



**Montana
LOTTERY**

Annual Report 2012





MONTANA LOTTERY COMMISSION

The Montana Lottery Commission comprises Montanans appointed by the governor to approve games and contracts, establish policy, and oversee operations.

WILBUR REHMANN	<i>Chair, Helena</i>
CRAIG ANDERSON	<i>Glendive</i>
THOMAS M. KEEGAN	<i>Helena</i>
BETH O'HALLORAN	<i>Missoula</i>
LEO PRIGGE	<i>Butte</i>

Contact the Montana Lottery Commission

2525 North Montana Avenue
Helena, Montana 59601
406.444.5825

Fiscal Year 2012 was a big year for the Montana Lottery!

In addition to celebrating our 25th Anniversary and setting sales and transfer records, we launched the successful EZPLAY line of instant terminal-issued games and joined lotteries nationwide in updating Powerball for its 20th birthday.

Ticket sales increased 14.1% from Fiscal Year 2011, from \$46.1 million to \$52.6 million. Sales increased for all products except for Wild Card and Hot Lotto. The most significant increase was to Mega Millions, which increased 60% largely due to a world-record \$656 million jackpot. Strong sales paired with efficient operations allowed us to achieve a record transfer to the State of Montana General Fund of \$13.1 million, up 20.7% from Fiscal Year 2011.

In November 2011, we launched the EZPLAY line of instant terminal-issued games. These games are sold at licensed gaming facilities which also sell Montana Sports Action tickets. EZPLAY ticket sales for Fiscal Year 2012 brought an additional \$2.2 million in revenue.

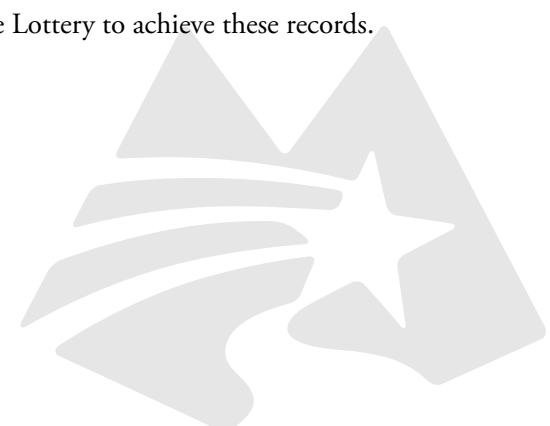
In January, Powerball changed to offer more \$1 million prizes, bigger starting jackpots, and better odds of winning. Montana Lottery players continued to support Powerball, and we saw revenue increase 10.1% for the partial fiscal year.

Please see the Fiscal Year in Review section for more information about the significant events of the year which helped the Lottery to achieve these records.

Sincerely,

A handwritten signature in dark ink that reads "Angela Wong".

Angela Wong
Director



JULY 2011 Bob Whitfield of Red Cliff, Alberta, claims a \$1 million Powerball prize. We sponsor and attend the first-ever Montana Folk Festival in Butte. We continue to support the Montana State Fair in Great Falls.

AUGUST 2011 We attend MontanaFair in Billings.

SEPTEMBER 2011 Van's Thriftway of Helena receives the Bob Harper Memorial Award and becomes Retailer of the Year.

OCTOBER 2011 We launch a mobile-friendly version of our website with easy access to jackpots, winning numbers, and retailer search tools.

NOVEMBER 2011 Montana Millionaire returns for the 5th year and features an Early Bird Drawing for \$10,000. EZPLAY® instant terminal-issued games go on sale at Montana Sports Action retailers with MP terminals.

DECEMBER 2011 We hold a Second Chance drawing for the Red White & Blue Scratch game. The prize is a trip for two to Las Vegas.

JANUARY 2012 William and Carol Morse of Billings claim the \$1 million Montana Millionaire grand prize. Powerball is updated to offer more \$1 million prizes, bigger starting jackpots, and better overall odds. We start the \$25,000 25th Anniversary Crossword Scratch game, the first celebration of our 25th anniversary.

FEBRUARY 2012 We hold a Second Chance drawing for the Anchors Away Scratch game. The prize is a cruise vacation package.

MARCH 2012 The Mega Millions jackpot hits \$656 million, becoming a world record. Our sales hit a record \$2.75 million for the week ending March 31.

APRIL 2012 We launch the Hula Moolah and Harley-Davidson Scratch games. Each offers a Second Chance drawing, the former for a trip for two to Hawaii and the latter for a Harley-Davidson motorcycle of the winner's choice.

MAY 2012 We conduct a comprehensive retailer survey.

JUNE 2012 We celebrate the Lottery's 25th anniversary and end the fiscal year with record sales.



25TH ANNIVERSARY

In Fiscal Year 2012, the Lottery marked 25 years of operation with a limited-edition \$3 crossword Scratch game, special promotions for players and retailers, and statewide celebrations.

For the entire month of June, players who submitted a webcode into the montanalottery.com Player's Club were entered into daily and weekly drawings for cash, tickets, and 25th Anniversary memorabilia, as well as a grand prize drawing for \$2,500 at the end of the month.

The Lottery also offered a promotion for its retailers, challenging them to improve their sales from May to June for the chance to win a specially engraved iPad. Additionally, 99 retailers received certificates for being with the Lottery for all of its 25 years.

The week of June 25, the Lottery hosted anniversary events around the state. In Helena, the public joined past commissioners, directors, and employees at Lottery headquarters to celebrate the milestone.

Additionally, satellite celebrations occurred in Billings, Butte, Great Falls, Kalispell, Missoula, and Miles City.



Montana Scratch game prices range from \$1 to \$20, and prizes range from \$1 to \$250,000. A number of play styles such as bingo and crossword are available.

SALES	\$16,527,196
PRIZES PAID	\$10,307,079
PRIZE PAYOUT	Approximately 62%

For Fiscal Year 2012...

- ★ The Montana Lottery introduced **43** new Scratch games.
- ★ Nearly **1,727,000** tickets won a prize of less than \$1,000.
- ★ **167** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$250,000** for Quarter Million Cash. The winning ticket was sold in Billings at Trading Post.
- ★ Retailer commissions paid were **\$1,342,851**.



Powerball is offered by 44 lotteries. Montana sales started April 19, 1992. Tickets cost \$2 per play. Jackpots start at \$40 million. Power Play increases non-jackpot prizes for an additional \$1 per play.

SALES	\$15,940,788
PRIZES PAID	\$7,522,746
PRIZE PAYOUT	Approximately 47%

For Fiscal Year 2012...

- ★ Power Play sales were **\$2,503,983** or **15.7%** of Powerball sales.
- ★ More than **234,000** tickets won a prize of less than \$1,000.
- ★ **13** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$1 MILLION**. The winning ticket was for the July 6 draw and was sold in Sweet Grass at Ammex Duty Free.
- ★ Retailer commissions paid were **\$796,886**.



Mega Millions is offered by 44 lotteries. Montana sales started March 1, 2010. Tickets cost \$1 per play. Jackpots start at \$12 million. Megaplier increases non-jackpot prizes for an additional \$1 per play.

SALES	\$5,564,030
PRIZES PAID	\$2,809,324
PRIZE PAYOUT	Approximately 51%

For Fiscal Year 2012...

- * Megaplier sales were **\$1,080,698** or **19.4%** of Mega Millions sales.
- * Nearly **85,000** tickets won a prize of less than \$1,000.
- * **3** tickets won a prize of \$1,000 or more.
- * The top prize won was **\$250,000**. The winning ticket was for the March 27 draw and was sold in Great Falls at Van's IGA East.
- * Retailer commissions paid were **\$278,170**.



Hot Lotto is offered by 15 lotteries. Montana sales started April 7, 2002. Tickets cost \$1 per play. Jackpots start at \$1 million. Sizzler triples non-jackpot prizes for an additional \$1 per play.

SALES	\$3,145,312
PRIZES PAID	\$1,079,538
PRIZE PAYOUT	Approximately 34%

For Fiscal Year 2012...

- * Sizzler sales were **\$869,276** or **27.6%** of Hot Lotto sales.
- * Nearly **121,000** tickets won a prize of less than \$1,000.
- * **6** tickets won a prize of \$1,000 or more.
- * The top prize won was **\$1,500**.
- * Retailer commissions paid were **\$157,222**.



Wild Card is offered by four lotteries. Montana sales started February 1, 1998. Tickets cost \$1 for two plays. Jackpots start at \$100,000.

SALES	\$1,895,666
PRIZES PAID	\$1,005,899
PRIZE PAYOUT	Approximately 53%

For Fiscal Year 2012...

- ★ More than **234,000** tickets won a prize of less than \$1,000.
- ★ **28** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$316,182**. The winning ticket was for the April 21 draw and was sold in Great Falls at Cigarette Store #305.
- ★ Retailer commissions paid were **\$94,766**.



Montana Cash is Montana's exclusive lotto game. Sales started May 6, 1991. Tickets cost \$1 for two plays. Jackpots start at \$20,000.

SALES	\$4,147,119
PRIZES PAID	\$2,197,376
PRIZE PAYOUT	Approximately 53%

For Fiscal Year 2012...

- ★ Nearly **85,000** tickets won a prize of less than \$1,000.
- ★ **15** tickets won the jackpot of at least \$20,000.
- ★ The top prize won was **\$200,000**. The winning ticket was for the January 14 draw and was sold in Laurel at Fastlane C Store.
- ★ Retailer commissions paid were **\$207,312**.



10 Spot is Montana's twice-daily game. Sales started February 1, 2010. Tickets cost \$1 per play. The top prize is \$25,000. Drawings occur daily at 12:30 PM and 7:30 PM.

SALES	\$765,902
PRIZES PAID	\$425,661
PRIZE PAYOUT	Approximately 56%

For Fiscal Year 2012...

- ★ Nearly **60,000** tickets won a prize of less than \$1,000.
- ★ **3** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$2,500**.
- ★ Retailer commissions paid were **\$38,282**.



Montana Millionaire is Montana's limited-ticket raffle game. Tickets are sold from November 1 to December 31, with the drawing for the \$1 million grand prize and other prizes January 1.

SALES	\$2,412,740
PRIZES PAID	\$1,459,029
PRIZE PAYOUT	Approximately 61%

For Fiscal Year 2012...

- ★ **700** tickets won a prize of less than \$1,000.
- ★ **10** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$1 MILLION**. The winning ticket was sold in Billings at McFiny's #1.
- ★ Retailer commissions paid were **\$120,639**.



Montana Sports Action is a line of games comprising Fantasy Football and Fantasy Racing, offered by the Lottery on behalf of the Board of Horse Racing.

SALES	\$153,820
PRIZES PAID	\$113,466
PRIZE PAYOUT	Approximately 74%

For Fiscal Year 2012...

- ★ **229** tickets won a prize of less than \$1,000.
- ★ **24** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$1,901.80**.
- ★ Retailer commissions paid were **\$6,004**.
- ★ The Board of Horse Racing received **\$36,574**.
- ★ The Montana Lottery received **\$5,152**.



EZPLAY is a line of instant terminal-issued games with pre-determined odds. Tickets print directly from self-service MP terminals and may be played immediately, much like a Scratch game.

SALES	\$2,203,083
PRIZES PAID	\$1,785,258
PRIZE PAYOUT	Approximately 81%

For Fiscal Year 2012...

- ★ More than **308,000** tickets won a prize of less than \$1,000.
- ★ **86** tickets won a prize of \$1,000 or more.
- ★ The top prize won was **\$10,538**. The winning ticket was for the \$shake a Day game and was sold in Missoula at Hooters.
- ★ Retailer commissions paid were **\$110,154**.

Independent Auditor's Report

Annual Report 2012

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

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, 2012, and 2011, 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, 2012, and 2011, and the related changes in its financial position or cash flows for each of the two fiscal 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, 2012, and 2011, 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 through 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

January 29, 2013

Statement of Net Assets June 30, 2012 and 2011

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

	June 30, 2012	June 30, 2011 (Restated)		June 30, 2012	June 30, 2011 (Restated)
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 3,401,567	\$ 2,717,838	Accounts Payable	\$ 511,115	\$ 368,716
Receivables (Net)	1,845,914	1,825,263	Estimated Prize Liability	2,071,903	1,731,441
Multi-State Reserve fund	65,000	50,000	Transfer Obligations	3,241,941	2,892,772
Inventories	382,328	367,625	Liability under Security Lending	5,584	29,168
Securities Lending Collateral	5,584	29,168	Deferred Revenue	137,725	131,262
Prepaid Expenses	28,949	27,175	Accrued Compensated Absences	120,213	129,540
			Current Portion Long-Term Obligations	72,168	72,168
Total Current Assets	5,729,342	5,017,069	Total Current Liabilities	6,160,649	5,355,067
NONCURRENT ASSETS			NONCURRENT LIABILITIES		
Computer, Furniture & Equipment	2,899,606	2,415,766	Multi-State Prize Liability	1,542,685	1,525,857
Leasehold Improvements	45,448	45,448	Accrued Compensated Absences	90,678	69,629
Equipment - Work in Process	65,000	669,500	Long Term Obligations	198,461	270,629
Accumulated Depreciation	(1,057,431)	(725,205)	Other Post Employment Benefits	488,054	395,337
Investments	43,813	37,214	Total Noncurrent Liabilities	2,319,878	2,261,452
Multi-State Reserve fund	1,997,105	1,638,570			
Total Noncurrent Assets	3,993,541	4,081,293	TOTAL LIABILITIES	8,480,527	7,616,519
Total Assets	\$ 9,722,883	\$ 9,098,362	NET ASSETS		
			Invested in Capital Assets, net of related debt	1,681,994	2,062,712
			Unrestricted Net Assets	(439,638)	(580,869)
			Total Net Assets	1,242,356	1,481,843
			TOTAL LIABILITIES AND NET ASSETS	\$ 9,722,883	\$ 9,098,362

Statement of Revenues, Expenses and Changes in Fund Net Assets for the years ended June 30, 2012 and 2011

	Year Ended June 30, 2012	Year Ended June 30, 2011		Year Ended June 30, 2012	Year Ended June 30, 2011
OPERATING REVENUES			NONOPERATING REVENUES (EXPENSES)		
Scratch ticket revenue	\$ 16,527,196	\$ 15,064,556	Interest earnings	\$ 10,358	\$ 8,296
On-Line ticket revenue	36,074,640	30,975,226	Security Lending Income	1,037	1,292
License, permits, and misc.	15,464	8,450	Security Lending Expense	(204)	(274)
Total Operating Revenues	52,617,300	46,048,232	Gain/Loss on sale of assets	(5,303)	0
DIRECT GAME COSTS			Total Nonoperating Revenues (Expenses)	5,888	9,314
Scratch ticket prize expense	10,307,079	8,990,017	Income Before Operating Transfers	12,821,185	10,667,831
On-line ticket prize expense	18,307,863	15,787,901	Operating Transfers Out - General Fund	(13,060,672)	(10,820,988)
Retailer commissions	3,146,282	2,716,363	CHANGE IN NET ASSETS	(239,487)	(143,157)
Cost of tickets sold	885,876	1,059,590	Total Net Assets, Beginning of Period	1,481,843	1,625,000
Vendor fees	3,086,206	2,759,777	TOTAL NET ASSETS, END OF PERIOD	\$ 1,242,356	\$ 1,481,843
Total Direct Game Costs	35,733,306	31,313,648			
Income before Operating Expenses	16,883,994	14,734,584			
OPERATING EXPENSES					
Advertising	610,303	638,550			
Advertising Production	155,662	249,447			
Audit Fees	55,610	36,757			
Bad Debts Expense	4,318	382			
Communications	130,969	131,321			
Contractual Services	91,719	106,444			
Depreciation and Amortization	458,598	269,154			
Interest	17,809	21,987			
Administrative Service Fee	63,348	66,685			
Multi-State Dues	49,657	45,530			
Public Relations	36,017	34,414			
Other Post Employment Benefits	89,199	95,476			
Other Expenses	27,743	33,945			
Personal Services	1,809,740	1,834,607			
Repairs and Maintenance	29,215	18,539			
Supplies and Materials	235,208	287,945			
Travel	41,806	39,928			
Utilities and Rent	161,776	154,956			
Total Operating Expense	4,068,697	4,066,067			
Operating Income	\$ 12,815,297	\$ 10,668,517			

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

Statement of Cash Flows for the years ended June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 52,598,794	\$ 46,002,490
Payments for Goods & Services	(8,677,957)	(8,400,079)
Payments to Employees	(1,798,018)	(1,862,271)
Payments for Prizes	(28,257,652)	(25,313,743)
Net Cash Provided by Operating Activities	13,865,167	10,426,397
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(12,711,503)	(10,395,349)
Net Cash Used for Noncapital Financing	(12,711,503)	(10,395,349)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(19,500)	0
Proceeds from Sale of Fixed Assets	8,485	0
Principal & Interest Payment on Leases	(89,977)	(94,155)
Net Cash Used for Capital Financing	(100,992)	(94,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	11,191	9,314
Received from (Paid to) MUSL Prize Reserve Fund	(373,535)	(258,184)
Sale (Purchase) of Long Term Investments	(6,599)	34,160
Net Cash Used by Investing Activities	(368,943)	(214,710)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	683,729	(277,817)
CASH AND CASH EQUIVALENTS, JULY 1	2,717,838	2,995,655
Cash and Cash Equivalents, June 30	\$ 3,401,567	\$ 2,717,838

	June 30, 2012	June 30, 2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 12,815,297	\$ 10,668,517
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	458,598	269,154
Interest Expense	17,809	21,987
CHANGE IN ASSETS AND LIABILITIES		
Decr (Incr) in Accounts Receivable	(20,651)	(38,865)
Decr (Incr) in Inventories	23,584	160,748
Decr (Incr) in Collateral Securities on Loan	(14,703)	16,448
Decr (Incr) in Prepaid Expenses	(1,774)	63,322
Incr (Decr) in Accounts Payable	142,399	(243,958)
Incr (Decr) in Lottery Prizes Payable	357,290	(535,825)
Incr (Decr) in Liability for Securities on Loan	(23,584)	(16,448)
Incr (Decr) in Deferred Revenue	6,463	(6,495)
Incr (Decr) in Other Post Employment Benefits	92,717	95,476
Incr (Decr) in Compensated Absences Payable	11,722	(27,664)
Total Adjustments	1,049,870	(242,120)
Net Cash Provided by Operating Activities	\$ 13,865,167	\$ 10,426,397

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

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.

Notes to the Financial Statements

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.

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 year ended June 30, 2012 was \$529,367.

PROMOTIONAL CREDITS. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., “Ask for the Sale” or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the year ended June 30, 2012 promotional credits resulted in a revenue reduction of approximately \$21,545 and an expense reclassification of approximately \$16,784.

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, 2012	JUNE 30, 2011	JUNE 30, 2012	JUNE 30, 2011
Lotto	124,768	122,792	484,389	694,034
Scratch	260,931	306,181	454,014	683,781
TOTALS	\$385,699	\$428,973	\$938,403	\$1,377,815

RECLASSIFICATION AND RESTATEMENT. In order to make certain prior year amounts compare to current year presentation on the Statement of Net Assets, \$50,000 of the Multi-State Reserve Fund was reclassified as a current asset for fiscal year ending 2011. This amount represents the amount of the Powerball Unreserved Account that is expected to be converted to cash and collected from the Multi-State Lottery Association (MUSL) during the next fiscal year.

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 a 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:

	JUNE 30, 2012	JUNE 30, 2011
Short-term investment pool	\$2,658,107	\$2,154,658
Cash on deposit with State Treasurer	723,045	553,130
Cash in revolving deposit account	20,215	10,000
Petty Cash & Cash on Hand	200	50
TOTALS	\$3,401,567	\$2,717,838

Notes to the Financial Statements

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$77,393 as of June 30, 2012 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 \$2,047,346, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$943 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2012, 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, 2012. The allowance for ticket returns is \$214,835 as of June 30, 2012. The return of vendor fees related to the allowance for returns is \$12,460.

INVENTORIES. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at \$259,126 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. At year end, supplies inventories totaled \$123,202. These inventories are also recorded at cost using the specific identification method.

OTHER CURRENT ASSETS. Other current assets include the following:

	JUNE 30, 2012	JUNE 30, 2011
Prepaid Expenses	\$28,949	\$27,175

The prepaid expense amount consists of \$14,075 for booth fees for upcoming summer fairs, and \$14,874 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, 2011	ADDITIONS	DELETIONS	JUNE 30, 2012
Leasehold Improvements	\$45,448	-	-	\$45,448
Furniture & Equipment	\$2,415,766	624,000	\$(140,160)	\$ 2,899,606
Accumulated Depreciation	\$(725,205)	\$(458,598)	\$126,372	\$(1,057,431)

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, 2012 and 2011 were \$3,241,941 and \$2,892,772, 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, 2011	Earned/(Used)	June 30, 2012
\$199,169	\$11,722	\$210,891

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 Health Insurance 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 2012 and 2011 are as follows:

YEAR ENDED	JUNE 30, 2012	JUNE 30, 2011
Annual Required Contribution	\$92,717	\$95,476
Adjustments to Annual Required Contributions	-	-
Annual OPEB Cost	\$92,717	\$95,476
Contributions Made	-	-
Increase to Net OPEB Obligation	\$92,717	\$95,476
Net OPEB Obligation - Beginning of Year	\$395,337	\$299,861
Net OPEB Obligation - End of Year	\$488,054	\$395,337

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 for 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, 2012 retailers earned bonus commissions of \$134,966 and \$488,641, respectively. For the quarter and twelve months ended June 30, 2012 total commissions were \$781,789 and \$3,146,282, 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, 2012:

Insurance	\$ 8,543
Warrant Writing Services	698
Payroll Services	4,453
Audit Fees	55,610
Computer Fees	48,108
Printing	932
State Accounting System Support	2,534
Supplies & Materials	11,350
Mail Processing Fees	8,013
Telecommunications	17,545
Vehicle Rental Fees	62
Administrative Service Fees	63,348
Other	1,749
TOTAL	\$ 222,945

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 year ended June 30, 2012, the prize expense of \$28,614,942 is 54.40% of net Lottery ticket revenue of \$52,601,836. For the year ended June 30, 2011, the prize expense of \$24,777,918 was 53.82% of net Lottery ticket revenue of \$46,039,782.

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, 2012, the net revenue payable to the State General Fund totaled \$3,241,941.

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 a balance of \$2,062,105 and \$1,688,570 as of June 30, 2012, and 2011, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). A portion of the Powerball Unreserved Account is classified as a current asset which represents an amount expected to be converted into cash and collected from MUSL within the next fiscal year. The balance of these reserve accounts and investment category is as follows:

JUNE 30, 2012	US TREASURY	FEDERAL AGENCIES	TOTAL
Powerball Prize Reserve Account	\$433,871	\$212,058	\$645,929
Powerball Set Prize Reserve Account	105,003	102,226	207,229
Powerball Unreserved Account	243,972	275,448	519,420
Wild Card Prize Reserve Account	145,102	73,854	218,956
Hot Lotto Set Prize Reserve Account	211,485	143,355	354,840
Mega Millions Prize Reserve Account	58,641	57,090	115,731
Total Reserves	\$1,198,074	\$864,031	\$2,062,105
Less Current Portion			(65,000)
Non Current Reserves			\$1,997,105

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 Reserves	\$1,021,753	\$666,817	\$1,688,570
Less Current Portion			(50,000)
Non Current Reserves			\$1,638,570

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

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

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

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the

Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity. During the fiscal year ended 2012, the Lottery received two refunds for unclaimed jackpots; one for \$185,854 for an unclaimed Powerball jackpot, and another for \$439,281 for an unclaimed Hot Lotto jackpot. The Lottery also received \$870 in interest and had \$49,657 withdrawn for annual MUSL dues. During fiscal year ended 2011, the Lottery received \$1,417 in interest and had \$46,030 withdrawn for annual MUSL dues.

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 51.5% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

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, EZ Play, 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 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 parimutuel jackpot of approximately \$40 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from \$4 to \$2,000,000 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. Drawings are held twice weekly on Wednesday and Saturday nights. In March 2001, the Lottery added Power Play to the Powerball game. Choosing Power Play will increase player winnings at set prize levels.

The **MONTANA CA\$h** game allows players the chance to win a minimum parimutuel 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 parimutuel 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 parimutuel 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 parimutuel 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 ten-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 October 1, 2007, and was sold until December 31, 2007. Montana Millionaire is a seasonal raffle-type game offering a million-dollar top prize. Tickets are sold sequentially. The 2007 game offered 150,000 tickets selling for \$20 each. Since 2007, the Lottery has offered Montana Millionaire every winter. In Fiscal Year 2012, Montana Millionaire sold from November 1 through December 31, with a drawing on New Years' Day 2012. An early bird drawing for \$10,000 was offered on Thanksgiving weekend to stimulate early sales. There were also 200 \$50 instant winners. The \$20 game sold through midnight December 31, 2011. On January 1, 2012, one \$1 million prize was awarded, along with four \$100,000 prizes and four \$10,000.

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 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.

As of June 30, 2012, 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 is \$6,980,000. Total annual payments due as of June 30, 2012 are as follows:

FYE	
2013	2,155,000
2014	2,155,000
2015	2,120,000
2016	550,000
Total	\$ 6,980,000

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 \$11,432 through August 2012. 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, 2012 are as follows:

FYE	
2013	85,827
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	300,455
Less: Interest	(29,826)
Present value of Minimum Payments \$	270,629

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, for 2012 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include an average of 58% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 42% of the prize reserves are invested in Federal Agencies and have an AA+ 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, 2012, the duration for the U.S. Government Treasury securities was a blended rate of .49 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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