



MONTANA LOTTERY

Annual Report 2011



FROM THE DIRECTOR

Angela Wong was appointed by Governor Brian Schweitzer to head the Montana Lottery. Angela began working with the Lottery on February 7, 2011.

Before her appointment to the Lottery by Governor Brian Schweitzer, Angela held positions with the State of Montana for several years. Among them, she was an energy development specialist for the Department of Commerce and the brand manager for the Office of Tourism. In the private sector, Angela has assisted a number of small businesses, working to develop business/marketing plans.



Angela graduated with a bachelor of arts from Carroll College, where she studied international relations. Her degree focused on business, political science, and Spanish.

The Lottery director is responsible for administrating operations of the Lottery according to state law and the directives of the Lottery Commission, including: licensing retailers, maintaining security, and negotiating contracts for equipment and services required for Lottery operations.

Fiscal Year 2011 ended June 30, 2011, and in spite of a tough economic landscape in Montana, sales and transfers to the State of Montana's General Fund were positive indicators of the hard work of Lottery retailers and staff, and the dedication of our loyal players.

Sales for the year were down slightly, to \$46 million, a 1.76% decrease from Fiscal Year 2010. We are pleased to report that our total sales in the past 24 years now top \$800 million. Our Scratch sales are up 5% over Fiscal Year 2010, to \$15 million.

Our transfers to the State of Montana General Fund are \$10.8 million, slightly more than our Fiscal Year 2010 transfer of \$10.5 million. This brings the total transfers to important state programs to more than \$183 million in the past 24 years. Since 1994, Lottery proceeds have been directed to the General Fund, which support important state programs like education, safety, and others. The proceeds to the General Fund now total \$132 million. Players benefited by participating in an ever-changing variety of Scratch and Lotto games, and sharing in prize payouts of more than \$23 million, while retailers earned nearly \$2.8 million.

Numerous changes will occur in Fiscal Year 2012. The most important change is an improvement to the multi-state Powerball game occurring in January 2012. The Lottery will also celebrate its 25th Anniversary in June. We look forward to sharing those changes with Montana.

Sincerely,

A handwritten signature in cursive script that reads "Angela Wong".

Angela Wong
Director



FROM THE COMMISSION

The Lottery Commission is comprised of Montana citizens appointed by the Governor to oversee operations, establish policy, and approve games and contracts. We are pleased to present our audited financial statements for the fiscal year ending June 30, 2011. Fiscal Year 2011 was a successful year for the Montana Lottery, and the Commissioners look forward to Fiscal Year 2012 as the Lottery celebrates 25 years.

When you review our financial information, there are a number of events and activities that occurred. They are outlined below.

JULY 2010 Completed installation of 58 self-serve Lottery stations, called WinStations, in strategic grocery store locations. Started a game featuring a trip to a UFC™ event in Las Vegas.

AUGUST 2010 The Montana Lottery took the stage at Montana State Fair in Great Falls and Montana Fair in Billings.

SEPTEMBER 2010 Introduced “It’s a Sign” and “Winners Happen,” a new image for the Montana Lottery.

OCTOBER 2010 New Player’s Club launched with Bonus Play, a new way to reward loyal Lottery players with additional chances to win.

NOVEMBER 2010 Montana Millionaire returns for the fourth year. Two Player’s Club members are each awarded a Ford F-150 pickup as a Player’s Club launch promotion.

DECEMBER 2010 Anchors Away™, a Scratch game featuring a Cruise of a Lifetime, is introduced.

JANUARY 2011 The Montana Millionaire drawing is held on New Year’s Day. A \$3 Crossword, \$25,000 Limited Edition, is introduced.

FEBRUARY 2011 Angela Wong is appointed by Governor Brian Schweitzer as the new Lottery Director.

MARCH 2011 The Lottery introduces its revamped website, www.montanalottery.com.

APRIL 2011 Red, White & Blue™, a Scratch game with a second chance drawing for a trip to Las Vegas, is introduced.

MAY 2011 20th Birthday of Montana Cash celebrated with Spring into Summer promotion. Daily Montana Cash ticket, weekly and monthly cash prizes are offered to Player’s Club members.

JUNE 2011 Fiscal Year 2011 ends with a five percent increase in Scratch sales and a slight increase in overall transfer to the State’s General Fund.

MONTANA LOTTERY COMMISSIONERS

Wilbur Rehmann
Chair, Helena

Craig Anderson
Glendive

Thomas M. Keegan
Helena

Beth O’Halloran
Missoula

Leo Prigge
Butte



Contact the Montana Lottery Commission

406.444.5825

**2525 North Montana Avenue
Helena, Montana 59601**



LOTTERY PRODUCTS

SCRATCH

TOTAL SALES \$15,064,556

TOTAL PRIZES \$8,990,017

PRIZE PAYOUT Approximately 60%

- * The Montana Lottery introduced 41 different Scratch games in Fiscal Year 2011
- * Of the top prizes, 191 winners won a prize of \$1,000 or more, with the top prize worth \$250,000 on a game called Quarter Million Cash
- * Over 1.3 million winning tickets under \$1,000 were also sold
- * Each Lottery retailer receives a 5% commission on gross sales, with the potential for earning additional commissions on sales over base. Retailer commissions on Scratch sales in Fiscal Year 2011 totaled \$1,167,822



POWERBALL

TOTAL SALES \$14,477,780

TOTAL PRIZES \$6,752,736

PRIZE PAYOUT Approximately 47%

- * Each Powerball ticket sells for \$1, and for an additional \$1 per play, customers can add Power Play to their ticket that multiplies prizes by 2, 3, 4 or 5. Power Play sales in Fiscal Year 2010 totaled \$2.8 million, or 19% of total Powerball sales
- * Thirty-one winners won a prize of \$1,000 or more, with the top prize won of \$25 million
- * Over 332,000 winning tickets under \$1,000 were also sold
- * Each Lottery retailer receives a 5% commission on gross sales. Retailer commissions on Powerball sales in Fiscal Year 2011 totaled \$723,845



MEGA MILLIONS

TOTAL SALES \$3,418,582

TOTAL PRIZES \$1,768,595

PRIZE PAYOUT Approximately 52%

- * Played in 42 lottery jurisdictions
- * For an additional \$1 per play, players can choose to add a multiplier called Megaplier, which gives winners a chance to multiply prizes, except the jackpot. Megaplier sales were \$757,000 or almost 22%
- * Four Mega Millions players won a prize of \$1000 or more
- * The top prize was a ticket including Megaplier which was worth \$40,000
- * Over 68,000 winning tickets under \$1,000 were sold
- * Lottery retailers receive a 5% commission on gross sales. In Fiscal Year 2011, retailer commissions totaled approximately \$174,309



HOT LOTTO

TOTAL SALES \$3,873,987

TOTAL PRIZES \$1,874,828

PRIZE PAYOUT Approximately 48%

- * Hot Lotto is sold by 15 lotteries including Montana
- * A multiplier option, called Sizzler, sells for \$1 per play and gives players a chance to multiply any winnings except the jackpot, by 3
- * Montana Sizzler sales totaled approximately \$990,000 or 25% of total Hot Lotto sales
- * Twenty-one winners won a prize of \$1,000 or more, with one player matching the second-tier prize of \$10,000 and a second player added the Sizzler option and won \$30,000
- * Nearly 179,000 winning tickets under \$1,000 were also sold
- * Retailer commissions for Fiscal Year 2011, based on 5% of gross sales, were \$193,682



WILD CARD

TOTAL SALES \$2,342,224

TOTAL PRIZES \$1,249,325

PRIZE PAYOUT Approximately 53%

- * Sold in Montana, Idaho, North and South Dakota
- * Of the prizes, 26 winners won a prize of \$1,000 or more
- * Over 380,000 winning tickets under \$1,000 were also sold
- * Retailer commissions, at 5% on gross sales, totaled \$117,105



MONTANA CASH

TOTAL SALES \$3,799,317

TOTAL PRIZES \$2,142,824

PRIZE PAYOUT Approximately 56%

- * The game features frequent jackpot winners – 18 jackpot winners in Fiscal Year 2011
- * The highest jackpot won in Montana for Fiscal Year 2011 was \$150,000, sold in Bozeman for the January 15, 2011 drawing
- * Over 88,000 winning tickets under \$1,000 also were sold
- * Retailers received \$189,970 in commissions



10 SPOT

TOTAL SALES \$721,878

TOTAL PRIZES \$404,312

PRIZE PAYOUT Approximately 56%

- * Three players won the second-tier prize of \$2,500
- * Over 77,000 winning tickets under \$1,000 were also sold
- * Retailers receive a 5% commission on gross sales, a total of \$36,162 in Fiscal Year 2011



MONTANA MILLIONAIRE

TOTAL SALES \$2,269,360

TOTAL PRIZES \$1,458,350

PRIZE PAYOUT Approximately 64%

- * Montana Millionaire is a limited edition game offered from November 1 until December 31
- * In Fiscal Year 2011, four people won \$10,000, four more won \$100,000, and a third winner claimed the million-dollar grand prize
- * Retailers received \$113,468 on sales of Montana Millionaire tickets



MONTANA SPORTS ACTION

TOTAL SALES \$149,355

TOTAL PRIZES \$110,635

PRIZE PAYOUT Approximately 74%

- * Operated under an interagency agreement between the Montana Board of Horse Racing and the Montana Lottery to offer fantasy sports games in bars and casinos
- * Twenty-two players won a prize of \$1,000 or more
- * Another 198 players won a prize worth less than \$1,000
- * The Board of Horse Racing received \$37,410
- * Retailers receive 3.99 percent. In Fiscal Year 2011, \$5,973 was paid to retailers
- * Montana Lottery received \$4,481



Fantasy Football



Fantasy Racing



INDEPENDENT AUDITOR'S REPORT

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets of the Montana State Lottery as of June 30, 2011, and 2010, and the related Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows for each of the fiscal years then ended. The information contained in these financial statements is the responsibility of Montana State Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the enterprise fund of the Montana State Lottery and do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2011, and 2010, and the related changes in its financial position or cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery as of June 30, 2011, and 2010, and its changes in net assets and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the enterprise fund financial statements of the Montana State Lottery. The information on pages 2-8 of the report is presented for the purpose of additional analysis and is not a required part of the enterprise fund financial statements of the Montana State Lottery. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

March 23, 2012



FINANCIAL STATEMENT

Statement of Net Assets June 30, 2011 and 2010

	June 30, 2011	June 30, 2010 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,717,838	\$ 2,995,655
Receivables (Net)	1,825,263	1,786,398
Inventories	367,625	528,373
Security Lending Collateral	29,168	45,616
Prepaid Expenses	27,175	90,497
Total Current Assets	\$ 4,967,069	\$ 5,446,539
NONCURRENT ASSETS		
Computer, Furniture & Equipment	\$ 2,415,766	\$ 1,460,176
Leasehold Improvements	45,448	45,448
Equipment - Work in Progress	669,500	0
Receivable - Equipment	0	1,625,000
Accumulated Depreciation	(725,205)	(456,052)
Investments	37,214	71,375
Multi-State Reserve Fund	1,688,570	1,430,386
Total Noncurrent Assets	\$ 4,131,293	\$ 4,176,333
Total Assets	\$ 9,098,362	\$ 9,622,872

	June 30, 2011	June 30, 2010 (Restated)
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 368,716	\$ 612,584
Estimated Prize Liability	1,731,441	2,570,063
Transfer Obligations	2,892,772	2,467,133
Liability Under Security Lending	29,168	45,616
Deferred Revenue	131,262	137,757
Accrued Compensated Absences	129,540	108,283
Current Portion Long-Term Obligations	72,168	72,168
Total Current Liabilities	\$ 5,355,067	\$ 6,013,604
NONCURRENT LIABILITIES		
MUSL Prize Liability	\$ 1,525,857	\$ 1,223,060
Accrued Compensated Absences	69,629	118,550
Long Term Obligations	270,629	342,797
Other Post Employment Benefits	395,337	299,861
Total Noncurrent Liabilities	\$ 2,261,452	\$ 1,984,268
TOTAL LIABILITIES	\$ 7,616,519	\$ 7,997,872
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 2,062,712	\$ 1,120,947
Unrestricted Net Assets	(580,869)	504,053
Total Net Assets	\$ 1,481,843	\$ 1,625,000
TOTAL LIABILITIES AND NET ASSETS	\$ 9,098,362	\$ 9,622,872



FINANCIAL STATEMENT

Statement of Revenues, Expenses and Changes in Fund Net Assets for the years ended June 30, 2011 and 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010		Year Ended June 30, 2011	Year Ended June 30, 2010
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Scratch ticket revenue	\$ 15,064,556	\$ 14,274,286	Interest earnings	\$ 8,296	\$ 16,333
On-Line ticket revenue	30,975,226	32,578,512	Security Lending Income	1,292	1,203
License, permits, and misc	8,450	20,661	Security Lending Expense	(274)	(406)
Total Operating Revenues	\$ 46,048,232	\$ 46,873,459	Gov FA Disp Proceeds	0	686
DIRECT GAME COSTS			Gain/Loss on sale of assets	0	(2,953)
Scratch ticket prize expense	8,990,017	9,361,059	Capital Contribution - Non State	0	1,625,000
On-line ticket prize expense	15,787,901	16,580,066	Total Nonoperating Revenues (Expenses)	\$ 9,314	\$ 1,639,863
Retailer commissions	2,716,363	2,338,036	Income Before Operating Transfers	\$ 10,677,831	\$ 12,151,921
Cost of tickets sold	1,059,590	1,193,018	Operating Transfers Out - General Fund	\$ (10,820,988)	\$ (10,526,921)
Vendor fees	2,759,777	2,811,246	CHANGE IN NET ASSETS	(143,157)	1,625,000
Total Direct Game Costs	\$ 31,313,648	\$ 32,283,425	Total Net Assets, Beginning of Period	1,625,000	0
Income before Operating Expenses	\$ 14,734,584	\$ 14,590,034	TOTAL NET ASSETS, END OF PERIOD	\$ 1,481,843	\$ 1,625,000
OPERATING EXPENSES					
Advertising	\$ 638,550	\$ 617,438			
Advertising Production	249,447	429,878			
Audit Fees	36,757	71,160			
Bad Debts Expense	382	3,546			
Communications	131,321	83,752			
Contractual Services	106,444	203,802			
Depreciation and Amortization	269,154	161,934			
Interest	21,987	0			
Administrative Service Fee	66,685	64,460			
Multi-State Dues	45,530	47,973			
Public Relations	34,414	51,448			
Other Post Employment Benefits	95,476	83,673			
Other	33,945	63,268			
Personal Services	1,834,607	1,818,562			
Repairs and Maintenance	18,539	20,429			
Supplies and Materials	287,945	161,597			
Travel	39,928	56,002			
Utilities and Rent	154,956	139,054			
Total Operating Expense	\$ 4,066,067	\$ 4,077,976			
Operating Income	\$ 10,668,517	\$ 10,512,058			

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



FINANCIAL STATEMENT

Statement of Cash Flows for the years ended June 30, 2011 and 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 46,002,490	\$ 46,314,363
Payments for Goods & Services	(8,400,079)	(7,791,473)
Payments to Employees	(1,862,271)	(1,802,797)
Payments for Prizes	(25,313,743)	(24,828,183)
Net Cash Provided by Operating Activities	\$ 10,426,397	\$ 11,891,910
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	\$ (10,395,349)	\$ (10,596,118)
Net Cash Used for Noncapital Financing	\$ (10,395,349)	\$ (10,596,118)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	\$ 0	\$ (565,149)
Proceeds from Sale of Fixed Assets	0	687
Principal & Interest Payment on Leases	\$ (94,155)	\$ 0
Net Cash Used for Capital Financing	\$ (94,155)	\$ (564,462)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	\$ 9,314	\$ 17,130
Received from (Paid to) MUSL Prize Reserve Fund	(258,184)	333,398
Sale (Purchase) of Long Term Investments	34,160	67,898
Net Cash Provided (Used) by Investing Activities	\$ (214,710)	\$ 418,426
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(277,817)	1,149,756
CASH AND CASH EQUIVALENTS, JULY 1	2,995,655	1,845,899
Cash and Cash Equivalents, June 30	\$ 2,717,838	\$ 2,995,655

	Year Ended June 30, 2011	Year Ended June 30, 2010 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 10,668,517	\$ 10,512,058
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	\$ 269,154	\$ 161,934
Interest Expense	21,987	0
CHANGE IN ASSETS AND LIABILITIES		
Decr (Incr) in Accounts Receivable	\$ (38,865)	\$ (441,459)
Decr (Incr) in Due from Other Funds	0	1,015
Decr (Incr) in Inventories	160,748	266,667
Decr (Incr) in Collateral Securities on Loan	16,448	64,228
Decr (Incr) in Prepaid Expenses	63,322	337,437
Incr (Decr) in Accounts Payable	(243,958)	(43,016)
Incr (Decr) in Lottery Prizes Payout	(535,825)	1,112,942
Incr (Decr) in Liability for Securities on Loan	(16,448)	(64,228)
Incr (Decr) in Deferred Revenue	(6,495)	(115,106)
Incr (Decr) in Other Post Employment Benefits	95,476	83,673
Incr (Decr) in Compensated Absences Payable	(27,664)	15,765
Total Adjustments	\$ (242,120)	\$ 1,379,852
Net Cash Provided by Operating Activities	\$ 10,426,397	\$ 11,891,910
SCHEDULE OF NONCASH TRANSACTIONS		
Capital Contributions - Non State	\$ 0	\$ 1,625,000
Total Noncash Transactions	\$ 0	\$ 1,625,000



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

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

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

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

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

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

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

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

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

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing.



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 state appropriations, investment income, and gain or loss on disposition of assets.

FREE TICKETS. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and twelve months ended June 30, 2011 was \$75,668 and \$351,755, 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 giveaways, 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 June 30, 2011, promotional credits resulted in a revenue reduction of approximately \$4,714 and an expense reclassification of approximately \$3,574. For the twelve months ended June 30, 2011, promotional credits resulted in a revenue reduction of approximately \$35,508 and an expense reclassification of approximately \$27,273.

PRIZES. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

UNCLAIMED PRIZES. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto 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		YEAR TO DATE	
	JUNE 30, 2011	JUNE 30, 2010	JUNE 30, 2011	JUNE 30, 2010
Lotto	122,792	130,731	694,034	543,364
Scratch	306,181	134,468	683,781	402,006
TOTALS	\$428,973	\$265,199	\$1,377,815	\$945,370

RECLASSIFICATION AND RESTATEMENT. In order to make certain prior year amounts compare to the current year presentation on the Statement of Net Assets, \$414,965 of a lease was reclassified from Accounts Payable and broken up between current and noncurrent liabilities. The statement now reflects \$72,168 in Current Portion Long-Term Obligations, and \$342,797 in Long Term Obligations. In addition, \$69,197 was reclassified on the Statements of Cash Flows from operating activities to noncapital financing activities. This reclassification better reflects the actual cash flow for transfers to the General Fund.

2. 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.



June 30, 2011

Cash and cash equivalents consist of the following:

	JUNE 30, 2011	JUNE 30, 2010
Short-term investment pool	2,154,658	1,112,340
Cash on deposit with State Treasurer	553,130	1,876,708
Cash in revolving deposit account	10,000	5,284
Petty Cash & Cash on Hand	50	1,323
TOTALS	\$2,717,838	\$2,995,655

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$27,423 at June 30, 2011 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 \$2,039,454, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$670 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 at June 30, 2011, 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, 2011. The allowance for ticket returns is \$228,090 at June 30, 2011. The return of vendor fees related to the allowance for returns is \$13,229.

INVENTORIES. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at \$313,654 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. At year end, supplies inventories totaled \$53,971. These inventories are also recorded at cost using the specific identification method.

OTHER CURRENT ASSETS. Other current assets include the following:

	JUNE 30, 2011	JUNE 30, 2010
Prepaid Expenses	\$27,175	\$90,497

The prepaid expense amount consists of \$13,000 for booth fees for upcoming summer fairs, and \$14,175 for prepaid commissions and vendor fees related to deferred revenue.

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

	JUNE 30, 2010	ADDITIONS	DELETIONS	JUNE 30, 2011
Leasehold Improvements	\$45,448	-	-	\$45,448
Furniture & Equipment	\$1,460,176	955,590	-	\$2,415,766
Accumulated Depreciation	\$(456,052)	\$(269,153)	-	\$(725,205)

RECEIVABLE – EQUIPMENT. The equipment receivable by the Lottery of \$1,625,000 was for 250 on-line vending machines due from the Lottery's primary vendor on June 30, 2010.

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

OBLIGATION TO TRANSFER FUNDS. The Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The transfer obligations outstanding at June 30, 2011 and 2010 were \$2,892,772 and \$2,467,133, respectively.



COMPENSATED ABSENCES. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

BALANCE	NET LEAVE	BALANCE
June 30, 2010	Earned/(Used)	June 30, 2011
\$226,833	\$(27,664)	\$199,169

OPEB (OTHER POST EMPLOYMENT BENEFITS) IMPLICIT RATE SUBSIDY

LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2011 and 2010 are as follows:

YEAR ENDED	JUNE 30, 2011	JUNE 30, 2010
Annual Required Contribution	\$95,476	\$83,673
Adjustments to Annual Required Contributions	-	-
Annual OPEB Cost	\$95,476	\$83,673
Contributions Made	-	-
Increase to Net OPEB Obligation	\$95,476	\$83,673
Net OPEB Obligation - Beginning of Year	\$299,861	\$216,188
Net OPEB Obligation - End of Year	\$395,337	\$299,861

COMMISSIONS. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated

by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b) (i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and twelve months ended June 30, 2011 retailers earned bonus commissions of \$81,035 and \$405,355, respectively. For the quarter and twelve months ended June 30, 2011 total commissions were \$616,903 and \$2,716,363, respectively.

3. 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 year ended June 30, 2011:

Insurance	\$ 8,614
Warrant Writing Services	732
Payroll Services	4,575
Audit Fees	36,757
Computer Fees	35,797
Printing	944
State Accounting System Support	4,777
Supplies & Materials	7,760
Mail Processing Fees	7,678
Telecommunications	46,937
Vehicle Rental Fees	372
Administrative Service Fees	66,685
Other	982
TOTAL	\$ 222,610

4. 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 June 30, 2011, the prize expense of \$5,479,094 is 51.21% of net Lottery ticket revenue of \$10,698,295. For the year ended June 30, 2011, the prize expense of \$24,777,918 is 53.82% of net Lottery ticket revenue of \$46,035,296.



5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states “That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund.” For the year ended June 30, 2011, the net revenue payable to the State General Fund totaled \$2,892,772.

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, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with balances of \$1,688,570 and \$1,430,386 as of June 30, 2011 and 2010, respectively, are comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balances of these reserve accounts is as follows:

JUNE 30, 2011	US TREASURY	FEDERAL AGENCIES	TOTAL
Powerball Prize Reserve Account	\$412,996	\$269,530	\$682,526
Powerball Set Prize Reserve Account	103,249	67,383	170,632
Powerball Unreserved Account	98,457	64,255	162,712
Wild Card Prize Reserve Account	160,479	104,731	265,210
Hot Lotto Set Prize Reserve Account	216,079	141,018	357,097
Mega Millions Prize Reserve Account	30,493	19,900	50,393
Total	\$1,021,753	\$666,817	\$1,688,570

JUNE 30, 2010	US TREASURY	FEDERAL AGENCIES	TOTAL
Powerball Prize Reserve Account	\$264,074	\$254,237	\$518,311
Powerball Set Prize Reserve Account	88,025	84,745	172,770
Powerball Unreserved Account	105,631	101,695	207,326
Wild Card Prize Reserve Account	119,019	114,585	233,604
Hot Lotto Set Prize Reserve Account	153,172	147,466	300,638
Mega Millions Prize Reserve Account	(1,153)	(1,110)	(2,263)
Total	\$728,768	\$701,618	\$1,430,386

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 Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.



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

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes. 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. As a start-up game, the reserve was negative at the year end as the Lottery had not built up enough history and accumulated enough sales to create an excess reserve.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca\$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

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 \$3 to \$200,000 for matching less than all 6 numbers. Drawings are held twice weekly on 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 bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The **MONTANA CA\$h** game allows players the chance to win a minimum pari-mutuel jackpot of \$20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins \$5 and 4 of 5 wins \$200. 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.

The **WILD CARD** game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of \$100,000. Players select 5 numbers from a field of 31 plus one of 16 face cards and must match all 5 numbers and the Wild Card to win the jackpot; players win prizes from \$1 to \$5,000 for matching less than all 5 numbers and/or the Wild Card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the Wild Card, the jackpot rolls over to the next drawing to create a progressive jackpot.

HOT LOTTO allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of \$1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from \$2 to \$10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights. In January 2008, the Lottery added the Sizzler option to the Hot Lotto game. For an additional bet, the Sizzler option provides non-jackpot winners the chance to multiply their prize amount by three.

MEGA MILLIONS is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at \$12 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 \$250,000. 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.



10 SPOT, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from \$2 to \$25,000.

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

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share (\$5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy (\$5, \$10, \$20, \$50 or \$100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

MONTANA MILLIONAIRE began on November 1, 2009 with the final drawing on January 1, 2010. The tickets were sold sequentially across the state with 1 to 150,000 available. There were 400 - \$50 instant win prizes for every 375th ticket purchased. The final drawings were held on January 1, 2010 and

consisted of one \$1 million top prize, five \$100,000 prizes, and five \$10,000 prizes. This game will begin again on November 1, 2011 with the final drawing on approximately January 1, 2012. The number of tickets available will be 125,000 with an early bird prize of \$10,000 being awarded in late November.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

SCRATCH TICKETS. On June 27, 2008, the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of \$3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

ON-LINE SERVICES. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to \$2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

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 \$2,355,738.57 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 \$31,401,655.99. The first payment of \$1,571,655.99 was made on August 8, 1995. On April 5, 1997, the Lottery awarded a second Powerball jackpot prize totaling \$11,000,000. The first annual payment of \$550,000 was awarded on April 18, 1997.

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.

As of June 30, 2011, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was \$9,135,000. Total annual payments due as of June 30, 2011 are as follows:

FYE	
2012	\$ 2,155,000
2013	2,155,000
2014	2,155,000
2015	2,120,000
2016	550,000
Total	\$ 9,135,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

RENT. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is \$11,099 through August 2011. The base rate will increase 3% annually.

CAPITAL LEASE. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at June 30, 2011 are as follows:

FYE	
2012	\$ 89,977
2013	85,827
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	390,432
Less Interest	(47,635)
Present value of Minimum Payments	\$ 342,797



11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

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

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

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

Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 61% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 39% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well

as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool. The Lottery does not have any authority or a policy regarding the investment portfolios.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2011, the duration for the U.S. Government Treasury securities was .916 years and for the Agency securities was 0.139 years.

12. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12-month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.



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