



# MONTANA LOTTERY

2015 ANNUAL REPORT

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# FROM THE DIRECTOR

## *Running a successful state Lottery is not a matter of luck.*

Fiscal Year 2015 saw successes for the Montana Lottery – and showed us where our new challenges will lie. We saw changes made in past years pay off. We identified room for improvement and have already made changes based on lessons learned in FY15 – with results that make us smile.

The Lottery transferred more money into the General Fund in FY15 than in previous years – a figure that brings us pride for a number of reasons. Our agency transferred \$12,363,365 to the General Fund in Fiscal Year 2015. That's up from \$12,199,512 the year before.

Fiscal Year 2015 saw a number of successes and showed us we were on the right path:

Montana Cash saw revenue climb by an impressive 19 percent. Sales for this Montana-only game had been sliding in advance of this fiscal year. We regrouped, studied the game and our customers and made changes to Montana Cash – and marketing around all our Montana-only games – that we were happy to see pay off.

Revenue for our Scratch games was up 6 percent this fiscal year, topping out at \$17,508,276, nearly \$1 million over last year.

Revenue for Montana Millionaire was up four percent this year and once again the popular game sold out quickly. This game will be ten

years old next year. To celebrate, we are planning several fun changes to increase wins while keeping with fundamentals of the games Montanans have come to love.

The Lucky for Life game launched on January 27, 2015 and netted \$1.8 million in revenue in just six months. Lucky for Life was available for less than half of Fiscal Year 2015, but its revenue outpaced some long-standing games that were sold for the entire year.

We also saw some challenges in FY2015. Overall, our sales revenue was down one percent from the year before. Much of that is attributed to a slump in interest and sales in Powerball – a trend across many states participating in the multi-state game. In response, the organization of states behind Powerball has changed the way the game operates to increase both chances of winning for individual players and the size of the jackpot. Preliminary sales from the current fiscal year suggest those changes have made a difference in Montana.

The Wild Card game was also a lower performer in Fiscal 2015 and has been showing signs of decline for several years. That regional game has been discontinued in the current fiscal year.

We look forward to another successful year offering the games Montanans love to play.



# FISCAL YEAR IN REVIEW

# 2014

## **JULY 2014**

- The Montana Lottery brings its fun to Uptown Butte for the Montana Folk Festival.
- Richard Bach, of Helena, wins \$652,284 playing Wild Card – our top Wild Card jackpot of the fiscal year.
- The Montana Lottery hits the midway at the Montana State Fair in Great Falls.

## **AUGUST 2014**

- Russell Wick, of Whitefish, won \$500,000 on a \$500,000 BIG MONEY Scratch ticket – our top prize.

## **SEPTEMBER 2014**

- Season Six of Fantasy Football kicked off, continuing our relationship with the Montana Board of Horse Racing.
- John Hemmerel, of Livingston, won \$90,000 playing Hot Lotto – our top Hot Lotto prize of the fiscal year.

## **OCTOBER 2014**

- Willow Grandchamp, of Wolf Point, wins more than \$297,000 in Wild Card – the second-highest Wild Card jackpot of the fiscal year.

## **NOVEMBER 2014**

- Montana Millionaire kicks off its eighth successful season.
- Mark Foster, of Billings, won \$250,000 instantly in the aptly-named Scratch game "\$250,000 Instant Jackpot."

## **DECEMBER 2014**

- At 8:19 p.m. on December 23, Montana Millionaire sold out.

# 2015

## **JANUARY 2015**

- Lucky for Life, a game that offers a set amount of money each year for life, goes on sale on January 25.

## **FEBRUARY 2015**

- Super 1 Foods in Helena plays host to Montana Lottery event promoting Lucky for Life.

## **MARCH 2015**

- Mary Ann Barbie-Rice claims her Lucky for Life prize on March 4. Barbie Rice will receive \$25,000 a year for the rest of her life.
- Ryan Burke, of Great Falls, wins \$1 million in Powerball.

## **APRIL 2015**

- First and Last Chance Bar in Eureka is awarded the Montana Sports Action Retailer of the Year recognition by the Montana Lottery.
- Eileen O'Brian, of Helena, won \$210,000 playing Montana Cash.

## **MAY 2015**

- MT Slots, the third progressive game offered in EZPLAY®, debuts.
- Jeremy Nichols, of Great Falls, wins the first major jackpot in MT Slots – \$12,233.

## **JUNE 2015**

- Iva Johnston, of Missoula, won \$25,000 each year – for the rest of her life – playing Lucky for Life

# PRODUCTS IN REVIEW



*Montana Scratch game prices range from \$1 to \$20, and prizes range from \$1 to \$500,000. A number of play styles such as bingo and crossword are available.*

**\$17,531,453**

**SALES**

**\$10,475,269**

**PRIZES PAID**

**60%**

**PRIZE PAYOUT**

## For Fiscal Year 2015

The Montana Lottery introduced **40** new Scratch games.

- \* **1,781,533** tickets won a prize of less than **\$1,000**.
- \* **135** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$500,000**. One ticket from Kalispell won this prize.
- \* Retailer commissions paid were **\$907,691**.



*Powerball is offered by 47 lotteries. Montana sales started in April, 1992. Tickets cost \$2 per play. Jackpots start at \$40 million. The Power Play option increases non-jackpot prizes for an additional \$1 per play.*

**\$12,513,105**

**SALES**

**\$6,043,047**

**PRIZES PAID**

**48%**

**PRIZE PAYOUT**

## For Fiscal Year 2015

- \* Power Play sales were **\$1,803,639** or **14.4%** of Powerball Sales.
- \* **136,774** tickets won a prize of less than **\$1,000**.
- \* **11** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$1 MILLION**. One ticket from Great Falls won this prize.
- \* Retailer commissions paid were **\$625,489**.



*Mega Millions is offered by 46 lotteries. Montana sales started March 1, 2010. Tickets cost \$1 per play. Jackpots start at \$15 million. The Megaplier option increases non-jackpot prizes for an additional \$1 per play.*

**\$4,028,734**

**SALES**

**\$1,914,641**

**PRIZES PAID**

**48%**

**PRIZE PAYOUT**

#### **For Fiscal Year 2015**

- \* Megaplier sales were **\$971,919** or **18.8%** of Mega Million sales.
- \* **151,898** tickets won a prize of less than **\$1,000**.
- \* **18** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$2,521**. One ticket from Bozeman won this prize.
- \* Retailer commissions paid were **\$200,403**.



*Hot Lotto is offered by 16 lotteries. Montana sales started April 7, 2002. Tickets cost \$1 per play. Jackpots start at \$1 million and the Lottery pays the withholding taxes on jackpot wins. Sizzler triples non-jackpot prizes for an additional \$1 per play.*

**\$3,240,134**

**SALES**

**\$1,577,902**

**PRIZES PAID**

**49%**

**PRIZE PAYOUT**

#### **For Fiscal Year 2015**

- \* Sizzler sales were **\$882,299** or **27.2%** of Powerball Sales.
- \* **117,695** tickets won a prize of less than **\$1,000**.
- \* **15** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$90,000**. One ticket from Livingston won this prize.
- \* Retailer commissions paid were **\$162,324**.

# PRODUCTS IN REVIEW



*Wild Card is offered by four lotteries. Montana sales started February 1, 1998. Tickets cost \$1 for two plays. Jackpots start at \$200,00*

**\$1,628,959**

**SALES**

**\$902,021**

**PRIZES PAID**

**55%**

**PRIZE PAYOUT**

## For Fiscal Year 2015

- \* **195,549** tickets won a prize of less than **\$1,000**.
- \* **24** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$652,284**. One ticket from Helena won this prize.
- \* Retailer commissions paid were **\$81,554**.



*Montana Cash is Montana's exclusive lotto game. The game was revamped May, 2014. Tickets cost \$1 for two plays. Jackpots start at \$40,000.*

**\$4,367,741**

**SALES**

**\$2,245,535**

**PRIZES PAID**

**51%**

**PRIZE PAYOUT**

## For Fiscal Year 2015

- \* **463,233** tickets won a prize of less than **\$1,000**.
- \* **6** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$300,000**. One ticket from Missoula won this prize.
- \* Retailer commissions paid were **\$219,076**.





*10 Spot is Montana's twice-daily game. Sales started February 1, 2010. Tickets cost \$1 per play. The top prize is \$25,000. Drawings occur daily at 12:30 PM and 7:30 PM.*

**\$626,926**

**SALES**

**\$340,476**

**PRIZES PAID**

**54%**

**PRIZE PAYOUT**

### For Fiscal Year 2015

- \* **51,767** tickets won a prize of less than **\$1,000**.
- \* **1** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$2,502**. One ticket from Missoula won this prize.
- \* Retailer commissions paid were **\$31,344**.



*Montana Millionaire is Montana's limited-ticket raffle game. Tickets are sold from November 1 to December 31, or until they are gone. Tickets have sold out four years in a row.*

**\$2,700,000**

**SALES**

**\$1,532,650**

**PRIZES PAID**

**57%**

**PRIZE PAYOUT**

### For Fiscal Year 2015

- \* **7** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$1 MILLION**. One ticket from East Helena won this prize.
- \* Retailer commissions paid were **\$135,021**.

# PRODUCTS IN REVIEW

## MONTANA SPORTS ACTION

*Montana Sports Action is a line of games comprised of Fantasy Football and Fantasy Racing. Offered by the Lottery on behalf of the Board of Horse Racing.*

**\$210,940**

**SALES**

**\$152,540**

**PRIZES PAID**

**72%**

**PRIZE PAYOUT**

### For Fiscal Year 2015

- \* **186** tickets won a prize of less than **\$1,000**.
- \* Retailer commissions paid were **\$8,159**.
- \* **\$52,394** transferred to the Board of Horse Racing.



*EZPLAY® is a line of instant-win terminal issued games with pre-determined odds. Tickets print directly from self-service MP terminals and may be played immediately much like a scratch game.*

**\$3,868,686**

**SALES**

**\$3,278,211**

**PRIZES PAID**

**85%**

**PRIZE PAYOUT**

### For Fiscal Year 2015

- \* **478,732** tickets won a prize of less than **\$1,000**.
- \* **193** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$12,504**. One ticket from Great Falls won this prize.
- \* Retailer commissions paid were **\$193,945**.



*Lucky for Life launched in January 2015. And within weeks we had our first major winner. This multi-state game has been a great addition to our lineup of games.*

**\$1,818,172**

**SALES**

**\$930,979**

**PRIZES PAID**

**51%**

**PRIZE PAYOUT**

### **For Fiscal Year 2015**

- \* **88,189** tickets won a prize of less than **\$1,000**.
- \* **13** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$25,000 A YEAR FOR LIFE**.  
Two tickets from Missoula and Helena won this prize.
- \* Retailer commissions paid were **\$91,434**.

# INDEPENDENT AUDITORS REPORT

## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Statement of Net Position of the Montana State Lottery as of June 30, 2015, and 2014, the related Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

### *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 responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 controls relevant to the Montana State Lottery'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 Montana State Lottery's internal control, and 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 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 net position of the Montana State Lottery as of June 30, 2015, and 2014, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the financial statements present only the enterprise fund of the Montana State Lottery and do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2015, and 2014, the changes in its net position, or its cash flows for each of the two fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the enterprise fund financial statements of the Montana State Lottery. The information on pages 1 through 10 of the report is presented for purposes of additional analysis and is not a required part of the enterprise fund financial statements of the Montana State Lottery. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2016, on our consideration of the Montana State Lottery'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 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 lottery's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (15-30A) on the lottery's financial statements.

Respectfully submitted,



Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

January 4, 2016

# STATEMENT OF NET POSITION

## JUNE 30, 2015 AND 2014

### ASSETS

#### CURRENT ASSETS

Cash and Cash Equivalents  
Receivables (Net)  
Multi-State Reserve Fund  
Inventories  
Securities Lending Collateral  
Prepaid Expenses

	2015	2014
\$	3,288,630	\$ 4,007,918
	1,846,723	1,699,476
	65,000	65,000
	361,790	390,026
	5,594	2,162
	17,122	13,643
	<u>5,584,859</u>	<u>6,178,225</u>

#### TOTAL CURRENT ASSETS

#### NONCURRENT ASSETS

Computer, Furniture & Equipment  
Leasehold Improvements  
Accumulated Depreciation  
Investments  
Multi-State Reserve Fund

	2,981,645	2,981,106
	59,781	59,781
	(2,549,526)	(2,085,091)
	20,773	31,964
	1,302,470	1,448,704
	<u>1,815,143</u>	<u>2,436,464</u>

#### TOTAL NONCURRENT ASSETS

#### DEFERRED OUTFLOW OF RESOURCES

Pension Deferred Outflows

	127,377	0
	<u>127,377</u>	<u>0</u>

#### COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$	<u>7,527,379</u>	\$ <u>8,614,689</u>
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### LIABILITIES

#### CURRENT LIABILITIES

Accounts Payable  
Estimated Prize Liability  
Transfer Obligations  
Liability under Security Lending  
Unearned Revenue  
Accrued Compensated Absences  
Current Portion Long-Term Obligations

\$	394,166	\$ 514,851
	2,133,757	2,377,348
	3,064,720	3,309,805
	5,594	2,162
	103,010	126,321
	157,935	122,710
	54,126	72,168
	<u>5,913,308</u>	<u>6,525,365</u>

#### TOTAL CURRENT LIABILITIES

#### NONCURRENT LIABILITIES

Multi-State Prize Liability  
Accrued Compensated Absences  
Long Term Obligations  
Net Pension Liability  
Other Post Employment Benefits

	1,148,771	1,309,638
	73,553	93,500
	0	54,126
	1,370,034	0
	597,244	532,562
	<u>3,189,602</u>	<u>1,989,826</u>

#### TOTAL NONCURRENT LIABILITIES

#### DEFERRED INFLOWS OF RESOURCES

Pension Deferred Inflows

	353,994	0
	<u>353,994</u>	<u>0</u>

#### COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES

	9,456,904	8,515,191
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#### NET POSITION

Net Investment in Capital Assets  
Unrestricted

	437,774	829,502
	(2,367,299)	(730,004)
	<u>(1,929,525)</u>	<u>99,498</u>

#### TOTAL NET POSITION

\$	<u>(1,929,525)</u>	\$ <u>99,498</u>
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# STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

## FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

### OPERATING REVENUES:

Scratch Ticket Revenue  
On Line Ticket Revenue  
License, Permits, and Misc.

Total Operating Revenues

### DIRECT GAME COSTS:

Scratch Ticket Prize Expense  
On Line Ticket Prize Expense  
Retailer Commissions  
Cost of Tickets Sold  
Vendor fees

Total Direct Game Costs

Income Before Operating Expenses

### OPERATING EXPENSES:

Advertising  
Advertising Production  
Audit Fees  
Bad Debts Expense  
Communications  
Contractual Services  
Depreciation and Amortization  
Interest  
Administrative Service Fee  
Multi-State Dues  
Public Relations  
Other Post Employment Benefits  
Other Expenses  
Pension Expense  
Personal Services  
Repairs and Maintenance  
Supplies and Materials  
Travel  
Utilities and Rent

Total Operating Expense

Operating Income

### NONOPERATING REVENUES (EXPENSES):

Interest Earnings  
Security Lending Income  
Security Lending Expense  
Non Employer Pension Revenue  
Gain/Loss on Sale of Assets

Total Nonoperating Revenues (Expenses)

Income Before Operating Transfers

Operating Transfers Out - General Fund  
Operating Transfers Out - Other Agencies

### CHANGE IN NET POSITION

Total Net Position, Beginning of Period

Prior Period Adjustments Included in Transfers

Net Position Restatement For Implementation of GASB 68

### TOTAL NET POSITION, END OF PERIOD

	2015	2014
	\$	\$
Scratch Ticket Revenue	17,531,453	16,516,113
On Line Ticket Revenue	34,792,457	36,575,152
License, Permits, and Misc.	17,724	31,347
Total Operating Revenues	52,341,634	53,122,612
Scratch Ticket Prize Expense	10,475,269	9,995,125
On Line Ticket Prize Expense	18,781,202	19,553,196
Retailer Commissions	3,109,971	3,012,490
Cost of Tickets Sold	928,071	945,078
Vendor fees	3,082,984	3,128,737
Total Direct Game Costs	36,377,497	36,634,626
Income Before Operating Expenses	15,964,137	16,487,986
Advertising	448,486	492,336
Advertising Production	187,481	217,218
Audit Fees	30,115	34,740
Bad Debts Expense	0	6,453
Communications	145,439	130,629
Contractual Services	120,459	77,631
Depreciation and Amortization	492,205	514,016
Interest	5,360	9,510
Administrative Service Fee	64,819	64,950
Multi-State Dues	39,470	44,308
Public Relations	59,698	59,171
Other Post Employment Benefits	90,075	88,325
Other Expenses	31,138	28,243
Pension Expense	104,639	0
Personal Services	1,999,318	1,971,482
Repairs and Maintenance	21,984	14,999
Supplies and Materials	194,034	258,956
Travel	44,386	39,691
Utilities and Rent	629,293	621,959
Total Operating Expense	4,708,399	4,674,617
Operating Income	11,255,738	11,813,369
Interest Earnings	3,898	5,944
Security Lending Income	11	6
Security Lending Expense	(1)	0
Non Employer Pension Revenue	37,027	0
Gain/Loss on Sale of Assets	(1,778)	0
Total Nonoperating Revenues (Expenses)	39,157	5,950
Income Before Operating Transfers	11,294,895	11,819,319
Operating Transfers Out - General Fund	(12,363,365)	(12,199,512)
Operating Transfers Out - Other Agencies	(3,780)	0
CHANGE IN NET POSITION	(1,072,250)	(380,193)
Total Net Position, Beginning of Period	99,498	479,691
Prior Period Adjustments Included in Transfers	698,819	0
Net Position Restatement For Implementation of GASB 68	(1,655,592)	0
TOTAL NET POSITION, END OF PERIOD	\$ (1,929,525)	\$ 99,498

# STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for Sales & Services	\$ 52,171,076	\$ 53,044,328
Payments for Goods & Services	(9,233,756)	(9,033,283)
Payments to Employees	(2,135,986)	(1,961,605)
Payments for Prizes	(29,660,929)	(29,611,350)
Net Cash Provided by Operating Activities	11,140,405	12,438,090
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Other Funds	(11,913,411)	(12,342,158)
Net Cash Used For Noncapital Financing	(11,913,411)	(12,342,158)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Fixed Assets	(32,568)	(14,333)
Proceeds from Sale of Fixed Assets	2,481	0
Principal & Interest Payment on Leases	(77,528)	(81,678)
Net Cash Used For Capital Financing	(107,615)	(96,011)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends on Investments	3,908	5,950
Received from (Paid to) MUSL Prize Reserve Fund	146,234	221,940
Sale (Purchase) of long term investments	11,191	9,734
Net Cash Provided by Investing Activities	161,333	237,624
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(719,288)</b>	<b>237,545</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>4,007,918</b>	<b>3,770,373</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 3,288,630</b>	<b>\$ 4,007,918</b>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 11,255,738	\$ 11,813,369
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	492,205	514,016
Interest Expense	5,360	9,510
<b>CHANGE IN ASSETS AND LIABILITIES:</b>		
Decr (Incr) in Account Receivable	(147,247)	(44,472)
Decr (Incr) in Inventories	28,236	6,611
Decr (Incr) in Collateral securities on loan	(3,432)	56,499
Decr (Incr) in Prepaid expenses	(3,479)	17,029
Incr (Decr) in Accounts Payable	(120,685)	64,325
Incr (Decr) in Lottery Prizes Payable	(404,458)	(63,029)
Incr (Decr) in Liability for securities on loan	3,432	(6,611)
Incr (Decr) in Unearned Income	(23,311)	(27,359)
Incr (Decr) in Other Post Employment Benefits	64,682	71,443
Incr (Decr) in Pension Liability	(21,914)	0
Incr (Decr) in Compensated Absences Payable	15,278	26,759
Total Adjustments	(115,333)	624,721
Net Cash Provided by Operating Activities	\$ 11,140,405	\$ 12,438,090



# FINANCIAL STATEMENTS NOTES

## 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 Comprehensive Annual 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, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, Lucky for Life, and 10 Spot 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.

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.

**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 year ended June 30, 2015 was \$481,032.

**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

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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, 2015, promotional credits resulted in a revenue reduction of approximately \$18,996 and an expense reclassification of approximately \$14,723. For the year ended June 30, 2014, promotional credits resulted in a revenue reduction of approximately \$16,678 and an expense reclassification of approximately \$14,317.

**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. 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 6/30/15	Quarter Ended 6/30/14	Year To Date 6/30/15	Year To Date 6/30/14
Lotto	\$ 137,366	\$ 143,868	\$ 485,243	\$ 542,113
Scratch	\$ 475,118	\$ 153,080	\$ 934,467	\$ 666,415
<b>TOTALS</b>	<b>\$ 612,484</b>	<b>\$ 296,948</b>	<b>\$ 1,419,710</b>	<b>\$ 1,208,528</b>

## 2. OTHER ACCOUNTING ISSUES

**NEW ACCOUNTING GUIDANCE IMPLEMENTED** For the fiscal year ended June 30, 2015, the Montana Lottery implemented GASB 68. GASB Statement 68 replaced GASB 27 and is effective for fiscal years beginning after June 15, 2014. Statement 68 was issued by GASB in June 2012, requiring employers participating in public pension plans to comply with the new accounting and financial reporting standards. The Lottery has included, in the financials and the notes, the pension information for the PERS Multiple-Employer, Cost Sharing Plan. The total pension liability is calculated by the Public Employees' Retirement Board's actuary, Cheiron, Inc. The Plan's fiduciary net position is reported in the PERB's *Comprehensive Annual Financial Report's* financial statements and in the GASB 67 & 68 Report which are both available on the Montana Public Employee Retirement Administration (MPERA) website. The Lottery has prepared its statements and financial notes using their information to report the Lottery's proportionate share of each of the pension components.

For the year ended June 30, 2014, the Montana Lottery implemented

the provisions of GASB Statement No. 65 – "Items Previously Reported as Assets and Liabilities." This statement essentially changes and redefines the different elements of a financial statement, specifically the Statement of Net Position. The Lottery has adopted this statement by changing the line item of "deferred revenue" to the new title of "unearned revenue" on the Statement of 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 a 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, 2015	June 30, 2014
Short-term investment pool	\$2,398,370	\$2,883,970
Cash on deposit with State Treasurer	880,060	1,113,748
Cash in revolving deposit account	10,000	10,000
Petty Cash & Cash on Hand	200	200
<b>TOTALS</b>	<b>\$3,288,360</b>	<b>\$4,007,918</b>

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$34,156 as of June 30, 2015 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, 2015, receivables include \$2,060,479, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$391 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, 2015, 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, 2015. The allowance for ticket returns is \$227,332 as of June 30, 2015. The return of vendor fees related to the allowance for returns is \$13,185.

For the year ended June 30, 2014, receivables included \$1,935,691, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$298 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, 2014, 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,

2014. The allowance for ticket returns is \$251,075 as of June 30, 2014. The return of vendor fees related to the allowance for returns is \$14,562.

**INVENTORIES** Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2015 and 2014 include scratch tickets valued at \$301,085, and \$299,022, 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, 2015, and 2014, supplies inventories totaled \$60,705, and \$91,004, respectively. These inventories are also recorded at cost using the specific identification method.

**OTHER CURRENT ASSETS** Other current assets include the following:

	June 30, 2015	June 30, 2014
Prepaid Expenses	\$17,122	\$13,643

The prepaid expenses for the year ended June 30, 2015 consisted of \$6,000 for booth fees for upcoming summer fairs, and \$11,122 for prepaid commissions and vendor fees related to unearned income. The prepaid expenses for the year ended June 30, 2014 were all for prepaid commissions and vendor fees related to unearned income.

**PROPERTY AND EQUIPMENT** A summary of property and equipment for the Lottery is as follows:

	June 30, 2014	Additions	Deletions	June 30, 2015
Leasehold Improvements	\$ 59,781	\$ -	\$ -	\$ 59,781
Furniture & Equipment	\$ 2,981,106	\$ 32,568	\$ (32,029)	\$ 2,981,645
Accumulated Depreciation	\$ (2,085,091)	\$ (492,205)	\$ 27,770	\$ (2,549,526)

**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 transfer obligations outstanding at June 30, 2015 and 2014 were \$3,064,720 and \$3,309,805, respectively.

**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 June 30, 2014	Net Leave Earned/(Used)	Balance June 30, 2015
\$216,210	\$15,278	\$231,488

**COMMISSIONS** Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA, establishes a 3.99% commission for the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the years ended June 30, 2015 and 2014, retailers earned bonus commissions of \$451,031 and \$331,350, respectively. For the years ended June 30, 2015 and 2014, total commissions were \$3,109,971 and \$3,012,490, 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, 2015 and 2014:

Year ended June 30,	2015	2014
Administrative Service Fees	\$64,819	\$64,950
Audit Fees	30,115	34,740
Computer Fees	74,534	63,981
Insurance	10,976	12,786
Mail Processing Fees	9,775	10,898
Other Expenses	1,223	2,478
Payroll Services	7,364	7,404
Printing	-	555
Record Retention	425	-
State Accounting System Support	3,061	3,283
Supplies & Materials	-	117
Telecommunications	13,630	14,043
Vehicle Rental Fees	-	632
Warrant Writing Services	472	473
	<b>\$216,394</b>	<b>\$216,340</b>

## 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

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money.” Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes.

For the year ended June 30, 2015, the prize expense of \$29,256,471 is 55.91% of net Lottery ticket revenue of \$52,323,910. For the year ended June 30, 2014, the prize expense of \$29,548,321 was 55.66% of net Lottery ticket revenue of \$53,091,265.

## 6. TRANSFER TO STATE GENERAL FUND

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. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund.” For the years ended June 30, 2015 and 2014, the net revenue payable to the State General Fund totaled \$3,064,720, and \$3,309,805, 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, Wild Card, Hot Lotto, and Mega Millions 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 \$1,367,470 and \$1,513,704 as of June 30, 2015, and 2014, 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:

	June 30, 2015		
	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 215,925	\$ 233,825	\$ 449,750
Powerball Set Prize Reserve Account	78,394	117,150	195,544
Powerball Unreserved Account	42,406	176,292	218,698
Wild Card Prize Reserved Account	-	48,626	48,626
Hot Lotto Set Prize Reserve Account	-	297,464	297,464
Mega Millions Prize Reserve Account	75,562	81,826	157,388
<b>Total Reserves</b>	<b>\$ 412,287</b>	<b>\$ 955,183</b>	<b>\$ 1,367,470</b>
Less Current Portion			(65,000)
<b>Non Current Reserves</b>			<b>\$ 1,302,470</b>

	June 30, 2014		
	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 158,277	\$ 325,750	\$ 484,027
Powerball Set Prize Reserve Account	96,385	114,062	210,447
Powerball Unreserved Account	72,015	132,051	204,066
Wild Card Prize Reserved Account	-	141,412	141,412
Hot Lotto Set Prize Reserve Account	-	297,464	297,464
Mega Millions Prize Reserve Account	57,646	118,642	176,288
<b>Total Reserves</b>	<b>\$ 384,323</b>	<b>\$ 1,129,381</b>	<b>\$ 1,513,704</b>
Less Current Portion			(65,000)
<b>Non Current Reserves</b>			<b>\$ 1,448,704</b>

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 2015, the Lottery received \$606 in interest plus received \$57,188 distributions from the Wild Card



Reserve, and had \$43,162 withdrawn for annual MUSL dues and assessments. During the fiscal year ended 2014, the Lottery received \$1,157 in interest and had \$47,854 withdrawn for annual MUSL dues and assessments.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 57% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set 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 Hot Lotto 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 51% 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. GAMES

Currently, Montana Lottery games are scratch ticket games and nine lotto games referred to as Powerball, Montana Cash, Wild Card, Hot Lotto, Mega Millions, Lucky for Life, and 10 Spot. The lottery also offers EZPLAY®, a line of instant terminal-issued games with pre-determined odds, and Montana Millionaire, a limited-edition lottery game. The lottery is facilitating Fantasy Sports games on behalf of the Board of Horse Racing. Currently the lottery is selling Montana Sports Action Fantasy Football and Fantasy Racing games.

**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. Top prizes range from \$500 to \$500,000.

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 twice weekly on 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 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.

**WILD CARD** is played in four lottery jurisdictions and allows players the chance to win a parimutuel jackpot with a guaranteed minimum of \$200,000. In January 2013, the game was improved by increasing the minimum jackpot from \$100,000 and increasing other prizes as well. Players select five numbers from a field of 33 plus one of 16 face cards (the Wild Card) and must match all five numbers and the Wild Card to win the jackpot. Players win prizes from \$1 to \$6,000 for matching fewer than all five numbers and/or the Wild Card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers and the Wild Card, the jackpot rolls over to the next drawing to create a progressive jackpot.

**HOT LOTTO** allows players in the 16 participating lotteries a chance to win an all-cash parimutuel jackpot with a guaranteed minimum of \$1 million, plus tax withholdings paid. This change was implemented in May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from one to 47, and one Hot Ball number from 1 to 19. To win the parimutuel jackpot, a player must match all six numbers drawn. Players can also win prizes from \$2 to \$30,000 by matching fewer than all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

**MEGA MILLIONS** is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$15 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.

**10 SPOT**, which went on sale February 1, 2010, is a Montana-only, twice-daily game. Players select 10 numbers from one through 80. The lottery draws 20 numbers, and players win by matching 10,

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nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from \$2 to \$25,000.

**LUCKY FOR LIFE** is the newest Montana Lottery game. The game 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 conducted twice weekly on Monday and Friday nights.

The **EZPLAY®** 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 the 2013 game offered 130,000 tickets, which sell for \$20 each. Early bird drawings for \$10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 275 \$50 instant winners and 575 \$500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 23, 2014. On January 1, 2015, one \$1 million prize was awarded, along with two \$100,000 prizes and three \$10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 31, 2015, with a drawing on New Year's Day 2016.

The Montana Lottery offers 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.

## 9. COMMITMENTS – GAMING SUPPLIER CONTRACTS

**SCRATCH TICKETS** On June 27, 2008 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 \$3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

**ON-LINE SERVICES** On October 11, 2005, 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, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to \$2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

## 10. LOTTO\*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto\*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling \$31,401,655.99. The first payment of \$1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling \$11,000,000. The first annual payment of \$550,000 was awarded on April 18, 1997.

As of June 30, 2015, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners is \$550,000. Total annual payments due as of June 30, 2015 are as follows:

FYE	
2016	550,000
	\$ 550,000

## 11. LEASES/INSTALLMENT PURCHASES PAYABLE

**RENT** The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is \$12,492 through August 2015. The base rate will increase 3% annually.

**CAPITAL LEASE** The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at June 30, 2015 are as follows:

FYE	
2016	55,423
Total Minimum Payments	55,423
Less: Interest	(1,297)
<b>Present value of Minimum Payments</b>	<b>\$ 54,126</b>

## 12. INVESTMENT RISK DISCLOSURES

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). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

**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** All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

**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 2015 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include an average of 13% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 87% of the prize reserves are invested in Federal Agencies and have an

AAA credit quality rating. 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. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

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. Interest rate risk does not apply to STIP because it is a 2a-7 like pool. 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 in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2015, the duration for the U.S. Government Treasury securities was a blended rate of .71 years.

## 13. OTHER POST EMPLOYMENT BENEFITS

**General.** The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section 704 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.

**Plan Description.** The State OPEB plans are agent multiple employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

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 the



# FINANCIAL STATEMENTS NOTES

reporting of an “implied rate” subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, 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.

**Bases of accounting.** OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. 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 each plan.

**Funding Policy.** The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. As of June 2015, the State plan’s administratively established retiree medical premiums vary between \$371 and \$1,345 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$22 and \$68.50 and vision hardware premiums vary between \$5.76 and \$16.76 depending on the coverage selected.

**Annual Other Postemployment Benefit Cost and Contributions.** The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plans for fiscal year 2015 and 2014:

Year ended June 30,	2015	2014
Annual Required Contribution/OPEB cost	\$ 85,212	\$ 84,123
Interest on net OPEB Obligation	22,545	19,313
Amortization Factor	(17,682)	(15,111)
Annual OPEB Cost	90,075	88,325
Retiree Claims Paid	(25,393)	(16,882)
Increase in net OPEB Obligation	64,682	71,443
Net OPEB Obligation - beginning of year	532,562	461,119
Net OPEB obligation – end of year	\$ 597,244	\$ 532,562

Since the plan pays other postemployment benefits on a pay-as-you-go basis, the funded ratio of the OPEB obligation is 0%.

The Lottery’s annual healthcare OPEB cost, the percentage of annual

implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for the fiscal years 2015 through 2013 was as follows:

Fiscal Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$90,075	16.9%	\$597,244
6/30/14	\$88,325	19.1%	\$532,562
6/30/13	\$84,395	10.0%	\$461,119

**Actuarial Methods and Assumptions.** The State is required by GASB Statement No. 45 to obtain an actuarial evaluation every other year. An actuarial report was prepared for December 30, 2013. Therefore, an actuarial evaluation was not prepared for December 31, 2014.

As of December 31, 2013, the Lottery’s actuarially accrued liability (AAL) for benefits was \$912,960, with no actuarial value of assets, resulting in an unfunded actuarial liability (UAAL) of \$912,960, and the ratio of the UAAL to the covered payroll was 59.52%. The UAAL is being amortized as a level dollar amount over an open basis for 30 years.

In the December 31, 2013 actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 10.00% for both medical and prescription drugs. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.00%, medical costs after eleven years and prescription drugs after six years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.

The following schedule of funding progress is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.



	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
1/1/2009	\$ -	\$ 839,608	\$ 839,608	0.00%	\$ 1,373,902	61.11%
1/1/2011	\$ -	\$ 789,880	\$ 789,880	0.00%	\$ 1,370,886	57.62%
1/1/2013	\$ -	\$ 881,458	\$ 881,458	0.00%	\$ 1,402,639	62.84%

Projections of benefits for financial reporting progress are based on the substantive plan (*the plan as understood by the employer and the plan members*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

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

## 14. 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 cover the State, local governments, certain employees of the Montana University System, and school districts.

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 members of both the *defined contribution* and *defined benefit retirement plans*. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. 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;

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.

**Vesting:** 5 years of membership service

### 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

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. The State legislature has the authority to establish and amend contribution rates to the plan.

# FINANCIAL STATEMENTS NOTES

Member contributions to the system: a. 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.

The 7.90% member contributions is 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: State and University System employers are required to contribute 8.27% of members' compensation. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions increased an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

*Stand-Alone Statements.* The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR 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, 2015, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00% (includes Inflation at 3.00%)
- Merit Increases 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases; 3% for members hired **prior to** July 1, 2007, 1.5% for members hired **on or after** July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, **inclusive** of other adjustments to the member's benefit. Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA. Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

*Discount Rate.* The discount rate used to measure the Total Pension Liability was 7.75%. 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 establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. 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. No municipal bond rate was incorporated in the discount rate.

*Target Allocations.*

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic equity	36.00%	4.80%
Foreign equity	18.00%	6.05%
Fixed income	24.00%	1.68%
Private equity	12.00%	8.50%
Real estate	8.00%	4.50%

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 period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector 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 expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption

is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

#### Sensitivity Analysis.

	1.0% Decrease (6.75%)	Current Rate Discount	1.0% Increase (8.75%)
Employer Net Pension Liability	\$2,179,582	\$1,370,034	\$687,259

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

**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.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion

of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer. The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

#### Lottery Proportionate Share of Net Pension Liability:

Net Pension Liability as of 6/30/13	Net Pension Liability as of 6/30/14	Percent of Collective NPL
\$1,655,592	\$1,370,034	0.109954%

At June 30, 2015, the Lottery recorded a liability of \$1,370,034 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the Lottery's proportion was 0.109954 percent.

**Changes in actuarial assumptions and methods:** There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.

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

**Changes in proportionate share:** There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

**Pension Expense.** The Lottery's proportionate share of the pension expense as of 6/30/14 was \$104,639 while the State of Montana's proportionate share associated with the Lottery was \$0.00, for a total pension expense of \$104,639.

At June 30, 2015, the Lottery recognized a Pension Expense of \$104,639 for its proportionate share of the PERS' Pension Expense. The Lottery also recognized grant revenue of \$37,027 for the support provided by the State of Montana, through the Coal Tax Severance Fund, for its proportionate share of the Pension Expense that is associated with the Lottery.

**Recognition of Beginning Deferred Outflow – GASB 71.** At June 30, 2015, the Lottery recognized a beginning deferred outflow of resources for the Lottery's FY2014 contributions of \$101,389.

**Deferred Inflows and Outflows.** At June 30, 2015, the Lottery reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the

following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes in Assumptions	\$ -	\$ -
Difference between projected and actual earnings on pension plan investments	\$ -	\$ 353,994
Changes in proportion differences between employer contributions and proportionate share of contributions	\$ 824	\$ -
Difference between actual and expected contributions	\$ -	\$ -
Contributions paid to PERS subsequent to the measurement date - FY 2015 Contributions	\$ 126,553	\$ -
Total	\$ 127,377	\$ 353,994

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 the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2016	\$88,224
2017	\$88,224
2018	\$88,224
2019	\$88,499
2020	N/A





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