

MONTANA LOTTERY

FINANCIAL STATEMENTS  
(Unaudited)

March 31, 2024

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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, 2028
Tony Harbaugh	Miles City	January 1, 2025
Steve Morris	Helena	January 1, 2025
Janna Taylor	Rollins	January 1, 2027
Jon Metropoulos	Helena	January 1, 2026

## REPORT DISTRIBUTION – 2023

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** – Matt Regier

**Director of Dept. of Administration** – Misty Ann Giles

**President of the Senate** – Jason Ellsworth

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**

Julie Dooling (Chair)	Paul Green	Mallorie Stromswold
Bob Phalen (Vice Chair)	Gary Parry	Sue Vinton
Kelly Kortum (Vice Chair)	Linda Reksten	Kenneth Walsh
Denise Baum	Tyson Running Wolf	Marvin Weatherwax
Marta Bertoglio	Frank Smith	Mike Yakawich
Tony Brockman	Courtenay Sprunger	
Gregory Frazer	Ed Stafman	

### **HOUSE – BUSINESS AND LABOR COMMITTEE**

Ed Buttrey (Chair)	Steven Galloway	Eric Matthews
Kerri Seekins-Crowe (Vice Chair)	Steve Gist	Nelly Nicol
Derek Harvey (Vice Chair)	Steve Gunderson	Greg Oblander
Fred Anderson	Jonathan Karlen	Katie Sullivan
James Bergstrom	Denley Loge	Katie Zolnikov
Bob Carter	Jennifer Lynch	
Ross Fitzgerald	Ron Marshall	

### **SENATE – STATE ADMINISTRATION COMMITTEE**

Mike Cuffe (Chair)	Janet Ellis	Mark Noland
Denise Hayman (Vice Chair)	Steve Fitzpatrick	Shelley Vance
Wendy McKamey (Vice Chair)	Mike Fox	
Dan Bartel	Theresa Manzella	

### **SENATE – BUSINESS, LABOR, AND ECONOMIC AFFAIRS COMMITTEE**

Jason Small (Chair)	Jason Ellsworth	Walt Sales
Mark Noland (Vice Chair)	Steve Fitzpatrick	Terry Vermeire
Christopher Pope (Vice Chair)	Mike Fox	
Willis Curdy	Bruce Gillespie	



June 2024

Montana Lottery Commission:

The past quarter has been an active one. This winter the Lottery wrapped up another year of selling out our Montana Millionaire game at another record pace, worked on new Scratch games and promotions for the summer, and continued our effort to improve the Sports Bet Montana games.

We have had a strong start to our first nine months of the new fiscal year with some huge jackpots. Scratch, Powerball, Treasure Play, Lucky for Life, and Sports Bet each experienced an increase over last year. Scratch inched up by 4.3%, Powerball climbed up with an increase of 16.68%, Treasure Play was up by 4.6%, Lucky for Life went up by 3.7%, and Sports Bet bumped up by 6.8%.

The rest of the games have seen a decrease compared to last year. Montana Cash dropped by 38.8%, Mega Millions decreased by 12.3%, Big Sky Bonus dipped 8.7%, and Lotto America decreased by 34.9%.

Overall, there was an increase in operating revenue of 2.8% along with an increase in direct game costs of 3.3%. Combined with a 5.2% increase in operating expenses, the transfer for the quarter ended is \$5,468,734 which is \$649,006 more than last year's third quarter, which is a 13.5% increase. The percentage of transfer to revenue was 16.4% this year compared to 16.9% last year.

We are looking forward to a busy summer with our retailer events/promotions, continued betting opportunities for our Sports Bet Montana players, along with the introduction of new Scratch and Treasure Play games.

Sincerely,

Bob Brown  
Lottery Director

**MONTANA LOTTERY**  
**STATEMENT OF NET POSITION**  
**MARCH 31 2024 AND 2023**  
(Unaudited)

	Period Ended March 31, 2024	Period Ended March 31, 2023
<b>ASSETS:</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,755,657	\$ 2,144,724
Receivables (Net)	6,461,680	7,046,871
Inventories	568,476	474,925
<b>TOTAL CURRENT ASSETS</b>	<b>10,785,813</b>	<b>9,666,520</b>
<b>NONCURRENT ASSETS</b>		
Computer, Furniture & Equipment	699,634	685,885
Leasehold Improvements	112,322	112,322
Accumulated Depreciation	(574,040)	(594,135)
Intangible Right to Use Buildings	1,140,798	1,140,798
Accumulated Amortization	(570,399)	(362,981)
Multi-State Reserve fund	1,116,656	1,111,572
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,924,971</b>	<b>2,093,461</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Deferred Outflows	343,969	478,490
OPEB Deferred Outflows	264,814	299,107
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>608,783</b>	<b>777,597</b>
<b>COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 13,319,567</b>	<b>\$ 12,537,578</b>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 735,189	\$ 678,973
Estimated Prize Liability	4,038,438	3,839,674
Due to Primary Government	11,977	9,201
Transfer Obligations	5,468,734	4,819,728
Building Lease Payable	103,107	73,080
Unearned Revenue	513,887	295,127
Accrued Compensated Absences	178,559	131,274
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,049,891</b>	<b>9,847,057</b>
<b>NONCURRENT LIABILITIES</b>		
Building Lease Payable	397,948	787,683
Multi-State Prize Liability	924,070	1,011,520
Accrued Compensated Absences	132,941	118,954
Net Pension Liability	2,275,971	1,841,526
Other Post Employment Benefits	86,256	359,503
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>4,023,399</b>	<b>4,119,186</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Deferred Inflows	237,926	759,352
OPEB Deferred Inflows	426,065	188,487
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>663,991</b>	<b>947,839</b>
<b>COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b>15,737,281</b>	<b>14,914,082</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	237,916	204,072
Unrestricted	(2,655,630)	(2,580,576)
<b>TOTAL NET POSITION</b>	<b>\$ (2,417,714)</b>	<b>\$ (2,376,504)</b>

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

**MONTANA LOTTERY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2024 AND 2023**  
**(Unaudited)**

	Quarter Ended March 31, 2024	Quarter Ended March 31, 2023	Nine Months Ended March 31, 2024	Nine Months Ended March 31, 2023
OPERATING REVENUES:				
Scratch ticket revenue	\$ 7,033,753	\$ 6,322,981	\$ 20,129,214	\$ 19,298,898
Powerball revenue	4,305,293	3,512,436	17,939,820	15,374,803
Montana Cash revenue	1,587,773	1,648,342	5,401,538	8,820,444
MT Millionaire revenue	0	0	7,600,000	5,600,000
Mega Millions revenue	2,724,440	3,525,051	8,830,421	10,063,826
Treasure Play revenue	2,191,721	1,930,556	6,356,764	6,077,674
Lucky for Life revenue	1,003,932	1,024,626	3,029,848	2,921,996
Big Sky Bonus revenue	622,092	752,752	1,965,910	2,152,573
Lotto America revenue	433,460	784,989	1,448,439	2,225,152
Sports Bet revenue	17,302,626	17,405,017	49,422,753	46,262,836
License, permits, and misc	1,580	2,791	6,694	7,071
Total Operating Revenues	37,206,670	36,909,541	122,131,401	118,805,273
Less Direct Game Costs:				
Scratch ticket prize expense	4,906,286	4,171,705	13,330,104	12,461,382
On-line ticket prize expense	6,390,938	7,081,062	28,366,451	29,114,003
Sports Bet ticket prize expense	15,463,265	15,088,902	42,730,067	39,460,949
Retailer commission	1,596,479	1,687,627	5,682,746	5,565,427
Cost of tickets sold	186,341	372,878	427,008	516,542
Vendor fees	1,888,233	2,411,677	7,697,487	7,933,637
Total Direct Game Costs	30,431,542	30,813,851	98,233,863	95,051,940
Income Before Operating Expenses	6,775,128	6,095,690	23,897,538	23,753,333
OPERATING EXPENSES:				
Advertising	142,539	95,878	462,137	451,846
Advertising Production	37,277	97,921	145,187	224,303
Audit Fees	10,491	9,124	56,930	14,596
Bad Debts Expense	0	0	(1,615)	(87)
Communications	70,233	88,455	240,650	244,346
Contractual Services	58,584	35,591	111,736	111,430
Depreciation and Amortization	3,472	13,139	19,565	25,801
Administrative Service Fee	59,418	25,347	118,994	75,742
Multi-State Dues	0	0	0	38,615
Public Relations	574	0	28,660	1,634
Other	53,325	30,957	64,233	55,378
Personal Services	709,079	707,771	2,190,590	2,044,583
Repairs and Maintenance	4,055	6,645	13,200	11,332
Supplies and Materials	37,429	87,504	183,690	141,713
Travel	9,668	14,740	30,255	30,153
Utilities and Rent	61,325	63,600	185,158	186,223
Total Operating Expense	1,257,469	1,276,672	3,849,370	3,657,608
Operating Income	5,457,659	4,819,018	20,048,168	20,095,725
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,451	710	3,098	1,738
Gain/Loss on sale of asset	9,624	0	9,624	8
Total Nonoperating Revenues(Expenses)	11,075	710	12,722	1,746
Income Before Operating Transfers	5,468,734	4,819,564	20,060,890	20,097,474
Operating Transfers Out - General Fund	(4,906,234)	(4,319,728)	(18,373,390)	(18,597,474)
Operating Transfers Out -OCHE	(562,500)	(500,000)	(1,687,500)	(1,500,000)
Total Operating Transfers	(5,468,734)	(4,819,728)	(20,060,890)	(20,097,474)
CHANGE IN NET POSITION	0	0	0	0
Total Net Position, Beginning of Period	(2,417,714)	(2,376,504)	(2,417,714)	(2,376,504)
TOTAL NET POSITION, END OF PERIOD	\$ (2,417,714)	\$ (2,376,504)	\$ (2,417,714)	\$ (2,376,504)

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 NINE MONTHS ENDED MARCH 31, 2024**  
**(Unaudited)**

	<u>Budget</u> Fiscal Year July 1, 2023- June 30, 2024	<u>Actual</u> Nine Months Ended March 31, 2024 (Unaudited)	Actual as a Percent of Final Budget (%)
<b>REVENUES:</b>			
Scratch ticket revenue	\$ 26,940,000	\$ 20,129,214	74.72
Powerball revenue	12,000,000	17,939,820	149.50
Montana Cash revenue	5,030,000	5,401,538	107.39
MT Millionaire revenue	7,600,000	7,600,000	100.00
Mega Millions revenue	5,100,000	8,830,421	173.15
Treasure Play revenue	8,100,000	6,356,764	78.48
Lucky for Life revenue	3,810,000	3,029,848	79.52
Big Sky Bonus revenue	2,950,000	1,965,910	66.64
Lotto America revenue	1,900,000	1,448,439	76.23
Sports Bet revenue	75,000,000	49,422,753	65.90
License, permits, and miscellaneous	12,000	6,694	55.78
Total Revenues	148,442,000	122,131,401	82.28
<b>DIRECT GAME COSTS:</b>			
Prizes - Scratch ticket	17,290,092	13,330,104	77.10
Prizes - Lotto games	72,389,500	66,721,418	92.17
Prizes - MT Millionaire	4,375,000	4,375,100	100.00
Retailer commissions	9,163,650	5,682,746	62.01
Ticket cost - scratch games	1,160,000	487,008	41.98
Ticket cost - vendor fees	9,674,400	7,637,487	78.95
Total Direct Game Costs	114,052,642	98,233,863	86.13
<b>OPERATING EXPENSES:</b>			
Advertising	644,000	462,137	71.76
Advertising Production	335,000	145,187	43.34
Audit Fees	149,492	56,930	38.08
Communications	367,725	240,650	65.44
Contractual Services	213,285	111,736	52.39
Administrative Service Fee	119,152	118,994	99.87
Multi-State Dues	40,000	0	0.00
Public Relations	60,000	28,660	47.77
Other	(62,162)	64,233	-103.33
Personal Services	3,055,339	2,190,590	71.70
Repairs and Maintenance	32,000	13,200	41.25
Supplies and Materials	305,200	183,690	60.19
Travel	83,400	30,255	36.28
Utilities and Rent	225,016	185,158	82.29
Equipment	0	77,090	0.00
Total Operating Expenses	5,567,447	3,908,510	70.20
Operating Income	28,821,911	19,989,028	69.35
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest Earnings	3,000	1,129	37.63
Gain/(Loss) on Sale on Asset	0	9,624	
OPEB Expense	0	0	
Pension Expense	0	0	
NET INCOME (BUDGETARY BASIS)	\$ 28,824,911	\$ 19,999,781	69.38
<b>RECONCILIATION OF BUDGETARY/GAAP BASIS:</b>			
Capitalized equipment purchases	35,000	77,090	220.26
Adjustment for depreciation expense	(45,000)	(19,565)	43.48
Bad Debts	0	1,615	0.00
MUSL interest earnings	1,000	1,969	196.90
Total Reconciling Items	(9,000)	61,109	
NET INCOME (GAAP BASIS)	\$ 28,815,911	\$ 20,060,890	69.62

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



**MONTANA LOTTERY**  
**ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2024**

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	MT MILLIONAIRE	MEGA MILLIONS	TREASURE PLAY	LUCKY FOR LIFE	BIG SKY BONUS	LOTTO AMERICA	SPORTS BET	ADMIN
REVENUES:	\$ 20,129,214	\$ 17,939,820	\$ 5,401,538	\$ 7,600,000	\$ 8,830,421	\$ 6,356,764	\$ 3,029,848	\$ 1,965,910	\$ 1,448,439	\$ 49,422,753	\$ 6,694
DIRECT GAME COSTS:											
Prize Expense	13,330,104	8,685,369	2,978,389	4,375,100	3,630,870	4,567,008	2,331,448	1,183,919	614,348	42,730,067	0
Retailer Commissions	1,638,301	847,982	248,838	380,000	372,266	431,321	131,922	86,197	63,646	1,482,273	0
Cost of Tickets Sold	427,008	0	0	0	0	0	0	0	0	0	0
Vendor Fees	1,624,538	1,359,999	429,561	609,171	641,215	471,284	237,165	153,264	112,291	2,058,999	0
NET OPERATING REVENUE	3,109,263	7,046,470	1,744,750	2,235,729	4,186,070	887,151	329,313	542,530	658,154	3,151,414	6,694
OPERATING EXPENSES:											
Advertising	127,711	13,835	8,243	1,530	4,706	42,762	4,153	20,078	1,331	237,787	0
Advertising Production	62,074	21,078	7,250	0	0	11,600	0	4,500	7,250	31,435	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	56,930
Bad Debts	0	0	0	0	0	0	0	0	0	0	(1,615)
Communications	174,418	0	0	0	0	0	0	0	0	0	66,232
Contractual Services	22,840	0	0	0	0	0	0	0	0	10,279	78,617
Depreciation and Amortization	5,097	1,057	927	877	788	1,278	622	687	569	3,308	4,355
Administrative Service Fee	31,010	6,426	5,640	5,331	4,795	7,770	3,784	4,165	3,463	20,122	26,488
Multi-State Dues	0	0	0	0	0	0	0	0	0	0	0
Public Relations	8,750	972	972	972	972	972	972	972	972	972	11,162
Other	1,290	0	0	0	0	0	0	0	0	0	62,943
Personal Services	570,868	118,292	103,834	98,138	88,281	143,046	69,661	76,671	63,746	370,429	487,625
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	13,200
Supplies and Materials	0	0	0	0	0	0	0	0	0	0	183,690
Travel	0	0	0	0	0	0	0	0	0	0	30,255
Utilities and Rent	19,301	3,999	3,511	3,318	2,985	4,836	2,355	2,592	2,155	12,524	127,581
TOTAL OPERATING EXPENSES	1,023,359	165,659	130,377	110,166	102,527	212,264	81,547	109,665	79,486	686,856	1,147,463
OPERATING INCOME	2,085,904	6,880,811	1,614,373	2,125,563	4,083,543	674,887	247,766	432,865	578,668	2,464,558	(1,140,769)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	3,098
Pension Expenses	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	9,624
OPEB Expenses	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	12,722
NET INCOME BY PRODUCT	\$ 2,085,904	\$ 6,880,811	\$ 1,614,373	\$ 2,125,563	\$ 4,083,543	\$ 674,887	\$ 247,766	\$ 432,865	\$ 578,668	\$ 2,464,558	\$ (1,128,047)
PROFIT AS A % OF REVENUE	10.36%	38.35%	29.89%	27.97%	46.24%	10.62%	8.18%	22.02%	39.95%	4.99%	N/A

NOTE: THIS IS NINE 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)  
March 31, 2024

**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 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 quarter ended March 31, 2024 and 2023, respectively, were \$323,946 and \$914,086.

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 nine months ended March 31, 2024, promotional credits resulted in a revenue reduction of approximately \$4,181 and an expense reclassification of approximately \$3,071. For the nine months ended March 31, 2023, promotional credits resulted in a revenue reduction of approximately \$6,574 and an expense reclassification of approximately \$3,955.

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	Quarter Ended	Year To Date	Year To Date
	3/31/24	3/31/23	3/31/24	3/31/23
Lotto	\$373,594	\$296,335	\$718,420	\$520,575
Scratch	\$ 2,900	\$ 78,854	\$447,816	\$598,725
<b>TOTALS</b>	<b>\$376,494</b>	<b>\$375,189</b>	<b>\$1,166,236</b>	<b>\$1,119,300</b>

### 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:

	March 31,	
	<u>2024</u>	<u>2023</u>
Short-term investment pool	\$ 28,114	\$ 26,672
Cash on deposit with State Treasurer	3,527,543	1,918,052
Cash in revolving deposit account	200,000	200,000
<b>TOTALS</b>	<b>\$3,755.657</b>	<b>\$2,144,724</b>

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$240,070 at March 31, 2024 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 \$6,839,438, 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 March 31, 2024, 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 April 1, 2024. The allowance for ticket returns is \$410,606 at March 31, 2024. The return of vendor fees related to the allowance for returns is \$32,848.

For the nine months ended March 31, 2023, receivables include \$7,483,190, 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 March 31, 2023, 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 April 1, 2023. The allowance for ticket returns is \$474,260 as of March 31, 2023. The return of vendor fees related to the allowance for returns is \$37,941.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for the quarters ended March 31, 2024, and 2023 include scratch tickets valued at \$498,318 and \$374,693, 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 nine months ended March 31, 2024, and 2023, supplies inventories totaled \$70,158 and \$100,232 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, 2023	Additions	Deletions	March 31, 2024
Leasehold Improvements	\$ 112,322	\$ -	\$ -	\$ 112,322
Furniture & Equipment	\$ 658,390	\$ 77,090	\$(35,846)	\$ 699,634
Accumulated Depreciation	\$(581,180)	\$(19,565)	\$ 26,705	\$(574,040)

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 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 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 March 31, 2024 were \$4,906,234 to the General Fund and \$562,500 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, 2023	Net Leave Earned/(Used)	Balance Marchr 31, 2024
\$332,232	\$(20,732)	\$311,500

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% (3% for Sports Betting) of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Retailers earn a commission rate of 3% 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 nine months ended March 31, 2024 and 2023, retailers earned bonus commissions of \$447,240 and \$505,298, respectively. For the nine months ended March 31, 2024 and 2023, respectively, total commissions were \$5,682,746 and \$5,565,427.

#### 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 March 31, 2024:

Warrant Writing Services	\$ 919
Payroll Services	7,678
Audit Fees	56,930
Computer Fees	86,174
Records Retention	858
Printing	7,368
State Accounting System Support	3,334
Mail Processing Fees	5,693
Other	1,706
Administrative Service Fees	<u>75,743</u>
<b>TOTAL</b>	<b>\$246,403</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 money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the nine months ended March 31, 2024, the prize expense of \$84,426,622 is 69.1% of net Lottery ticket revenue of \$122,124,707. For the nine months ended March 31, 2023, the prize expense of \$81,036,334 is 68.2% of net Lottery ticket revenue of \$118,798,202.



## 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 \$1,116,656 and \$1,111,572 as of March 31, 2024 and 2023, 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:

	March 31, <u>2024</u>	March 31, <u>2023</u>
Powerball Prize Reserve Account	\$ 253,972	\$ 317,599
Powerball Set Prize Reserve Account	110,423	138,086
Powerball Unreserved Account	183,245	100,052
Lotto America Prize Reserve Account	236,802	226,718
Mega Millions Prize Reserve Account	<u>332,214</u>	<u>329,117</u>
<b>Total</b>	<u><u>\$1,116,656</u></u>	<u><u>\$1,111,572</u></u>

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. 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 \$20 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from \$8 to \$2,000,000 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. Power Play became part of the base game in July 2022. At the same time, the Lottery added Double Play®. This optional add-on uses the same numbers in a separate drawing with separate prize levels up to \$10 million.

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 \$20 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, \$10, \$20, and \$30.

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 5<sup>th</sup> 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 Millionaire is a seasonal raffle-type game offering three \$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 2022 game offered 280,000 tickets, which sell for \$20 each. Early bird drawings for \$100,000 and \$25,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 1,200 \$100 instant winners and 1,800 \$500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on November 1, 2023. Three \$1 million prizes were awarded. Montana Millionaire is scheduled to sell from November 1 through December 31, 2024, with a drawing on New Year's Day 2025.

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.

SGL, 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. The contract currently has a termination date of March 30, 2024.

## **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

Leases are agreements that grant the State use of property in exchange for payments over a period of time. The Lottery has a lease for the use of a building with no option to purchase.

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. The following shows the principal and interest of this lease for the periods referenced;

	Principal	Interest
2024	\$206,213	\$10,603
2025	\$209,641	\$ 7,175
2026	\$213,126	\$ 3,690
2027	\$107,888	\$ 520

## 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 2022 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 60% was invested in Federal Agencies; another 7% 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 27% was invested in a short-term Treasury Bill, and the other 6% 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, 2022, the duration for the U.S. Government Treasury securities was a blended rate of 1.54 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, 2022 is 68 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.”

## 12. FAIR VALUE MEASUREMENT

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

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

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

Level 3 – Prices are determined using unobservable inputs.

### Investments Measured at Net Asset Value

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
	June 30, 2022			
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$25,494			
Total Investments by net asset value level	<u>\$25,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### 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 Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$524,332			
Total Investments by net asset value level	<u>\$524,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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).

### 13. OTHER POST EMPLOYMENT BENEFITS

*General.* The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and Montana Lottery offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

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

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

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the

difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

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

*Funding Policy.* The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-12, MCA gives authority for establishing and amending the funding policy to the Department of Administration. As of December 31, 2021, 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, 2022, 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, 2022
Actuarial cost method	Entry age normal funding method

Amortization method	Open basis
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75
Actuarial assumptions:	
Discount rate	3.31%
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 discount rate increased from 2.23% to 3.31%.

*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 (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

	1.0% Decrease (2.31%)	Current Discount Rate (3.31%)	1.0% Increase (4.31%)
<u>Lottery OPEB</u>			
June 30, 2022	\$444,880	\$359,503	\$294,582

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

	1.0% Decrease (5.0%)	Current Discount Rate (6.0%)	1.0% Increase (7.0%)
<u>Lottery OPEB</u>			
June 30, 2022	\$284,062	\$359,503	\$463,712

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* For the year ended June 30, 2022, the Lottery's plan's OPEB expense is \$44,872. The Lottery's proportionate share of the State's total OPEB liability is \$359,503 which is 0.2994% of the total State's OPEB liability at year end.

At June 30, 2022, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

**June 30, 2022**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 45,998
Changes in Assumptions or other inputs	\$298,248	\$142,489
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 859	\$ -
Total	\$299,107	\$188,487

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 transaction subsequent to the measurement date of the total OPEB liability	\$ 77	\$ -
Total	\$290,331	\$83,675

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
2023	\$ 9,450
2024	\$ 9,450
2025	\$ 9,450
2026	\$ 9,450
2027	\$ 9,450
Thereafter	\$62,510

#### **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 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, <https://mpera.mt.gov/docs/CAFR/FY2022-ACFR.pdf> 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, 2021, is based on the results of an actuarial valuation date of June 30, 2020, using the following actuarial assumptions, applied to all periods included in measurement. After the member has completed 12 full months of retirement, the member's benefit increased by applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit. 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) 7.06%
- Admin Expense as a % of Payroll 0.28%
- Postretirement Benefit Increases;
  - (a) 3% for members hired **prior** to July 1, 2007,
  - (b) 1.5% for members hired between July 1, 2007, and June 30, 2013;
  - (c) 1.5% for members hired after July 1, 2013

For each year PERS is reduced by 0.1% for each 2.0% PERS is funded below 90%. 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 7.06%. 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 2126. 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.*

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash Equivalents	3.0%	(0.33%)
Domestic Equity	30.0%	5.90%
International Equity	17.0%	7.14%
Real Assets	5.0%	4.03%
Private Investments	15.0%	9.13%
Real Estate	9.0%	5.41%
Core Fixed Income	15.0%	1.14%
Non-Core Fixed Income	6.0%	3.02%
Total	100.0%	

The long-term rate of return as of June 30, 2021, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2021 Edition* by Horizon Actuarial Service, LLC, yielding a median real return of 4.66%. The assumed inflation is based on the intermediate inflation assumption of 2.40% in the *2021 OASDI Trustees Report* used by the Chief Actuary for Social Security to produce a 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the previous table.

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 7.06%, as well as what the Net Pension Liability would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

*Sensitivity Analysis.*

	1.0% Decrease (6.06%)	Current Discount Rate	1.0% Increase (8.06%)
<u>Employer Net Pension Liability</u>			
June 30, 2022	\$2,923,136	\$1,841,526	\$ 934,302
June 30, 2021	\$3,370,135	\$2,448,441	\$1,674,225
June 30, 2020	\$2,546,264	\$1,772,282	\$1,121,848

*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 6/30/22	Net Pension Liability as of 6/30/21	Percent of Collective NPL as of 6/30/22	Percent of Collective NPL as of 6/30/21	Change in Percent of Collective NPL
\$1,841,526	\$2,448,441	0.101561%	0.092807%	0.100230%

At June 30, 2022, the Lottery recorded a liability of \$1,841,526 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2011, with roll forward provisions to June 30, 2017. For the fiscal years ended June 30, 2022, and 2021, 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, 2020 to June 30, 2021. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2022, the Lottery's proportion was 0.101561%.

***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 7.34% to 7.06%
- The investment rate of return was lowered from 7.34% to 7.06%
- 

***Changes in benefit terms:***

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

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

***Recognition of Deferred Inflows and Outflows.*** At June 30, 2022 and 2021, 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, 2022**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 19,653	\$ 13,331
Changes in Assumptions	\$272,764	\$ -
Actual vs. Expected Investment Earnings	\$ -	\$746,021
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ 36,590	\$ -
Employer contributions subsequent to the measurement date – FY 2020 contributions	\$149,483	\$ -
Total	\$478,490	\$759,352

**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 2019 contributions	\$146,418	\$ -
Total	\$567,499	\$161,783

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
2022	\$ 31,330
2023	\$ (43,344)
2024	\$(180,183)
2025	\$(238,148)
Thereafter	\$ 0