



# **MONTANA LOTTERY**

## **Annual Report 2014**

# FROM THE DIRECTOR

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**CHANGE WAS THE UNDERLYING THEME OF FISCAL YEAR 2014. THINGS MOVE QUICKLY IN THE WORLD OF LOTTERY AND WE ARE CONSTANTLY SEEKING NEW AND INNOVATIVE WAYS TO BETTER SERVE OUR RETAILERS AND PLAYERS.**

In Fiscal Year 2014, we updated Montana Cash, Montana's own game, to add in a new \$1 prize and we doubled the starting jackpot based on market research and feedback from players. We are pleased to see that the changes have been received positively by our players, indicated by a sales increase of 33% over last year at this time.

Ticket sales decreased around 6% over Fiscal Year 2013, from \$56.8 million to \$53.1 million. Sales were down in Powerball, Wild Card and 10 Spot. However, we have seen notable increases and growth to our Scratch, EZPLAY®, Hot Lotto, Mega Millions and Montana Cash products. Though total sales are slightly lower than Fiscal Year 2013, the transfer to the State of Montana General Fund was a notable \$12.2 million.

Montana Millionaire sold out for the second time in 2013, generating its full \$2.6 million of revenue potential. We continue to see the popularity of this game gain year after year.

In Fiscal Year 2015, we plan to introduce Lucky for Life, implement changes to Powerball, and to explore options to replace 10 Spot. In addition, we plan to introduce around 50 new Scratch games.

Lucky for Life is an online game that operates like other draw games. The top prize is \$1,000 a day for life and tickets cost \$2. The game launches January 27, 2015. Once implemented, the Montana Lottery will have drawings every day of the week. This game will be a great fit for Montana and we are excited to offer a brand new game!

We look forward to a busy year as we implement changes and further innovation that will maximize revenue transfers to the General Fund.

Sincerely,



Angela Wong  
Director



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## **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.

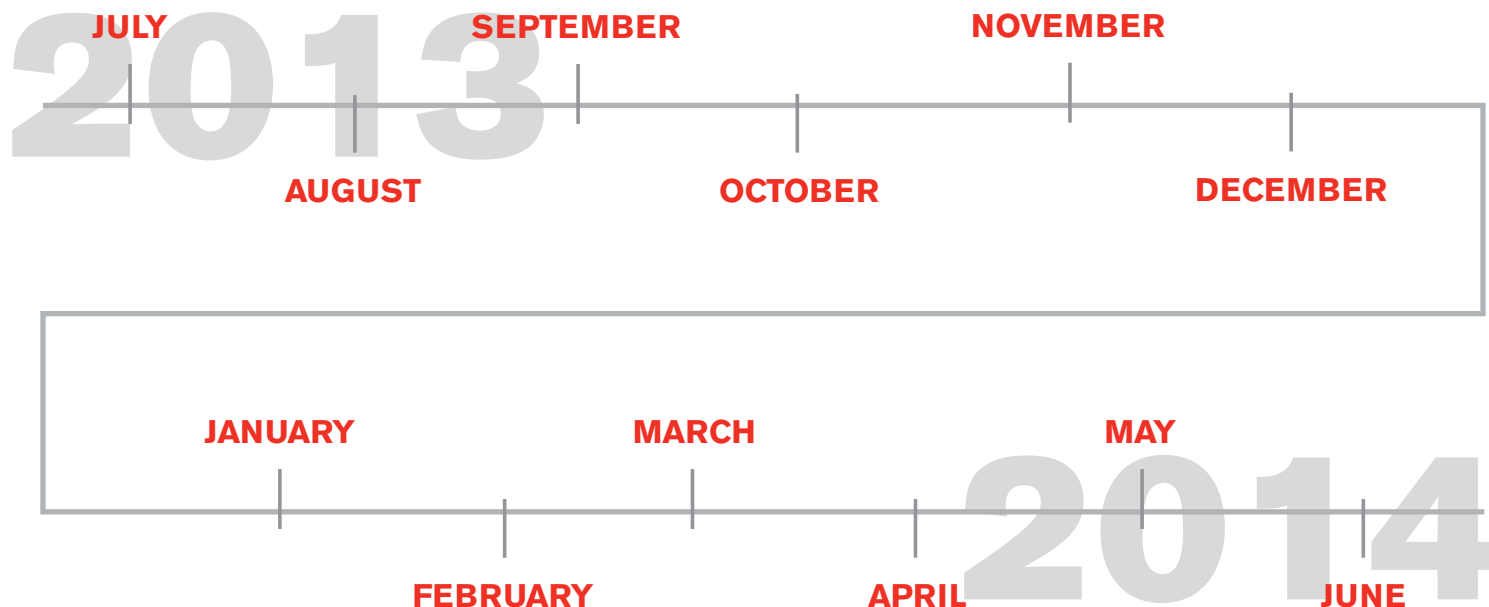
**WILBUR REHMANN**  
**FRANK DIFONZO**  
**CINDY HINER**  
**THOMAS M. KEEGAN**  
**LEO PRIGGE**

*Chair, Helena*  
*Sidney*  
*Deer Lodge*  
*Helena*  
*Butte*

**Contact the Montana Lottery Commission**  
**2525 North Montana Avenue**  
**Helena, Montana 59601**  
**406.444.5825 TTY 406.444.9642**

# FISCAL YEAR IN REVIEW

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**July 2013** The Montana Lottery debuts its mobile application, ePlayslip. Players can now pick their numbers online through the Player's Club or through their mobile device using the app and then purchase at a retailer. This option is available for all Montana Lottery lotto games.

**August 2013** The Powerball Jackpot climbs to \$425 million and has moved up to the third highest Powerball jackpot in U.S. lottery history.

**September 2013** A ticket in Havre wins a \$2 million Powerball prize.

**October 2013** The first scratch and sniff Scratch ticket goes on sale. Peppermint Doubler is a holiday Scratch ticket that smells like peppermint.

**December 2013** Montana Millionaire sells out early for the second year in a row.

**January 2014** Powerball goes back to its roots by bringing back the multiplier option. Non-jackpot prizes can again be multiplied by two, three, four and five for increased prize payouts.

**February 2014** The Lottery launches "Scratchapalooza," its first ever Social Media contest.

**April 2014** Peres Food Basket of Great Falls wins Retailer of the Year award and First and Last Chance Bar, Eureka, wins MSA Retailer of the Year award.

**May 2014** Montana's own game, Montana Cash, goes through its first upgrade since it debuted over 20 years ago. The game now offers better overall odds, a new prize level for matching two numbers and a doubled starting jackpot of \$40,000.

**May 2014** Let's Make a Deal™, the first Licensed Property EZPLAY® game, goes on sale.

**May 2014** Friendly's, Inc. in Helena sold a \$650,006 Wild Card Jackpot ticket.

**June 2014** The Lottery ends Fiscal Year 2014 with sales of \$53.1 million and transfers \$12.2 million to the General Fund.

# PRODUCTS



Montana Scratch game prices range from \$1 to \$20, and prizes range from \$1 to \$500,000. A number of play styles such as bingo and crossword are available.

<b>SALES</b>	\$16,516,113
<b>PRIZES PAID</b>	\$9,995,125
<b>PRIZE PAYOUT</b>	61%

For Fiscal Year 2014

The Montana Lottery introduced **40** new Scratch games.

- ★ **1,730,510** tickets won a prize of less than **\$1,000**.
- ★ **143** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$500,000**. One ticket from Kalispell won this prize.
- ★ Retailer commissions paid were **\$1,184,217**



Powerball is offered by 47 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.

<b>SALES</b>	\$15,553,379
<b>PRIZES PAID</b>	\$7,421,423
<b>PRIZE PAYOUT</b>	48%

For Fiscal Year 2014

- ★ Power Play sales were **\$2,055,581** or **13.2%** of Powerball sales.
- ★ **170,210** tickets won a prize of less than **\$1,000**.
- ★ **17** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$2 MILLION**. One ticket from Havre won this prize.
- ★ Retailer commissions paid were **\$777,340**.

# PRODUCTS



Mega Millions is offered by 46 lotteries. Montana sales started March 1, 2010. Tickets cost \$1 per play. Jackpots start at \$15 million. The Megaplier option increases non-jackpot prizes for an additional \$1 per play.

<b>SALES</b>	\$5,165,391
<b>PRIZES PAID</b>	\$2,497,057
<b>PRIZE PAYOUT</b>	48%

For Fiscal Year 2014

- \* Megaplier sales were **\$1,135,704** or **22.0%** of Mega Millions sales.
- \* **176,600** tickets won a prize of less than **\$1,000**.
- \* **24** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$40,000**. One ticket from Billings won this prize.
- \* Retailer commissions paid were **\$258,231**.



Hot Lotto is offered by 16 lotteries. Montana sales started April 7, 2002. Tickets cost \$1 per play. Jackpots start at \$1 million and the Lottery pays the withholding taxes on jackpot wins. Sizzler triples non-jackpot prizes for an additional \$1 per play.

<b>SALES</b>	\$3,240,638
<b>PRIZES PAID</b>	\$1,538,555
<b>PRIZE PAYOUT</b>	48%

For Fiscal Year 2014

- \* Sizzler sales were **\$911,787** or **28.1%** of Hot Lotto sales.
- \* **117,050** tickets won a prize of less than **\$1,000**.
- \* **23** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$30,000**. One ticket from Bozeman won this prize.
- \* Retailer commissions paid were **\$161,984**.

# PRODUCTS



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

<b>SALES</b>	\$1,928,671
<b>PRIZES PAID</b>	\$1,068,060
<b>PRIZE PAYOUT</b>	55%

For Fiscal Year 2014

- ★ **227,001** tickets won a prize of less than **\$1,000**.
- ★ **16** tickets claimed a prize of **\$1,000** or more.
- ★ The top prize claimed was **\$650,006**. One ticket from Helena won this prize.
- ★ Retailer commissions paid were **\$96,416**.



Montana Cash is Montana's exclusive lotto game. The game was revamped May, 2014. Tickets cost \$1 for two plays. Jackpots start at \$40,000.

<b>SALES</b>	\$3,672,393
<b>PRIZES PAID</b>	\$1,946,544
<b>PRIZE PAYOUT</b>	53%

For Fiscal Year 2014

- ★ **107,264** tickets won a prize of less than **\$1,000**.
- ★ **11** tickets claimed the jackpot.
- ★ The top prize claimed was **\$210,000**. One ticket from Missoula won this prize.
- ★ Retailer commissions paid were **\$183,561**.

# 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.

<b>SALES</b>	\$642,425
<b>PRIZES PAID</b>	\$350,721
<b>PRIZE PAYOUT</b>	55%

For Fiscal Year 2014

- \* **52,569** tickets won a prize of less than **\$1,000**.
- \* **1** ticket claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$2,500**. One ticket from Missoula won this prize.
- \* Retailer commissions paid were **\$32,129**.



Montana Millionaire is Montana's limited-ticket raffle game. Tickets are sold from November 1 to December 31, or until they are gone. Tickets have sold out two years in a row.

<b>SALES</b>	\$2,600,020
<b>PRIZES PAID</b>	\$1,506,850
<b>PRIZE PAYOUT</b>	58%

For Fiscal Year 2014

- \* **679** 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 Kalispell won this prize.
- \* Retailer commissions paid were **\$130,000**.
- \* Montana Millionaire sold all tickets offered, 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.

<b>SALES</b>	\$192,705
<b>PRIZES PAID</b>	\$142,402
<b>PRIZE PAYOUT</b>	74%

For Fiscal Year 2014

- \* **226** tickets won a prize of less than **\$1,000**.
- \* **42** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$3,287**. One ticket from Billings won this prize.
- \* Retailer commissions paid were **\$7,713**.
- \* The Board of Horse Racing received **\$44,535**.
- \* The Montana Lottery received **\$5,785**.



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.

<b>SALES</b>	\$3,772,235
<b>PRIZES PAID</b>	\$3,201,186
<b>PRIZE PAYOUT</b>	85%

For Fiscal Year 2014

- \* **528,518** tickets won a prize of less than **\$1,000**.
- \* **218** tickets claimed a prize of **\$1,000** or more.
- \* The top prize claimed was **\$10,613**. One ticket from Great Falls won this prize.
- \* Retailer commissions paid were **\$188,611**.



# INDEPENDENT AUDITOR'S REPORT

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## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah 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, 2014, and 2013, 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 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 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 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.

# INDEPENDENT AUDITOR'S REPORT

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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 net position of the Montana State Lottery as of June 30, 2014, and 2013, and the changes in net 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 to the financial statements, 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, 2014, and 2013, 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.

As discussed in Note 2 to the financial statements, the financial statements for the fiscal year ended June 30, 2013, have been restated to correct misstatements in the Other Post Employment Benefits liability, the Transfer Obligation liability, and the Operating Transfers Out-General Fund. 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 7 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

January 23, 2015

# FINANCIAL STATEMENTS

## Statement of Net Position June 30, 2014 and 2013

	2014	Restated 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,007,918	\$ 3,770,373
Receivables (Net)	1,699,476	1,655,004
Multi-State Reserve Fund	65,000	65,000
Inventories	390,026	446,525
Securities Lending Collateral	2,162	8,773
Prepaid Expenses	13,643	30,672
<b>Total Current Assets</b>	<b>6,178,225</b>	<b>5,976,347</b>
<b>NONCURRENT ASSETS</b>		
Computer, Furniture & Equipment	2,981,106	2,981,106
Leasehold Improvements	59,781	45,448
Accumulated Depreciation	(2,085,091)	(1,571,075)
Investments	31,964	41,698
Multi-State Reserve Fund	1,448,704	1,670,644
<b>Total Noncurrent Assets</b>	<b>2,436,464</b>	<b>3,167,821</b>
<b>TOTAL ASSETS</b>	<b>\$ 8,614,689</b>	<b>\$ 9,144,168</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 514,851	\$ 450,526
Estimated Prize Liability	2,377,348	2,265,134
Transfer Obligations	3,309,805	3,452,451
Liability under Security Lending	2,162	8,773
Unearned Revenue	126,321	153,680
Accrued Compensated Absences	122,710	170,894
Current Portion Long-Term Obligations	72,168	72,168
<b>Total Current Liabilities</b>	<b>6,525,365</b>	<b>6,573,626</b>
<b>NONCURRENT LIABILITIES</b>		
Multi-State Prize Liability	1,309,638	1,484,881
Accrued Compensated Absences	93,500	18,557
Long Term Obligations	54,126	126,294
Other Post Employment Benefits	532,562	461,119
<b>Total Noncurrent Liabilities</b>	<b>1,989,826</b>	<b>2,090,851</b>
<b>TOTAL LIABILITIES</b>	<b>8,515,191</b>	<b>8,664,477</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	829,502	1,257,017
Unrestricted	(730,004)	(777,326)
<b>Total Net Position</b>	<b>\$ 99,498</b>	<b>\$ 479,691</b>

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, 2014 and 2013

### OPERATING REVENUES:

	2014	Restated 2013
Scratch Ticket Revenue	\$ 16,516,113	\$ 17,279,829
On Line Ticket Revenue	36,575,152	39,522,990
License, Permits, and Misc.	31,347	18,680
<b>Total Operating Revenues</b>	<b>53,122,612</b>	<b>56,821,499</b>

### DIRECT GAME COSTS:

Scratch Ticket Prize Expense	9,995,125	10,903,493
On Line Ticket Prize Expense	19,553,196	21,273,390
Retailer Commissions	3,012,490	3,367,050
Cost of Tickets Sold	945,078	977,583
Vendor fees	3,128,737	3,347,350
<b>Total Direct Game Costs</b>	<b>36,634,626</b>	<b>39,868,866</b>
<b>Income Before Operating Expenses</b>	<b>16,487,986</b>	<b>16,952,633</b>

### OPERATING EXPENSES:

Advertising	492,336	553,906
Advertising Production	217,218	200,395
Audit Fees	34,740	3,772
Bad Debts Expense	6,453	4,324
Communications	130,629	138,520
Contractual Services	77,631	97,722
Depreciation and Amortization	514,016	513,644
Interest	9,510	13,659
Administrative Service Fee	64,950	63,234
Multi-State Dues	44,308	117,008
Public Relations	59,171	61,422
Other Post Employment Benefits	88,325	84,396
Other Expenses	28,243	26,821
Personal Services	1,971,482	1,836,523
Repairs and Maintenance	14,999	24,459
Supplies and Materials	258,956	199,981
Travel	39,691	50,363
Utilities and Rent	621,959	162,535
<b>Total Operating Expense</b>	<b>4,674,617</b>	<b>4,152,684</b>
<b>Operating Income</b>	<b>11,813,369</b>	<b>12,799,949</b>

### NONOPERATING REVENUES (EXPENSES):

Interest Earnings	5,944	9,858
Security Lending Income	6	33
Security Lending Expense	0	(11)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>5,950</b>	<b>9,880</b>
<b>Income Before Operating Transfers</b>	<b>11,819,319</b>	<b>12,809,829</b>
<b>Operating Transfers Out - General Fund</b>	<b>(12,199,512)</b>	<b>(13,185,632)</b>
<b>CHANGE IN NET POSITION</b>	<b>(380,193)</b>	<b>(375,803)</b>
<b>Total Net Position, Beginning of Period</b>	<b>479,691</b>	<b>1,242,356</b>
<b>Prior Period Adjustments</b>	<b>0</b>	<b>(386,862)</b>
<b>TOTAL NET POSITION, END OF PERIOD</b>	<b>\$ 99,498</b>	<b>\$ 479,691</b>

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

# FINANCIAL STATEMENTS

## Statements of Cash Flows for the years ended June 30, 2014 and 2013

	2014	Restated 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for Sales & Services	\$ 53,044,328	\$ 57,024,040
Payments for Goods & Services	(9,033,283)	(9,518,630)
Payments to Employees	(1,961,605)	(1,868,102)
Payments for Prizes	(29,611,350)	(32,041,456)
<b>Net Cash Provided by Operating Activities</b>	<b>12,438,090</b>	<b>13,595,852</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Other Funds	(12,342,158)	(13,463,176)
<b>Net Cash Used For Noncapital Financing</b>	<b>(12,342,158)</b>	<b>(13,463,176)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Fixed Assets	(14,333)	(16,500)
Principal & Interest Payment on Leases	(81,678)	(85,826)
<b>Net Cash Used For Capital Financing</b>	<b>(96,011)</b>	<b>(102,326)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends on Investments	5,950	9,880
Received from (Paid to) MUSL Prize Reserve Fund	221,940	326,461
Sale (Purchase) of long term investments	9,734	2,115
<b>Net Cash Provided by Investing Activities</b>	<b>237,624</b>	<b>338,456</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>237,545</b>	<b>368,806</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3,770,373</b>	<b>3,401,567</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 4,007,918</b>	<b>\$ 3,770,373</b>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 11,813,369	\$ 12,799,949
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	514,016	513,644
Interest Expense	9,510	13,659
<b>CHANGE IN ASSETS AND LIABILITIES:</b>		
Decr (Incr) in Account Receivable	(44,472)	190,910
Decr (Incr) in Inventories	6,611	(64,197)
Decr (Incr) in Collateral securities on loan	56,499	(3,189)
Decr (Incr) in Prepaid expenses	17,029	(1,723)
Incr (Decr) in Accounts Payable	64,325	(60,589)
Incr (Decr) in Lottery Prizes Payable	(63,029)	135,427
Incr (Decr) in Liability for securities on loan	(6,611)	3,189
Incr (Decr) in Unearned Income	(27,359)	15,955
Incr (Decr) in Other Post Employment Benefits	71,443	74,257
Incr (Decr) in Compensated Absences Payable	26,759	(21,440)
<b>Total Adjustments</b>	<b>624,721</b>	<b>795,903</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 12,438,090</b>	<b>\$ 13,595,852</b>

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

# NOTES TO THE 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 unearned income 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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic



# NOTES TO THE FINANCIAL STATEMENTS

Financial Statements and Management Discussion and Analysis for State and Local Governments.” Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

## 2. OTHER ACCOUNTING ISSUES

### 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.

For the year ended June 30, 2014, the Montana Lottery implemented the provisions of GASB Statement No. 65 – “Items Previously Reported as Assets and Liabilities.” This statement essentially changes and redefines the different elements of a financial statement, specifically the Statement of Net Position. The Lottery has adopted this statement by changing the line item of “deferred revenue” to the new title of “unearned revenue” on the Statement of Net Position. This was not a restatement for Fiscal Year 2013 as this only changed the title for the same statement item without changing any amounts.

**PRIOR PERIOD ADJUSTMENTS** Prior period adjustments reported in the accompanying financial statements relate to corrections of errors and changes in accounting policy from prior periods. The two most significant adjustments relate to Other Post Employment Benefits (OPEB). It was determined that OPEB liability was overstated by the amortization of Net OPEB Obligation and was not adjusted in the ending liability balance for each year, as it relates to the Annual Required Contribution. This actuarial calculation is now reflected in the liability as an implicit rate subsidy with the corrected ending liability balance. Also, it was determined that generally accepted accounting standards and state statutes did not intend to include the OPEB expense when determining the amount of transfer to the General Fund each year. This expense is now disregarded and added to the change in net position

on the Statement of Revenues, Expenses, and Changes in Net Position. As a result of the above, the Net Position was increased by \$101,192 for the amended amortization of the Net OPEB obligation and reduced by \$488,054 for the recalculation of the transfer to the General Fund.

**RECLASSIFICATION AND RESTATEMENT** In order to make certain prior year amounts compare to current year presentation on the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, fiscal year 2013 items were adjusted to reflect the above Prior Period Adjustments. The restatement of fiscal year 2013 was due to the change in calculation of Other Post Employment Benefits and the calculation of the Transfer Obligations.

**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, 2014 was \$333,863.

**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, 2014, promotional credits resulted in a revenue reduction of approximately \$16,678 and an expense reclassification of approximately \$14,317. 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 these games are taken as a reduction in the

# NOTES TO THE FINANCIAL STATEMENTS

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 6/30/14	Quarter Ended 6/30/13	Year To Date 6/30/14	Year To Date 6/30/13
Lotto	\$ 143,868	\$ 158,999	\$ 542,113	\$ 561,656
Scratch	\$ 153,080	\$ 80,080	\$ 666,415	\$ 369,562
<b>TOTALS</b>	<b>\$ 296,948</b>	<b>\$ 239,079</b>	<b>\$ 1,208,528</b>	<b>\$ 931,218</b>

## 3. SUMMARY OF ACCOUNTS

**CASH AND CASH EQUIVALENTS** Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool; cash on deposit in a revolving account with 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, 2014	June 30, 2013
Short-term investment pool	\$2,883,970	\$3,169,315
Cash on deposit with State Treasurer	1,113,748	590,858
Cash in revolving deposit account	10,000	10,000
Petty Cash & Cash on Hand	200	200
<b>TOTALS</b>	<b>\$4,007,918</b>	<b>\$3,770,373</b>

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$28,063 as of June 30, 2014 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

**RECEIVABLES** For the year ended June 30, 2014, receivables include \$1,935,691, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$298 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, 2014, 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, 2014. The allowance for ticket returns is \$251,075 as of June 30, 2014. The return of vendor fees related to the allowance for returns is \$14,562.

For the year ended June 30, 2013, receivables included \$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 for years ended June 30, 2014 and 2013 include scratch tickets valued at \$299,022, and \$327,072, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the years ended June 30, 2014, and 2013, supplies inventories totaled \$91,004, and \$119,453, respectively. These inventories are also recorded at cost using the specific identification method.

**OTHER CURRENT ASSETS** Other current assets include the following:

	June 30, 2014	June 30, 2013
Prepaid Expenses	\$13,643	\$30,672

The prepaid expenses for the year ended June 30, 2014 were all for prepaid commissions and vendor fees related to unearned income. The prepaid expenses for the year ended June 30, 2013 consisted of \$14,075 for booth fees for upcoming summer fairs, and \$16,597 for prepaid commissions and vendor fees related to unearned income.



# NOTES TO THE FINANCIAL STATEMENTS

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

	June 30, 2013	Additions	Deletions	June 30, 2014
Leasehold Improvements	\$ 45,448	\$ 14,333	\$ -	\$ 59,781
Furniture & Equipment	\$ 2,981,106	\$ -	\$ -	\$ 2,981,106
Accumulated Depreciation	\$ (1,571,075)	\$ (514,016)	\$ -	\$ (2,085,091)

**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, 2014 and 2013 were \$3,309,805 and \$3,452,451, 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, 2013	Net Leave Earned/(Used)	Balance June 30, 2014
\$189,451	\$26,759	\$216,210

## OTHER POST EMPLOYMENT BENEFITS (OPEB)

**General.** The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Montana Code Annotated, Title 2, Chapter 18, Section 704 to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan.

**Plan Description.** The State OPEB plans are agent multiple employer plans. There are a number of State agencies who are participating employers under this plan. Each participating

employer is required by GASB Statement No. 43 to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes. While this liability is disclosed for financial statement purposes, it does not represent a legal liability of the State or any of its component units. Accordingly, reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

**Bases of accounting.** OPEB is recorded on an accrual basis for all enterprise and internal service funds as well as component units. OPEB is recorded on a modified accrual basis for the governmental funds. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Funding Policy.** The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. As of June 2014, the State plan's administratively established retiree medical premiums vary between \$299 and \$1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$17.50 and \$60 and vision hardware premiums vary between \$5.76 and \$16.76 depending on the coverage selected.

## Annual Other Postemployment Benefit cost and

**Contributions.** The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

# NOTES TO THE FINANCIAL STATEMENTS

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB plans for fiscal year 2014 and 2013:

Year ended June 30,	2014	2013
Annual Required Contribution/OPEB Cost	\$ 84,123	\$ 80,845
Interest on net OPEB Obligation	19,313	16,460
Amortization Factor	(15,111)	(12,910)
<b>Annual OPEB Cost</b>	<b>88,325</b>	<b>84,395</b>
Retiree Claims Paid	(16,882)	(10,138)
Increase in net OPEB Obligation	71,443	74,257
Net OPEB Obligation - beginning of year	461,119	386,862
Net OPEB obligation - end of year	\$ 532,562	\$ 461,119

The Lottery's annual healthcare OPEB cost, the percentage of annual implicit contributions toward the OPEB cost through retiree claims paid on their behalf, and the net OPEB obligation for the fiscal years 2014 through 2012 was as follows:

Fiscal Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$88,325	19.1%	\$532,562
6/30/13	\$84,395	10.0%	\$461,119
6/30/12	\$79,321	12.1%	\$386,862

**Actuarial Methods and Assumptions.** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.

**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 years ended June 30, 2014 and 2013, retailers earned bonus commissions of \$331,350 and \$475,579, respectively. For the years ended June 30, 2014 and 2013, total commissions were \$3,012,490 and \$3,367,050, respectively.

## 4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal years ended June 30, 2014 and 2013:

Year ended June 30,	2014	2013
Administrative Service Fees	\$64,950	\$63,234
Audit Fees	34,740	3,772
Computer Fees	63,981	56,807
Insurance	12,786	12,062
Mail Processing Fees	10,898	9,530
Other Expenses	2,478	1,306
Payroll Services	7,404	7,444
Printing	555	1,347
State Accounting System Support	3,283	2,597
Supplies & Materials	117	12,027
Telecommunications	14,043	18,205
Vehicle Rental Fees	632	-
Warrant Writing Services	473	576
	<b>\$216,340</b>	<b>\$188,907</b>

## 5. PRIZES

**PAID PRIZES** Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money." Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the year ended June 30, 2014, the prize expense of \$29,548,321 is 55.66% of net Lottery ticket revenue of \$53,091,265. For the year ended June 30, 2013, the prize expense of \$32,176,883 was 56.6% of net Lottery ticket revenue of \$56,802,819.

## 6. 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 years ended June 30, 2014 and 2013, the net revenue payable to the State General Fund totaled \$3,309,805, and \$3,452,451, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, 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 \$1,513,704 and \$1,735,644 as of June 30, 2014, and 2013, 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, 2014		
	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 158,277	\$ 325,750	\$ 484,027
Powerball Set Prize Reserve Account	96,385	114,062	210,447
Powerball Unreserved Account	72,015	132,051	204,066
Wild Card Prize Reserved Account	-	141,412	141,412
Hot Lotto Set Prize Reserve Account	-	297,464	297,464
Mega Millions Prize Reserve Account	57,646	118,642	176,288
<b>Total Reserves</b>	<b>\$ 384,323</b>	<b>\$ 1,129,381</b>	<b>\$ 1,513,704</b>
Less Current Portion			(65,000)
<b>Non Current Reserves</b>			<b>\$ 1,448,704</b>

	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

	June 30, 2013 (Continued)		
	US Treasury	Federal Agencies	Total
Mega Millions Prize Reserve Account	108,297	65,563	173,860
<b>Total Reserves</b>	<b>\$ 779,970</b>	<b>\$ 955,674</b>	<b>\$ 1,735,644</b>
Less Current Portion			(65,000)
<b>Non Current Reserves</b>			<b>\$ 1,670,644</b>

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 2014, the Lottery received \$1,157 in interest and had \$47,854 withdrawn for annual MUSL dues and assessments. During the fiscal year ended 2013,

# NOTES TO THE FINANCIAL STATEMENTS

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 fee for the use of these patents.

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.

## 8. 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 \$40,000. Players select five numbers from a field of 45 and must match at least two out of five to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The 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 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



# NOTES TO THE FINANCIAL STATEMENTS

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.

**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 2013 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 26, 2013. On January 1, 2014, 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, 2014, with a drawing on New Year's Day 2015.

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.

## 9. 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.

## 10. 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.

# NOTES TO THE FINANCIAL STATEMENTS

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 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, 2014, 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 \$2,670,000. Total annual payments due as of June 30, 2014 are as follows:

FYE	
2015	2,120,000
2016	550,000
	<b>\$ 2,670,000</b>

## 11. 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 \$12,128 through August 2014. 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, 2014 are as follows:

FYE	
2015	77,528
2016	55,423
Total Minimum Payments	132,951
Less: Interest	(6,657)
<b>Present value of Minimum Payments</b>	<b>\$ 126,294</b>

## 12. 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 2014 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include an average of 13% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 87% 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.

# NOTES TO THE FINANCIAL STATEMENTS

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**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, 2014, the duration for the U.S. Government Treasury securities was a blended rate of 1.34 years.

## 13. 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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