MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2022

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(Unaudited)

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APPOINTIVE OFFICIALS

Scott Sales, Lottery Director

Bryan Costigan, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Leo Prigge	Butte	January 1, 2023
Tony Harbaugh	Miles City	January 1, 2025
Steve Morris	Helena	January 1, 2025
Dwaine Iverson	Shelby	January 1, 2026
Jon Metropoulos	Helena	January 1, 2026

REPORT DISTRIBUTION – 2022

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Greg Gianforte
Legislative Auditor – Angus Maciver
Speaker of the House – Wylie Galt
Director of DOA – Misty Ann Giles
President of the Senate – Mark Blasdel

The law also states, "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature." The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – STATE ADMINISTRATION COMMITTEE

Wendy McKamey	Sharon Greef	Marvin Weatherwax
Marta Bertgolio	Michele Binkley	Laurie Bishop
Geraldine Custer	Julie Dooling	Gregory Frazer
Denise Hayman	Ed Hill	Jessica Karjala
Kelly Kortum	Brian Putnam	Linda Reksten
Tyson Running Wolf	Frank Smith	Kenneth Walsh
Kathy Whitman		

HOUSE – BUSINESS AND LABOR COMMITTEE

Mark Noland	Ed Buttrey	Katie Sullivan
Kim Abbott	Fred Anderson	Willis Curdy
Neil Duram	Ross Fitzgerald	Moffie Funk
Steven Galloway	Steve Gist	Steve Gunderson
Derek Harvey	Denley Loge	Ron Marshall
Sara Novak	Andrea Olsen	Kerri Seekins-Crowe
Rynalea Whiteman Pena	Katie Zolnikov	

SENATE – STATE ADMINISTRATION COMMITTEE

Doug Kary	Janet Ellis	Gordan Vance
Mike Fox	Bryce Bennett	Ryan Osmundson
Mike Cuffe	Walt Sales	

SENATE – BUSINESS, LABOR, AND ECONOMIC AFFAIRS COMMITTEE

Steve Fitzpatrick	Gordon Vance	Carlie Boland
Jason Ellsworth	Mike Fox	Terry Gauthier
Bruce Gillespie	Christopher Pope	Jason Small
Cary Smith	Mark Sweeney	

MONTANA LOTTERY

December 2022

Montana Lottery Commission:

The past quarter has been an active one. The Lottery had a busy summer with managing our summer Scratch Monopoly Multiplier family of games with three additional second chance drawings. Also, there has been a lot of work preparing for our Rocking New Year's eve promotion. We have also been busy supporting our Sports Bet Montana product line its continued expansion.

We have had a strong start to our new fiscal year with some huge jackpots. Montana Cash, Mega Millions, Treasure Play, Lucky for Life, Lotto America, and Sports Bet each experienced an increase over last year. Montana Cash soared by 363.2%, Mega Millions flew up by 210%, Treasure Play increased by 1.5%, Lucky for Life grew by 2.5%, Lotto America increased up by 52.5%, and Sports Bet bumped up by 21.7%.

The rest of the games have seen a decrease compared to last year. Scratch decreased by 4.1%, Powerball went down by 10.1%, and Big Sky Bonus decreased by 24.6%.

Overall, there was an increase in operating revenue of 35.8% along with an increase in direct game costs of 24.6%. Combined with a 7.2% increase in operating expenses, the transfer for the quarter ended is $6,560,909 which is $3,701,690 more than last year's first quarter, which is a 129.5% increase. The percentage of transfer to revenue was 19.4% this year compared to 11.5% last year.

We are looking forward to a busy winter with another round of our Montana Millionaire game, along with our continued betting opportunities for our Sports Bet Montana players, along with the introduction of new Scratch and Treasure Play games.

Sincerely,

Scott Sales
Lottery Director

2525 North Montana Avenue Helena, MT 59601 • 406.444.5825 • 406-444-9642(TTY)
montanalottery.com

MONTANA LOTTERY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022 AND 2021
(Unaudited)

	Period Ended September 30, 2022	Period Ended September 30, 2021
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,963,641	$ 1,169,084
Receivables (Net)	6,701,663	7,446,399
Inventories	473,530	461,803
TOTAL CURRENT ASSETS	11,138,834	9,077,286
NONCURRENT ASSETS		
Computer, Furniture & Equipment	589,765	664,636
Leasehold Improvements	112,322	98,793
Accumulated Depreciation	(574,665)	(609,087)
Intangible Right to Use Buildings	1,140,798	0
Accumulated Amortization	(259,272)	0
Multi-State Reserve fund	1,031,622	1,043,694
TOTAL NONCURRENT ASSETS	2,040,570	1,198,036
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflows	478,490	567,499
OPEB Deferred Outflows	299,107	290,331
TOTAL DEFERRED OUTFLOWS OF RESOURCES	777,597	857,830
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 13,957,001	$ 11,133,152
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 422,331	$ 729,353
Estimated Prize Liability	3,582,850	5,081,946
Due to Primary Government	0	8,817
Transfer Obligations	6,560,909	2,859,219
Building Lease Payable	152,373	0
Unearned Revenue	452,135	437,429
Accrued Compensated Absences	138,162	91,183
TOTAL CURRENT LIABILITIES	11,308,760	9,207,947
NONCURRENT LIABILITIES		
Building Lease Payable	809,949	0.00
Multi-State Prize Liability	946,974	920,230
Accrued Compensated Absences	118,954	147,146
Net Pension Liability	1,841,526	2,448,441
Other Post Employment Benefits	359,503	382,400
TOTAL NONCURRENT LIABILITIES	4,076,906	3,898,217
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	759,352	161,783
OPEB Deferred Inflows	188,487	83,675
TOTAL DEFERRED INFLOWS OF RESOURCES	947,839	245,458
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	16,333,505	13,351,622
NET POSITION		
Net Investment in Capital Assets	119,706	154,342
Unrestricted	(2,496,210)	(2,372,812)
TOTAL NET POSITION	$ (2,376,504)	$ (2,218,470)

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

	Quarter Ended September 30, 2022	Quarter Ended September 30, 2021
OPERATING REVENUES:		
Scratch ticket revenue	$ 6,182,255	$ 6,444,793
Powerball revenue	2,783,268	3,095,168
Montana Cash revenue	5,653,035	1,220,528
MT Millionaire revenue	0	0
MT Sports Action revenue	0	48
Mega Millions revenue	4,554,620	1,469,402
Treasure Play revenue	1,740,776	1,714,355
Lucky for Life revenue	942,318	918,958
Big Sky Bonus revenue	658,454	873,856
Lotto America revenue	678,844	445,137
Sports Bet revenue	10,547,029	8,664,521
License, permits, and misc	1,940	3,895
Total Operating Revenues	33,742,539	24,850,661
Less Direct Game Costs:		
Scratch ticket prize expense	3,998,835	4,255,034
On-line ticket prize expense	9,260,675	5,750,842
Sports Bet ticket prize expense	8,816,662	7,514,512
Retailer commission	1,623,753	1,573,693
Cost of tickets sold	82,123	266,719
Vendor fees	2,080,129	1,399,759
Total Direct Game Costs	25,862,177	20,760,559
Income Before Operating Expenses	7,880,362	4,090,102
OPERATING EXPENSES:		
Advertising	305,748	224,986
Advertising Production	93,693	64,924
Audit Fees	0	505
Bad Debts Expense	(87)	0
Communications	80,478	29,525
Contractual Services	29,201	50,697
Depreciation and Amortization	6,331	12,645
Administrative Service Fee	25,197	24,814
Multi-State Dues	38,540	20,643
Public Relations	1,385	20,765
Other	18,804	7,982
Personal Services	618,412	616,587
Repairs and Maintenance	469	2,696
Supplies and Materials	33,950	83,983
Travel	6,851	6,931
Utilities and Rent	60,971	63,526
Total Operating Expense	1,319,943	1,231,209
Operating Income	6,560,419	2,858,893
NONOPERATING REVENUES (EXPENSES)		
Interest earnings	482	326
Gain/Loss on sale of asset	8	0
Total Nonoperating Revenues(Expenses)	490	326
Income Before Operating Transfers	6,560,909	2,859,219
Operating Transfers Out - General Fund	(6,060,909)	(2,484,219)
Operating Transfers Out -OCHE	(500,000)	(375,000)
Total Operating Transfers	(6,560,909)	(2,859,219)
CHANGE IN NET POSITION	0	0
Total Net Position, Beginning of Period	(2,376,504)	(2,218,470)
TOTAL NET POSITION, END OF PERIOD	$ (2,376,504)	$ (2,218,470)

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE YEAR ENDED JUNE 30, 2023
(Unaudited)

	Budget Fiscal Year July 1, 2022- June 30, 2023	Actual Quarter ended September 30, 2022 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ $26,540,000	$ 6,182,255	23.29
Powerball revenue	9,990,000	2,783,268	27.86
Montana Cash revenue	4,960,000	5,653,035	113.97
MT Millionaire revenue	5,600,000	0	0.00
Mega Millions revenue	5,000,000	4,554,620	91.09
Treasure Play revenue	7,980,000	1,740,776	21.81
Lucky for Life revenue	3,740,000	942,318	25.20
Big Sky Bonus revenue	2,930,000	658,454	22.47
Lotto America revenue	1,890,000	678,844	35.92
Sports Bet revenue	47,170,000	10,547,029	22.36
License, permits, and miscellaneous	15,000	1,940	12.93
Total Revenues	115,815,000	33,742,539	29.13
DIRECT GAME COSTS:			
Prizes - Scratch ticket	17,046,642	3,998,835	23.46
Prizes - Lotto games	56,069,500	18,077,337	32.24
Prizes - MT Millionaire	3,245,000	0	0.00
Retailer commissions	7,369,000	1,623,753	22.03
Ticket cost - scratch games	1,160,000	82,123	7.08
Ticket cost - vendor fees	7,690,400	2,080,129	27.05
Total Direct Game Costs	92,580,542	25,862,177	27.93
OPERATING EXPENSES:			
Advertising	644,000	305,748	47.48
Advertising Production	335,000	93,693	27.97
Audit Fees	48,065	0	0.00
Communications	260,125	80,478	30.94
Contractual Services	190,994	29,201	15.29
Administrative Service Fee	101,000	25,197	24.95
Multi-State Dues	40,000	38,540	96.35
Public Relations	60,000	1,385	2.31
Other	(136,203)	18,804	-13.81
Personal Services	2,831,581	618,412	21.84
Repairs and Maintenance	28,500	469	1.65
Supplies and Materials	308,300	33,950	11.01
Travel	79,500	6,851	8.62
Utilities and Rent	243,766	60,971	25.01
Equipment	35,000	0	0.00
Total Operating Expenses	5,069,628	1,313,699	25.91
Operating Income	18,164,830	6,566,663	36.15
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	3,000	138	4.60
Gain/(Loss) on Sale on Asset	0	8	
OPEB Expense	0	0	
Pension Expense	0	0	
NET INCOME (BUDGETARY BASIS)	$ 18,167,830	$ 6,566,809	36.15
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	35,000	0	0.00
Adjustment for depreciation expense	(45,000)	(6,331)	14.07
Bad Debts	0	87	0.00
MUSL interest earnings	1,000	344	34.40
Total Reconciling Items	(9,000)	(5,900)	
NET INCOME (GAAP BASIS)	$ 18,158,830	$ 6,560,909	36.13

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

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022
(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	MT MILLIONAIRE	MEGA MILLIONS	TREASURE PLAY	LUCKY FOR LIFE	BIG SKY BONUS	LOTTO AMERICA	SPORTS BET	MT SPORTS ACTION	ADMIN
REVENUES:	$ 6,182,255	$ 2,783,268	$ 5,653,035	$ 0	$ 4,554,620	$ 1,740,776	$ 942,318	$ 658,454	$ 678,844	$ 10,547,029	$ 0	$ 1,940
DIRECT GAME COSTS:												
Prize Expense	3,998,835	1,356,069	3,154,102	0	2,282,143	1,242,997	494,681	388,662	332,703	8,816,662	0	9,318
Retailer Commissions	415,414	139,304	282,750	0	227,749	128,140	47,115	32,922	33,956	316,403	0	0
Cost of Tickets Sold	82,123	0	0	0	0	0	0	0	0	0	0	0
Vendor Fees	486,808	232,043	446,154	0	363,290	139,358	75,414	54,353	55,195	227,514	0	0
NET OPERATING REVENUE	1,199,075	1,055,852	1,770,029	0	1,681,438	230,281	325,108	182,517	256,990	1,186,450	0	(7,378)
OPERATING EXPENSES:												
Advertising	83,649	73,097	189	2,697	21,454	189	24,339	189	189	99,757	0	0
Advertising Production	36,496	37,897	0	14,500	0	0	0	0	0	4,800	0	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	0	0
Bad Debts	0	0	0	0	0	0	0	0	0	0	0	(87)
Communications	58,662	0	0	0	0	0	0	0	0	0	0	21,816
Contractual Services	0	0	0	0	0	0	0	0	0	0	0	29,201
Depreciation and Amortization	1,650	342	300	284	255	413	201	222	184	1,071	0	1,409
Administrative Service Fee	6,566	1,361	1,194	1,129	1,015	1,645	801	882	733	4,261	0	5,609
Multi-State Dues	0	25,560	0	0	8,340	0	2,382	0	2,258	0	0	0
Public Relations	0	0	0	0	0	0	0	0	0	0	0	1,385
Other	0	0	0	0	0	0	0	0	0	0	0	18,804
Personal Services	161,158	33,394	29,313	27,705	24,922	40,382	19,666	21,644	17,996	104,573	0	137,659
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	0	469
Supplies and Materials	0	0	0	0	0	0	0	0	0	0	0	33,950
Travel	0	0	0	0	0	0	0	0	0	0	0	6,851
Utilities and Rent	6,356	1,317	1,156	1,093	983	1,593	776	854	710	4,124	0	42,011
TOTAL OPERATING EXPENSES	354,537	172,968	32,152	47,408	56,969	44,222	48,165	23,791	22,070	218,586	0	299,077
OPERATING INCOME	844,538	882,884	1,737,877	(47,408)	1,624,469	186,059	276,943	158,726	234,920	967,864	0	(306,455)
NONOPERATING REVENUES (EXPENSES)												
Interest Earnings	0	0	0	0	0	0	0	0	0	0	0	482
Pension Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Gain(Loss) on Sale of Asset	0	0	0	0	0	0	0	0	0	0	0	8
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	0	490
NET INCOME BY PRODUCT	$ 844,538	$ 882,884	$ 1,737,877	$ (47,408)	$ 1,624,469	$ 186,059	$ 276,943	$ 158,726	$ 234,920	$ 967,864	$ 0	$ (305,965)
PROFIT AS A % OF REVENUE	13.66%	31.72%	30.74%	0.00%	35.67%	10.69%	29.39%	24.11%	34.61%	9.18%	N/A	N/A

NOTE: THIS IS THREE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
September 30, 2022

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 on-line 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 revenue 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.

Ticket 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.

2. OTHER ACCOUNTING ISSUES

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 quarters ended September 30, 2022 and 2021, respectively, were $302,543 and $102,095.

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 quarter ended September 30, 2022, promotional credits resulted in a revenue reduction of approximately $3,212 and an expense reclassification of approximately $1,858. For the quarter ended September 30, 2021, promotional credits resulted in a revenue reduction of approximately $1,611 and an expense reclassification of approximately $1,313.

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. Prizes for Sport Bet are recorded as they are paid out for each event. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the on-line 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 the Montana Lottery 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 9/30/22	Quarter Ended 9/30/21	Year To Date 9/30/22	Year To Date 9/30/21
Lotto	$118,187	$200,772	$118,187	$200,772
Scratch	$202,293	$153,032	$202,293	$153,032
TOTALS	$320,480	$353,804	$320,480	$353,804

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 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:

	September 30,	
	2022	2021
Short-term investment pool	$ 26,116	$ 524,498
Cash on deposit with State Treasurer	3,737,525	634,586
Cash in revolving deposit account	200,000	10,000
TOTALS	$3,963,641	$1,169,084

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $244,167 at September 30, 2022 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. Receivables include $7,137,982, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at September 30, 2022, 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 October 1, 2022. The allowance for ticket returns is $474,260 at September 30, 2022. The return of vendor fees related to the allowance for returns is $37,941.

For the quarter ended September 30, 2021, receivables include $7,929,497, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of September 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 October 1, 2021. The allowance for ticket returns is $525,107 as of September 30, 2021. The return of vendor fees related to the allowance for returns is $42,009.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for the quarters ended September 30, 2022, and 2021 include scratch tickets valued at $369,302 and $363,359, 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 quarters ended September 30, 2022, and 2021, supplies inventories totaled $104,228 and $98,444, respectively. These inventories are also recorded at cost using the specific identification method.

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

	June 30, 2022	Additions	Deletions	September 30, 2022
Leasehold Improvements	$ 112,322	$ -	$ -	$ 112,322
Furniture & Equipment	$ 589,765	$ -	$ -	$ 589,765
Accumulated Depreciation	$(568,334)	$(6,331)	$ -	$(574,665)

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

Obligation to Tranfer 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 in April 1995. The 2019 Legislature passed SB60 which changed the transfer requirements. 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 September 30, 2022 were $6,060,909 to the General Fund and $500,000 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 June 30, 2022	Net Leave Earned/(Used)	Balance September 30, 2022
$277,848	$(20,732)	$257,116

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% (6% for Sports Betting) 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 5% commission of the face value of Fantasy Sports tickets sold. Retailers earn a commission rate of 6% on all Sports Bet Montana wagers place. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the quarters ended September 30, 2022 and 2021, retailers earned bonus commissions of $132,248 and $197,377,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 quarter ended September 30, 2022:

Insurance	$ 17,989
Warrant Writing Services	263
Payroll Services	2,340
Computer Fees	26,443
Records Retention	215
Printing	1,732
State Accounting System Support	1,111
Mail Processing Fees	3,175
Other	548
Administrative Service Fees	25,197
TOTAL	$79,013

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 quarter ended September 30, 2022, the prize expense of $22,076,172 is 65.4% of net Lottery ticket revenue of $33,740,599. For the quarter ended September 30, 2021, the prize expense of $17,520,388 is 70.5% of net Lottery ticket revenue of $24,846,718.

6. 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 balances of $1,031,622 and $1,043,694 as of September 30, 2022 and 2021, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	September 30, 2022	September 30, 2021
Powerball Prize Reserve Account	$ 327,689	$ 315,567
Powerball Set Prize Reserve Account	142,700	154,557
Powerball Unreserved Account	84,647	123,464
Lotto America Prize Reserve Account	186,150	134,540
Mega Millions Prize Reserve Account	290,436	315,566
Total	$1,031,622	$1,043,694

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. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

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.

The Lotto America 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 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. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, eight lotto games referred to as Powerball, Montana Ca$h, Mega Millions, Treasure Play, Lucky for Life, Big Sky Bonus, Lotto America, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. The Lottery was selling the Montana Sports Action Fantasy Football and the Racing games. These games ended play in July of 2021. 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 latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $40 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from $4 to $1,000,000 for matching fewer than all 6 numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional $1 per play, the 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 Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $40,000. Players select 5 numbers from a field of 45 and must match at least 2 out of 5 to win a prize. Matching 2 of 5 wins $1, 3 of 5 wins $5 and 4 of 5 wins $200. The Lottery also implemented an add-on jackpot where for an extra $1 a player is entered into a second jackpot called Max Cash. This second jackpot, which is progressive, can only be won if the ticket wins the original jackpot first and the extra $1 was paid. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

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. 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 Monday, Wednesday and Saturday.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $40 million. 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. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

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 conducted every night.

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.

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 you 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 pm. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week. With concurrence with the Board of Horse Racing, both Racing and Football products offered by the Lottery were terminated in July 2021.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 73% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten 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. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire is a seasonal raffle-type game offering two $1 million top prizes. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2021 game offered 250,000 tickets, which sell for $20 each. Early bird drawings for $15,000 and $25,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 1,000 $100 instant winners and 1,500 $500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on November 6, 2021. Two $1 million prizes were awarded. Montana Millionaire is scheduled to sell from November 1 through December 31, 2022, with a drawing on New Year's Day 2023.

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 of $100,000. These bets can be for any sports event available through the Lottery and can vary in many types of wagers.

8. 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 8.00% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed on the original contract 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, 2023.

9. 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 January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on

May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991.

On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,739 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,656. The first payment of $1,571,656 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.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

10. 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.

11. 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:

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;
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

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		
	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by Net Asset Value				
Short Term Investment Pool (STIP)	$524,332			
Total Investments by net asset value level	$524,332	$ -	$ -	$ -

Investments Measured at Net Asset Value

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

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 EMPLOYEMENT 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:

Lottery OPEB	1.0% Decrease (1.23%)	Current Discount Rate (2.23%)	1.0% Increase (3.23%)
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:

Lottery OPEB	1.0% Decrease (5.0%)	Current Discount Rate (6.0%)	1.0% Increase (7.0%)
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.

Stand-Alone Statements. The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* 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.

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, 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.

Employer Net Pension Liability	1.0% Decrease (6.34%)	Current Discount Rate	1.0% Increase (8.34%)
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: 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 Net Pension Liability.

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
2021	$ (10,215)
2022	$ 142,465
2023	$ 74,079
2024	$ 52,969
Thereafter	$ 0