

MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2023

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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, 2024
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)

Bob Phalen (Vice Chair)

Kelly Kortum (Vice Chair)

Denise Baum

Marta Bertoglio

Tony Brockman

Gregory Frazer

Paul Green

Gary Parry

Linda Reksten

Tyson Running Wolf

Frank Smith

Courtenay Sprunger

Ed Stafman

Mallorie Stromswold

Sue Vinton

Kenneth Walsh

Marvin Weatherwax

Mike Yakawich

HOUSE – BUSINESS AND LABOR COMMITTEE

Ed Buttrey (Chair)

Kerri Seekins-Crowe (Vice Chair)

Derek Harvey (Vice Chair)

Fred Anderson

James Bergstrom

Bob Carter

Ross Fitzgerald

Steven Galloway

Steve Gist

Steve Gunderson

Jonathan Karlen

Denley Loge

Jennifer Lynch

Ron Marshall

Eric Matthews

Nelly Nicol

Greg Oblander

Katie Sullivan

Katie Zolnikov

SENATE – STATE ADMINISTRATION COMMITTEE

Mike Cuffe (Chair)

Denise Hayman (Vice Chair)

Wendy McKamey (Vice Chair)

Dan Bartel

Janet Ellis

Steve Fitzpatrick

Mike Fox

Theresa Manzella

Mark Noland

Shelley Vance

SENATE – BUSINESS, LABOR, AND ECONOMIC AFFAIRS COMMITTEE

Jason Small (Chair)

Mark Noland (Vice Chair)

Christopher Pope (Vice Chair)

Willis Curdy

Jason Ellsworth

Steve Fitzpatrick

Mike Fox

Bruce Gillespie

Walt Sales

Terry Vermeire



November 2023

Montana Lottery Commission:

The past quarter has been an active one. The Lottery had a busy summer with managing our summer Scratch Chevrolet Silverado® game with three second chance drawings. We have been working on many new Scratch games along with being busy supporting our Sports Bet Montana product line and its continued expansion.

We have had a strong start to our new fiscal year with some huge jackpots. Powerball, Mega Millions, Treasure Play, Big Sky Bonus, Lucky for Life, and Sports Bet each experienced an increase over last year. Powerball had flown up with an increase of 146.1%, Mega Millions came up by 2.6%, Treasure Play climbed by 13.2%, Big Sky Bonus increased by 15.6%, Lucky for Life increased by 9.9%, and Sports Bet bumped up by 14.7%.

The rest of the games have seen a decrease compared to last year. Scratch decreased by 1.0%, Montana Cash dropped by 58.5%, and Lotto America decreased by 16.7%.

Overall, there was an increase in operating revenue of 8.0% along with an increase in direct game costs of 9.4%. Combined with an 8.2% decrease in operating expenses, the transfer for the quarter ended is \$6,930,859 which is \$369,950 more than last year's first quarter, which is a 5.6% increase. The percentage of transfer to revenue was 19.0% this year compared to 19.4% last year.

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

Sincerely,

Scott Sales
Lottery Director

MONTANA LOTTERY
STATEMENT OF NET POSITION
SEPTEMBER 30 2023 AND 2022
(Unaudited)

	Period Ended September 30, 2023	Period Ended September 30, 2022
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,467,814	\$ 3,963,641
Receivables (Net)	8,179,359	6,701,663
Inventories	488,475	473,530
TOTAL CURRENT ASSETS	12,135,648	11,138,834
NONCURRENT ASSETS		
Computer, Furniture & Equipment	658,390	589,765
Leasehold Improvements	112,322	112,322
Accumulated Depreciation	(588,124)	(574,665)
Intangible Right to Use Buildings	1,140,798	1,140,798
Accumulated Amortization	(449,405)	(259,272)
Multi-State Reserve fund	1,124,099	1,031,622
TOTAL NONCURRENT ASSETS	1,998,080	2,040,570
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflows	343,969	478,490
OPEB Deferred Outflows	264,814	299,107
TOTAL DEFERRED OUTFLOWS OF RESOURCES	608,783	777,597
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 14,742,511	\$ 13,957,001
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,123,828	\$ 422,331
Estimated Prize Liability	3,428,531	3,582,850
Due to Primary Government	1,576	0
Transfer Obligations	6,930,859	6,560,909
Building Lease Payable	206,213	152,373
Unearned Revenue	617,190	452,135
Accrued Compensated Absences	157,827	138,162
TOTAL CURRENT LIABILITIES	12,466,024	11,308,760
NONCURRENT LIABILITIES		
Building Lease Payable	364,353	809,949
Multi-State Prize Liability	964,473	946,974
Accrued Compensated Absences	132,941	118,954
Net Pension Liability	2,275,971	1,841,526
Other Post Employment Benefits	86,256	359,503
TOTAL NONCURRENT LIABILITIES	4,030,207	4,076,906
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	237,926	759,352
OPEB Deferred Inflows	426,065	188,487
TOTAL DEFERRED INFLOWS OF RESOURCES	663,991	947,839
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	17,160,222	16,333,505
NET POSITION		
Net Investment in Capital Assets	182,588	119,706
Unrestricted	(2,600,299)	(2,496,210)
TOTAL NET POSITION	\$ (2,417,711)	\$ (2,376,504)

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)

	Quarter Ended September 30, 2023	Quarter Ended September 30, 2022
OPERATING REVENUES:		
Scratch ticket revenue	\$ 6,123,231	\$ 6,182,255
Powerball revenue	6,848,768	2,783,268
Montana Cash revenue	2,346,689	5,653,035
MT Millionaire revenue	0	0
Mega Millions revenue	4,673,277	4,554,620
Treasure Play revenue	1,970,325	1,740,776
Lucky for Life revenue	1,035,790	942,318
Big Sky Bonus revenue	761,304	658,454
Lotto America revenue	565,302	678,844
Sports Bet revenue	12,100,360	10,547,029
License, permits, and misc	2,514	1,940
Total Operating Revenues	36,427,560	33,742,539
Less Direct Game Costs:		
Scratch ticket prize expense	4,130,096	3,998,835
On-line ticket prize expense	9,741,474	9,260,675
Sports Bet ticket prize expense	9,997,336	8,816,662
Retailer commission	1,783,775	1,623,753
Cost of tickets sold	48,984	82,123
Vendor fees	2,584,867	2,080,129
Total Direct Game Costs	28,286,532	25,862,177
Income Before Operating Expenses	8,141,028	7,880,362
OPERATING EXPENSES:		
Advertising	118,935	305,748
Advertising Production	29,000	93,693
Audit Fees	19,460	0
Bad Debts Expense	0	(87)
Communications	80,956	80,478
Contractual Services	38,691	29,201
Depreciation and Amortization	6,944	6,331
Administrative Service Fee	29,788	25,197
Multi-State Dues	0	38,540
Public Relations	27,286	1,385
Other	9,088	18,804
Personal Services	667,101	618,412
Repairs and Maintenance	5,963	469
Supplies and Materials	104,206	33,950
Travel	11,539	6,851
Utilities and Rent	62,393	60,971
Total Operating Expense	1,211,350	1,319,943
Operating Income	6,929,678	6,560,419
NONOPERATING REVENUES (EXPENSES)		
Interest earnings	1,181	482
Gain/Loss on sale of asset	0	8
Total Nonoperating Revenues(Expenses)	1,181	490
Income Before Operating Transfers	6,930,859	6,560,909
Operating Transfers Out - General Fund	(6,368,359)	(6,060,909)
Operating Transfers Out -OCHE	(562,500)	(500,000)
Total Operating Transfers	(6,930,859)	(6,560,909)
CHANGE IN NET POSITION	0	0
Total Net Position, Beginning of Period	(2,417,711)	(2,376,504)
TOTAL NET POSITION, END OF PERIOD	\$ (2,417,711)	\$ (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 QUARTER ENDED SEPTEMBER 30, 2023
(Unaudited)

	<u>Budget</u> Fiscal Year July 1, 2023- June 30, 2024	<u>Actual</u> Quarter Ended September 30, 2023 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	\$ 26,940,000	\$ 6,123,231	22.73
Powerball revenue	12,000,000	6,848,768	57.07
Montana Cash revenue	5,030,000	2,346,689	46.65
MT Millionaire revenue	7,600,000	0	0.00
Mega Millions revenue	5,100,000	4,673,277	91.63
Treasure Play revenue	8,100,000	1,970,325	24.33
Lucky for Life revenue	3,810,000	1,035,790	27.19
Big Sky Bonus revenue	2,950,000	761,304	25.81
Lotto America revenue	1,900,000	565,302	29.75
Sports Bet revenue	75,000,000	12,100,360	16.13
License, permits, and miscellaneous	12,000	2,514	20.95
Total Revenues	<u>148,442,000</u>	<u>36,427,560</u>	24.54
DIRECT GAME COSTS:			
Prizes - Scratch ticket	17,290,092	4,130,096	23.89
Prizes - Lotto games	72,389,500	19,738,810	27.27
Prizes - MT Millionaire	4,375,000	0	0.00
Retailer commissions	9,163,650	1,783,775	19.47
Ticket cost - scratch games	1,160,000	48,984	4.22
Ticket cost - vendor fees	9,674,400	2,584,867	26.72
Total Direct Game Costs	<u>114,052,642</u>	<u>28,286,532</u>	24.80
OPERATING EXPENSES:			
Advertising	644,000	118,935	18.47
Advertising Production	335,000	29,000	8.66
Audit Fees	149,492	19,460	13.02
Communications	367,725	80,956	22.02
Contractual Services	213,285	38,691	18.14
Administrative Service Fee	119,152	29,788	25.00
Multi-State Dues	40,000	0	0.00
Public Relations	60,000	27,286	45.48
Other	(62,162)	9,088	-14.62
Personal Services	3,004,219	667,101	22.21
Repairs and Maintenance	32,000	5,963	18.63
Supplies and Materials	305,200	104,206	34.14
Travel	83,400	11,539	13.84
Utilities and Rent	225,016	62,393	27.73
Equipment	0	0	0.00
Total Operating Expenses	<u>5,516,327</u>	<u>1,204,406</u>	21.83
Operating Income	28,873,031	6,936,622	24.02
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	3,000	378	12.60
Gain/(Loss) on Sale on Asset	0	0	
OPEB Expense	0	0	
Pension Expense	0	0	
NET INCOME (BUDGETARY BASIS)	\$ 28,876,031	\$ 6,937,000	24.02
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	35,000	0	0.00
Adjustment for depreciation expense	(45,000)	(6,944)	15.43
Bad Debts	0	0	0.00
MUSL interest earnings	1,000	803	80.30
Total Reconciling Items	(9,000)	(6,141)	
NET INCOME (GAAP BASIS)	\$ 28,867,031	\$ 6,930,859	24.01

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

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE QUARTER ENDED SEPTEMBER 30, 2023
(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	MT MILLIONAIRE	MEGA MILLIONS	TREASURE PLAY	LUCKY FOR LIFE	BIG SKY BONUS	LOTTO AMERICA	SPORTS BET	ADMIN
REVENUES:	\$ 6,123,231	\$ 6,848,768	\$ 2,346,689	\$ 0	\$ 4,673,277	\$ 1,970,325	\$ 1,035,790	\$ 761,304	\$ 565,302	\$ 12,100,360	\$ 2,514
DIRECT GAME COSTS:											
Prize Expense	4,130,096	3,344,451	1,296,723	0	2,273,081	1,431,016	605,603	516,889	273,393	9,997,336	318
Retailer Commissions	453,703	343,399	117,334	0	233,687	154,608	51,790	38,066	28,280	362,908	0
Cost of Tickets Sold	(11,016)	0	0	0	0	0	0	0	0	0	0
Vendor Fees	484,055	546,033	185,684	0	374,707	156,826	82,839	66,908	43,763	704,052	0
NET OPERATING REVENUE	1,066,393	2,614,885	746,948	0	1,791,802	227,875	295,558	139,441	219,866	1,036,064	2,196
OPERATING EXPENSES:											
Advertising	53,310	6,997	1,603	1,530	1,268	1,268	1,268	1,268	1,268	49,159	0
Advertising Production	14,500	0	0	0	0	0	0	0	0	14,500	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	19,460
Bad Debts	0	0	0	0	0	0	0	0	0	0	0
Communications	54,595	10,550	0	0	0	0	0	0	0	0	15,811
Contractual Services	0	14,500	0	0	0	0	0	0	0	0	24,191
Depreciation and Amortization	1,809	375	329	311	280	453	221	244	202	1,174	1,546
Administrative Service Fee	7,763	1,609	1,412	1,335	1,200	1,945	947	1,043	867	5,037	6,631
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	9,788
Other	1,290	0	0	0	0	0	0	0	0	0	7,798
Personal Services	173,847	36,023	31,621	29,886	26,884	43,562	21,214	23,349	19,413	112,807	148,497
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	5,963
Supplies and Materials	0	0	0	0	0	0	0	0	0	0	104,206
Travel	0	0	0	0	0	0	0	0	0	0	11,539
Utilities and Rent	6,504	1,348	1,183	1,118	1,006	1,630	794	874	726	4,220	42,991
TOTAL OPERATING EXPENSES	322,368	72,374	37,120	35,152	31,610	49,830	25,416	27,750	23,448	187,869	398,421
OPERATING INCOME	744,025	2,542,511	709,828	(35,152)	1,760,192	178,045	270,142	111,691	196,418	848,195	(396,225)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	1,181
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	0
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	1,181
NET INCOME BY PRODUCT	\$ 744,025	\$ 2,542,511	\$ 709,828	\$ (35,152)	\$ 1,760,192	\$ 178,045	\$ 270,142	\$ 111,691	\$ 196,418	\$ 848,195	\$ (395,044)
PROFIT AS A % OF REVENUE	12.15%	37.12%	30.25%	0.00%	37.67%	9.04%	26.08%	14.67%	34.75%	7.01%	N/A

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

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
September 30, 2023

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 September 30, 2023 and 2022, respectively, were \$323,946 and \$302,543.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended September 30, 2023, promotional credits resulted in a revenue reduction of approximately \$1,690 and an expense reclassification of approximately \$1,021. For the quarter ended September 30, 2022, promotional credits resulted in a revenue reduction of approximately \$3,212 and an expense reclassification of approximately \$1,858.

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
	9/30/23	9/30/22	9/30/23	9/30/22
Lotto	\$228,040	\$118,187	\$228,040	\$118,187
Scratch	\$ 28,772	\$202,293	\$ 28,772	\$202,293
TOTALS	\$256,812	\$320,480	\$256,812	\$320,480

3. SUMMARY OF ACCOUNTS

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

Cash and cash equivalents consist of the following:

	September 30,	
	<u>2023</u>	<u>2022</u>
Short-term investment pool	\$ 27,364	\$ 26,116
Cash on deposit with State Treasurer	3,240,450	3,737,525
Cash in revolving deposit account	200,000	200,000
TOTALS	\$3,467,814	\$3,963,641

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$240,070 at September 30, 2023 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 \$8,557,117, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at September 30, 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 October 1, 2023. The allowance for ticket returns is \$410,606 at September 30, 2023. The return of vendor fees related to the allowance for returns is \$32,848.

For the year ended September 30, 2022, receivables include \$7,137,982, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of September 30, 2022, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to October 1, 2022. The allowance for ticket returns is \$474,260 as of September 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 the quarters ended September 30, 2023, and 2022 include scratch tickets valued at \$419,090 and \$369,302, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the quarters ended September 30, 2023, and 2022, supplies inventories totaled \$69,385 and \$104,228, 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	September 30, 2023
Leasehold Improvements	\$ 112,322	\$ -	\$ -	\$ 112,322
Furniture & Equipment	\$ 658,390	\$ -	\$ -	\$ 658,390
Accumulated Depreciation	\$(581,180)	\$(6,944)	\$ -	\$(588,124)

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 September 30, 2023 were \$6,368,000 to the General Fund and \$563,000 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>Net Leave</u>	<u>Balance</u>
<u>June 30, 2023</u>	<u>Earned/(Used)</u>	<u>September 30, 2023</u>
\$311,500	\$(20,732)	\$290,768

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 placed. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the quarters ended September 30, 2023 and 2022, retailers earned bonus commissions of \$186,278 and \$132,248, respectively. For the quarters ended September 30, 2023 and 2022, respectively, total commissions were \$1,783,775 and \$1,623,753.

4. PAYMENTS TO OTHER STATE AGENCIES

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

Warrant Writing Services	378
Payroll Services	2,456
Audit Fees	19,460
Computer Fees	33,651
Records Retention	0
Printing	920
State Accounting System Support	1,224
Mail Processing Fees	2,743
Other	918
Administrative Service Fees	<u>29,787</u>
TOTAL	\$91,537

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended September 30, 2023, the prize expense of \$23,868,906 is 65.5% of net Lottery ticket revenue of \$36,425,046. For the quarter ended September 30, 2022, the prize expense of \$22,076,172 is 65.4% of net Lottery ticket revenue of \$33,740,599.

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 \$1,124,099 and \$1,031,622 as of September 30, 2023 and 2022, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

September 30, September 30,

	<u>2023</u>	<u>2022</u>
Powerball Prize Reserve Account	\$ 276,173	\$ 327,689
Powerball Set Prize Reserve Account	120,017	142,700
Powerball Unreserved Account	159,626	84,647
Lotto America Prize Reserve Account	236,069	186,150
Mega Millions Prize Reserve Account	<u>332,214</u>	<u>290,436</u>
Total	<u>\$1,124,099</u>	<u>\$1,031,622</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 5th number picked out of a field of 17. Matching the bonus number at any time wins \$10. Matching 2 of 4 wins \$2, 3 of 4 wins \$20, and 4 of 4 wins the jackpot. The drawing is held every day at 7:30 pm. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Montana 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 2, 2022. Two \$1 million prizes were awarded. Montana Millionaire is scheduled to sell from November 1 through December 31, 2023, with a drawing on New Year's Day 2024.

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

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

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

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

On-line Services. On February 13, 2015, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2016. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 8.00% of net weekly Lottery sales of lotto and scratch games. The contract currently has a termination date of March 30, 2023.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

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

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling \$1,740,000. The first annual payment of \$87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of \$3,000,000. The first annual payment of \$150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for \$7,360,000. The first annual payment of \$368,000 was made February 15, 1991.

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

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

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling \$31,401,656. The first payment of \$1,571,656 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling \$11,000,000. The first annual payment of \$550,000 was awarded on April 18, 1997.

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

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

10. LEASES/INSTALLMENT PURCHASES PAYABLE

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	\$25,494	\$ -	\$ -	\$ -

Investments Measured at Net Asset Value

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

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.

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 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%)
Employer Net Pension Liability			
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