



CON N O N

ANNUAL REPORT

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LETTER FROM THE DEPUTY DIRECTOR

I am pleased to share the following annual report on behalf of Director Scott Sales, who has since retired but under whose leadership the Montana Lottery once again achieved new heights in fiscal year 2023.

The Lottery's transfer to the State of Montana has been trending up since FY20, but FY23's latest record of \$22.7 million is especially noteworthy for its 35 percent growth over FY22.

The Montana Legislature set up the Lottery's funding of the Montana STEM/Healthcare Scholarship Program to increase year-over-year until reaching \$2.25 million in FY23 and every year forward. The Office of the Commissioner of Higher Education reports the program has assisted more than 1,700 Montana students!

In addition to our STEM/Healthcare Scholarship Program and General Fund contribution, we paid \$6.9 million in commissions to sales agents. These and other positive impacts of the Lottery are being shared unlike ever before with our first image campaign in partnership with Montana's own The Wendt Agency.

By far the greatest product success of the year was Montana Millionaire, which shattered last year's record by generating \$5.6 million in revenue after selling out in approximately 29 hours.

The Lottery updated Powerball to include the Power Play add-on automatically with every purchase and added the Double Play option for a chance to win up to \$10 million. Additionally, the Lottery joined the other participating states in adding a Monday drawing for Lotto America.

This year's promotions included our popular Lucky Every Day Lotto promotion, a new Powerball tie-in called Powerball First Millionaire of the Year, and the Chevrolet® Silverado® summer Scratch game, whose truck and cash prizes drove it to a remarkable sellout 16 weeks ahead of schedule. As an agency, we are grateful for the support of our retail partners and the public for helping us to achieve and exceed our goals in giving back to the State of Montana and its people. We look forward to a bright future in FY24.

Bryan Costigan, Deputy Director

MONTANA LOTTERY COMMISSION



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

LEO PRIGGE, CHAIR, BUTTE



TONY HARBAUGH, MILES CITY

JON METROPOULOS, HELENA



STEVE MORRIS, HELENA

JANNA TAYLOR, ROLLINS



CONTACT THE MONTANA LOTTERY COMMISSION:

2525 NORTH MONTANA AVENUE • HELENA, MT, 59601
406.444.5825 • MONTANALOTTERY@MT.GOV



ECONOMIC IMPACT

FY 1987-2023

\$953 MILLION

PRIZES PAID

\$97 MILLION

SALES AGENT COMMISSIONS EARNED

\$342 MILLION

TRANSFERRED TO
THE STATE OF MONTANA



WHERE THE MONEY GOES

The Montana Lottery is an enterprise fund. It receives no funding from the State of Montana, instead covering all expenses with the revenue generated from product sales. Any surplus revenue (“profit”) is transferred to the State of Montana. Funds transferred to the State of Montana go to specific beneficiaries, which the Montana Legislature identifies. Beneficiaries have changed by legislative action several times since Lottery operations started in 1987 but as of FY23 include:

GENERAL FUND

Most Lottery proceeds go to the General Fund, which funds a variety of State programs at the discretion of the Legislature. In FY23, the Lottery transferred \$22,700,000 to the General Fund.

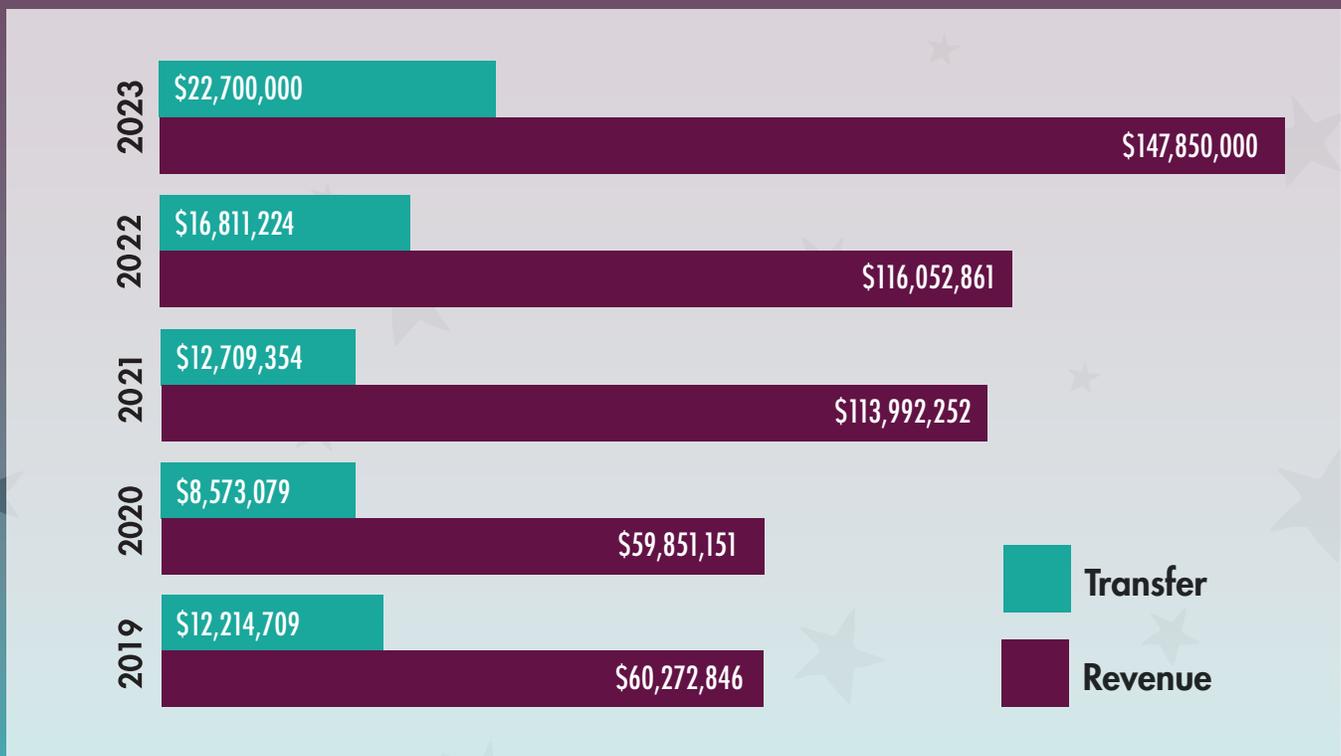
MONTANA'S STEM/HEALTHCARE SCHOLARSHIP PROGRAM

Montana’s STEM/Healthcare Scholarship Program, administered by the Office of the Commissioner of Higher Education, receives Lottery proceeds before the General Fund according to a schedule defined by law.

In FY23, the first \$2,000,000 of Lottery proceeds funded the program. Funding will increase to \$2,250,000 in FY24 and every year going forward.

Montana’s STEM/Healthcare Scholarship Program is designed to provide an incentive for Montana high school students to prepare for, enter into and complete degrees in postsecondary fields related to science, technology, engineering, mathematics, and healthcare. The goal of this program is to increase the number of STEM/Healthcare degree recipients participating in Montana’s workforce.

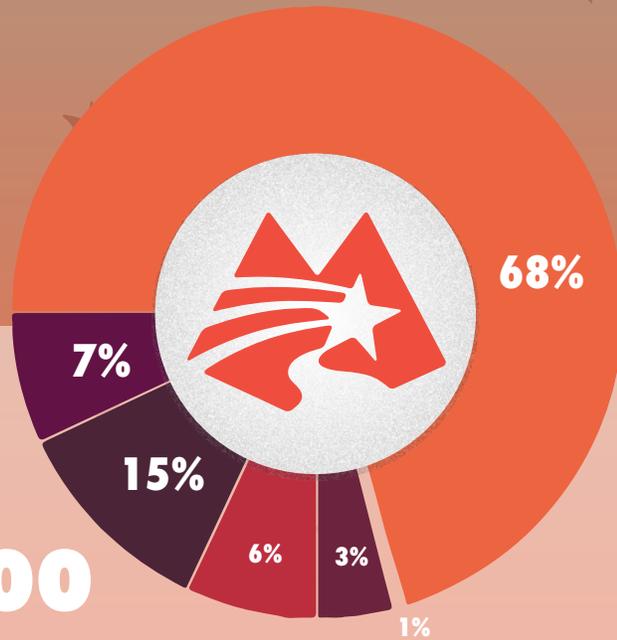
REVENUES AND TRANSFERS, FY19-23



FY23 REVENUES

\$149,015,751

Product Group	FY22	FY23	Difference
Draw	\$45,192,964	\$63,107,883	+40%
Scratch	\$25,461,626	\$26,540,000	+4%
Sports Bet Montana	\$45,388,398	\$59,358,439	+31%
Other	\$9,873	\$9,429	-4%
Total	\$116,052,861	\$149,015,751	+28%



FY23 EXPENSES

\$147,800,000

Prizes	\$100,400,000	68%
Ticket Costs	\$10,800,000	7%
Sales Agent Commissions	\$6,900,000	6%
Operating Expenses	\$5,000,000	3%
Transfers to the General Fund	\$22,700,000	15%
MT STEM/Healthcare Scholarship	\$2,000,000	1%

PRODUCTS IN REVIEW



DRAW PRODUCT REVENUE

\$49,341,204

The Montana Lottery finished FY23 with six Lotto games: Powerball with Power Play, Mega Millions, Lotto America, Lucky for Life, Montana Cash with Max Cash and Big Sky Bonus. Four of those products are multi-state games, while Montana Cash with Max Cash and Big Sky Bonus are Montana-made and played exclusively in Montana. Montana in-state-only games are among our most popular games and offer the best overall odds.

In July 2022, the Lottery updated Powerball to include the Power Play add-on automatically with every purchase and added the Double Play option for a chance to win up to \$10 million. Additionally, the Lottery joined the other participating states in adding a Monday drawing for Lotto America.

All traditional Lotto retailers receive a 5% commission on every dollar sold. Powerball, Mega Millions, and Montana Cash led record revenue with large jackpot runs in FY23. Montana Cash with Max Cash generated its highest-ever jackpot, \$2.88 million, on August 8, 2022. The jackpot was won and split by three winning tickets.

Combined Lotto revenue was \$49,341,204 in FY23, up 52.9% percent from \$32,279,025.00 in FY22.

MONTANA MILLIONAIRE

Montana Millionaire is Montana's only raffle game which is held annually from November 1 to December 31. Montana Millionaire's revenue was \$5,600,000 in FY23, up 12.0% from \$5,000,000 in FY22. Montana Millionaire has become a sensation in Montana and continues to receive tremendous attention after a record-breaking selling out where tickets sold out in 29 hours on November 2.



TREASURE PLAY

The Montana Lottery offers a selection of instant-win, terminal-issued games called Treasure Play at 398 licensed retailers. During FY23, Treasure Play consisted of five non-progressive games and seven progressive jackpot games. Progressive jackpot games are generally more popular than non-progressive games primarily because play increases as jackpots increase. FY23 annual revenue for our Treasure Play line of games was \$8,166,679 up 3.2% percent from \$7,913,939 in FY22.



POWERBALL'S FIRST MILLIONAIRE OF THE YEAR: DICK CLARK'S NEW YEAR'S ROCKIN' EVE PROMOTION

Powerball's First Millionaire - New Year's Rockin' Eve was a one-time Powerball promotion where every Powerball ticket sold between September 14 and October 7, was included in an exclusive second chance drawing. One lucky Montana Powerball player won an all-expenses-paid trip for two to New York City for a chance to become the first millionaire of 2023 on a TV broadcast live from New York's Times Square. Powerball tickets including Double Play or multiple plays received additional entries. The second chance drawing winner was selected on October 7. The New Year's Rockin' Eve grand prize was awarded to a player residing in Eureka.



LUCKY EVERY DAY PROMOTION 2023

Lucky Every Day is an annual Lotto promotion that began on March 1. The promotion allows players to purchase Lotto tickets between February 13 and March 17, including a Lucky Every Day Bonus Play code that can be entered on the Montana Lottery Player's Club website. The drawing was held from March 1 to March 17 and players were eligible to win \$1,000 every weekday and a grand prize drawing for \$5,000. The Lucky Every Day 2023 promotion set another record for increasing Player's Club members' participation, new Player's Club sign-ups and total tickets entered.



SCRATCH REVENUE

\$26,540,000

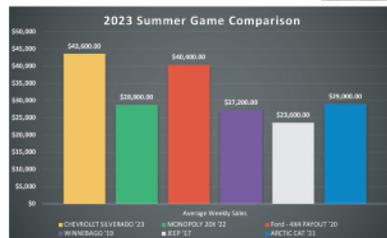


During FY23, Montana Lottery launched 37 Scratch games of all price points, \$1, \$2, \$3, \$5, \$10, and \$20. Scratch revenue for FY23 was 4% higher than FY22.

CHEVROLET® SILVERADO®

The \$5 Chevrolet® Silverado® Scratch game was our best-selling featured summer Scratch game to date. It featured an instant win Chevrolet Silverado full-size 4WD pickup prize with a top cash prize of \$75,000.

In addition to the instant wins, there were three \$10,000 second chance Trail Bucks Cash drawings. With support from a full advertising campaign, it averaged a weekly ticket pack activation rate of 218 packs, which resulted in a 16-week early sell-out.



FIRST \$10 CROSSWORD GAME

We made the decision to launch a \$10 crossword game in our portfolio in January 2023. This game featured two large crossword grids, a small crossword grid, a BONUS WORD game and a Fast \$50 bonus game. It was printed using special premium gold metallic ink. It has averaged a weekly pack activation rate of 107 packs. Because of its excellent performance, this game was on track to become a staple offering in our \$10 category.



SPORTS BET MONTANA REVENUE

\$45,388,398



Sports Bet Montana (SBM) is the Montana Lottery's sports wagering product, which launched in March 2020. Players may bet on a large selection of college and professional sports. SBM is available at almost 500 sales agents, where players may place bets through self-service machines or through a geo-located mobile app tied to a player's account. The Montana Lottery posts weekly and monthly reports on Sports Bet Montana's handle and gross gaming revenue (GGR) on its website.

FOOTBALL

For the National Football League (NFL), the season saw a total handle of \$17,323,699 with total bets amounting to 550,462 in FY23. This is a 20% increase in total handle and a 21% increase in total bets compared to FY22.

The annual University of Montana vs. Montana State University (Cat/Griz) game saw a single event handle of \$173,219. The NCAA Division I Football Championship Subdivision (FCS) playoff semifinal matchup, including Montana State University, saw a single event total handle of \$253,391.

For the National Football League (NFL), the Super Bowl matchup between Kansas City and Philadelphia saw a single event total handle of \$747,805 with 25,636 total bets.

BASKETBALL

NCAA men's basketball tournament, known as March Madness®, saw a total handle of \$2,146,269 with 67,595 total bets. The National Championship game between University of Connecticut and San Diego State saw a single event total handle of \$192,056 with 4,027 bets.

A promotional graphic for "Parlay Boost" featuring a glowing basketball. The text "PARLAY BOOST" is in large, bold letters, with "COLLEGE BASKETBALL TOURNAMENT" below it. A table shows the boost percentages for different numbers of legs.

Legs	Boost
4	15%
5	25%
6	35%
7+	50%

NO PROMO CODE NEEDED | MIN. ODDS PER LEG: -125
MIN. STAKE: \$5 | MAXIMUM BONUS: \$200

TERMINAL

INFORMATION

In FY23, the number of terminals remained mostly the same compared to FY22.

The greatest increase, 5%, was to the MPSB terminal type.

This is because of the continued expansion of the Sports Bet Montana product and sales agent network.

FY23 TERMINALS BY TYPE

Type	Count
Clerk-Activated Terminal - Photon	616
Self-Service Touchscreen Terminal - DreamTouch	49
Self-Service Push-Button Terminal - WinStation	55
Self-Service Treasure Play Terminal - MPNG	374
Self Service Sports Wagering Terminal - MPSB	498
Total	1,598

PHOTON: Our clerk-operated Photon terminals manage and help sell Lotto and Scratch products. Businesses selling our Scratch products at the cash register or through a separate, customer-operated vending-style machine. This device has an external thermal printer and customer-facing advertising display.

DREAMTOUCH: Our DreamTouch terminal is a player-activated, vending-style machine that offers Scratch and Lotto products. The user interface is a large touchscreen. This device contains a thermal printer that will print all Lotto games and gives players 25 Scratch games for purchase.

WINSTATION: Our WinStation terminal is an earlier version of a player-activated, vending-style machine that offers Scratch and Lotto products. The user interface contains large buttons to select offered products. This device contains a thermal printer that will print all Lotto games and offers players 25 Scratch games for purchase.

MPNG (TREASURE PLAY): Our Treasure Play and Lotto products are offered on these player-activated terminals. These devices contain a thermal printer, and print Treasure Play and Lotto tickets.

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

SALES AGENT

INFORMATION

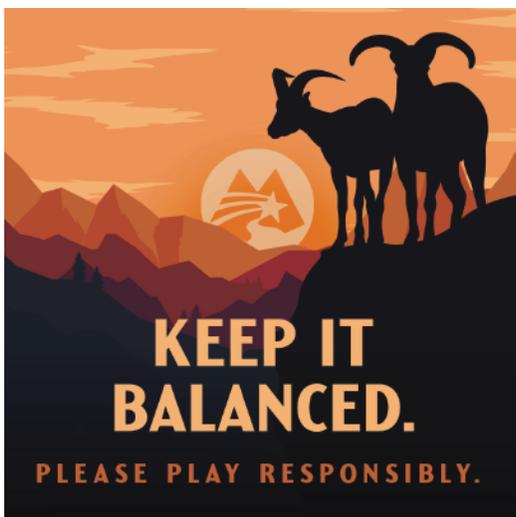
The Montana Lottery's success is due in no small part to a network of sales agents comprising a variety of business types: convenience stores, grocery stores, bars, casinos and more.

The Montana Lottery offers two types of sales agent licenses: traditional and sports wagering. Many businesses have more than one kind of license and offer more than one kind of Lottery product.

The Montana Lottery ended FY23 with 1,243 sales agents.

In addition to major beneficiaries, the Montana Lottery also supports Montana businesses through sales agent commissions. Traditional sales agents earn a 5% commission on tickets sold. For Treasure Play and Scratch products, additional commissions may be earned for sales exceeding quarterly goals.

Sports Bet Montana sales agents who have a machine on premises earned a 3% commission on gross wagers. Locations that are selling SBM as mobile-only earn a commission rate of 1.5%.

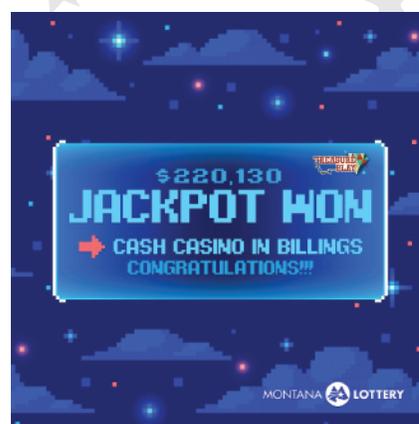


WINNER

SPOTLIGHT

FY23 10 BIGGEST PRIZES PAID

Prize	Game	Sales Agent	City	Date
\$2,000,000	Powerball w/ Power Play	Michael's West	Kalispell	11/02/2022
\$1,135,839	Montana Cash w/ Max Cash	Genex Zip Trip #42	Helena	02/08/2023
\$1,000,000	Montana Millionaire	Town Pump of Butte #8	Butte	12/27/2022
\$1,000,000	Montana Millionaire	Town Pump of Great Falls #1	Great Falls	12/27/2022
\$960,399	Montana Cash w/ Max Cash	Worden's Market	Missoula	9/03/2022
\$960,399	Montana Cash w/ Max Cash	Worden's Market	Missoula	9/03/2022
\$959,188	Montana Cash w/ Max Cash	Holiday 730	Great Falls	9/03/2022
\$303,116	Montana Cash w/ Max Cash	Cayon Ferry Mini Baasket	East Helena	3/22/2023
\$220,130	\$20 Loaded Progressive	Cash Casino	Billings	10/28/2022
\$200,000	Powerball w/ Power Play	Express Stop - Roundup	Roundup	11/12/2022



**MONTANA LOTTERY
STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,322,009	\$ 2,303,927
Receivables (Net)	6,805,064	7,501,327
Multi-State Reserve Fund	65,000	65,000
Inventories	468,310	527,376
Prepaid Expenses	<u>34,952</u>	<u>27,018</u>
TOTAL CURRENT ASSETS	13,695,335	10,424,648
NONCURRENT ASSETS		
Computer, Furniture & Equipment	658,390	589,765
Leasehold Improvements	112,322	112,322
Accumulated Depreciation	(581,180)	(568,333)
Intangible Right to Use Buildings	1,140,798	1,140,798
Accumulated Amortization	(414,835)	(207,418)
Multi-State Reserve Fund	<u>1,049,694</u>	<u>987,029</u>
TOTAL NONCURRENT ASSETS	1,965,189	2,054,163
DEFERRED OUTFLOW OF RESOURCES		
Pension Deferred Outflows	343,969	478,490
OPEB Deferred Outflows	<u>264,814</u>	<u>299,107</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	608,783	777,597
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>16,269,307</u>	\$ <u>13,256,408</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,005,137	\$ 1,118,589
Estimated Prize Liability	2,826,395	3,455,810
Transfer Obligations	9,379,000	5,430,899
Building Lease Payable	206,213	202,840
Unearned Revenue	371,934	332,005
Accrued Compensated Absences	<u>178,559</u>	<u>158,894</u>
TOTAL CURRENT LIABILITIES	13,967,238	10,699,037
NONCURRENT LIABILITIES		
Building Lease Payable	604,749	736,868
Multi-State Prize Liability	955,871	929,185
Accrued Compensated Absences	132,941	118,954
Net Pension Liability	2,275,971	1,841,526
Other Post Employment Benefits	<u>86,256</u>	<u>359,503</u>
TOTAL NONCURRENT LIABILITIES	4,055,788	3,986,036
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	237,926	759,352
OPEB Deferred Inflows	<u>426,065</u>	<u>188,487</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	663,991	947,839
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	18,687,017	15,632,912
NET POSITION		
Net Investment in Capital Assets	189,532	133,754
Unrestricted	<u>(2,607,242)</u>	<u>(2,510,258)</u>
TOTAL NET POSITION	\$ <u>(2,417,710)</u>	\$ <u>(2,376,504)</u>

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

MONTANA LOTTERY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES:		
Scratch Ticket Revenue	\$ 25,373,418	\$ 25,461,626
On Line Ticket Revenue	63,107,883	45,192,964
Sports Bet Ticket Revenue	59,358,439	45,388,398
License, Permits, and Misc	<u>9,429</u>	<u>9,873</u>
Total Operating Revenues	147,849,169	116,052,861
DIRECT GAME COSTS:		
Scratch Ticket Prize Expense	16,213,379	16,738,419
On Line Ticket Prize Expense	33,200,385	24,457,025
Sports Bet Ticket Prize Expense	50,986,105	37,320,279
Retailer Commissions	6,945,521	6,728,262
Cost of Tickets Sold	1,072,427	1,177,622
Vendor fees	<u>9,718,283</u>	<u>7,932,275</u>
Total Direct Game Costs	118,136,100	94,353,882
Income Before Operating Expenses	29,713,069	21,698,979
OPERATING EXPENSES:		
Advertising	544,953	472,978
Advertising Production	281,543	313,245
Audit Fees	50,219	95,067
Bad Debts Expense	(87)	(839)
Communications	328,096	242,537
Contractual Services	167,207	181,338
Depreciation and Amortization	243,636	242,951
Interest - Leases	14,987	15,726
Administrative Service Fee	101,090	99,328
Multi-State Dues	38,615	41,388
Public Relations	7,556	55,303
Other Expenses	64,435	43,276
Personal Services	2,994,103	2,861,022
Repairs and Maintenance	15,261	23,651
Supplies and Materials	197,582	342,468
Travel	40,377	29,467
Utilities and Rent	<u>28,533</u>	<u>25,818</u>
Total Operating Expense	5,118,106	5,084,724
Operating Income	24,594,963	16,614,255
NONOPERATING REVENUES (EXPENSES):		
Interest Earnings	1,187	2,132
Gain/Loss on Sale of Assets	<u>19,391</u>	<u>36,803</u>
Total Nonoperating Revenues(Expenses)	<u>20,578</u>	<u>38,935</u>
Income Before Operating Transfers	24,615,541	16,653,190
Operating Transfers Out - General Fund	(22,656,747)	(15,311,224)
Operating Transfers Out - OCHE	(2,000,000)	(1,500,000)
CHANGE IN NET POSITION	(41,206)	(158,034)
Total Net Position, Beginning of Period	<u>(2,376,504)</u>	<u>(2,218,470)</u>
TOTAL NET POSITION, END OF PERIOD	<u>\$ (2,417,710)</u>	<u>\$ (2,376,504)</u>

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

MONTANA LOTTERY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
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	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 148,585,448	\$ 112,627,512
Payments for Goods & Services	(19,577,972)	(17,653,096)
Payments to Employees	(2,914,287)	(2,690,624)
Payments for Prizes	<u>(101,002,598)</u>	<u>(78,588,924)</u>
Net Cash Provided by Operating Activities	25,090,591	13,694,868
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	<u>(20,708,646)</u>	<u>(14,236,190)</u>
Net Cash Used For Noncapital Financing	(20,708,646)	(14,236,190)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(96,120)	(13,529)
Proceeds from Sale of Fixed Assets	23,515	48,033
Principal & Interest Payments on Leases	<u>(229,779)</u>	<u>(216,816)</u>
Net Cash Used For Capital Financing	(302,384)	(182,312)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	1,187	2,132
Activity in the MUSL Prize Reserve Fund	<u>(62,666)</u>	<u>16,214</u>
Net Cash Provided (Used) by Investing Activities	(61,479)	18,346
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,018,082	(705,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,303,927</u>	<u>3,009,215</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>6,322,009</u>	\$ <u>2,303,927</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 24,594,963	\$ 16,614,255
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation & Amortization	243,636	242,951
Interest Expense	14,987	15,726
Change in Assets and Liabilities:		
Decr (Incr) in Account Receivable	696,263	(3,521,717)
Decr (Incr) in Inventories	59,066	(2,193)
Decr (Incr) in Prepaid expenses	(7,934)	(7,209)
Incr (Decr) in Accounts Payable	(113,452)	160,329
Incr (Decr) in Lottery Prizes Payable	(602,729)	(73,201)
Incr (Decr) in Unearned Income	39,929	95,450
Incr (Decr) in Pooled Realized Gains	73,081	0
Incr (Decr) in Other Post Employment Benefits	(1,376)	73,139
Incr (Decr) in Pension Liability	60,505	79,663
Incr (Decr) in Compensated Absences Payable	<u>33,652</u>	<u>17,675</u>
Total Adjustments	<u>495,628</u>	<u>(2,919,387)</u>
Net Cash Provided by Operating Activities	\$ <u>25,090,591</u>	\$ <u>13,694,868</u>

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

MONTANA LOTTERY
Notes to the Financial Statements
June 30, 2023 and 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. An amendment was made to this statute in the 2019 Legislative session to include Sports betting.

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

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

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

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

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

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

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

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

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

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

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

Tickets sales for Sports Bet Montana wagers are recorded as revenue when the specific event for the bet has occurred and becomes 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/gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the years ended June 30, 2023, and 2022 was \$1,823,111, and \$1,268,488, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the year ended June 30, 2023, promotional credits resulted in a revenue reduction of approximately \$9,548 and an expense reclassification of approximately \$5,505. For the year ended June 30, 2022, promotional credits resulted in a revenue reduction of approximately \$7,335 and an expense reclassification of approximately \$5,300.

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

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

	Quarter Ended 6/30/23	Quarter Ended 6/30/22	Year to Date 6/30/23	Year to Date 6/30/22
Lotto	\$1,624,230	\$146,404	\$2,144,805	\$ 588,246
Scratch	\$ 295,669	\$299,146	\$ 894,394	\$ 652,611
TOTALS	\$1,919,899	\$445,550	\$3,039,199	\$1,240,857

2. OTHER ACCOUNTING ISSUES

Implementation of GASB 87, Leases. For fiscal year ended June 30, 2022, the Lottery implemented GASB Statement 87, *Leases*, retroactive to the previous year. According to the statement, a lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract, for a period of time, in an exchange or exchange-like transaction. A lease liability is recorded at the present value of payments expected during the lease term; and an intangible right-to-use lease asset is recorded at the sum of the lease liability, certain direct costs, and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term.

The State uses an estimated incremental borrowing rate as the discount rate for leases unless the rate is explicitly stated in the contract or known. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but recognized as revenue or expense in the period performed. For more information on Lottery's sole lease, see Note 10.

3. SUMMARY OF ACCOUNTS

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

Cash and cash equivalents consist of the following:

	June 30,	
	<u>2023</u>	<u>2022</u>
Short-term investment pool	\$ 26,874	\$ 25,494
Cash on deposit with State Treasurer	6,094,935	2,078,233
Cash in revolving deposit account	200,000	200,000
Petty Cash & Cash On-Hand	200	200
TOTALS	\$6,322,009	\$2,303,927

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$240,070, and \$244,167 as of June 30, 2023 and 2022, respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. For the year ended June 30, 2023, receivables include \$7,182,710, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$112 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 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 July 1, 2023. The allowance for ticket returns is \$410,606 as of June 30, 2023. The return of vendor fees related to the allowance for returns is \$32,848.

For the year ended June 30, 2022, receivables included \$7,937,161, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$485 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 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

July 1, 2022. The allowance for ticket returns is \$474,260 as of June 30, 2022. 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 years ended June 30, 2023 and 2022 include scratch tickets valued at \$360,275 and \$422,293, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the years ended June 30, 2023, and 2022, supplies inventories totaled \$108,035, and \$105,083, respectively. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets include the following:

	June 30,	
	2023	2022
Prepaid Expenses	\$34,952	\$27,018

The prepaid expenses for the year ended June 30, 2023 consisted of \$5,000 for upcoming events and \$29,952 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2022 consisted of \$27,018 for prepaid commissions and vendor fees related to unearned revenue.

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

	June 30, 2021	Additions	Deletions	June 30, 2022
Leasehold Improvements	\$ 98,793	\$ 13,529	\$ -	\$ 112,322
Furniture & Equipment	\$ 664,636	\$ -	\$ (74,871)	\$ 589,765
Accumulated Depreciation	\$ (596,441)	\$ (35,533)	\$ 63,641	\$ (568,333)
	June 30, 2022	Additions	Deletions	June 30, 2023
Leasehold Improvements	\$ 112,322	\$ -	\$ -	\$ 112,322
Furniture & Equipment	\$ 589,765	\$ 96,120	\$ (27,495)	\$ 658,390
Accumulated Depreciation	\$ (568,333)	\$ (36,217)	\$ 23,370	\$ (581,180)

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

Obligation to Transfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund and the Office Commissioner of Higher Education. The 2019 Legislature passed SB60 which changed the transfer requirements again. Going forward, the Lottery is to transfer a set amount to the STEM scholarship first, and any residual would be transferred to the General Fund. The transfer obligations outstanding at June 30, 2023 were \$8,452,081 to the General Fund and \$1,000,000 to OCHE. For the year ending June 30, 2022, the obligation outstanding at year end was \$5,055,899 due to the General Fund and \$375,000 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.

<u>Balance</u> <u>June 30, 2021</u> \$260,173	<u>Net Leave</u> <u>Earned/(Used)</u> \$17,675	<u>Balance</u> <u>June 30, 2022</u> \$277,848
<u>Balance</u> <u>June 30, 2022</u> \$277,848	<u>Net Leave</u> <u>Earned/(Used)</u> \$33,652	<u>Balance</u> <u>June 30, 2023</u> \$311,500

Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2023 and 2022:

	Year ended June 30, 2023			<u>Balance</u> <u>June 30, 2023</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>		
Building Lease	\$ 736,868	\$ 2,863	\$ (208,063)	\$ 531,668	\$206,213
Multi-State Prize Liability	\$ 929,185	\$101,020	\$ (74,334)	\$ 955,871	\$ -
Accrued Compensated Absences	\$ 118,954	\$ 43,423	\$ (29,436)	\$ 132,941	\$178,559
Net Pension Liability	\$1,841,526	\$434,445	\$ -	\$2,275,971	\$ -
Other Post Employment Benefits	\$ 359,503	\$ -	\$(273,247)	\$ 86,256	\$ -

Year ended June 30, 2022

	Balance			Balance	Amounts
	July 1, 2021	Additions	Reductions	June 30, 2022	due within
					one year
Building Lease	\$ 939,708	\$ -	\$(202,840)	\$ 736,868	\$202,840
Multi-State Prize Liability	\$ 924,365	\$ 56,626	\$(51,806)	\$ 929,185	\$ -
Accrued Compensated Absences	\$ 147,146	\$ 56,323	\$(84,515)	\$ 118,954	\$158,894
Net Pension Liability	\$2,448,441	\$ -	\$(606,915)	\$1,841,526	\$ -
Other Post Employment Benefits	\$ 382,400	\$ -	\$(22,897)	\$ 359,503	\$ -

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery established this commission at 5% (6% for Sports Betting, 3% starting in FYE2023) of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the years ended June 30, 2023 and 2022, retailers earned bonus commissions of \$677,507 and \$716,140, respectively. For the years ended June 30, 2023 and 2022, total commissions were \$6,945,521, and \$6,728,262, respectively.

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal years ended June 30, 2023 and 2022:

Year Ended June 30	2023	2022
Administrative Service Fees	\$ 101,090	\$ 99,258
Audit Fees	50,219	95,067
Computer Fees	120,224	118,321
Insurance	17,989	17,595
Mail Processing Fees	7,350	8,001
Other Expenses	3,333	4,557
Payroll Services	10,237	10,323
Printing	8,894	11,460
Record Retention	1,288	1,229
State Accounting System Support	4,445	4,603
Warrant Writing Services	1,277	1,544
	\$326,346	\$371,958

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the year ended June 30, 2023, the prize expense of \$100,326,788 is 67.86% of net Lottery ticket revenue of \$147,839,740. For the year ended June 30, 2022, the prize expense of \$78,515,723 was 67.66% of net Lottery ticket revenue of \$116,042,988.

6. TRANSFERS OF NET REVENUE

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Senate Bill 90 established amounts to go to the STEM scholarships of \$2,000,000 for FY 2023, and \$2,250,000 for FY 2024 and all subsequent fiscal years thereafter. The residual amounts go to the General Fund.

For the years ended June 30, 2023 and 2022, the net revenue payable to the State General Fund totaled \$22,729,828, and \$15,311,224, respectively. For the years ended June 30, 2023 and 2022, the net revenue payable to the Montana STEM scholarship totaled \$2,000,000, and \$1,500,000, respectively.

7. MULTI-STATE LOTTERY

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

The Multi-State Lottery Reserve Fund with a balance of \$1,114,694 and \$1,052,029 as of June 30, 2023, and 2022, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). A portion of the Powerball Unreserved Account is classified as a current asset which represents an amount expected to be converted into cash and collected from MUSL within the next fiscal year. The balance of these reserve accounts and investment category is as follows:

June 30, 2023

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 38,112	\$ 238,061	\$ 276,173
Powerball Set Prize Reserve Account	24,015	96,002	120,017
Powerball Unreserved Account	42,199	116,624	158,823
Lotto America Prize Reserve Account	76,974	150,492	227,466
Mega Millions Prize Reserve Account	<u>95,412</u>	<u>236,803</u>	<u>332,215</u>
Total Reserves	<u>\$276,712</u>	<u>\$837,982</u>	<u>\$1,114,694</u>
Less Current Portion			<u>(65,000)</u>
Non Current Reserves			<u>\$1,049,694</u>

June 30, 2022

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$221,780	\$105,909	\$ 327,689
Powerball Set Prize Reserve Account	3,682	139,018	142,700
Powerball Unreserved Account	74,542	48,302	122,844
Lotto America Prize Reserve Account	56,738	111,623	168,361
Mega Millions Prize Reserve Account	<u>30,305</u>	<u>260,130</u>	<u>290,435</u>
Total Reserves	<u>\$387,047</u>	<u>\$664,982</u>	<u>\$1,052,029</u>
Less Current Portion			<u>(65,000)</u>
Non Current Reserves			<u>\$ 987,029</u>

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

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

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

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

During fiscal year ended 2023, the Lottery received \$997 in interest, had \$74,381 added into the account due to a Powerball redistribution adjustment, and a reduction of \$39,399 for annual dues. During the fiscal year ended 2022, the Lottery received \$558 in interest, and had \$6,147 added into the account due to a Mega Millions redistribution adjustment, and a reduction of \$27,739 for annual dues..

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

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

8. RELATED PARTY TRANSACTIONS

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

As described in Note 7 above, the Lottery has prize reserves with MUSL in the amounts of \$1,114,694 and \$1,052,029 for years ended 2023 and 2022, respectively. These are monies that are assets to the Lottery and would be transferred over if the lottery were to quit any of the multi-state games.

Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough amount/number of winners for any particular draw, MUSL would then reimburse any state for the excess amount of prizes paid out. In FY2023, the Lottery paid MUSL \$9,937,764 for its share of prizes and received reimbursements for prizes in the amount of \$1,844,705. In FY2022, the Lottery paid MUSL \$7,257,268 for its share of prizes and received reimbursements for prizes in the amount of \$2,354,374.

9. GAMES

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

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

The Powerball game allows players a chance to win a minimum parimutuel jackpot of \$20 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$8 to \$2 million for matching fewer than all six numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. Powerball is offered in 48 lottery jurisdictions including Montana. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing, creating a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play. 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 Cash game allows players the chance to win a minimum parimutuel jackpot of \$40,000. Players select five numbers from a field of 45 and must match at least two out of five to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The Lottery added a second jackpot for this game called Max Cash. Max Cash is a separate jackpot that grows based on the sales for adding an extra dollar to the normal Montana Cash ticket. It is only hit when a player wins the regular jackpot and purchased the Max Cash add on. The drawings are conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

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

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

Big Sky Bonus debuted April 2016. Big Sky Bonus is a Montana-only game that allows players to win a progressive jackpot. Players select 4 numbers from a field of 31 and must match at least 2 out of 4 to win a prize unless they hit the bonus number which is a 5th number picked out of a field of 16. Matching the bonus number at any time wins \$10. Matching 2 of 4 wins \$2, 3 of 4 wins \$20, and 4 of 4 wins the jackpot. The drawing is held every day at 7:30 p.m. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

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

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. Some games include progressive jackpots.

Montana Millionaire is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially and are sold for \$20 each. Early bird drawings for \$100,000 and \$25,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 2,000 \$100 instant winners and 2,100 \$500 instant winners. On December 26, 2023, three \$1 million prizes will be awarded.

The Montana Lottery offered a product line called Montana Sports Action on behalf of the Montana Board of Horse Racing. The product line began in August 2008 with a game called Fantasy Football. To play the game, players choose five offensive players and a defensive unit from the official roster of professional football players and teams. The players can also select a bet amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares of the prize pool players are eligible to win should their team have one of the three highest point totals for the week. Tickets are sold weekly through the professional playoffs, excluding the championship game. A second game called Fantasy Racing was introduced in February 2009 and follows the NASCAR® Sprint Cup Series. Teams are

created by selecting a driver from the top nine ranked drivers for the week, three drivers ranked from 10 through 34, and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Like Fantasy Football, players may also choose to purchase a higher-cost ticket to increase the share of the prize pool in the event their team has one of the three highest point totals for that race. Both of these games were discontinued in July 2021.

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

10. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On August 1, 2022 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. The contract currently has a termination date of March 30, 2023 with two year extensions.

11. 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

12. INVESTMENTS

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

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

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

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

Per MUSL, for 2023 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 64% was invested in Federal Agencies; another 1% 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 30% was invested in structured securities, and the other 5% of the prize reserves are invested in CDs.. 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, 2023, the duration for the U.S. Government Treasury securities was a blended rate of 1.87 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, 2023 is 57days.

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

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

13. FAIR VALUE MEASUREMENT

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

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

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

Level 3 – Prices are determined using unobservable inputs.

Investments Measured at Net Asset Value

	June 30, 2023	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)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$26,874			
Total Investments by net asset value level	<u>\$26,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at Net Asset Value

	June 30, 2022	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)
<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>

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

14. OTHER POST EMPLOYMENT BENEFITS

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

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

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

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. There are no assets recorded, just the liabilities as reported contributions are not a result of direct funding to the plan, but are a measure of the difference in retiree payments into the plan and actual medical costs associated with those individuals paid for by the plan. 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 post-employment 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 for the State group health insurance plan. As of December 31, 2022, the State OPEB plan's administratively established retiree medical premiums vary between \$466 and \$2,272 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively dental premiums vary between \$41.10 and \$70.00 per month and vision hardware 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 participating or non-participating 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. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for 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

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 (2.98%) or 1-percentage-point higher (4.98%) than the current discount rate:

	1.0% Decrease (2.98%)	Current Discount Rate (3.98%)	1.0% Increase (4.98%)
<u>Lottery OPEB</u>			
June 30, 2023	\$115,054	\$86,256	\$65,597

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 (6.5%) or 1-percentage-point higher (9.0%) than the current healthcare cost trend rates:

	1.0% Decrease	Current Discount Rate (6.5%/9.0%)	1.0% Increase
<u>Lottery OPEB</u>			
June 30, 2023	\$65,963	\$86,256	\$115,160

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2023, the Lottery's plan's OPEB expense is \$(1,377). The Lottery's proportionate share of the State's total OPEB liability is \$86,256 which is 0.2882% of the total State's OPEB liability at year end.

At June 30, 2023, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$186,892
Changes in Assumptions or other inputs	\$262,531	\$239,173
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 2,283	\$ -
Total	\$264,814	\$426,065

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 transaction subsequent to the measurement date of the total OPEB liability	\$ 859	\$ -
Total	\$ 299,107	\$188,487

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
2024	\$(12,163)
2025	\$(12,163)
2026	\$(12,163)
2027	\$(12,163)
2028	\$(12,163)
Thereafter	\$(102,720)

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:

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 Montana Statute 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.

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

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

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

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

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

ACFR information including the stand alone financial statements can be found at the MPERA's website <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, 2023, is based on the results of an actuarial valuation date of June 30, 2022, 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 increases 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 2.75%)
- Merit Increases 0% to 4.80%
- Investment Return (net of admin expense) 7.30%
- 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, disabled members, and service retired members and beneficiaries based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 for males and females. Projected generationally using MP-2021.

Mortality assumption among contingent survivors, and healthy retirees are based on PUB-2010 General Amount Weighted Contingent Survivor and Healthy Retiree Mortality tables projected to 2021 with ages set forward one year for males and females. For healthy retirees, the percentage is adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

Discount Rate. The discount rate used to measure the Total Pension Liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would 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.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
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 expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the Plan about every five years. The long-term rate of return as June 30, 2022, is based on analysis in the experience study report dated May 2, 2022 without consideration for administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and the adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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 7.30%, 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	Current Discount Rate	1.0% Increase
<u>Employer Net Pension Liability</u>			
June 30, 2023	\$3,280,918	\$2,275,971	\$1,432,832
June 30, 2022	\$2,923,136	\$1,841,526	\$ 934,302
June 30, 2021	\$3,370,135	\$2,448,441	\$1,674,225

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 6/30/23	Net Pension Liability as of 6/30/22	Percent of Collective NPL as of 6/30/23	Percent of Collective NPL as of 6/30/22	Change in Percent of Collective NPL
\$2,275,971	\$1,841,526	0.101561%	0.1002230%	0.006460%

At June 30, 2023, the Lottery recorded a liability of \$2,275,971 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2023, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2022, with roll forward provisions to June 30, 2023. For the fiscal years ended June 30, 2023, and 2022, 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, 2022 to June 30, 2023. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2023, 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 increased from 7.06% to 7.30%
- The investment rate of return was increased from 7.06% to 7.30%
- Updated all mortality tables to PUB2010 tables for general employees.
- Updated the rates of withdrawal, retirement, and disability.
- Lowered the payroll growth assumption from 3.50% to 3.25%.
- The inflation rate was increased from 2.40% to 2.75%

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 to the Plan 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, 2023 and 2022, 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, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 29,014	\$ -
Changes in Assumptions	\$ 84,816	\$ 166,622
Actual vs. Expected Investment Earnings	\$ 66,890	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 71,304
Employer contributions subsequent to the measurement date – FY 2020 contributions	\$163,249	\$ -
Total	\$343,969	\$237,926

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 2019 contributions	\$149,483	\$ -
Total	\$478,490	\$759,352

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
2023	\$ (3,812)
2024	\$(133,544)
2025	\$ (72,144)
2026	\$ 152,294
Thereafter	\$ 0