growth has continued over the past several years due to improved inventory management, 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 past years. In addition, a strategic approach to invest more advertising on the scratch-off product category has been essential to the sales growth.

Instant ticket lottery machines (ITLM) 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 to display the results in an entertaining manner. 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 \$2.66 million or 33.83% in 2021 compared to 2020 which decreased by \$1.79 million or 18.51% compared to 2019. The decrease in 2020 was due to the COVID-19 pandemic and the veteran organizations being closed for three months of 2020. In 2021, the veteran organizations were open throughout the year although some had limited capacity for a portion of the year depending on the county.

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Sales (continued)

The following graph depicts sales for 2019, 2020 and 2021.



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 2021 totaled \$1.160 billion an increase of \$331.11 million or 39.93% compared to 2020 which totaled \$829.28 million, a decrease of \$295.93 million or 26.30% compared to 2019.

In 2020, the COVID-19 pandemic resulted in casinos being closed for three months. As of June 30, 2021, all casinos were open with no capacity reductions. Further, this change in closures and capacity is clearly reflected in the substantial increase from 2020 to 2021 of \$331.11 million. In 2021, the gross terminal revenue at all casinos increased by at least 37.00% compared to 2020. Table 5 shows the GTR for 2021, 2020, and 2019.

Table 5
Gross Terminal Revenue Statistics

Casino	Date Opened	Number of Machines as of June 30, 2021	2021 GTR (in millions)	2020 GTR (in millions)	2019 GTR (in millions)
Hollywood Casino Perryville	September 27, 2010	641	\$ 75.43	\$ 48.19	\$ 65.17
Casino at Ocean Downs	January 4, 2011	855	74.97	52.60	69.85
Live! Casino	June 6, 2012	3,249	432.65	315.80	411.80
Rocky Gap Casino and Resort	May 22, 2013	650	53.35	36.81	48.93
Horseshoe Casino Baltimore	August 24, 2014	1,341	137.39	96.43	144.63
MGM National Harbor	December 8, 2016	2,207	386.60	279.45	384.84
Total		8,943	\$ 1,160.39	\$ 829.28	\$ 1,125.22

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Gaming Revenue – Gross terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)

Gaming revenue – table games revenue (TGR) generated in 2021 increased by \$134.64 million or 29.87% compared to 2020 which decreased by \$184.50 million or 29.05% from 2019. Although none of the six casinos experienced any growth in table game revenue in 2020 compared to 2019 due to the COVID-19 pandemic closures of the casinos, five of the casinos increased in 2021 compared to 2020. However, for 2021, only three of the six casinos have surpassed the TGR generated in 2019.

All of the casinos except Horseshoe Casino experienced a substantial increase, 28% or more, in table game revenue in 2021 compared to 2020. Table game revenue at MGM National Harbor had the largest increase of \$74.17 million or 32.04% in 2021 compared to 2020 which decreased by \$95.14 million or 29.13% in 2020 compared to 2019. In 2019, MGM increased their number of table games from 180 to 205, which contributed to the increase in table game revenue. As of June 30, 2021, MGM had 200 table games.

Table game revenue at the Live! Casino increased by \$56.12 million or 41.97% in 2021 compared to 2020 which had decreased by \$43.87 million or 24.70% compared to 2019.

The pandemic casino closures led to the decrease in table game revenue in 2020. Table 6 shows the table game revenue statistics for each casino.

Table 6
Table Game Revenue (TGR) Statistics

Casino	Date Table Games Debuted	Number of Tables as of June 30, 2021	2021 GTR (in millions)	2020 GTR (in millions)	2019 GTR (in millions)
Hollywood Casino Perryville	March 6, 2013	16	\$ 11.06	\$ 7.62	\$ 9.59
Casino at Ocean Downs	December 29, 2017	18	9.36	6.50	8.57
Live! Casino	April 11, 2013	188	189.85	133.73	177.60
Rocky Gap Casino and Resort	May 22, 2013	16	7.19	5.58	7.18
Horseshoe Casino Baltimore	August 24, 2014	137	62.23	65.79	105.64
MGM National Harbor	December 8, 2016	200	305.64	231.47	326.61
Total		575	\$ 585.33	\$ 450.69	\$ 635.19

For the gaming operations, the gross terminal revenue and table game revenue (gaming revenue) is required to be transferred to specified Government agencies to be used for certain purposes or is retained by the casinos and the Agency to assist in covering the costs of the operations. Changes in the distribution of gaming proceeds occurred in 2021 and 2019. Effective for fiscal year 2019, the proceeds that were previously allocated to the General Fund were redirected to the Maryland Education Trust Fund. Effective for fiscal year 2021, there is an allocation of GTR to the Small, Minority and Woman-Owned Business (SMWOB). This allocation change to the SMWOB impacted the increase comparison between 2021 and 2020. In 2021, there was an increase to SMWOB of \$16.98 million or 61,636% compared to 2020.

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

Gaming Revenue – Gross terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)

Overall, the gaming revenue disbursements increased \$465.75 million or 36.39% in 2021 compared to 2020 which had decreased \$480.43 million or 27.79% compared to 2019. Table 7 shows the game revenue disbursements/allocations for 2021, 2020 and 2019.

Table 7
Gaming Revenue Disbursements/Allocations

Fund	2021 Disbursements (in millions)	2020 Disbursements (in millions)	2019 Disbursements (in millions)
Casino Operators	\$ 1,014.73	\$ 750.85	\$ 1,036.97
Maryland Education Trust Fund	531.40	396.82	542.70
Horse Racing	78.83	56.44	76.63
Local Impact Grants	62.89	45.01	61.08
Local Jurisdictions	29.27	22.53	31.76
Small, Minority and Women-Owned Businesses	17.01	0.03	0.03
Maryland Lottery and Gaming	11.60	8.28	11.24
Total	\$ 1,745.73	\$ 1,279.96	\$ 1,760.41

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 decreased by \$1.52 million or 23.49% in 2021 compared to 2020 which decreased by \$254,000 or 3.79% in 2020 compared to 2019. In addition to the state grant, the Agency receives 1% of the gross gaming revenue from the VLTs to help fund its gaming operations. Over the years, as the gaming revenue from VLTs increase, the amount of the state grant decreases leading to a self-sustaining program. In 2021, the amount of VLT revenue received by the Agency increased by \$3.32 million or 40.10% compared to 2020 which decreased by \$2.96 million or 26.33% compared to 2019. The increase in 2021 is due to overall increases in the VLT gaming revenue due to the casinos operating at full capacity and the decrease in 2020 is partially due to the COVID-19 pandemic whereas the casinos were closed for 3 months and subsequently at partial capacity.

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 \$65,000 or 4.40% in 2021 compared to 2020 which had decreased by \$585,000 or 28.47% compared to 2019. This account fluctuates based on the number of license applications received.

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Management's Discussion and Analysis
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Gaming Revenue – Gross terminal Revenue, Table Games, State Grant, Facility Applicants, Machine Assessments and ITLM Lease Revenue (continued)

Gaming revenue - machine assessments represents assessments made to casino operators based on the maximum number of VLTs and table games on the floor during 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 Maryland Department of Health's Problem Gambling Fund. Machine assessments increased by \$353,000 or 9.34% in 2021 compared to 2020 which had decreased by \$1.52 million or 28.64% compared to 2019. Assessments fluctuate based on the number of VLTs and table games that are on the casino floor during the year. Due to the COVID-19 pandemic and the closure of the casinos for three months and only partial reopening in June, the assessment was prorated based on the number of days open and their capacity attributing to the decrease in 2020.

Gaming revenue – ITLM lease revenue increased by \$796,000 or 33.72% in 2021 compared to 2020 which had decreased by \$1.67 million or 41.38% in 2020 compared to 2019. The decrease that had occurred was due to the pandemic, the closure of the veteran organizations and a change in the lease fee percentage. ITLM lease revenue represents the amount collected from the veterans' organizations that is used to pay the machine fees to the ITLM vendor.

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 and gaming systems, and costs paid for the printing and delivery of scratch-off games. Cost of sales increased by \$594.16 million or 25.50% in 2021 compared to 2020 which decreased by \$276.54 million or 10.61% compared to 2019.

Commission paid to casino operators increased by \$263.88 million or 35.14% in 2021 compared to 2020 which decreased by \$286.11 million or 27.59% compared to 2019. The decrease in 2020 is due to the pandemic casino closures for three months. The increase in commissions paid in 2021 is the result of higher overall gaming revenue.

Commissions paid to lottery retailers increased by \$33.49 million or 20.45% in 2021 compared to 2020 which decreased by \$1.78 million or 1.07% compared to 2019. 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 2021 increased resulting in an increase in commission paid to retailers, sales decreased in 2020 resulting in a decrease in commission paid to retailers compared to 2019.

Prize expense increased by \$286.92 million or 20.96% in 2021 compared to 2020 which increased by \$11.56 million or 0.85% compared to 2019. There is a direct correlation between prize expense and sales. As such, the increase in 2021 was the result of an increase in sales.

Operating Expenses

Operating expenses decreased by \$1.53 million or 2.75% in 2021 compared to 2020 which increased by \$2.83 million or 5.37% compared to 2019.

Salaries, wages, and benefits decreased by \$351,000 or 1.25% in 2021 compared to 2020 which increased by \$1.45 million or 5.42% compared to 2019. Advertising and promotions increased by \$1.65 million or 8.97% in 2021 compared to 2020 which increased by \$297,000 million or 1.64% compared to 2019. Fluctuations between advertising expenses are related to changes in the advertising budget and encumbrances.

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

Operating Expenses (continued)

Depreciation and amortization remained relatively consistent decreasing by \$8,000 or 0.30% in 2021 compared to 2020 which increased by \$513,000 or 25.87% in 2020 compared to 2019. The increase in both 2020 and is related to amortization of the right-of-use assets.

Other general and administrative expenses decreased by \$2.82 million or 43.58% in 2021 compared to 2020 which increased by \$575,000 or 9.75% compared to 2019. Fluctuations are related to a decrease in pension expense.

Non-operating Revenue (Expenses)

Non-operating expenses increased by \$286.88 million or 25.88% in 2021 compared to 2020 which decreased by \$204.26 million or 15.56% compared to 2019. 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 in Note 3.

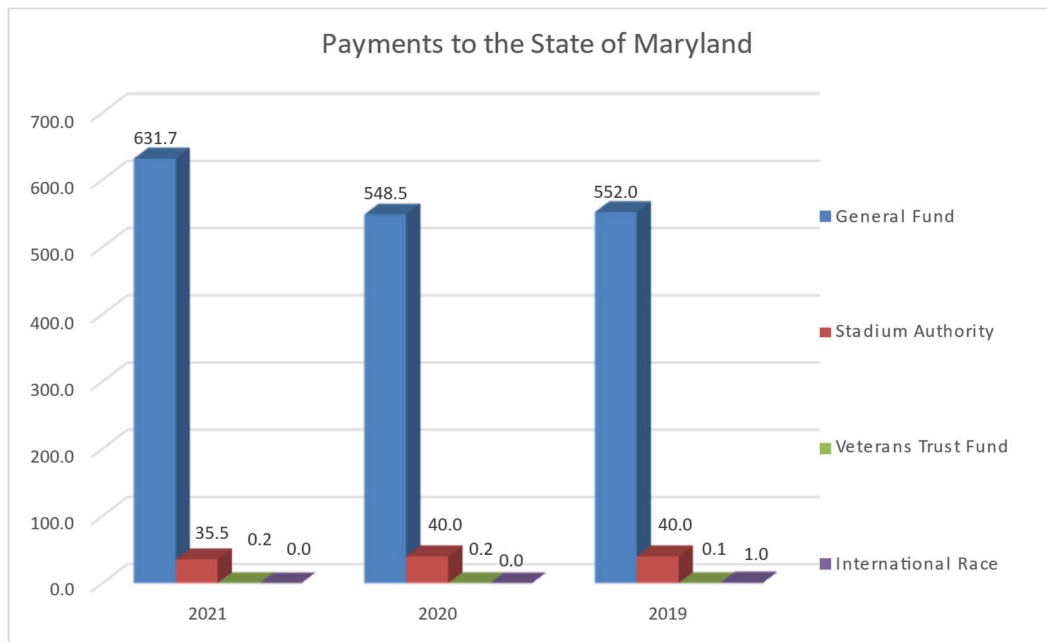
The increase in 2021 is attributed to both the increase of payments to the State of Maryland General Fund and Other Governmental Funds/Agencies - Gaming. Payments to the State of Maryland increased by \$83.21 million or 15.17% compared to 2020 which decreased by \$3.86 million or 0.70% compared to 2019. As previously mentioned, this increase in 2021 is related to more sales, whereas the decrease in 2020 was a result of less sales compared to 2019. Payments to Other Governmental Funds/Agencies - Gaming increased by \$201.59 million or 38.50% compared to 2020 which had decreased by \$197.02 million or 27.34% compared to 2019. The increase in 2021 is directly related to the casinos being operational for the entire year. The decrease in 2020 is directly related to the pandemic closures of the casinos for three months. Table 7 on page 17 provides a breakdown of the various accounts.

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 the International Race Fund for 2019) 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.

Maryland Lottery and Gaming Control Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2021 and 2020

Non-operating Revenue (Expenses) – (continued)

Table 8
Payments to the State of Maryland
(in millions)



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: Paula Yocum, Chief Financial Officer, Maryland Lottery and Gaming Control Agency, 1800 Washington Boulevard, Suite 330, Baltimore, Maryland 21230.

Maryland Lottery and Gaming Control Agency
Statements of Net Position
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 6,957,549	\$ 7,469,415
Cash and cash equivalents - gaming	40,764	40,759
Cash and cash equivalents - gaming licensing deposits	2,344,920	1,950,459
Cash and cash equivalents - agent	156,637	236,425
Cash held with State Treasury	131,357,190	186,668,499
Accounts receivable - lottery	53,955,893	51,989,243
Accounts receivable - casino operators	6,455,789	5,645,812
Accounts receivable - vendor	-	5,006,208
Accounts receivable - Maryland Department of Health	95,651	95,651
Prepaid commissions	64,222	81,095
Current portion of investments for annuity payments	5,459,897	3,918,311
Total current assets	<u>206,888,512</u>	<u>263,101,877</u>
Non-current assets:		
Right-of-use assets, net of accumulated amortization	7,030,594	9,517,601
Investments for annuity payments, net of current portion	33,659,788	33,133,903
Total non-current assets	<u>40,690,382</u>	<u>42,651,504</u>
Total assets	<u>247,578,894</u>	<u>305,753,381</u>
Deferred Outflows of Resources:		
Deferred pension outflows	11,529,030	12,640,318
Total deferred outflows of resources	<u>11,529,030</u>	<u>12,640,318</u>
Total assets and deferred outflows of resources	<u>\$ 259,107,924</u>	<u>\$ 318,393,699</u>
Liabilities:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 5,364,630	\$ 3,836,212
Current portion of employee related payables	1,743,302	1,695,953
Current portion of lease liability	2,822,801	2,772,117
Transfer due to State of Maryland General Fund	39,230,145	156,936,603
Transfer due to other government agencies - gaming	62,845,153	15,206,553
Transfer due to local jurisdictions	8,524,387	1,832,264
Prize awards payable	70,150,045	68,420,461
Accounts payable and accrued expenses	7,475,353	5,366,260
Gaming licensing deposits	2,109,323	1,897,003
Gaming payable	40,764	40,759
Agent payable	134,637	236,425
Unearned revenue	1,951,905	2,244,356
Taxes and other liabilities	2,417,227	3,260,241
Total current liabilities	<u>204,809,672</u>	<u>263,745,207</u>
Non-current liabilities:		
Annuity prizes payable, net of current portion	31,158,574	27,878,499
Employee related payables, net of current portion	2,057,293	1,596,778
Lease liability, net of current portion	4,278,604	6,850,704
Pension liability	33,399,589	30,536,823
Total non-current liabilities	<u>70,894,060</u>	<u>66,862,804</u>
Total liabilities	<u>275,703,732</u>	<u>330,608,011</u>
Deferred Inflows of Resources:		
Deferred pension inflows	3,538,954	4,767,762
Total deferred inflows of resources	<u>3,538,954</u>	<u>4,767,762</u>
Total liabilities and deferred inflows of resources	<u>279,242,686</u>	<u>335,375,773</u>
Commitments and contingencies (Note 8)		
Net Position:		
Net investment in capital assets	-	-
Restricted	-	-
Unrestricted	(20,134,762)	(16,982,074)
Total net position	<u>(20,134,762)</u>	<u>(16,982,074)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 259,107,924</u>	<u>\$ 318,393,699</u>

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
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue:		
Draw Games	\$ 1,607,217,524	\$ 1,329,164,274
Instant Games	993,407,426	852,739,383
ITLMs	10,525,120	7,864,356
Total Sales	<u>2,611,150,070</u>	<u>2,189,768,013</u>
 Gaming revenue - gross terminal revenue	1,160,392,613	829,280,731
Gaming revenue - state grant	4,943,387	6,461,424
Gaming revenue - table games	585,329,183	450,693,376
Gaming revenue - facility applicants	1,535,251	1,470,576
Gaming revenue - machine assessments	4,132,375	3,779,273
ITLM lease revenue	3,157,573	2,361,413
MDH revenue	-	95,651
Total revenue	<u>4,370,640,452</u>	<u>3,483,910,457</u>
 Cost of sales:		
Prize expense	1,655,957,335	1,369,035,515
Retailer commissions	197,223,468	163,733,149
Casino commissions	1,014,728,108	750,852,790
Gaming vendor and data processing fees	48,566,232	38,184,132
Instant ticket printing and delivery	7,929,358	8,437,031
Total cost of sales	<u>2,924,404,501</u>	<u>2,330,242,617</u>
 Gross profit	1,446,235,951	1,153,667,840
 Operating expenses:		
Salaries, wages and benefits	27,819,882	28,171,299
Advertising and promotions	20,056,834	18,405,264
Depreciation and amortization	2,487,007	2,494,573
Other general and administrative expenses	3,653,008	6,474,828
Total operating expenses	<u>54,016,731</u>	<u>55,545,964</u>
 Income from operations	1,392,219,220	1,098,121,876
 Non-operating revenues (expenses):		
Investment income (loss)	(1,496,473)	5,081,610
Amortization of discount for annuity prize liabilities	(1,244,548)	(1,381,982)
Voluntary exclusion program	123,890	123,142
Payments to State of Maryland General Fund	(631,718,854)	(548,511,871)
Payments to State of Maryland Stadium Authority and Veterans Trust	(35,720,934)	(40,156,301)
Payments to Other Governmental Funds/Agencies - Gaming	(725,314,989)	(523,647,257)
Total non-operating expenses	<u>(1,395,371,908)</u>	<u>(1,108,492,659)</u>
 Change in net position	(3,152,688)	(10,370,783)
 Total net position - beginning of year,	(16,982,074)	(6,611,291)
Total net position - end of year	<u>\$ (20,134,762)</u>	<u>\$ (16,982,074)</u>

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

Maryland Lottery and Gaming Control Agency
Statements of Cash Flows
For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from customers	\$ 4,372,577,582	\$ 3,489,515,251
Payments to suppliers	(75,222,678)	(67,212,288)
Payments to employees	(27,281,016)	(28,254,531)
Payments to agents	(1,211,983,583)	(914,613,475)
Prize payments/awards to players	(1,647,137,625)	(1,347,067,147)
	<hr/>	<hr/>
Net cash and cash equivalents provided by operating activities	1,410,952,680	1,132,367,810
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland General Fund and Stadium Authority	(784,759,282)	(534,208,051)
Transfers to DHMH	(3,903,148)	(5,415,117)
Transfers to Other Government Funds/Agencies-Gaming	(667,344,191)	(566,591,613)
Prize payments/awards	(4,369,196)	(5,402,929)
	<hr/>	<hr/>
Net cash and cash equivalents used in noncapital financing activities	(1,460,375,817)	(1,111,617,710)
Cash flows from investing activities:		
Coupon bonds purchased	(7,933,140)	(788,980)
Proceeds from matured annuities and bonds	4,369,196	5,402,929
	<hr/>	<hr/>
Net cash and cash equivalents provided by (used in) investing activities	(3,563,944)	4,613,949
Cash flows from financing activities:		
Payments on lease liabilities	(2,521,416)	(2,393,271)
	<hr/>	<hr/>
Net cash and cash equivalents used in financing activities	(2,521,416)	(2,393,271)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(55,508,497)	22,970,778
Cash and cash equivalents, beginning of year	196,365,557	173,394,779
Cash and cash equivalents, end of year	<u>\$ 140,857,060</u>	<u>\$ 196,365,557</u>
Noncash investing and financing activities:		
Acquisition of right-of-use assets through lease liability	\$ -	\$ 108,485
Change in fair value of investments	<u>\$ 2,741,021</u>	<u>\$ 3,699,628</u>

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

Maryland Lottery and Gaming Control Agency
Statements of Cash Flows - (continued)
For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 1,392,219,220	\$ 1,098,121,876
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,487,007	2,494,573
Loss on disposal of capital assets	-	104,340
Deferred prize payments	7,933,140	2,170,962
Deferred inflows pension	(1,228,808)	1,161,350
Deferred outflows pension	1,111,288	3,571,388
Effect of changes in operating assets and liabilities:		
Accounts receivable	2,229,581	5,164,844
Prepaid commissions	16,873	(27,537)
Accounts payable and accrued expenses	2,219,630	(583,152)
Employee related payables	507,864	(83,231)
Taxes and other liabilities	(843,014)	2,669,993
Prize awards payable	1,729,584	18,509,395
Pension liability	2,862,766	(1,496,471)
Unearned revenue	(292,451)	589,480
Net cash and cash equivalents provided by operating activities	<u>\$ 1,410,952,680</u>	<u>\$ 1,132,367,810</u>

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

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

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 (slot machines or 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, which 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 at the casinos. A gaming license to operate a casino at National Harbor in southern Prince George's County was awarded to MGM Resorts International on December 20, 2013. The casino opened in December 2016.

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 (ITLM). 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 to show the predetermined results in an entertaining animated display. The device scans and validates the barcode on the instant ticket as it is dispensed and displays the result of the ticket on the 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.

Pursuant to § 9-1A-01 of the Maryland State Government Article, under certain circumstances, if a casino returns to successful players more than the amount of money bet through slot machines or table games on a given day, the casino may subtract that amount from the proceeds of the following 7 days for purposes of the calculation of the amount of revenue due to the Agency.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Legislative Enactment – (continued)

Pursuant to § 9-1A-26 of the Maryland State Government Article, the jackpot proceeds won at a video lottery terminal that are not claimed by the winner within 182 days after the jackpot is won shall become the property of the State. The proceeds shall be allocated as follows: 2.5% to the Small, Minority, and Women-Owned Business Account, 9.5% to Local Impact Grants, 10% to Purse Dedication, 1.5% to the Racetrack Facility Renewal Account and the remainder to the Education Trust Fund. In March 2020, the State of Maryland's Governor issued an Executive Order which extended the unclaimed prize deadline from 182 days until 30 days after the State of the Emergency due to COVID-19 was lifted. The grace period for tickets that reached their expiration dates during the COVID-19 pandemic expired on June 30, 2021. The unclaimed prize deadline has returned to 182 days.

Pursuant to § 9-1A-27(d) of the Maryland State Government Article, the proceeds of table games include a 5% allocation to Local Jurisdictions. The casino share of the proceeds is 80%, and the Maryland Education Trust Fund is allocated the remaining amount.

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.

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 an annual comprehensive financial report (ACFR). The Agency is an enterprise fund of the State of Maryland and is included in the basic financial statements of the ACFR of the State of Maryland.

Effective May 18, 2021, legislation was passed that establishes and implements sports wagering in the State and provides for regulation of sports wagering and fantasy gaming competitions (Note 14). The Agency must generally regulate sports wagering and the conduct of sports wagering to the same extent that it regulates the operation of VLT's and table games in the State. Certain revenues are to be distributed to the Blueprint for Maryland's Future Fund (BMFF), the Problem Gambling Fund, and a new Small, Minority-Owned, and Women-Owned Business Sports Wagering Assistance (SMWOBSWA) Fund.

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.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Recently Adopted Accounting Pronouncement

In June 2017, the GASB issued Statement No. 87 (GASB 87), *Leases*, which is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows from resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be amortized, and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. The Agency implemented GASB 87 during the year ended June 30, 2020.

The Agency implemented GASB Statement No. 95 (GASB No 95), *Postponement of the Effective Dates of Certain Authoritative Guidance* and GASB Statement No. 98 (GASB No 98), *The Annual Comprehensive Financial Report*, for the fiscal year ended June 30, 2021 with no effect to the Agency.

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, scratch-off 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 scratch-off lottery sales. Veterans' organizations are the only distribution channel for ITLMs. Retailers receive a sales commission of 5.5% of net sales. Cashing commissions of 3% on draw and scratch-off games and of 1.7679% on ITLM games are paid. 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: Jackpot Games (Mega Millions, Powerball, Multi-Match and Cash4Life), Daily Draw Games (Pick 3, Pick 4, Bonus Match 5 and 5 Card Cash), Monitor Games (Keno, Keno Bonus, Keno Superbonus, Racetrax®, and Racetrax® Bonus) and FAST PLAY. Draw revenue is recognized in the month in which the related drawings are held. Revenue from the sale of tickets and commissions paid for future drawings are deferred until the drawings are held. Revenue from scratch-off games is recognized when the retailer activates the book of tickets. Revenue from the sale of FAST PLAY is recognized in the month in which the ticket is sold. 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.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Lottery Games – Revenue Recognition and Prize Obligations – (continued)

Prize obligations for draw games are determined and recognized after each drawing is held. For draw games, winners are paid a certain amount that may depend 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, Powerball and Cash4Life prize levels are based on a predetermined set amount. Prize obligations are recognized monthly for scratch-off 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 2021, six casinos were in operation with a total of 8,943 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 VLTs 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. Commissions during fiscal years 2021 and 2020 ranged from 39% to 60%.

To help fund its operations, the Agency retains 1% of the gross terminal revenue from all of the casinos. 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 2021 there were 575 table games in operation at 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 game revenue to operate their casino. The remaining 20% is remitted to the Agency who in turn transfers it to the Maryland Education Trust Fund and Local Jurisdictions in accordance with the enabling legislation. 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's budget provided for grants to the Agency during fiscal years 2021 and 2020 in the amount of \$6,729,048 and \$6,956,016, respectively. During the years ended June 30, 2021 and 2020, the Agency received \$4,943,387 and \$6,461,424, respectively.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Gaming Operations (VLTs and Table Games) – Revenue Recognition and Prize Obligations – (continued)

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 gaming program are for salaries.

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 VLTs 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.

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, the Agency 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.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 and ITLM amounts played. 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, 2021 and 2020, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

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 accounts receivable – casino operators are the amount due from the casino operators for the \$425 per VLT assessment and the \$500 per 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, 2021 and 2020.

Accounts Receivable – Vendor

Accounts receivable – vendor represents the amount due from a vendor providing technology and administrative support for certain lottery games and for compensation of prize expense loss provisions of excess prizes paid.

During the year ended June 30, 2020, the Agency identified an error in the application of one of its games by a vendor. This error in the application continued through September 2020 at which time it was resolved. As of June 30, 2021, and June 30, 2020, excess prize expense paid related to this error totaled \$0 and \$5,006,208, respectively. The vendor reimbursed the Agency for these payments in full during the year ended June 30, 2021.

Accounts Receivable – Maryland Department of Health

Accounts receivable – Maryland Department of Health represents the amounts due from COVID-19 premium pay that is reimbursable from the Maryland Department of Health. Management believes that all accounts receivable are collectible, and as such, no allowance for doubtful accounts has been recorded.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Capital and Right-of-Use Assets

The Agency has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000 and right-of-use assets held under lease liabilities as defined in GASB 87. These assets include leased facilities and purchased and leased equipment comprised principally of technological property and equipment necessary to administer lottery games and VLTs. The purchased assets are recorded at cost and depreciation is computed using the straight-line method over three to five-year useful lives. The leased assets are recorded at the present value of the leased liability and amortized using a systematic and rational manner over the shorter of the lease term or useful life of the underlying 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 600 hours; however, the State is only liable for payment up to 500 hours. 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 State of Maryland law requires the Agency to transfer its lottery revenue in excess of funds allocated to prize awards, operating expenses, the Maryland Veterans Trust Fund, the Maryland Stadium Authority and, beginning in fiscal year 2021, the Busch Sports Fund to the State of Maryland General Fund. A portion of income from operations of the Mega Millions game is transferred to the Maryland Stadium Authority up to an annual cap set by the authorized appropriation. These payments are recorded as a non-operating expense in the accompanying statements of revenues, expenses, and changes in net position.

The law further requires the 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 and the State's Racing Commission into accounts for Local Impact Grants, Purse Dedication, Racetracks Facility Renewal and Local Jurisdictions. All transfers are recorded as non-operating expenses in the accompanying statements of revenues, expenses and changes in net position.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Payments to the State of Maryland – (continued)

A summary of the total game revenue and the distributions for the years ended June 30, 2021 and 2020, respectively, follows:

Fund	2021	2020
Maryland Education Trust Fund	\$ 531,402,965	\$ 396,821,709
Horse Purse Dedication	67,756,243	48,513,957
Local Impact Grants	62,887,937	45,011,034
Local Jurisdiction	29,266,459	22,534,669
Maryland Lottery and Gaming Control Agency	11,603,926	8,281,788
Racetrax Facility Renewal	11,070,408	7,930,614
Small, Minority, Women-Owned Business	17,005,751	27,546
Casino Operators	1,014,728,108	750,852,790
Total	<u>\$ 1,745,721,797</u>	<u>\$ 1,279,974,107</u>

Net Position

Net position is presented as either restricted, unrestricted or invested in capital assets. Net position invested in capital assets, represents the difference between capital assets net of accumulated depreciation and the related capital lease obligations. In accordance with GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, there is a prohibition against reporting negative restricted fund balances. If a restricted fund balance in total is negative, then the negative amount can only be attributed to the unrestricted fund balance classification. 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.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

New Accounting Pronouncements

GASB also issued GASB Statement No. 92 (GASB No 92), *Omnibus 2020*, GASB Statement No. 93 (GASB No 93), *Replacement of Interbank Offered Rates* and GASB Statement No. 97 (GASB No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, for reporting periods beginning after June 15, 2021, GASB Statement No. 89 (GASB No 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*, for reporting periods beginning after December 15, 2020, GASB Statement No. 91 (GASB No 91), *Conduit Debt Obligations*, for reporting periods beginning after December 15, 2021, GASB Statement No. 94 (GASB No 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB Statement No. 96 (GASB No. 96), *Subscription-Based Information Technology Arrangements*, for reporting periods beginning after June 15, 2022. The Agency is in the process of assessing the impact of these statements and will implement them as of the effective dates, if appropriate.

2. CASH AND CASH EQUIVALENTS

As of June 30, 2021 and June 30, 2020, the carrying amounts of deposits with financial institutions were \$9,499,870 and \$9,697,058, respectively. The corresponding bank balances were \$9,421,699 and \$5,367,520 as of June 30, 2021 and June 30, 2020, respectively.

As of June 30, 2021 and June 30, 2020, the carrying amounts of cash on deposit with the Maryland State Treasury were \$131,357,190 and \$186,668,499, respectively. The corresponding Maryland State Treasury balances were \$31,368,851 and \$16,847,027, as of June 30, 2021 and June 30, 2020, 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, 2021 and 2020, the Agency's deposits with the State Treasury were 2.0% and 3.4% of the total deposits with the State Treasury, respectively.

The amount of deposits are subject to certain risks including the following:

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

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

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

2. CASH AND CASH EQUIVALENTS – (continued)

Concentration of credit risk – The State Treasury’s investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. As of June 30, 2021 and 2020, more than 5% of government fund investments are in the FNMA and the Federal Home Loan Mortgage Corporation. As of June 30, 2021, these investments are 21.04% and 9.24% of the State of Maryland's internal investment pool total investments, respectively. As of June 30, 2020, these investments are 15.63% and 5.65% 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 0.017% to 6.458%. As of June 30, 2021, and June 30, 2020, the Agency’s United States Government Treasury Bonds totaled \$39,077,557 and \$37,006,852, 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.

Annuity Contracts

As of June 30, 2021 and June 30, 2020, the annuity contracts totaled \$42,128 and \$45,362, 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 their 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 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.

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

3. INVESTMENTS – (continued)

United States Government Treasury Bonds and Annuity Contracts

As of June 30, 2021, 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
<u>Investments in prize annuities:</u>								
United States Treasury Bonds	\$39,077,557	1	99.9%	\$5,454,795	\$14,344,140	\$9,707,193	\$6,084,470	\$ 3,486,959
Annuity Contracts	42,128	2	.1%	5,102	23,578	13,448	-	-
Total Investments	\$39,119,685		100.0%	\$5,459,897	\$14,367,718	\$9,720,641	\$6,084,470	\$ 3,486,959

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, 2020, 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
<u>Investments in prize annuities:</u>								
United States Treasury Bonds	\$37,006,852	1	99.9%	\$3,913,205	\$14,530,075	\$10,006,096	\$7,965,215	\$ 592,261
Annuity Contracts	45,362	2	.1%	5,106	23,418	16,838	-	-
Total Investments	\$37,052,214		100.0%	\$3,918,311	\$14,553,493	\$10,022,934	\$7,965,215	\$ 592,261

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.

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.

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

3. INVESTMENTS – (continued)

United States Government Treasury Bonds and Annuity Contracts – (continued)

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
<u>Investments by fair value level</u>				
U.S. treasury obligations	\$ 39,077,557	\$ -	\$ -	\$ 39,077,557
Annuities	-	42,128	-	42,128
Total	\$ 39,077,557	\$ 42,128	\$ -	\$ 39,119,685

The following table sets forth by level, within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
<u>Investments by fair value level</u>				
U.S. treasury obligations	\$ 37,006,852	\$ -	\$ -	\$ 37,006,852
Annuities	-	45,362	-	45,362
Total	\$ 37,006,852	\$ 45,362	\$ -	\$ 37,052,214

4. CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2021 is as follows:

	2020	Increases	Decreases	2021
Capital Assets				
Machinery and Equipment	\$ 1,611,341	\$ -	\$ -	\$ 1,611,341
Leasehold Improvements	613,240	-	-	613,240
Total Capital Assets	2,224,581	-	-	2,224,581
Less Accumulated Depreciation And Amortization				
Machinery and Equipment	1,611,341	-	-	1,611,341
Leasehold Improvements	613,240	-	-	613,240
Total Accumulated Depreciation And Amortization	2,224,581	-	-	2,224,581
Capital Assets, net	\$ -	\$ -	\$ -	\$ -

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

4. CAPITAL ASSETS – (continued)

A summary of capital asset activity for the year ended June 30, 2020 is as follows:

	2019	Increases	Decreases	2020
Capital Assets				
Machinery and Equipment	\$ 8,536,192	\$ -	\$ 6,924,851	\$ 1,611,341
Leasehold Improvements	613,240	-	-	613,240
Total Capital Assets	9,149,432	-	6,924,851	2,224,581
Less: Accumulated Depreciation And Amortization				
Machinery and Equipment	8,344,902	86,950	6,820,511	1,611,341
Leasehold Improvements	613,240	-	-	613,240
Total Accumulated Depreciation And Amortization	8,958,142	86,950	6,820,511	2,224,581
Capital Assets, net	\$ 191,290	\$ (86,950)	\$ 104,340	\$ -

5. RIGHT-OF-USE ASSETS

A summary of right-of-use asset activity for the year ended June 30, 2021 is as follows:

	2020	Increases	Decreases	2021
Right-of-Use Assets				
Machinery and Equipment	\$ 8,250,829	\$ -	\$ -	\$ 8,250,829
Office and Warehouse Space	6,471,988	-	-	6,471,988
Total Right-of-Use Assets	14,722,817	-	-	14,722,817
Less: Accumulated Amortization				
Machinery and Equipment	1,884,012	1,286,332	-	3,170,344
Office and Warehouse Space	3,321,204	1,200,675	-	4,521,879
Total Accumulated Amortization	5,205,216	2,487,007	-	7,692,223
Right-of-Use Assets, net	\$ 9,517,601	\$ (2,487,007)	\$ -	\$ 7,030,594

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

5. RIGHT-OF-USE ASSETS – (continued)

A summary of right-of-use asset activity for the year ended June 30, 2020 is as follows:

	2019	Increases	Decreases	2020
Right-of-Use Assets				
Machinery and Equipment	\$ 8,142,344	\$ 108,485	\$ -	\$ 8,250,829
Office and Warehouse Space	6,471,988	-	-	6,471,988
Total Right-of-Use Assets	14,614,332	108,485	-	14,722,817
Less: Accumulated Amortization				
Machinery and Equipment	641,396	1,242,616	-	1,884,012
Office and Warehouse Space	2,156,197	1,165,007	-	3,321,204
Total Accumulated Amortization	2,797,593	2,407,623	-	5,205,216
Right-of-Use Assets, net	\$ 11,816,739	\$ (2,299,138)	\$ -	\$ 9,517,601

6. 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:

Fiscal Year	Principal	Interest	Total
2022	\$ 5,364,630	\$ 96,566	\$ 5,461,196
2023	3,940,762	244,434	4,185,196
2024	3,053,013	280,183	3,333,196
2025	3,048,650	417,546	3,466,196
2026	3,066,617	559,579	3,626,196
2027-2031	8,868,207	1,863,010	10,731,217
2032-2036	5,816,792	1,813,208	7,630,000
2037-2041	3,090,230	1,420,770	4,511,000
2042-2044	274,303	183,697	458,000
Total	\$ 36,523,204	\$ 6,878,993	\$ 43,402,197

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, 2021 and 2020 was as follows:

Fiscal Year	Beginning			Ending	Due Within
Ending	Balance	Additions	Reductions	Balance	One Year
June 30, 2021	\$31,714,711	\$ 9,177,689	\$ 4,369,196	\$36,523,204	\$5,364,630
June 30, 2020	\$34,946,677	\$ 2,170,962	\$ 5,402,928	\$31,714,711	\$3,836,212

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

7. EMPLOYEE RELATED PAYABLES

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 \$655,252 and \$596,353 and as of June 30, 2021 and 2020, respectively. Changes in long-term employee related payables were as follows for the year ended June 30, 2021 and 2020:

	2021		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 2,032,378	\$ 664,000	\$ 2,696,378
Additions	1,207,930	53,671	1,261,601
Reductions	(681,965)	(130,671)	(812,636)
Ending Balance	\$ 2,558,343	\$ 587,000	\$ 3,145,343
Amount Due Within One Year	\$ 1,000,000	\$ 88,050	\$ 1,088,050
Non-Current Position	1,558,343	498,950	2,057,293
	\$ 2,558,343	\$ 587,000	\$ 3,145,343

	2020		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 1,892,042	\$ 589,000	\$ 2,481,042
Additions	965,840	186,923	1,152,763
Reductions	(825,504)	(111,923)	(937,427)
Ending Balance	\$ 2,032,378	\$ 664,000	\$ 2,696,378
Amount Due Within One Year	\$ 1,000,000	\$ 99,600	\$ 1,099,600
Non-Current Position	1,032,378	564,400	1,596,778
	\$ 2,032,378	\$ 664,000	\$ 2,696,378

8. COMMITMENTS AND CONTINGENCIES

Leases

The Agency leases office space, warehouse facilities, and draw and scratch-off product equipment over periods extending through April 2025.

During the month ended November 30, 2019, the Agency implemented GASB 87, *Leases*, which requires both capital and operating leases to be reported on the balance sheet as a depreciable right-of-use asset and a liability to make lease payments. The lease liability, which is equal to the present value of future lease obligations, was determined using the incremental borrowing rate of 3.00% based on the information available at implementation date. The associated right-of-use asset is valued at an amount equal to the lease liability, less any adjustments as defined in GASB 87.

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

8. COMMITMENTS AND CONTINGENCIES – (continued)

Leases – (continued)

The Lottery also considered any lease terms that included options to extend or terminate the lease when valuing the right-of-use asset, noting none. The lease agreements do not contain any residual value guarantees or restrictive covenants. There were no lease incentives received at the start of the lease. Reductions to the right-of-use asset were recorded at the implementation date to account for variable payment terms in the leases.

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

2022	\$	2,822,801
2023		2,127,682
2024		1,418,340
2025		1,063,755
Total future minimum lease payments		7,432,578
Less: discount to present value		(331,173)
Lease liability, net		\$ 7,101,405

Litigation

The Agency is involved in various litigation arising in the ordinary course of business. The Agency believes that the ultimate resolution of these matters will not have a material adverse effect on its net position.

9. PARTICIPATION IN THE MULTI-STATE GAMES

Mega Millions and Powerball

The Agency is a member of the Mega Millions consortium and a Licensee Lottery of MUSL, the organization that operates Powerball. These groups are comprised of lottery directors from member party jurisdictions. The jackpot prize pools are shared on a percent of sales basis. Game accounting is conducted after each drawing. Settlements between members occur after each jackpot win. There are currently 48 lotteries that participate in Powerball and 47 that participate in Mega Millions.

Cash4Life

The Agency is a member of the multi-jurisdictional Cash4Life. Cash4Life is a lottery game conducted as a cooperative venture by ten lotteries. The jackpot prize pools are shared on a percent of sales basis. Game accounting is conducted after each daily drawing. Settlements between members occur after each jackpot win.

10. 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 ACFR, which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or located at <https://sra.maryland.gov/comprehensive-annual-financial-reports>.

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 employee's hired on or after July 1, 2011. Those differences are explained below.

Members of the Pension Plan who were active participants prior to July 1, 2011 are generally eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member equals 1/55 (1.8%) of the member's AFS, multiplied by the number of years of creditable service. A member may retire with reduced benefits upon attaining age 55 with at least 15 years of eligible service. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

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

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

10. RETIREMENT BENEFITS – (continued)

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, 2021 and 2020 are as follows:

	2021	2020
Agency contribution	\$ 3,489,405	\$ 3,237,248
Percentage of payroll	19.67%	18.62%

GASB No. 68 – Pension Disclosures

The Agency accounts for the pension in accordance with 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 and to measure the annual cost of pension benefits.

On June 30, 2021 and 2020, the Agency's proportion of the State of Maryland's net pension liability of \$21,092,525,011 and \$19,285,250,561, respectively (State pool only) was \$33,399,589 and \$30,536,823 or 0.158% of the total State's pension liability.

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

10. RETIREMENT BENEFITS – (continued)

GASB No. 68 – Pension Disclosures – (continued)

The Agency reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources for the year ended June 30, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning Balance	\$ 12,640,318	\$ 4,767,762
Agency's contributions during the year	(3,237,248)	-
Amortization of prior year deferred outflows and inflows	(3,823,270)	(1,282,754)
Net difference between projected and actual earnings on pension plan investments	2,459,825	-
Net difference between projected and actual experience	-	53,946
Agency's contributions subsequent to the measurement date	3,489,405	-
Ending Balance	<u>\$ 11,529,030</u>	<u>\$ 3,538,954</u>

The Agency's contributions of \$3,489,405 reported as 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, 2022.

Maryland Lottery and Gaming Control Agency
Notes to the Financial Statements
For the Years Ended June 30, 2021 and 2020

10. RETIREMENT BENEFITS – (continued)

GASB No. 68 – Pension Disclosures – (continued)

The Agency reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources for the year ended June 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning Balance	\$ 16,211,706	\$ 3,606,412
Agency's contributions during the year	(3,053,641)	-
Amortization of prior year deferred outflows and inflows	(4,382,793)	(924,969)
Net difference between projected and actual earnings on pension plan investments	627,798	-
Change of assumptions	-	831,072
Change of proportionate share of contributions	-	948,320
Net difference between projected and actual experience	-	306,927
Agency's contributions subsequent to the measurement date	3,237,248	-
Ending Balance	<u>\$ 12,640,318</u>	<u>\$ 4,767,762</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:

<u>Year End June 30,</u>	
2022	\$ 1,885,900
2023	1,191,293
2024	1,067,504
2025	585,339
2026	482,165
2027	(4,946)
<u>Total</u>	<u>\$ 5,207,254</u>

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

10. RETIREMENT BENEFITS – (continued)

GASB No. 68 – Pension Disclosures – (continued)

Assumptions and Other Inputs:

Valuation method.....	Individual Entry Age Normal Cost Method
Amortization method.....	Level Percentage of Payroll, Closed
Salary increases.....	3.10% to 11.60% including inflation
Inflation.....	2.60% general, 3.10% wage
Investment rate of return.....	7.40%
Discount rate.....	7.40%
Retirement age.....	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2014-2018.
Mortality.....	Public Sector Mortality Tables with generational mortality projections using scale MP-2018 (2-dimensional) mortality improvement scale.

Discount Rate

A single discount rate of 7.40% 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 7.40%. 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.

11. OTHER POSTEMPLOYMENT BENEFITS

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

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

11. OTHER POSTEMPLOYMENT BENEFITS – (continued)

State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll.

The Postretirement Health Benefits Trust Fund (OPEB Trust) is established as an irrevocable trust under Section 34-101 of the State Personnel and Pensions Article to receive appropriated funds and contributions which will be used to assist the Plan in financing the State's postretirement health insurance subsidy. The oversight of the OPEB funds is the same Board of Trustees that oversees the Maryland State Retirement and Pension Systems. The Board of Trustees consists of 15 members. The Maryland State Retirement and Pension Systems prepares separately audited financial statements for the OPEB Trust Fund. The report may be obtained from the Office of the Comptroller, Attention: Plan Administrator, P.O. Box 746, Annapolis, Maryland 21404.

Plan Description

Agency employees are members of the Plan. Generally, a retiree may enroll and participate in the health benefits option if the retiree retired directly from State service with at least five years of credible service, ended State service with at least ten years of credible service and within five years before the age at which a vested retirement allowance would normally begin, or ended State service with at least 16 years of credible service. For members hired on or after July 1, 2011, they are required to have completed at least 25 years of credible service, retired directly from State service with at least ten years of credible service or ended State service with at least ten years of credible service and within five years before the age at which a vested retirement allowance would normally begin.

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 Plan assesses a charge to retirees for postemployment health care benefits, which is based on health care insurance charges for active 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, 2021 and June 30, 2020, the Agency's contributions were \$1,339,576 and \$1,654,780, respectively.

12. 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 7.

Maryland Lottery and Gaming Control Agency

Notes to the Financial Statements

For the Years Ended June 30, 2021 and 2020

12. RISK MANAGEMENT – (continued)

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 may 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 may not exceed 95%. For table games, an overall loss for a day is spread over a maximum of seven days. Any excess losses not recovered over the 7-day period is absorbed by the Casino and do not impact the Agency.

13. COVID-19

The COVID-19 outbreak in the United States resulted in the state government mandated temporary closure of the casinos, bars, and restaurants, and the veteran organizations in the State of Maryland. These closures negatively impacted the revenues associated with the casinos, the ITLM program and the traditional lottery products.

During June 2020, the State of Maryland allowed for limited openings of the casinos, bars and restaurants, and the veteran organizations. As of July 1, 2021, the State of Maryland lifted the remaining restrictions on the casinos, bars and restaurants and the veteran organizations.

14. SUBSEQUENT EVENTS

In May of 2021, Governor Hogan signed into law the Regulation of Fantasy Gaming Competitions and Implementation of the State's Sports Wagering law. Effective immediately, the Agency was responsible for the collection of tax revenue on all Fantasy Gaming operators in the state. Further, the Agency is responsible for the creation, implementation and maintenance of all regulations regarding Fantasy Gaming Competitions. Regulations have been drafted, but are not yet final.

On September 14, 2021, the Agency opened its eLicensing online application portal to the 17 entities that were named in the sports wagering law. As licensing criminal and financial background investigations are completed and the Agency approves each facility, the applications will be forwarded to the Sports Wagering Application Review Commission (SWARC), an entity established by the aforementioned law and operating independent of the Agency, which formally awards the licenses. In addition to the 17 named entities, the Sports Wagering law allows the SWARC to award licenses up to 30 additional locations and up to 60 mobile operators through a competitive process. MLGCA staff are also responsible for investigating and licensing the operator partners, contractors and employees who work with the state's sports wagering facilities.

REQUIRED SUPPLEMENTAL INFORMATION

Maryland Lottery and Gaming Control Agency
Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
For the Year Ended June 30, 2021

	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget over (under)
Revenues				
Cash revenue receipts from all sources	\$ 4,032,815,000	\$ 4,221,550,000	\$ 4,370,640,452	\$ 149,090,452
Expenditures and encumbrances				
Gaming vendor and information technology fees	39,764,141	48,230,344	48,566,232	\$ 335,888
Instant ticket printing and delivery	8,600,000	7,929,358	7,929,358	-
Salaries, wages, and benefits	28,031,420	28,710,099	27,819,882	(890,217)
Advertising and promotions	21,594,623	20,056,834	20,056,834	-
Other general and administrative expenses	5,366,896	6,027,797	3,653,008	(2,374,789)
Total expenditures and encumbrances	103,357,080	110,954,432	108,025,314	(2,929,118)
Excess of revenues over expenditures	3,929,457,920	4,110,595,568	4,262,615,138	152,019,570
Other uses of financial resources				
Transfers in (out)				
State of Maryland Stadium Authority and Veterans Trust	(35,338,000)	(35,339,000)	(35,720,934)	(381,934)
State of Maryland General Fund	(571,838,000)	(630,668,000)	(631,718,854)	(1,050,854)
Other government agencies/funds-VLT	(709,093,000)	(703,491,000)	(725,314,989)	(21,823,989)
Excess of revenues over expenditures and other sources of financial resources	<u>\$ 2,613,188,920</u>	<u>\$ 2,741,097,568</u>	<u>\$ 2,869,860,361</u>	<u>\$ 128,762,793</u>
Reconciliation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Change in net position	\$ (3,152,688)			
Non-budgetary expenditures:				
Prize expense	1,655,957,335			
Retailer and casino commissions	1,211,951,576			
Depreciation	2,487,007			
Decrease in fair value of investments	1,496,473			
Amortization of discount prize liabilities	1,244,548			
Voluntary exclusion program	(123,890)			
Excess of revenues over expenses	<u>\$ 2,869,860,361</u>			

Maryland Lottery and Gaming Control Agency
Notes to the Schedule of Revenues, Expenses, and
Changes in Net Position – Budget and Actual
For the Year Ended June 30, 2021

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.

Maryland Lottery and Gaming Control Agency
Schedule of Changes in Net Pension Liability
Contributions and Related Ratios*
For the Year Ended June 30, 2021

Schedule of Changes in Net Pension Liability (NPL)

	2021	2020	2019	2018	2017	2016	2015
Agency's proportion of the collective NPL	0.15%	0.15%	0.15%	0.13%	0.12%	0.11%	0.08%
Agency's proportionate share of the collective NPL	\$ 33,399,589	\$ 30,536,823	\$ 32,033,294	\$ 27,645,653	\$ 27,137,095	\$ 22,831,103	\$ 13,723,698
Agency's covered payroll	\$ 17,743,618	\$ 17,386,846	\$ 17,398,689	\$ 17,438,842	\$ 16,262,945	\$ 14,459,261	\$ 13,597,365
Proportionate share of the collective NPL as a percentage of covered payroll	188.23%	175.63%	184.11%	158.53%	166.86%	157.90%	100.93%
Plan fiduciary net position as a percentage of total pension liability	70.72%	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

Schedule of Contributions

	2021	2020	2019	2018 (as adjusted)	2017	2016	2015
Actuarially determined contributions	\$ 3,489,405	\$ 3,237,248	\$ 3,053,641	\$ 3,044,421	\$ 3,115,271	\$ 2,424,201	\$ 2,315,584
Contributions in relation to the actuarially determined contribution	3,489,405	3,237,248	3,053,641	3,044,421	3,115,271	2,424,201	2,315,584
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 17,743,618	\$ 17,386,846	\$ 17,398,689	\$ 17,438,842	\$ 16,262,945	\$ 14,459,261	\$ 13,597,365
Contributions as a percentage of covered-employee payroll	19.67%	18.62%	17.55%	17.46%	19.16%	16.77%	17.03%

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

Maryland Lottery and Gaming Control Agency
Schedule of Changes in Net Pension Liability
Contributions and Related Ratios*
For the Year Ended June 30, 2021

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.....	3.10% to 11.60%
Inflation.....	2.60% general, 3.10% wage
Investment rate of return.....	7.40%
Discount rate.....	7.40%
Retirement age.....	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2014-2018.
Mortality.....	Public Sector Mortality Tables with generational mortality projections using scale MP-2018.
Notes.....	There were no benefit changes during the year. Adjustments to the roll-forward liabilities were made to reflect the assumption changes associated with the 2018 Experience Study for the period July 1, 2014 to June 30, 2018.

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

Maryland Lottery and Gaming Control Agency
Schedule of Employer Contributions for
Other Postemployment Benefit Plan*
For the Year Ended June 30, 2021

Schedule of Contributions for Other Postemployment Benefit Plan
Year-Ending June 30,:

	2021	2020	2019	2018
Contribution	<u>\$ 1,339,576</u>	<u>\$ 1,654,780</u>	<u>\$ 1,408,400</u>	<u>\$ 1,140,228</u>
Covered Employee Payroll	\$ 17,743,618	\$ 17,386,846	\$ 17,398,689	\$ 17,438,842
Actual contributions as a percentage of covered employee payroll	7.55%	9.52%	8.09%	6.54%

Notes to Schedule

Valuation Date: Contractually determined contribution amounts are calculated as of June 30 of the prior year in which contributions are reported.

*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, 2021, 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 December 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Maryland Lottery and Gaming Control Agency's internal control over financial reporting (internal control) as a basis for designing 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.

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 financial statements. 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.

SC+H Affect Services, P.C.

December 22, 2021