



2021 ANNUAL REPORT

Winners happen!



**MONTANA
LOTTERY**



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Special Note: The numbers within this annual report are unaudited.
The Legislative Audit Divisions Financial Compliance Audit is available at
<https://leg.mt.gov/content/Publications/Audit/Report/21-30.pdf>





Scott Sales, Director

Fiscal year 2021 bridged the second half of 2020 and the first half of 2021, paradoxically including both major impacts of the COVID-19 pandemic and major steps toward recovery.

Such a contradiction by itself would be enough for a fiscal year like no other, but FY21 added another variable: the first full year of the Sports Bet Montana product.

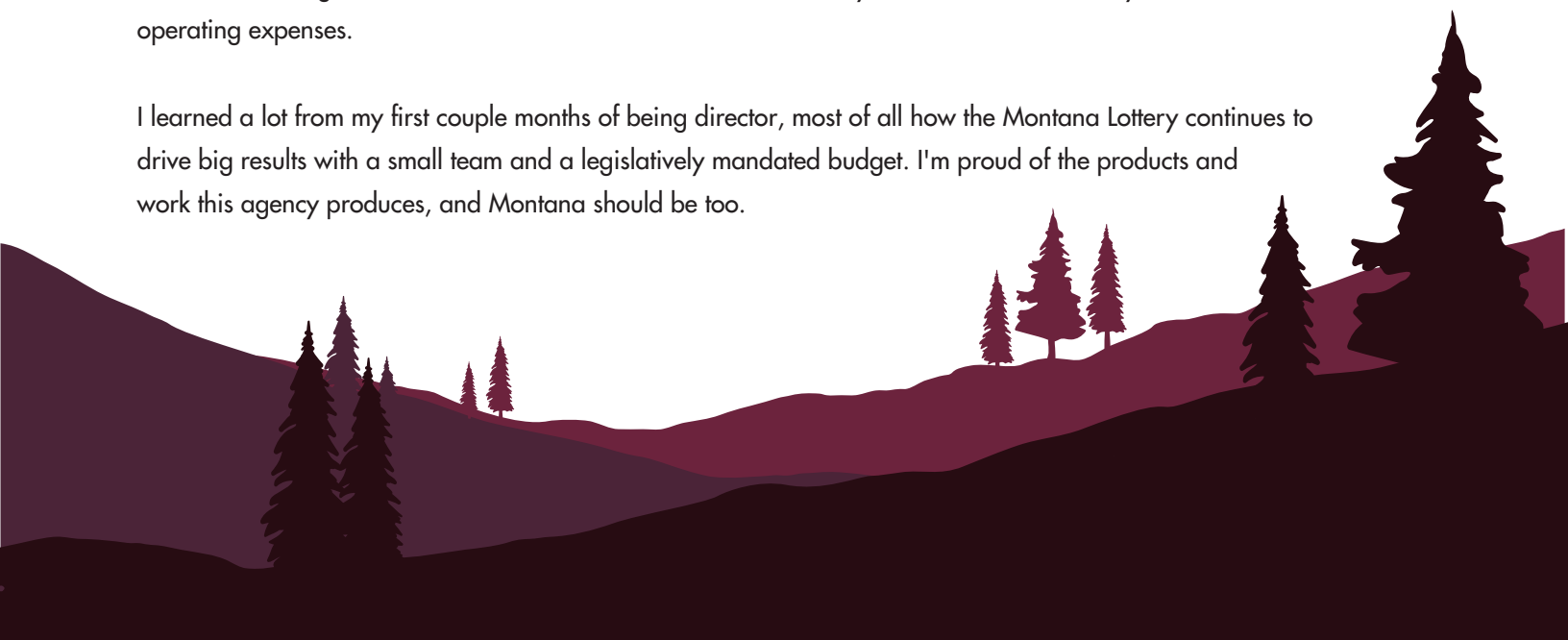
Despite a challenging launch in March 2020, Montana welcomed sports wagering with great enthusiasm. The first full year ended with more than 400 Sports Bet Montana sales agents and more than \$43 million in revenue, which made it the Montana Lottery's best-selling product. Lifted by sports wagering, total revenue increased 90.3% from \$59.9 million in FY20 to \$114.0 million in FY21.

Sports Bet Montana wouldn't be the only winner, however. All products except for Lotto America grew in FY21.

- Scratch posted a banner year with a record number of game launches and record sales. Patrons of casinos temporarily limited or closed by COVID-19 restrictions discovered Scratch for the first time, and sustained performance suggests many continued to play.
- Treasure Play, owing to successful new game designs and sales strategies, jumped 29 percent.
- Mega Millions and Powerball, each driven by high jackpots, increased 54 percent and 22 percent.

With higher revenue, there's more money to go around. The Montana Lottery paid \$80.9 million in prizes, \$7.6 million in sales agent commissions, and \$12.7 million in beneficiary transfers — all with only \$4.8 million in operating expenses.

I learned a lot from my first couple months of being director, most of all how the Montana Lottery continues to drive big results with a small team and a legislatively mandated budget. I'm proud of the products and work this agency produces, and Montana should be too.



MONTANA LOTTERY COMMISSION

By law, Montana's Lottery Commission consists of five members appointed by the governor. One of the five must have five years experience as a law enforcement officer, one must be an attorney and one must be a certified public accountant. The commission oversees the Lottery's operations, sets policy and determines the type and forms of Lottery products.

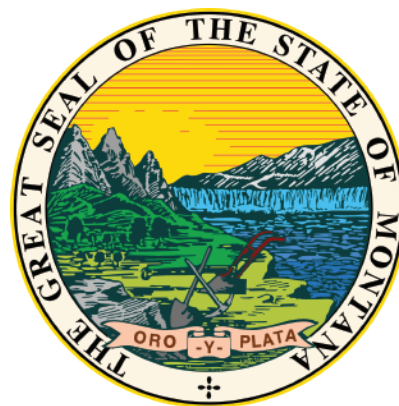
JOHN TARR, CHAIR, HELENA

TONY HARBAUGH, MILES CITY

THOMAS KEEGAN, HELENA

STEVE MORRIS, HELENA

LEO PRIGGE, BUTTE



CONTACT THE MONTANA LOTTERY COMMISSION:

2525 NORTH MONTANA AVENUE • HELENA, MT, 59601 • 406.444.5825



LIFETIME ECONOMIC IMPACT

\$775,000,000

TOTAL AMOUNT PAID OUT IN PRIZES SINCE 1987

\$83,000,000

TOTAL AMOUNT EARNED FROM BUSINESS PARTNERS
SELLING MONTANA LOTTERY PRODUCTS

\$302,000,000

TOTAL AMOUNT THE MONTANA LOTTERY HAS
TRANSFERRED BACK TO THE STATE OF MONTANA

Winners happen!

WHERE THE MONEY GOES

The Montana Lottery is an enterprise fund. It receives no funding from the State of Montana, instead covering all expenses with the revenue generated from product sales. Any surplus revenue ("profit") is transferred to the State of Montana.

Funds transferred to the State of Montana go to specific beneficiaries, which the Montana Legislature defines. Beneficiaries have changed by legislative action several times since Lottery operations started in 1987 but as of FY21 include:

GENERAL FUND

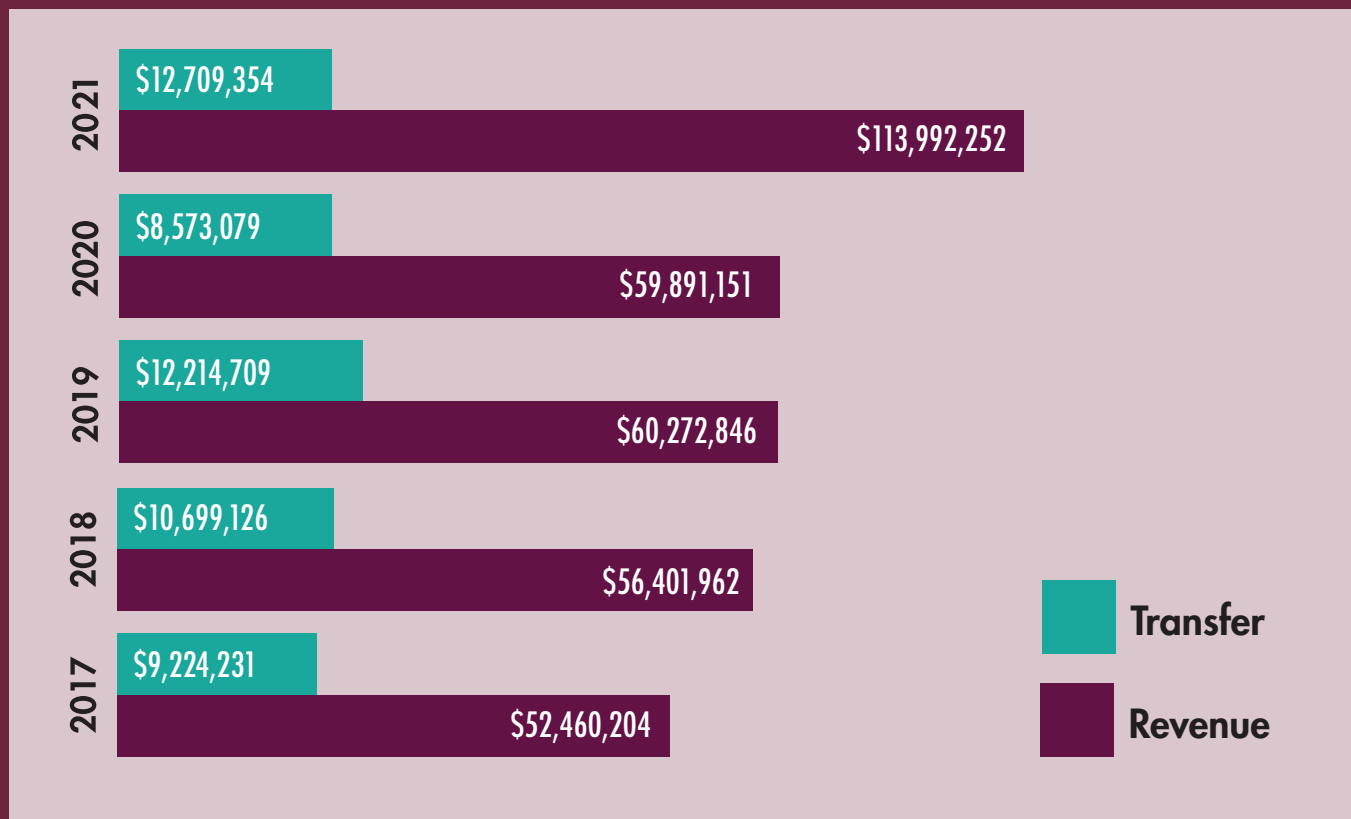
The balance of Lottery proceeds go to the General Fund, which funds a variety of state programs at the discretion of the Legislature. In FY21, the Lottery transferred \$12,709,354 to the General Fund.

MONTANA STEM SCHOLARSHIP

The Montana STEM Scholarship, administered by the Office of the Commissioner of Higher Education, supports Montana students pursuing science, technology, engineering, mathematics, or health care degrees at Montana universities or community or tribal colleges.

By law, the Montana STEM Scholarship receives a set dollar amount of Lottery proceeds before other beneficiaries. In FY21, \$1 million of Lottery proceeds funded the scholarship. Funding increases every year until it reaches \$2.25 million in FY24 and every year going forward.

HISTORIC CHART ON REVENUES AND TRANSFERS

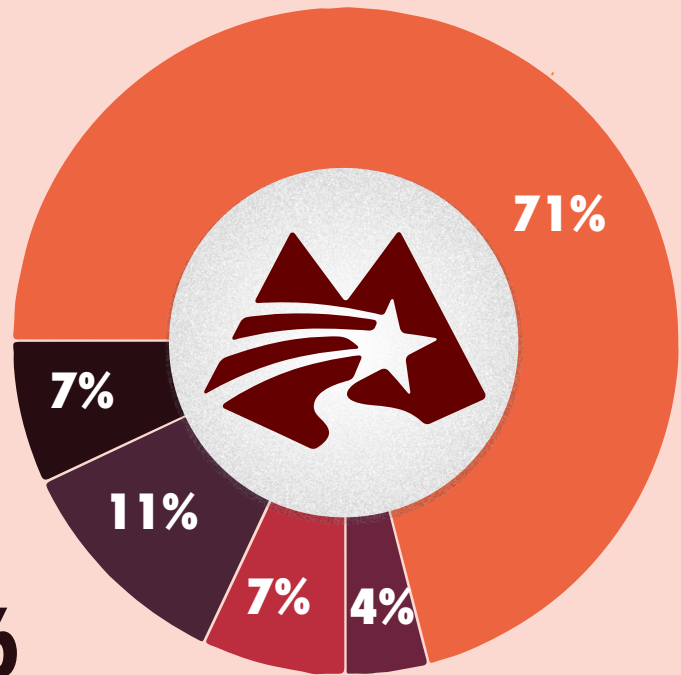


FY21 REVENUES

\$113,992,252

Product Group	FY20	FY21	Difference
Online	\$35,139,099	\$42,206,384	+20.1%
Scratch	\$24,239,036	\$28,496,364	+17.6%
Sports Bet Montana	\$476,518	\$43,252,416	+8,976.7%
Other	\$36,498	\$37,088	+1.6%
Total	\$59,891,151	\$113,992,252	+\$54,101,101

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FY21 EXPENSES

\$114,316,736

Prizes	\$80,938,948	71%
Ticket Costs/ Vendor Fees	\$8,336,363	7%
Sales Agent Commissions	\$7,549,522	7%
Operating Expenses	\$4,782,549	4%
Transfers	\$12,709,354	11%



PRODUCTS IN REVIEW

LOTTO REVENUE

\$35,018,810

The Montana Lottery ended FY21 with six Lotto games. Multi-state games include Powerball, Mega Millions, Lotto America, and Lucky for Life. Montana-only games include Montana Cash and Big Sky Bonus.



TREASURE PLAY REVENUE

\$7,187,574

This selection of instant-win, player-activated terminal-issued games is exclusive to bar and casino sales agents. In FY21, the Lottery employed a strategy of offering 12 Treasure Play games at a time: six progressive jackpot game and six set top prize games.

HIGHLIGHTS

The Montana Lottery offered its popular “Lucky Every Day” promotion again in March. This annual promotion features daily drawings for cash prizes via the Player’s Club.

Montana Cash with Max Cash set a new record jackpot of \$846,517 won in Black Eagle at Mountain View Co-op on 09/26/2020.

The seasonal limited-ticket raffle game, Montana Millionaire, sold out of all 180,000 tickets.

The Lottery updated Big Sky Bonus with bigger starting jackpots, bigger jackpots overall, and more bonus wins.





Driven by the increased demand caused by the pandemic, the Montana Lottery launched a record 56 Scratch games. Our price points included \$1, \$2, \$3, \$5, \$10, and \$20 games, with top prizes ranging from \$1,000 to \$500,000. Each price point featured a variety of play styles including bingo, crossword, key-number and key-symbol match, Slingo® and licensed property games.

The Montana Lottery launched a \$20 Scratch game - \$500,000 Extreme Cash in January 2021. The first 16 weeks of this game saw average weekly activations of \$46,225, outperforming the runner-up game's weekly average by over \$7,000. The success of this \$20 game could largely be attributed to the use of the eye-catching Sparkle® printing treatment combined with our \$20 price point growing in popularity over the past year.

The Game of Life®, a \$3 game, was launched in 2020 and features artwork from the iconic board game. Out of all the \$3 games launched in FY21, *The Game of Life®* has the highest 16-week average activations at \$24,603.

SCRATCH REVENUE

\$28,496,364



2021 SUMMER SCRATCH GAME - ARCTIC CAT®

This game was loaded with a BIG top cash prize, second chance cash drawings and an awesome ATV and trailer package. Players had the opportunity to win a top-of-the-line Arctic Cat® 2-seat ATV with trailer package instantly in the game as well as a second package in the FREE RIDE drawing. Additionally there was a \$75,000 top cash prize and four \$2,500 2nd chance drawings.

SPORTS **BET**

MONTANA™

SPORTS BET MONTANA REVENUE

\$43,252,416

Sports Bet Montana is the Montana Lottery's sports wagering product, which launched in March 2019.

Players may bet on a large selection of college and professional sports. SBM is available at 439 sales agents, where players may place bets through self-service machines or through a geolocated mobile app tied to a player account.

The Montana Lottery posts weekly and monthly reports on Sports Bet Montana handle and gross gaming revenue (GGR) to its website.










ESTIMATED RETAILER COMMISSIONS PAID

\$2.57M

GGR **\$5.2M**

TOTAL HANDLE:
\$42.9M

HANDLE BY SPORT:

-  **Basketball 34%**
-  **Football 21%**
-  **Baseball 17%**
-  **Soccer 15%**
-  **Hockey 6%**
-  **Tennis 2%**
-  **MMA 2%**
-  **Golf 2%**
-  **Other <1%**
[NASCAR, Special Bets, Boxing]

PAYOUT
\$37.7M

SALES AGENT INFORMATION

FY21 SALES AGENTS BY TYPE

Type	Count (FY20)	Count (FY21)	% Change
Any	1,144	1,273	+11.3%
Treasure Play	350	406	+18.8%
Sports Bet Montana	168	421	+150.5%

The Montana Lottery's success is due in no small part to a network of sales agents comprising a variety of business types: convenience stores, grocery stores, bars, casinos, and more.

The Lottery offers two types of sales agent licenses: traditional, which includes Treasure Play, and sports wagering. Many businesses have more than one kind of license and offer more than one kind of Lottery product. Including all license types, the Lottery ended FY21 with 1,273 sales agents, an increase of 129 or 11.3% compared to FY20.

In addition to major beneficiaries, the Lottery also supports Montana businesses through sales agent commissions.

Traditional sales agents earn a 5% commission on tickets sold. For some products, additional commissions may be earned for sales exceeding quarterly goals.

Sports Bet Montana sales agents earn a 6% commission on wagers placed.

TERMINAL INFORMATION

FY21 TERMINALS BY TYPE

Type	Count (FY20)	Count (FY21)	% Change
Clerk Activated Terminal - Photon	614	623	+1.5%
Self-Service Touchscreen Terminal - DreamTouch	46	48	+4.4%
Self-Service Push-Button Terminal - WinStation	57	57	-
Self-Service Treasure Play Terminal - MPNG	350	406	+18.8%
Self Service Sports Wagering Terminal - MPSB	168	421	+150.5%
Total	1,249	1,555	+24.5%

After FY20 safety protocols related to the COVID-19 pandemic limited our ability to install new terminals, FY21 saw rapid expansion.

In addition to a significant increase in Sports Bet Montana sales agents and terminals, deployment of our self-service, stand-alone terminal called the MPNG that sells Treasure Play and Lotto products grew 16 percent.

PHOTON - Our clerk-operated Photon terminals offer Lotto and Scratch products. Businesses that sell our Scratch products sell either in-lane, at the cash register or through a separate, customer-operated vending-style machine.

DREAMTOUCH - Our DreamTouch terminal is a player-activated, vending style machine that offers Scratch and Lotto products. The user interface is a large touchscreen.

WINSTATION - Our WinStation terminal is an earlier version of a player-activated, vending style machine that offers Scratch and Lotto products. Although an older terminal type than the DreamTouch, our WinStation terminals are reliable and often preferred in certain environments.

MPNG (TREASURE PLAY) - Our Treasure Play™ line of games and Fantasy Games are offered exclusively on branded, player-activated terminals.

MPSB (SPORTS BET MONTANA) - Sports Bet Montana™ is offered on the MPSB terminal which is exclusively branded and offers only Sports Bet Montana bets and content.



**MONTANA
LOTTERY**

Winners happen!

MONTANA LOTTERY
STATEMENT OF NET POSITION
JUNE 30, 2021 AND 2020
(Unaudited)

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,009,215	\$ 1,555,069
Receivables (Net)	3,979,610	3,514,044
Multi-State Reserve Fund	65,000	65,000
Inventories	525,183	404,674
Prepaid Expenses	19,809	26,922
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TOTAL CURRENT ASSETS	7,598,817	5,565,709
NONCURRENT ASSETS		
Computer, Furniture & Equipment	664,636	630,514
Leasehold Improvements	98,793	98,793
Accumulated Depreciation	(596,441)	(545,566)
Multi-State Reserve Fund	1,003,243	1,038,051
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	1,170,231	1,221,792
DEFERRED OUTFLOW OF RESOURCES		
Pension Deferred Outflows	567,499	305,769
OPEB Deferred Outflows	290,331	41,414
	<hr/>	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	857,830	347,183
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	\$ <u>9,626,878</u>	\$ <u>7,134,684</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 958,260	\$ 1,009,869
Estimated Prize Liability	3,533,831	2,173,172
Loan Payable	0	80,000
Transfer Obligations	2,855,865	2,078,721
Unearned Revenue	236,555	200,685
Accrued Compensated Absences	113,027	110,321
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	7,697,538	5,652,768
NONCURRENT LIABILITIES		
Multi-State Prize Liability	924,365	979,256
Accrued Compensated Absences	147,146	155,477
Net Pension Liability	2,448,441	1,772,282
Other Post Employment Benefits	382,400	118,213
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TOTAL NONCURRENT LIABILITIES	3,902,352	3,025,228
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	161,783	282,766
OPEB Deferred Inflows	83,675	71,609
	<hr/>	<hr/>
TOTAL DEFERRED INFLOWS OF RESOURCES	245,458	354,375
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
	11,845,348	9,032,371
NET POSITION		
Net Investment in Capital Assets	166,988	183,741
Unrestricted	(2,385,458)	(2,081,428)
	<hr/>	<hr/>
TOTAL NET POSITION	\$ <u>(2,218,470)</u>	\$ <u>(1,897,687)</u>

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020
(Unaudited)

	2021	Restated 2020
OPERATING REVENUES:		
Scratch Ticket Revenue	\$ 28,496,364	\$ 24,239,036
On Line Ticket Revenue	42,206,384	35,139,099
Sports Bet Ticket Revenue	43,252,416	476,518
License, Permits, and Misc	37,088	36,498
	<hr/>	<hr/>
Total Operating Revenues	113,992,252	59,891,151
DIRECT GAME COSTS:		
Scratch Ticket Prize Expense	18,838,885	15,791,608
On Line Ticket Prize Expense	24,306,469	20,603,822
Sports Bet Ticket Prize Expense	37,793,594	370,790
Retailer Commissions	7,549,522	4,165,531
Cost of Tickets Sold	904,983	1,026,103
Vendor fees	7,431,380	4,926,037
	<hr/>	<hr/>
Total Direct Game Costs	96,824,833	46,883,891
Income Before Operating Expenses	17,167,419	13,007,260
OPERATING EXPENSES:		
Advertising	504,333	481,174
Advertising Production	197,092	275,730
Audit Fees	66,652	65,675
Bad Debts Expense	(1,041)	2,136
Communications	212,875	160,174
Contractual Services	182,674	169,718
Depreciation and Amortization	50,875	56,143
Administrative Service Fee	85,699	85,699
Multi-State Dues	0	0
Public Relations	37,754	49,972
Other Expenses	48,083	55,726
Personal Services	2,956,578	2,522,838
Repairs and Maintenance	12,136	17,726
Supplies and Materials	169,182	292,086
Travel	19,191	26,400
Utilities and Rent	240,466	239,708
	<hr/>	<hr/>
Total Operating Expense	4,782,549	4,500,905
Operating Income	12,384,870	8,506,355
NONOPERATING REVENUES (EXPENSES):		
Interest Earnings	3,701	26,763
	<hr/>	<hr/>
Total Nonoperating Revenues(Expenses)	3,701	26,763
Income Before Operating Transfers	12,388,571	8,533,118
Operating Transfers Out - General Fund	(11,709,354)	(8,073,079)
Operating Transfers Out - OCHE	(1,000,000)	(500,000)
CHANGE IN NET POSITION	(320,783)	(39,961)
Total Net Position, Beginning of Period	(1,897,687)	(1,852,851)
Prior Period Adjustment (Note 2)	0	(4,875)
	<hr/>	<hr/>
TOTAL NET POSITION, END OF PERIOD	\$ (2,218,470)	\$ (1,897,687)

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

MONTANA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020
(Unaudited)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 113,563,596	\$ 58,382,210
Payments for Goods & Services	(17,827,027)	(11,573,073)
Payments to Employees	(2,641,420)	(2,435,527)
Payments for Prizes	<u>(79,633,180)</u>	<u>(37,048,081)</u>
Net Cash Provided by Operating Activities	13,461,969	7,325,529
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(11,932,210)	(11,416,736)
Operating Loan Proceeds (Payment)	<u>(80,000)</u>	<u>80,000</u>
Net Cash Used For Noncapital Financing	(12,012,210)	(11,336,736)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(34,122)	(24,515)
Proceeds from Sale of Fixed Assets	<u>0</u>	<u>0</u>
Net Cash Used For Capital Financing	(34,122)	(24,515)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	3,701	26,763
Received from (Paid to) MUSL Prize Reserve Fund	<u>34,808</u>	<u>(43,553)</u>
Net Cash Provided (Used) by Investing Activities	38,509	(16,790)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,454,146	(4,052,512)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,555,069</u>	<u>5,607,581</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,009,215</u>	<u>\$ 1,555,069</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 12,384,870	\$ 8,506,355
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	50,875	56,143
Change in Assets and Liabilities:		
Decr (Incr) in Account Receivable	(465,566)	(1,611,540)
Decr (Incr) in Inventories	(120,509)	89,918
Decr (Incr) in Prepaid expenses	7,113	(9,190)
Incr (Decr) in Accounts Payable	(51,609)	383,658
Incr (Decr) in Lottery Prizes Payable	1,305,768	(281,861)
Incr (Decr) in Unearned Income	35,870	104,735
Incr (Decr) in Other Post Employment Benefits	27,335	10,822
Incr (Decr) in Pension Liability	293,447	29,138
Incr (Decr) in Compensated Absences Payable	<u>(5,625)</u>	<u>47,351</u>
Total Adjustments	<u>1,077,099</u>	<u>(1,180,826)</u>
Net Cash Provided by Operating Activities	<u>\$ 13,461,969</u>	<u>\$ 7,325,529</u>

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

MONTANA LOTTERY
Notes to the Financial Statements
June 30, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Annual Comprehensive Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is \$5,000 and the threshold for capitalizing buildings/land improvements is \$25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Montana Cash, Montana Millionaire, Mega Millions, Lucky for Life, Big Sky Bonus, and Lotto America are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as unearned income until such time as the tickets become valid for the most current drawing.

Treasure Play revenue is recorded on a daily basis as games are played. Treasure Play games are instant chances for wins, so when these games are played the revenue from these games are earned as played.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Tickets sales for Sports Bet Montana wagers are recorded as revenue when the specific event for the bet has occurred and become official. All other wagers for future events that are placed by players are recorded as unearned revenue until such time the specific event has happened and is official.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,” and GASB No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.” Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the years ended June 30, 2021, and 2020 was \$1,455,275, and \$1,009,922, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the year ended June 30, 2021, promotional credits resulted in a revenue reduction of approximately \$8,573 and an expense reclassification of approximately \$6,912. For the year ended June 30, 2020, promotional credits resulted in a revenue reduction of approximately \$21,949 and an expense reclassification of approximately \$16,221.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. Sports Betting prize expense is determined based on each bet and the official results. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for these games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 6/30/21	Quarter Ended 6/30/20	Year to Date 6/30/21	Year to Date 6/30/20
Lotto	\$115,114	\$123,897	\$412,979	\$ 488,644
Scratch	\$ 18,811	\$233,574	\$530,163	\$ 636,296
TOTALS	\$133,925	\$357,471	\$943,142	\$1,124,940

2. OTHER ACCOUNTING ISSUES

Restatement of Prior Year's Financial Statement. The Statement of Revenues, Expenses, and Changes in Net Position was restated for the year ended June 30, 2020. During fiscal year June 30, 2020, Sports Bet Montana was introduced for public sale but did not produce expected sales because of the pandemic. For the year ended June 30, 2021, Sports Bet revenue became the largest of all Lottery game revenue, which created a material amount that needed to be reported separately. In the previous year, Sports Bet sales were grouped with the On Line Ticket Revenue, and the corresponding Sports Bet prizes were included in the On Line Ticket Prize Expense. These items are now reported on a separate line in the financial statements.

Prior Period Adjustments. The prior period adjustment for the year ended June 30, 2020 was made by the State Accounting Bureau for changes made to the Lottery's pension accounts. These adjustments were made to account for a change in methodology used to allocate the pension figures amongst multiple funds within a single business unit at the State level. A decrease was made to the Pension Deferred Outflows for \$4,875 using this methodology. The result of the above equates to a \$4,875 reduction to the Lottery's Net Position.

3. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool; cash on deposit in a revolving account with an approved non-state financial institution; and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Short-term investment pool	\$ 524,332	\$1,521,062
Cash on deposit with State Treasurer	2,474,683	23,807
Cash in revolving deposit account	10,000	10,000
Petty Cash & Cash On-Hand	200	200
TOTALS	\$3,009,215	\$1,555,069

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$79,978, and \$178,973 as of June 30, 2021 and 2020, respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. For the year ended June 30, 2021, receivables include \$4,531,710, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$69 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2021, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2021. The allowance for ticket returns is \$600,184 as of June 30, 2021. The return of vendor fees related to the allowance for returns is \$48,015.

For the year ended June 30, 2020, receivables included \$3,944,776, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$675 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2020, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to

July 1, 2020. The allowance for ticket returns is \$470,506 as of June 30, 2020. The return of vendor fees related to the allowance for returns is \$39,099.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2021 and 2020 include scratch tickets valued at \$396,631, and \$306,802, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the years ended June 30, 2021, and 2020, supplies inventories totaled \$128,552, and \$97,872, respectively. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets include the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Prepaid Expenses	\$19,809	\$26,922

The prepaid expenses for the year ended June 30, 2021 consisted of \$5,000 for booth fees for upcoming events and \$14,809 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2020 consisted of \$26,922 for prepaid commissions and vendor fees related to unearned revenue.

Property and Equipment. A summary of property and equipment for the Lottery for both years is as follows:

	June 30, 2019	Additions	Deletions	June 30, 2020
Leasehold Improvements	\$ 98,793	\$ -	-	\$ 98,793
Furniture & Equipment	\$ 605,999	\$ 24,515	\$ -	\$ 630,514
Accumulated Depreciation	\$ (489,423)	\$ (56,143)	\$ -	\$ (545,566)

	June 30, 2020	Additions	Deletions	June 30, 2021
Leasehold Improvements	\$ 98,793	\$ -	-	\$ 98,793
Furniture & Equipment	\$ 630,514	\$ 34,122	\$ -	\$ 664,636
Accumulated Depreciation	\$ (545,566)	\$ (50,875)	\$ -	\$ (596,441)

Estimated Prize Liability. The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

Obligation to Transfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The 2015 Legislature passed HB617 which changed the transfer requirements. Any year forward, the Lottery is to transfer an amount to the General Fund that equals the transfer made by the Lottery for FY2015 which was \$12,363,365. Any amount over and above this threshold will then be transferred to the Office of Commissioner for Higher Education (OCHE) for the Montana STEM scholarship program. The 2019 Legislature passed SB60 which changed the transfer requirements again. Going forward, the Lottery is to transfer a set amount to the STEM scholarship first, and any residual would be transferred to the General Fund. The transfer obligations outstanding at June 30, 2021 were \$2,605,865 to the General Fund and \$250,000 to OCHE. For the year ending June 30, 2020, the obligation outstanding at year end was \$1,953,721 due to the General Fund and \$125,000 to OCHE.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance <u>June 30, 2019</u> \$218,447	Net Leave <u>Earned/(Used)</u> \$47,351	Balance <u>June 30, 2020</u> \$265,798
Balance <u>June 30, 2020</u> \$265,798	Net Leave <u>Earned/(Used)</u> \$(5,625)	Balance <u>June 30, 2021</u> \$260,173

Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2021 and 2020:

Year ended June 30, 2021					
	Balance			Balance	Amounts
	July 1, 2020	Additions	Reductions	June 30, 2021	due within
					one year
Multi-State Prize Liability	\$ 979,256	\$ 25,434	\$(80,325)	\$ 924,365	\$ -
Accrued Compensated Absences	\$ 155,477	\$ 74,295	\$(82,626)	\$ 147,146	\$113,027
Net Pension Liability	\$1,772,282	\$676,159	\$ -	\$2,448,441	\$ -
Other Post Employment Benefits	\$ 118,213	\$264,187	\$ -	\$ 382,400	\$ -

Year ended June 30, 2020					
	Balance			Balance	Amounts
	July 1, 2019	Additions	Reductions	June 30, 2020	due within
					one year
Multi-State Prize Liability	\$ 956,870	\$54,448	\$(32,062)	\$ 979,256	\$ -
Accrued Compensated Absences	\$ 89,858	\$92,730	\$(27,111)	\$ 155,477	\$110,321
Net Pension Liability	\$1,762,942	\$ 9,340	\$ -	\$1,772,282	\$ -
Other Post Employment Benefits	\$ 131,843	\$ -	\$(13,630)	\$ 118,213	\$ -

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery established this commission at 5% (6% for Sports Betting) of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the years ended June 30, 2021 and 2020, retailers earned bonus commissions of \$1,374,623 and \$1,219,143, respectively. For the years ended June 30, 2021 and 2020, total commissions were \$7,549,522 and \$4,165,531, respectively.

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal years ended June 30, 2021 and 2020:

Year Ended June 30	2021	2020
Administrative Service Fees	\$ 85,699	\$ 85,699
Audit Fees	66,652	65,675
Computer Fees	141,977	97,844
Insurance	16,097	15,538
Mail Processing Fees	7,720	10,109
Other Expenses	6,025	6,046
Payroll Services	8,013	8,185
Printing	9,755	10,627
Record Retention	1,170	1,158
State Accounting System Support	3,670	3,802
Supplies & Materials	3,644	-
Telecommunications	-	-
Warrant Writing Services	1,550	1,561
	<u>\$351,972</u>	<u>\$306,244</u>

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the year ended June 30, 2021, the prize expense of \$80,938,948 is 71.03% of net Lottery ticket revenue of \$113,955,164. For the year ended June 30, 2020, the prize expense of \$36,766,220 was 61.43% of net Lottery ticket revenue of \$59,854,653.

6. TRANSFERS OF NET REVENUE

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. For FY 2019, revenue must be transferred quarterly from the enterprise fund established by 23-7-401, MCA, to the state general fund. Once the amount of revenue transferred to the general fund during a fiscal year equals the amount transferred to the general fund in FY 2015 (\$12,363,365), any additional net revenue must be transferred to the Montana STEM scholarship program special revenue account established in 20-26-617, MCA. Beginning in FY2020, Section 23-7-402(3)(a-e), MCA states an established amount will be transferred to the STEM scholarship first, then any residual will be transferred to the General Fund. The established amounts to go to the STEM scholarships are \$500,000 for FY 2020, \$1,000,000 for FY 2021, \$1,500,000 for FY 2022, \$2,000,000 for FY 2023, and \$2,250,000 for FY 2024 and all subsequent fiscal years thereafter.

For the years ended June 30, 2021 and 2020, the net revenue payable to the State General Fund totaled \$11,709,354, and \$8,073,079, respectively. For the years ended June 30, 2021 and 2020, the net revenue payable to the Montana STEM scholarship totaled \$1,000,000, and \$500,000, respectively.

7. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Mega Millions, and Lotto America are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of \$1,068,243 and \$1,103,051 as of June 30, 2021, and 2020, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). A portion of the Powerball Unreserved Account is classified as a current asset which represents an amount expected to be converted into cash and collected from MUSL within the next fiscal year. The balance of these reserve accounts and investment category is as follows:

	<u>June 30, 2021</u>		
	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$240,837	\$ 83,086	\$ 323,923
Powerball Set Prize Reserve Account	23,579	129,034	152,613
Powerball Unreserved Account	1,813	142,065	143,878
Lotto America Prize Reserve Account	54,188	78,075	132,263
Mega Millions Prize Reserve Account	-	315,566	315,566
Total Reserves	<u>\$320,417</u>	<u>\$747,826</u>	<u>\$1,068,243</u>
Less Current Portion			(65,000)
Non Current Reserves			<u>\$1,003,243</u>

June 30, 2020

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$339,013	\$ 19,238	\$358,251
Powerball Set Prize Reserve Account	35,144	127,034	162,178
Powerball Unreserved Account	8,554	115,241	123,795
Lotto America Prize Reserve Account	101,240	21,326	122,566
Mega Millions Prize Reserve Account	<u>303,240</u>	<u>33,021</u>	<u>336,261</u>
Total Reserves	<u>\$787,191</u>	<u>\$315,860</u>	<u>\$1,103,051</u>
Less Current Portion			<u>(65,000)</u>
Non Current Reserves			<u>\$1,038,051</u>

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

During fiscal year ended 2021, the Lottery received \$1,041 in interest, and had \$19,042 added into the account due to a Mega Millions redistribution adjustment. During the fiscal year ended 2020, the Lottery received \$2,148 in interest, and had \$19,019 added into the account due to a Mega Millions redistribution adjustment.

The Lotto America Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Lotto America game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 50% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. RELATED PARTY TRANSACTIONS

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL) which requires the directors from each of the states to be on the MUSL board of directors. The former Director of the Montana Lottery was on this board along with being the Secretary of the MUSL board of directors. The former Director of the Lottery was in a management position for both MUSL and the Montana Lottery who have significant transactions between each other.

As described in Note 7 above, the Lottery has prize reserves with MUSL in the amounts of \$1,068,243 and \$1,103,051 for years ended 2021 and 2020, respectively. These are monies that are assets to the Lottery and would be transferred over if the lottery were to quit any of the multi-state games.

Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough amount/number of winners for any particular draw, MUSL would then reimburse any state for the excess amount of prizes paid out. In FY2021, the Lottery paid MUSL \$7,685,604 for its share of prizes and received reimbursements for prizes in the amount of \$749,783. In FY2020, the Lottery paid

MUSL \$5,415,880 for its share of prizes and received reimbursements for prizes in the amount of \$3,032,282.

9. GAMES

Currently, Montana Lottery games are Scratch ticket games and six Lotto games referred to as Powerball, Montana Cash, Lotto America, Mega Millions, Lucky for Life, and Big Sky Bonus. The Lottery also offers Treasure Play, a line of instant terminal-issued games with pre-determined odds, and Montana Millionaire, a limited-edition Lottery game. The Lottery was facilitating Fantasy Sports games on behalf of the Board of Horse Racing. Until July of 2021, the Lottery was selling Montana Sports Action Fantasy Football and Fantasy Racing games. The Lottery also implemented Sports Bet Montana which is a sports wagering game.

Scratch ticket games provide players the opportunity to win instantly by scratching the latex covering to reveal a prize. The lottery sells tickets for \$1, \$2, \$3, \$5, \$10, and \$20. Cash prizes range from \$1 to \$500,000, plus specialty prizes for certain games.

The Powerball game allows players a chance to win a minimum parimutuel jackpot of \$40 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$4 to \$1 million for matching fewer than all six numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. Powerball is offered in 45 lottery jurisdictions including Montana. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing, creating a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play.

The Montana Cash game allows players the chance to win a minimum parimutuel jackpot of \$40,000. Players select five numbers from a field of 45 and must match at least two out of five to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The Lottery added a second jackpot for this game called Max Cash. Max Cash is a separate jackpot that grows based on the sales for adding an extra dollar to the normal Montana Cash ticket. It is only hit when a player wins the regular jackpot and purchased the Max Cash add on. The drawings are conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

Mega Millions is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$20 million. If no one wins the jackpot, the jackpot continues to grow. Mega Millions went on sale March 1, 2010, in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from \$2 to \$1,000,000. For an additional \$1 per play, Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. Drawings are held each Tuesday and Friday night.

Lucky for Life debuted January 2015. Lucky for Life is a multi-state game that allows players to win a top prize of \$1,000 a day for life. The second prize is \$25,000 a year for life. This pari-mutuel game has a set top prize and tickets cost \$2 each. Players select five numbers from a field of 48 and must match at least the Lucky Ball to win a prize. The drawings are now conducted on a daily basis each night.

Big Sky Bonus debuted April 2016. Big Sky Bonus is a Montana-only game that allows players to win a progressive jackpot. Players select 4 numbers from a field of 28 and must match at least 2 out of 4 to win a prize unless they hit the bonus number which is a 5th number picked out of a field of 17. Matching the bonus number at any time wins \$10. Matching 2 of 4 wins \$2, 3 of 4 wins \$20, and 4 of 4 wins the jackpot. The drawing is held every day at 7:30 p.m. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Lotto America is the newest on-line game for the Lottery. Lotto America allows players in the 13 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of \$2 million. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 52, and one Bonus number from 1 to 10. To win the pari-mutuel jackpot, a player must match all six numbers. Drawings are held twice weekly on Wednesday and Saturday nights. A multiplier called the All Star Bonus can be added to win 2X, 3X, 4X, or 5X to any prize except the jackpot for bigger prizes. Drawings are held every Wednesday and Saturday.

The Treasure Play games are offered on self-serve terminals in taverns and casinos that are licensed to sell Montana Lottery products. Introduced in November 2011, they are a suite of games with a pre-determined prize structure like a Scratch game. Players can tell instantly if they have won a prize. The tickets sell for \$1, \$2, \$3, \$5, and \$10.

Montana Millionaire is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially and are sold for \$20 each. Early bird drawings for \$25,000 and \$15,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 1,000 \$100 instant winners and 1,500 \$500 instant winners. On December 29, 2020, one \$1 million prize was awarded, one \$250,000 prize, along with three \$100,000 prizes and four \$10,000 prizes.

The Montana Lottery offered a product line called Montana Sports Action on behalf of the Montana Board of Horse Racing. The product line began in August 2008 with a game called Fantasy Football. To play the game, players choose five offensive players and a defensive unit from the official roster of professional football players and teams. The players can also select a bet amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares of the prize pool players are eligible to win should their team have one of the three highest point totals for the week. Tickets are sold weekly through the professional playoffs, excluding the championship game. A second game called Fantasy Racing was introduced in February 2009 and follows the NASCAR® Sprint Cup Series. Teams are created by selecting a driver from the top nine ranked drivers for the week, three drivers ranked from 10 through 34, and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Like Fantasy Football, players may also choose to purchase a higher-cost ticket to increase the share of the prize pool in the event their team has one of the three highest point totals for that race. Both of these games were discontinued in July 2021.

Sports Bet Montana is the newest of games implemented. In the 2019 legislature, HB725 was passed and set into law sports wagering in the State of Montana. The Lottery implemented the game in March 2020 with ability to bet at a kiosk installed in an authorized location, or wager on a phone application which also has to be done in an authorized location. Players can make plays either on the kiosks or with an account the player has set up. The minimum bet is \$2, the maximum bet is \$1,000, and the maximum prize available is \$100,000. These bets can be for any sports event available through the Lottery and can vary in many types of wagers.

10. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On July 30, 2015 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of \$5,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On February 13, 2015, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2016. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 8.31% of net weekly Lottery sales of lotto and scratch games. The contract currently has a termination date of March 30, 2023.

11. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective January 1, 2017 through August 2027. The monthly lease payment is \$18,068.

12. INVESTMENTS

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). The applicable investment disclosures are described in the following paragraphs.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool The State's Short Term Investment Pool (STIP) is an external investment pool managed and administered under the direction of the Montana Board of Investments as statutorily authorized by the Unified Investment Program. It is a commingled external investment pool and participants may request for redemption on a daily basis. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, for 2021 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 76% was invested in Federal Agencies; another 8% was invested in the First American Government Obligation Fund which is used for overnight investing and does not have a rating from S&P or Moodys, etc. However, it is a very conservatively managed vehicle, investing exclusively in short-term U.S. government securities. Another 3% was invested in a short-term Treasury Bill, and the other 13% of the prize reserves are invested in Federal Agency repurchase agreements secured by U.S. government securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery does not have any authority or a policy regarding the investment portfolios.

The MUSL prize reserves are invested through the Montana Winners Trust with daily liquidity, and therefore, have low interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2021, the duration for the U.S. Government Treasury securities was a blended rate of 1.36 years.

The STIP securities are invested in various bond pools and investment portfolios which are liquid on a daily basis. Therefore, STIP itself, does have low risk. The duration for this pool as of June 30, 2021 is 115 days.

According to the STIP Investment Policy, "the STIP portfolio will minimize interest rate risk by:

- 1) Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) Maintaining a dollar-weighted average portfolio maturity (WAM) for 115 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
- 3) STIP will maintain a reserve account."

13. FAIR VALUE MEASUREMENT

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

Investments Measured at Net Asset Value

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
	June 30, 2021			
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$524,332			
Total Investments by net asset value level	<u>\$524,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at Net Asset Value

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
	June 30, 2020			
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$1,521,062			
Total Investments by net asset value level	<u>\$1,521,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Short Term Investment Pool (STIP) has a daily redemption frequency and a daily redemption notice period. The fair value of this pool has been determined using the Net Asset Value (or its equivalent).

14. OTHER POST EMPLOYMENT BENEFITS

General. The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The

State and Montana Lottery offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan.

Plan Description. The State OPEB plans are reported as single employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

Basis of Accounting. OPEB liability is reported on an accrual basis on proprietary and fiduciary fund financial statements. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy. The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-12, MCA gives authority for establishing and amending the funding policy to the Department of Administration. As of December 31, 2020, the State OPEB plan's administratively established retiree medical premiums vary between \$457 and \$2,172 per month. Retiree dental premiums vary between \$41.10 and \$70.00 per month while vision premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare.

Actuarial Methods and Assumptions. The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The State's OPEB Plan TOL in December 31, 2020, rolled forward to March 31, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2020
Experience study period	January 1, 2018 through December 31, 2020
Actuarial measurement date (1)	March 31, 2021
Actuarial cost method	Entry age normal funding method
Amortization method	Open basis
Amortization period	20 years
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75

Actuarial assumptions:

Discount rate	2.23%
Projected payroll increases	2.50%
Participation:	
Future retirees	40.00%
Future eligible spouses	70.00%
Marital status at retirement	70.00%

Mortality – Healthy	Assumed to follow RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.
Mortality – Disabled	Assumed to follow RP-2000 Disabled Mortality Table , set forward one year for males and set forward five years for females, with mortality improvements, with no projections.

(1) Updated procedures were used to roll forward the total OPEB liability measurement date.

Changes in actuarial assumptions and methods since last measurement date: The interest/discount rate was based on the average of multiple March 31,2021 municipal bond rate sources.

Changes in benefit terms since last measurement date: None

Sensitivity of the TOL to changes in discount rate. The following presents the TOL of the Lottery's plan, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (1.23%) or 1-percentage-point higher (3.23%) than the current discount rate:

	1.0% Decrease (1.23%)	Current Discount Rate (2.23%)	1.0% Increase (3.23%)
<u>Lottery OPEB</u>			
June 30, 2021	\$482,750	\$382,400	\$307,184

Sensitivity of the TOL to changes in the healthcare cost trend rates. The following presents the TOL of the Lottery plan, as well as what they would be if calculated using healthcare cost trends that are 1-percentage-point lower (5.0%) or 1-percentage-point higher (7.0%) than the current healthcare cost trend rates:

	1.0% Decrease (5.0%)	Current Discount Rate (6.0%)	1.0% Increase (7.0%)
<u>Lottery OPEB</u>			
June 30, 2021	\$302,154	\$382,400	\$493,246

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2021, the Lottery's plan's OPEB expense is \$24,372. The Lottery's proportionate share of the State's total OPEB liability is \$382,400 which is 0.2669% of the total State's OPEB liability at year end.

At June 30, 2021, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$45,324
Changes in Assumptions or other inputs	\$290,254	\$38,351
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 77	\$ -
Total	\$290,331	\$83,675

At June 30, 2020, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$31,292
Changes in Assumptions or other inputs	\$ 41,414	\$40,317
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ -	\$ -
Total	\$ 41,414	\$71,609

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
2022	\$ 16,412
2023	\$ 16,412
2024	\$ 16,412
2025	\$ 16,412
2026	\$ 16,412
Thereafter	\$124,517

15. EMPLOYEE RETIREMENT PLAN

Plan Description. The PERS-Defined Benefit Retirement Plan (DBRP) and Defined Contribution Retirement Plan (DCRP) are administered by the Montana Public Employee Retirement Administration (MPERA), and are a multiple-employer, cost-sharing plans established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). These plans provide retirement benefits to covered State, local governments, certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits. **Member's highest average compensation (HAC)**

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Second retirement: (requires returning to PERS-covered employer or PERS service)

Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit: A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018), no service credit for second employment, start the same benefit amount the month following termination, and Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retired before January 1, 2016 and accumulate at least 2 years of additional service credit: A recalculated retirement benefit based on provisions in effect after the initial retirement, GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retired on or after January 1, 2016 and accumulate 5 or more years of service credit: The same retirement as prior to the return to service, a second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date, and GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

Overview of Contributions.

Rates are specified by state law for periodic employer and employee contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The state Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

Employer contributions to the system: Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers' reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Special Funding: Per Montana law, state agencies paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies but are reported as employer contributions.

Stand-Alone Statements. The PERS financial information is reported in the Public Employees' Retirement Board's *Annual Comprehensive Financial Report* (ACFR) and the GASB 68 Report for the fiscal year ended. It is available from the PERB at PO Box 200131, Helena MT 59620-0131, 406-444-3154.

ACFR information including the stand alone financial statements can be found at the MPERA's website, <http://mpera.mt.gov/annualReports.shtml>. The latest actuarial valuation and experience study can be found at the MPERA's website, <http://mpera.mt.gov/actuarialValuations.asp>.

Actuarial Assumptions. The Total Pension Liability as of June 30, 2020, is based on the results of an actuarial valuation date of June 30, 2016 with update procedures to roll forward the Total Pension Liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the actuarial experience study, dated May 2017 for the six year period ended June 30, 2016. Among those assumptions were the following:

- General Wage Growth 3.50% (includes Inflation at 2.40%)
- Merit Increases 0% to 4.80%
- Investment Return (net of admin expense) 7.34%
- Admin Expense as a % of Payroll 0.30%
- Postretirement Benefit Increases;

- (a) 3% for members hired **prior** to July 1, 2007,
- (b) 1.5% for members hired **on or after** July 1, 2007, and for members hired **on or after** July 1, 2013;
- (a) 1.5% for each year PERS is funded at or above 90%;
- (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- (c) 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males. Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Mortality Tables with no projections.

Discount Rate. The discount rate used to measure the Total Pension Liability was 7.34%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which established the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. 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. A municipal bond rate was not incorporated in the discount rate.

Target Allocations.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.0%	0.11%
Domestic Equity	30.0%	6.19%
International Equity	16.0%	6.92%
Natural Resources	4.0%	3.43%
Private Investments	14.0%	10.37%
Real Estate	9.0%	5.74%
Core Fixed Income	20.0%	1.57%
Non-Core Fixed Income	5.0%	3.97%
Total	100.0%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the six year period ended June 30, 2016, is outlined in a report dated May 2017, which can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The following presents the employer's sensitivity of the Net Pension Liability to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The Net Pension Liability was calculated using the discount rate of 7.34%, as well as what the Net Pension Liability would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

Sensitivity Analysis.

	1.0% Decrease (6.34%)	Current Discount Rate	1.0% Increase (8.34%)
<u>Employer Net Pension Liability</u>			
June 30, 2021	\$3,370,135	\$2,448,441	\$1,674,225
June 30, 2020	\$2,546,264	\$1,772,282	\$1,121,848
June 30, 2019	\$2,549,622	\$1,762,942	\$1,116,952

Summary of Significant Accounting Policies. The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are

recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability. In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective for fiscal year ended June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Lottery Proportionate Share of Net Pension Liability:

Net Pension Liability as of 6/30/21	Net Pension Liability as of 6/30/20	Percent of Collective NPL as of 6/30/21	Percent of Collective NPL as of 6/30/20	Change in Percent of Collective NPL
\$2,448,441	\$1,772,282	0.092807%	0.084786%	0.001238%

At June 30, 2021, the Lottery recorded a liability of \$2,448,441 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2021, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016, with roll forward provisions to June 30, 2017. For the fiscal years ended June 30, 2021, and 2020, the employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement periods July 1, 2016 to June 30, 2017. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2021, the Lottery's proportion was 0.092807%.

Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of Net Pension Liability:

- The discount rate was lowered from 7.65% to 7.34%
- The investment rate of return was lowered from 7.65% to 7.34%
- The inflation rate was reduced from 2.75% to 2.40%

Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the State's reporting date, the investment rates of return of PERS-DBRP plan was substantially higher than the investment rates of return assumption. Therefore, the State's proportionate share amounts of the collective pension liability as the State's employer and non-employer contributing entity in applicable plans are expected to decrease.

Recognition of Deferred Inflows and Outflows. At June 30, 2021 and 2020, the Lottery reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 39,523	\$ 70,005
Changes in Assumptions	\$212,013	\$ -
Actual vs. Expected Investment Earnings	\$169,545	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 91,778
Employer contributions subsequent to the measurement date – FY 2020 contributions	\$146,418	\$ -
Total	\$567,499	\$161,783

June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 84,038	\$ 83,393
Changes in Assumptions	\$ 75,239	\$ -
Actual vs. Expected Investment Earnings	\$ 21,488	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$199,373

Employer contributions subsequent to the measurement date – FY 2019 contributions	\$125,004	\$ -
Total	\$305,769	\$282,766

Amounts reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in each year end. Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
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2021	\$ (10,215)
2022	\$ 142,465
2023	\$ 74,079
2024	\$ 52,969

Thereafter	\$ 0
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