



ANNUAL REPORT 2013

From the Commission & Director

MONTANA LOTTERY COMMISSION

The Montana Lottery Commission is comprised of Montanans appointed by the Governor to approve games and contracts, establish policy, and oversee operations.

WILBUR REHMANN	<i>Chair, Helena</i>
FRANK DIFONZO	<i>Sidney</i>
CINDY HINER	<i>Deer Lodge</i>
THOMAS M. KEEGAN	<i>Helena</i>
LEO PRIGGE	<i>Butte</i>

Contact the Montana Lottery Commission

2525 North Montana Avenue
Helena, Montana 59601
406.444.5825

Fiscal Year 2013 was a busy year full of change and new records.

The Lottery extends its gratitude to Montana Lottery Commissioners Craig Anderson and Beth O'Halloran, whose terms ended January 1, 2014. We also welcome our new commissioners, Frank DiFonzo and Cindy Hiner, and congratulate Commission Chair Wilbur Rehmann on his re-appointment.

In Fiscal Year 2013, we updated Montana Millionaire to add a second Early Bird Drawing and \$500 instant win prizes. Changes to Wild Card doubled the starting jackpot and increased other prizes, while changes to Hot Lotto changed the jackpot to a cash-only, taxes-paid prize. We also conducted market research into Montana Cash.

Ticket sales increased 8% over Fiscal Year 2012, from \$52.6 million to \$56.8 million. The biggest increase by product was to Powerball. Driven by two record jackpots in November (\$587.5 million) and May (\$590.5 million), sales increased 26.6% from \$15.9 million to \$20.2 million. EZPLAY sales also increased significantly, up 80% from \$2.2 million to \$4 million. Finally, Montana Millionaire sold out for the first time, generating its full \$2.6 million of revenue potential. Scratch, Hot Lotto, and Wild Card sales increased as well.

The transfer to the State of Montana General Fund was \$13.1 million.

In Fiscal Year 2014, we plan to implement changes to Mega Millions and Powerball and to update Montana Cash based on the results of our market research. Here's to another successful year.

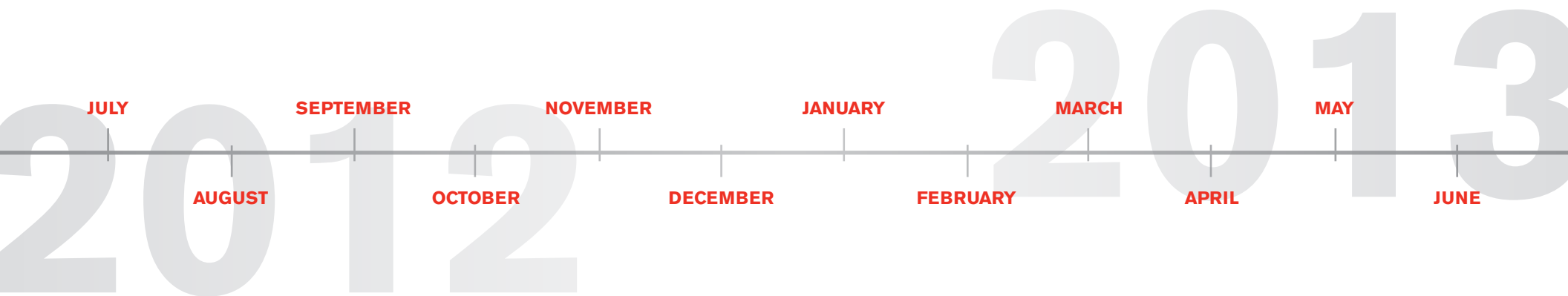
Sincerely,



Angela Wong
Director



Fiscal Year in Review



JULY 2012 We sponsored and attended the Montana Folk Festival in Butte. We held a Second Chance drawing for the Hula Moolah Scratch game. The prize was a Hawaii vacation package. We continued to support the Montana State Fair in Great Falls.

AUGUST 2012 We attended Montana Fair in Billings.

SEPTEMBER 2012 We held a Second Chance drawing for the Harley-Davidson® Scratch game. The prize was \$18,000 toward the purchase of a new Harley-Davidson® motorcycle.

OCTOBER 2012 We re-launched the Player's Club.

NOVEMBER 2012 Montana Millionaire returned for the 6th year and featured two Early Bird Drawings for \$10,000. The Powerball jackpot hit a record \$587.5 million.

DECEMBER 2012 Montana Millionaire sold out for the first time ever.

JANUARY 2013 Sam Polesky of Laurel claimed the \$1 million Montana Millionaire grand prize. Wild Card was updated to increase starting jackpots and other prize levels. Governor Steve Bullock re-appointed Lottery Director Angela Wong and Lottery Commission Chair Wilbur Rehmann. Frank DiFonzo and Cindy Hiner were appointed to the Lottery Commission, to replace Craig Anderson and Beth O'Halloran.

FEBRUARY 2013 We re-launched mobile alerts via the Player's Club.

MARCH 2013 Jay Gleason of Bozeman claimed an \$815,486 Wild Card jackpot.

APRIL 2013 Town Pump of Wolf Point received the Bob Harper Memorial Award and became Retailer of the Year. Nickels Gaming Parlour of Helena received the Montana Sports Action Retailer of the Year award.

MAY 2013 Hot Lotto was updated to offer a cash-only, taxes-paid jackpot. The Powerball jackpot hit \$590.5 million, breaking its November 2012 record.

JUNE 2013 We conducted market research into Montana Cash.

Products



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	\$17,279,829
PRIZES PAID	\$10,903,493
PRIZE PAYOUT	63%

For Fiscal Year 2013...

- ★ The Montana Lottery introduced **44** new Scratch games.
- ★ 1,788,401 tickets won a prize of less than **\$1,000**.
- ★ 160 tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$250,000**. Two tickets from Harlem and Medicine Lake won this prize.
- ★ Retailer commissions paid were **\$1,391,279**.



Powerball is offered by 45 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	\$20,177,735
PRIZES PAID	\$9,724,203
PRIZE PAYOUT	48%

For Fiscal Year 2013...

- ★ Power Play sales were **\$2,436,506** or **12.1%** of Powerball sales.
- ★ **213,191** tickets won a prize of less than **\$1,000**.
- ★ **11** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$40,000**. Three tickets from Billings, Bozeman, and Great Falls won this prize.
- ★ Retailer commissions paid were **\$1,008,515**.

Products



Mega Millions is offered by 45 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	\$3,536,396
PRIZES PAID	\$1,704,224
PRIZE PAYOUT	48%

For Fiscal Year 2013...

- ★ Megaplier sales were **\$781,157** or **22.1%** of Mega Millions sales.
- ★ **58,385** tickets won a prize of less than **\$1,000**.
- ★ **3** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$250,000**. One ticket from Billings won this prize.
- ★ Retailer commissions paid were **\$176,812**.



Hot Lotto is offered by 16 lotteries. Montana sales started April 7, 2002. Tickets cost \$1 per play. Jackpots start at \$1 million and as of May, 2013 includes tax withholdings. Sizzler triples non-jackpot prizes for an additional \$1 per play.

SALES	\$3,145,517
PRIZES PAID	\$1,526,584
PRIZE PAYOUT	49%

For Fiscal Year 2013...

- ★ Sizzler sales were **\$847,300** or **26.9%** of Hot Lotto sales.
- ★ **119,802** tickets won a prize of less than **\$1,000**.
- ★ **16** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$30,000**. Two tickets from Great Falls and Kalispell won this prize.
- ★ Retailer commissions paid were **\$157,271**.

Products



Wild Card is offered by four lotteries. Montana sales started February 1, 1998. Tickets cost \$1 for two plays. As of January, 2013, Jackpots start at \$200,000.

SALES	\$2,054,829
PRIZES PAID	\$1,107,651
PRIZE PAYOUT	54%

For Fiscal Year 2013...

- ★ **246,669** tickets won a prize of less than **\$1,000**.
- ★ **23** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$815,486**. One ticket from Bozeman won this prize.
- ★ Retailer commissions paid were **\$102,738**.



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	\$3,352,283
PRIZES PAID	\$2,040,863
PRIZE PAYOUT	61%

For Fiscal Year 2013...

- ★ **68,743** tickets won a prize of less than **\$1,000**.
- ★ **15** tickets claimed the jackpot.
- ★ The top prize claimed was **\$160,000**. One ticket from Billings won this prize.
- ★ Retailer commissions paid were **\$167,594**.

Products



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	\$703,061
PRIZES PAID	\$394,108
PRIZE PAYOUT	56%

For Fiscal Year 2013...

- ★ **55,792** tickets won a prize of less than **\$1,000**.
- ★ **3** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$2,500**. Three tickets from Helena, Missoula, and Sidney won this prize.
- ★ Retailer commissions paid were **\$35,172**.



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	\$2,599,780
PRIZES PAID	\$1,508,922
PRIZE PAYOUT	58%

For Fiscal Year 2013...

- ★ **700** tickets won a prize of less than **\$1,000**.
- ★ **8** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$1 MILLION**. One ticket from Laurel won this prize.
- ★ Retailer commissions paid were **\$130,000**.
- ★ On December 29, 2012, Montana Millionaire sold all tickets offered, two days in advance of the December 31 sales cutoff.

Products



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

SALES	\$179,790
PRIZES PAID	\$133,045
PRIZE PAYOUT	74%

For Fiscal Year 2013...

- ★ **256** tickets won a prize of less than **\$1,000**.
- ★ **39** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$2,301.40**. One ticket from Great Falls won this prize.
- ★ Retailer commissions paid were **\$6,956**.
- ★ The Board of Horse Racing received **\$41,803**.
- ★ The Montana Lottery received **\$5,394**.



EZPLAY® is a line of instant-win 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	\$3,953,389
PRIZES PAID	\$3,243,981
PRIZE PAYOUT	82%

For Fiscal Year 2013...

- ★ **548,506** tickets won a prize of less than **\$1,000**.
- ★ **195** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$10,963**. One ticket from Great Falls won this prize.
- ★ Retailer commissions paid were **\$197,669**.

Independent Auditor's Report

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:

Introduction

We have audited the accompanying Statement of Net Position of the Montana State Lottery as of June 30, 2013, and 2012, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Montana State Lottery's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Lottery's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and 2012, and the changes in net

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Independent Auditor's Report

position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2013, and 2012, the changes in its financial position, or its cash flows for each of the two fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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 1 through 8 of the report is presented for purposes of additional analysis and is not a required part of the enterprise fund financial statements of the Montana State Lottery. Such information has not been subjected to the auditing procedures applied in the audit of the basic 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
Helena, MT

November 22, 2013

Financial Statements

Statement of Net Position June 30, 2013 and 2012

	2013	2012		2013	2012
ASSETS			LIABILITIES		
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Cash Equivalents	\$ 3,770,373	\$ 3,401,567	Accounts Payable	\$ 450,526	\$ 511,115
Receivables (Net)	1,655,004	1,845,914	Estimated Prize Liability	2,265,134	2,071,903
Multi-State Reserve Fund	65,000	65,000	Transfer Obligations	2,862,561	3,241,941
Inventories	446,525	382,328	Liability under Security Lending	8,773	5,584
Securities Lending Collateral	8,773	5,584	Deferred Revenue	153,680	137,725
Prepaid Expenses	30,672	28,949	Accrued Compensated Absences	170,894	120,213
Total Current Assets	5,976,347	5,729,342	Current Portion Long-Term Obligations	72,168	72,168
			Total Current Liabilities	5,983,736	6,160,649
NONCURRENT ASSETS			NONCURRENT LIABILITIES		
Computer, Furniture & Equipment	2,981,106	2,899,606	Multi-State Prize Liability	1,484,881	1,542,685
Leasehold Improvements	45,448	45,448	Accrued Compensated Absences	18,557	90,678
Equipment - Work in Process	0	65,000	Long Term Obligations	126,294	198,461
Accumulated Depreciation	(1,571,075)	(1,057,431)	Other Post Employment Benefits	589,890	488,054
Investments	41,698	43,813	Total Noncurrent Liabilities	2,219,622	2,319,878
Multi-State Reserve Fund	1,670,644	1,997,105			
Total Noncurrent Assets	3,167,821	3,993,541	TOTAL LIABILITIES	8,203,358	8,480,527
TOTAL ASSETS	\$ 9,144,168	\$ 9,722,883	NET POSITION		
			Net Investment in Capital Assets	1,257,017	1,681,994
			Unrestricted	(316,207)	(439,638)
			Total Net Position	\$ 940,810	\$ 1,242,356

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

Financial Statements

Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2013 and 2012

	2013	2012		2013	2012
OPERATING REVENUES:					
Scratch Ticket Revenue	\$ 17,279,829	\$ 16,527,196	Supplies and Materials	199,981	235,208
On Line Ticket Revenue	39,522,990	36,074,640	Travel	50,363	41,806
License, Permits, and Misc.	18,680	15,464	Utilities and Rent	162,535	161,776
Total Operating Revenues	56,821,499	52,617,300	Total Operating Expense	4,180,263	4,068,697
			Operating Income	12,772,370	12,815,297
DIRECT GAME COSTS:			NONOPERATING REVENUES (EXPENSES):		
Scratch Ticket Prize Expense	10,903,493	10,307,079	Interest Earnings	9,858	10,358
On Line Ticket Prize Expense	21,273,390	18,307,863	Security Lending Income	33	1,037
Retailer Commissions	3,367,050	3,146,282	Security Lending Expense	(11)	(204)
Cost of Tickets Sold	977,583	885,876	Gain/Loss on Sale of Assets	0	(5,303)
Vendor fees	3,347,350	3,086,206	Total Nonoperating Revenues (Expenses)	9,880	5,888
Total Direct Game Costs	39,868,866	35,733,306	Income Before Operating Transfers	12,782,250	12,821,185
Income Before Operating Expenses	16,952,633	16,883,994			
OPERATING EXPENSES:			Operating Transfers Out - General Fund	(13,083,796)	(13,060,672)
Advertising	553,906	610,303	CHANGE IN NET POSITION	(301,546)	(239,487)
Advertising Production	200,395	155,662	Total Net Position, Beginning of Period	1,242,356	1,481,843
Audit Fees	3,772	55,610	TOTAL NET POSITION, END OF PERIOD	\$ 940,810	\$ 1,242,356
Bad Debts Expense	4,324	4,318			
Communications	138,520	130,969			
Contractual Services	97,722	91,719			
Depreciation and Amortization	513,644	458,598			
Interest	13,659	17,809			
Administrative Service Fee	63,234	63,348			
Multi-State Dues	117,008	49,657			
Public Relations	61,422	36,017			
Other Post Employment Benefits	101,836	89,199			
Other Expenses	26,821	27,743			
Personal Services	1,846,662	1,809,740			
Repairs and Maintenance	24,459	29,215			

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

Financial Statements

Statement of Cash Flows for the years ended June 30, 2013 and 2012

	2013	2012		2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Receipts for Sales & Services	\$ 57,024,040	\$ 52,598,794	Operating Income	\$ 12,772,370	\$ 12,815,297
Payments for Goods & Services	(9,518,630)	(8,677,957)	Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Payments to Employees	(1,868,102)	(1,798,018)	Depreciation	513,644	458,598
Payments for Prizes	(32,041,456)	(28,257,652)	Interest Expense	13,659	17,809
Net Cash Provided by Operating Activities	13,595,852	13,865,167			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			CHANGE IN ASSETS AND LIABILITIES:		
Transfer to Other Funds	(13,463,176)	(12,711,503)	Decr (Incr) in Account Receivable	190,910	(20,651)
Net Cash Used For Noncapital Financing	(13,463,176)	(12,711,503)	Decr (Incr) in Inventories	(64,197)	23,584
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			Decr (Incr) in Collateral securities on loan	(3,189)	(14,703)
Acquisition of Fixed Assets	(16,500)	(19,500)	Decr (Incr) in Prepaid expenses	(1,723)	(1,774)
Proceeds from Sale of Fixed Assets	0	8,485	Incr (Decr) in Accounts Payable	(60,589)	142,399
Principal & Interest Payment on Leases	(85,826)	(89,977)	Incr (Decr) in Lottery Prizes Payable	135,427	357,290
Net Cash Used For Capital Financing	(102,326)	(100,992)	Incr (Decr) in Liability for securities on loan	3,189	(23,584)
CASH FLOWS FROM INVESTING ACTIVITIES			Incr (Decr) in Deferred Revenue	15,955	6,463
Interest and Dividends on Investments	9,880	11,191	Incr (Decr) in Other Post Employment Benefits	101,836	92,717
Received from (Paid to) MUSL Prize Reserve Fund	326,461	(373,535)	Incr (Decr) in Compensated Absences Payable	(21,440)	11,722
Sale (Purchase) of long term investments	2,115	(6,599)	Total Adjustments	823,482	1,049,870
Net Cash Provided by (Used for) Investing Activities	338,456	(368,943)	Net Cash Provided by Operating Activities	\$ 13,595,852	\$ 13,865,167
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	368,806	683,729			
CASH AND CASH EQUIVALENTS, JULY 1	3,401,567	2,717,838			
Cash and Cash Equivalents, June 30	\$ 3,770,373	\$ 3,401,567			

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

Notes to the Financial Statements

JUNE 30, 2013

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. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

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

Notes to the Financial Statements JUNE 30, 2013

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.

NEW ACCOUNTING GUIDANCE IMPLEMENTED For the year ended June 30, 2013, the Montana Lottery implemented the provisions of GASB Statement No. 63 – “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government’s net position. For the Lottery, this entailed changing the titles of the financial statements. Also changed were the presentation of the net position section, and the overall accounting formula of the Statement of Net Position. GASB 63 changes the terminology of the different types of net position, which the Lottery has adopted, without any change to the financial information from Fiscal Year 2012.

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, 2013 was \$481,163.

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, 2013 promotional credits resulted in a revenue reduction of approximately \$21,296 and an expense reclassification of approximately \$15,154.

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 6/30/13	Quarter Ended 6/30/12	Year To Date 6/30/13	Year To Date 6/30/12
Lotto	\$158,999	\$124,768	\$561,656	\$484,389
Scratch	\$ 80,080	\$260,931	\$369,562	\$454,014
TOTALS	\$239,079	\$385,699	\$931,218	\$938,403

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, 2013	June 30, 2012
Short-term investment pool	\$3,169,315	\$2,658,107
Cash on deposit with State Treasurer	590,858	723,045
Cash in revolving deposit account	10,000	20,215
Petty Cash & Cash on Hand	200	200
TOTALS	\$3,770,373	\$3,401,567

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$23,481 as of June 30, 2013 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.

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RECEIVABLES Receivables include \$1,928,974, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$426 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, 2013, 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, 2013. The allowance for ticket returns is \$291,291 as of June 30, 2013. The return of vendor fees related to the allowance for returns is \$16,895.

INVENTORIES Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at \$327,072 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 \$119,453. These inventories are also recorded at cost using the specific identification method.

OTHER CURRENT ASSETS Other current assets include the following:

	June 30, 2013	June 30, 2012
Prepaid Expenses	\$30,672	\$28,949

The prepaid expense amount consists of \$14,075 for booth fees for upcoming summer fairs, and \$16,597 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, 2012	Additions	Deletions	June 30, 2013
Leasehold Improvements	\$ 45,448	\$ -	\$ -	\$ 45,448
Furniture & Equipment	\$ 2,899,606	\$ 81,500	\$ -	\$ 2,981,106
Accumulated Depreciation	\$ (1,057,431)	\$ (513,644)	\$ -	\$ (1,571,075)

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, 2013 and 2012 were \$2,862,561 and \$3,241,941, 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 June 30, 2012	Net Leave Earned/(Used)	Balance June 30, 2013
\$210,891	\$(21,440)	\$189,451

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.

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The Lottery's OPEB obligations for 2013 and 2012 are as follows:

Year ended June 30,	2013	2012
Annual Required Contribution	\$ 101,836	\$ 92,717
Adjustment to annual required contributions	-	-
Annual OPEB cost	\$ 101,836	\$ 92,717
Contributions made	-	-
Increase to net OPEB obligation	\$ 101,836	\$ 92,717
Net OPEB obligation – beginning of year	\$ 488,054	\$ 395,337
Net OPEB obligation – end of year	\$ 589,890	\$ 488,054

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, 2013 retailers earned bonus commissions of \$84,018 and \$475,579, respectively. For the quarter and twelve months ended June 30, 2013 total commissions were \$785,915 and \$3,367,050, 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, 2013:

Insurance	\$ 12,062
Warrant Writing Services	576
Payroll Services	7,444
Audit Fees	3,772
Computer Fees	56,807
Printing	1,347
State Accounting System Support	2,597
Supplies & Materials	12,027

Mail Processing Fees	9,530
Telecommunications	18,205
Administrative Service Fees	63,234
Other	1,306
TOTAL	\$ 188,907

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, 2013, the prize expense of \$32,176,883 is 56.6% of net Lottery ticket revenue of \$56,802,819. For the year ended June 30, 2012, the prize expense of \$28,614,942 was 54.4% of net Lottery ticket revenue of \$52,601,836.

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, 2013, the net revenue payable to the State General Fund totaled \$2,862,561.

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

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which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of \$1,735,644 and \$2,062,105 as of June 30, 2013, and 2012, 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, 2013		
	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 325,136	\$ 196,836	\$ 521,972
Powerball Set Prize Reserve Account	117,585	116,554	234,139
Powerball Unreserved Account	57,425	193,338	250,763
Wild Card Prize Reserved Account	73,698	118,074	191,772
Hot Lotto Set Prize Reserve Account	97,829	265,309	363,138
Mega Millions Prize Reserve Account	108,297	65,563	173,860
Total Reserves	\$ 779,970	\$ 955,674	\$ 1,735,644
Less Current Portion			(65,000)
Non Current Reserves			\$ 1,670,644

	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 Reserved 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

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

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

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

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

During fiscal year ended 2013, the Lottery received \$1,303 in interest and had \$117,008 withdrawn for annual MUSL dues and assessments. Also, during the fiscal year ending 2013, MUSL purchased patents relating to Power Play and Megaplier (add-ons to Powerball and Mega Millions) and began charging all member lotteries a license for the use of the patents. 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.

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 57% 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 for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game.

7. GAMES

Currently, Montana Lottery games are scratch ticket games and six lotto games referred to as Powerball, Montana Cash, Wild Card, Hot Lotto, Mega Millions, and 10 Spot. The lottery also offers EZPLAY®, a line of instant terminal-issued games with pre-determined odds, 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 Montana Sports Action Fantasy Football and Fantasy Racing games.

SCRATCH TICKET GAMES provide players the opportunity to win instantly by scratching the latex covering to reveal a prize. The lottery sells tickets for \$1, \$2, \$3, \$5, \$10, and \$20. Top prizes range from \$500 to \$250,000.

The **POWERBALL** game allows players a chance to win a minimum parimutuel jackpot of \$40 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$4 to \$1 million for matching fewer than all six numbers. Drawings are held twice weekly on Wednesday and Saturday nights. Powerball is offered in 45 lottery jurisdictions including Montana. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing, creating a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well.

The **MONTANA CASH** game allows players the chance to win a minimum parimutuel jackpot of \$20,000. Players select five numbers from a field of 37 and must match at least three out of five to win a prize. Matching 3 of 5 wins \$5, and 4 of 5 wins \$200. The drawings are conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

WILD CARD is played in four lottery jurisdictions and allows players the chance to win a parimutuel jackpot with a guaranteed minimum of \$200,000. In January 2013, the game was improved by increasing the minimum jackpot from \$100,000 and increasing other prizes as well. Players select five numbers from a field of 33 plus one of 16 face cards (the Wild Card) and must match all five numbers and the Wild Card to win the jackpot. Players win prizes from \$1 to \$6,000 for matching fewer than all five numbers and/or the Wild Card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers and the Wild Card, the jackpot rolls over to the next drawing to create a progressive jackpot.

HOT LOTTO allows players in the 16 participating lotteries a chance to win an all-cash parimutuel jackpot with a guaranteed minimum of \$1 million, plus tax withholdings paid. This change was implemented in May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from one to 47, and one Hot Ball number from 1 to 19. To win

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the parimutuel jackpot, a player must match all six numbers drawn. Players can also win prizes from \$2 to \$30,000 by matching fewer than all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

MEGA MILLIONS is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$12 million. If no one wins the jackpot, the jackpot continues to grow. Mega Millions went on sale March 1, 2010, in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from \$2 to \$250,000. For an additional \$1 per play, Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. Drawings are held each Tuesday and Friday night. This game will be improved with the drawing starting October 22, 2013.

10 SPOT, which went on sale February 1, 2010, is a Montana-only, twice-daily game. Players select 10 numbers from one through 80. The lottery draws 20 numbers, and players win by matching 10, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from \$2 to \$25,000.

The **EZPLAY®** games are offered on self-serve terminals in taverns and casinos that are licensed to sell Montana Lottery products. Introduced in November 2011, they are a suite of games with a pre-determined prize structure like a scratch game. Players can tell instantly if they have won a prize. The tickets sell for \$1, \$2, \$3, and \$5.

MONTANA MILLIONAIRE is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2012 game offered 130,000 tickets, which sell for \$20 each. Early bird drawings for \$10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 200 \$50 instant winners and 500 \$500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 29, 2012. On January 1, 2013, one \$1 million prize was awarded, along with two \$100,000 prizes and three \$10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 31, 2013, with a drawing on New Year's Day 2014.

The Montana Lottery offers a product line called **MONTANA SPORTS ACTION** on behalf of the Montana Board of Horse Racing. The product line began in August 2008 with a game called **FANTASY FOOTBALL**. To play the game, players choose five offensive players and a defensive unit from the official roster of professional football players and teams. The players can also select a bet amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares of the prize pool players are eligible to win should their team have one of the three highest point totals for the week. Tickets are sold weekly through the professional playoffs, excluding the championship game. A second game called **FANTASY RACING** was introduced in February 2009 and follows the NASCAR® Sprint Cup Series. Teams are created by selecting a driver from the top nine ranked drivers for the week, three drivers ranked from 10 through 34, and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Like Fantasy Football, players may also choose to purchase a higher-cost ticket to increase the share of the prize pool in the event their team has one of the three highest point totals for that race.

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

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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, 2013, 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 \$4,825,000. Total annual payments due as of June 30, 2013 are as follows:

FYE	
2014	2,155,000
2015	2,120,000
2016	550,000
	\$ 4,825,000

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 \$11,775 through August 2013. 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, 2013 are as follows:

FYE	
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	214,628
Less: Interest	(16,166)
Present value of Minimum Payments	\$ 198,462

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."

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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 2013 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include an average of 50% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 50% 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, 2013, the duration for the U.S. Government Treasury securities was a blended rate of .90 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.

13. SUBSEQUENT EVENTS

On September 5, 2013, the Montana Lottery entered into a contract amendment with its operating system vendor to lease 150 MP machines. These machines are self service terminals that allow players to purchase on-line tickets and/or play instant predetermined games at the terminal itself. The lease is for two and a half years and ends in March of 2016. The total obligation to the vendor for this lease is \$1,230,372 and is being paid on a monthly basis.

-Alternative accessible formats of this document will be provided upon request.



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