

2019 ANNUAL REPORT



**MONTANA
LOTTERY**



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*Angela Wong,
Director*



FY19 brought another record year of sales and two exciting changes to the Montana Lottery. It was a great year!

Our biggest changes grew out of the 2019 Montana Legislature. On May 3, 2019, House Bill 725 became law and a new chapter began for the Montana Lottery. Since 1987, we have specialized primarily in Lotto and Scratch games. With the passage of HB 725, we began working on launching a sports wagering product in Montana, joining lotteries around the country — and the world — in offering sports betting for their states and countries.

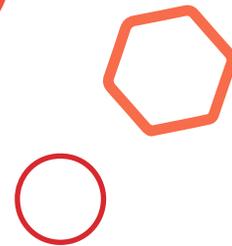
We began working immediately on building the product that became Sports Bet Montana. From the outside, the Montana Lottery might have looked like business as usual, but on the inside we were working hard to build a sports wagering program made by Montanans, for Montanans. Sports Bet Montana opened for licensing in December of 2019, but we began taking our very important first steps in the last quarter of the FY19 and those steps helped pave the way for the successful launch of Sports Bet Montana.

Another major change passed into law in May of 2019 that affects not just the Montana Lottery, but the Montana students we serve through the Montana STEM Scholarship Program, administered through the Montana University System. The scholarship program was created in 2015 and gives scholarships to students pursuing degrees in science, technology, engineering, math or health care at Montana public and tribal colleges. The program was always funded solely by the Montana Lottery, but the way the money flowed into the account made funding unpredictable and hard to administer. Senate Bill 60 addressed a lot of pieces of student aid and, importantly for us and our beneficiaries, it also changed the funding of the STEM Scholarship. Now, funding into the scholarship fund is straight-forward and allows us to work with the Montana University System for a reliable scholarship program.

FY19 also brought a year of record sales — more than \$60 million and an increase of more than 6 percent over the previous year!

The sales were driven by high Powerball and Mega Millions jackpots, along with our long-term strategy of carefully building our Scratch and in-state Lotto games to better appeal to our Montana players.

MONTANA LOTTERY COMMISSION



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

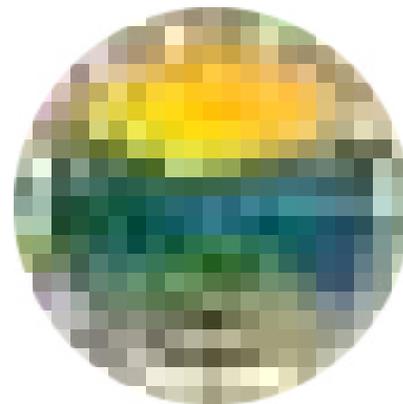
WILBUR REHMANN, Chair, Helena

THOMAS KEEGAN, Helena

LEO PRIGGE, Butte

JESSIKA KYNETT, Livingston

JOHN TARR, Helena



CONTACT THE MONTANA LOTTERY COMMISSION:

2525 NORTH MONTANA AVENUE • HELENA, MT, 59601 • 406.444.5825



MONTANA LOTTERY

THE MISSION

of the Montana Lottery is to support the Montana STEM Scholarship Program and maximize the transfer of its net revenue to the state's general fund. We accomplish this by providing products that meet the expectations of consumers and the state of Montana, while adhering to the highest standards of security and integrity, which is critical to maintaining public confidence in the agency and its products.



\$1
Cost of the first Montana Lottery ticket ever sold.

\$53,339
Amount of prize money we have paid out on average every day we've been in business.

\$68 MILLION +
Amount Montana business have earned in commission selling Montana Lottery products.

\$623 MILLION +
Amount of prize money we've paid out since 1987.

\$270 MILLION +
Amount of money the Montana Lottery has generated for the state of Montana since we opened for business in 1987.

THE BEGINNING

The Montana Lottery was created by a citizen's vote on Nov. 4, 1986. More than 69 percent of Montanans voted to create a lottery, representing majorities in all 56 Montana counties. Our first ticket was a \$1 Scratch ticket called Pot of Gold, which went on sale June 24, 1987. That very same day, a player in Billings won our first jackpot. We've been making winners ever since.

WHERE DOES THE MONEY GO?

All of our profit is returned to the State of Montana. Our profits benefit Montanans in two ways: Montana Lottery dollars fund the Montana STEM Scholarship Program. Under the program, Montana resident students who meet the eligibility requirements and are seeking degrees in science, technology, engineering, math and healthcare from Montana public and tribal colleges and universities can receive financial support toward their schooling. The rest of our dollars benefit the Montana General Fund. The General Fund supports a wide variety of state programs, including education, health and public safety - to name just a few.



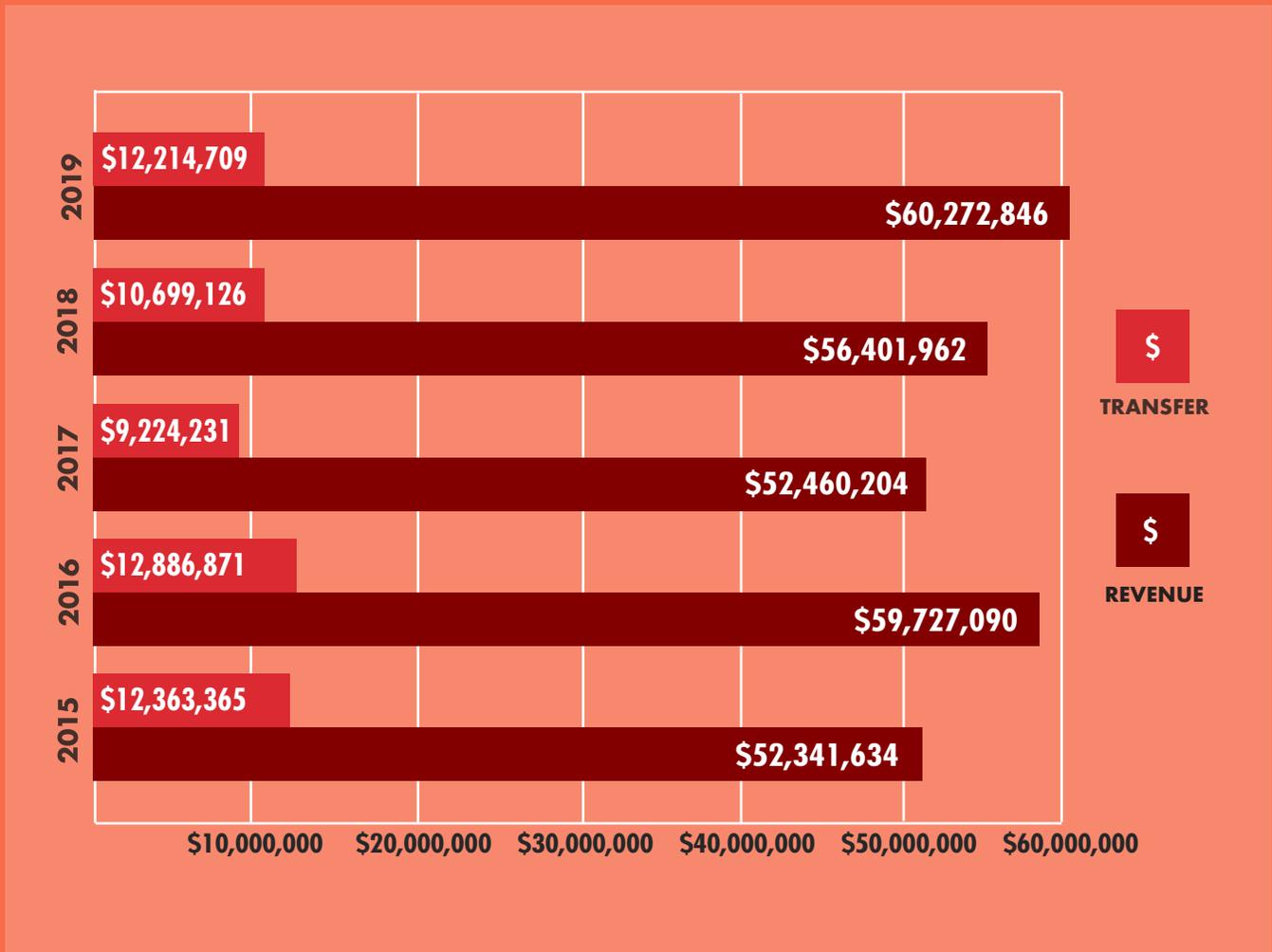
PLEASE PLAY RESPONSIBLY

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BENEFICIARY INFO

The mission of the Montana Lottery is to maximize the transfer of its net revenue to the state's General Fund and to the Montana STEM Scholarship program by providing products that meet the expectations of consumers and the State of Montana while adhering to the highest standards of security and integrity, which is critical to maintaining public confidence in the agency and its products.

HISTORIC CHART ON REVENUES AND TRANSFERS



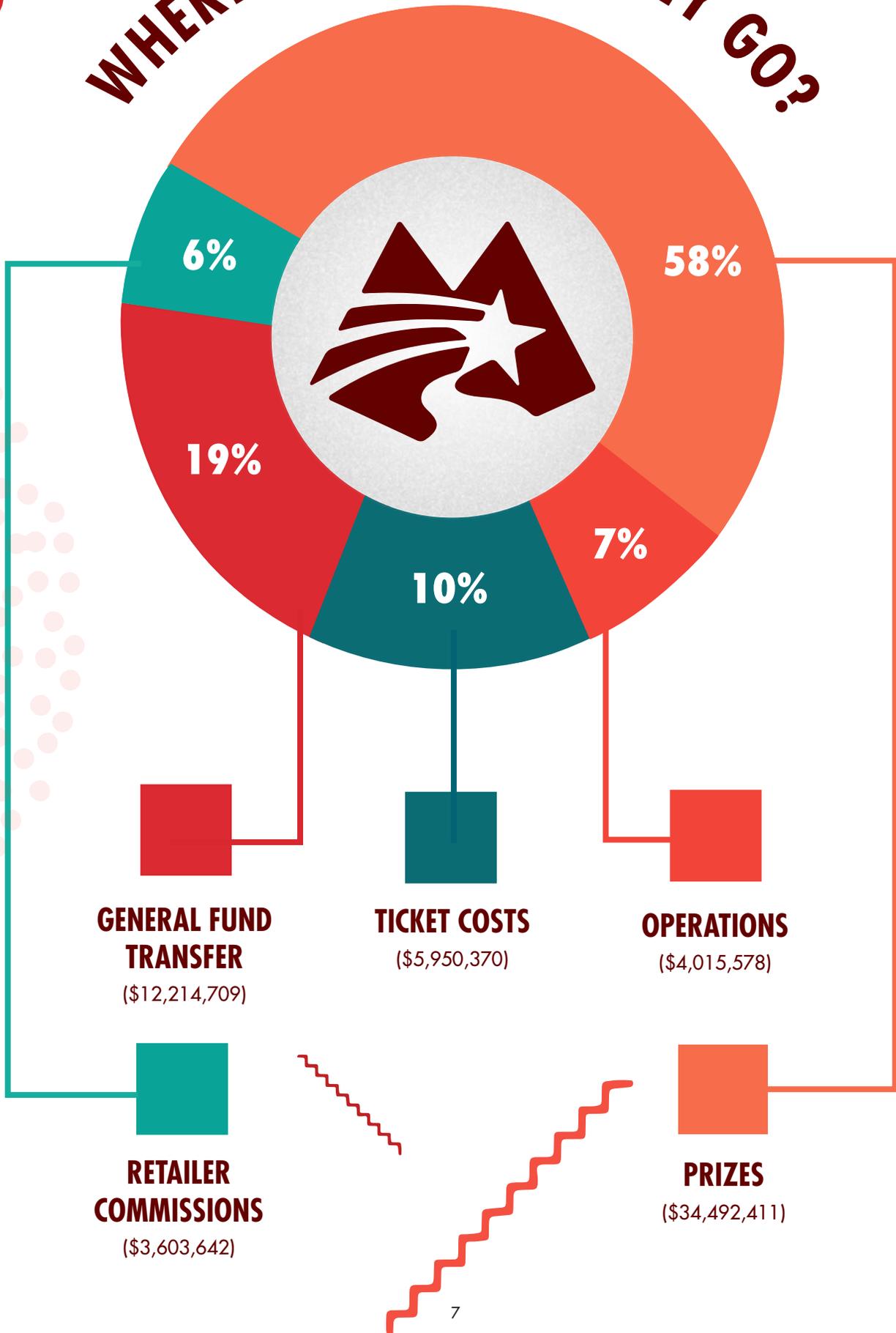
\$12,214,709

2019 TRANSFER TO THE GENERAL FUND

\$60,272,846

2019 TOTAL LOTTERY REVENUE

WHERE DOES THE MONEY GO?



FISCAL YEAR HIGHLIGHTS

2018 SUMMER SCRATCH GAME –

MULTIPLIER FAMILY: Our big summer Scratch game and promotional campaign launched on June 6, 2018, marking the first time the Montana Lottery has ever launched a related, branded game at nearly every price point. Our Multiplier Family of games featured \$1, \$2, \$5, and \$10 games, each with the opportunity of multiplying top prizes. We also conducted second chance drawings only for Multiplier players. We conducted a \$10,000 drawing on July 27, a \$20,000 drawing on August 31 and a \$30,000 drawing on September 28, 2018.



POWERBALL PAYDAYS: Powerball with Power Play is one of Montana's most beloved Lotto games and the Montana Lottery wanted to share the love with Powerball with Power Play players by giving away LOTS and LOTS of prizes! We made every Wednesday and Saturday in September a Power Play Payday by giving away more than 21,000 INSTANT WIN prizes – including eight \$500 prizes! Every time a player bought a Powerball with Power Play ticket, they could win \$6 or \$500 immediately. We awarded more than 2,600 \$6 prizes every single Power Play Payday! Each day of the promotion one lucky Power Play player won \$500 instantly.



SUMMER EVENTS:

The Montana Lottery was a proud sponsor and vendor at the Montana Folk Festival in Butte on July 13 through 15, 2018, the Montana State Fair in Great Falls on July 27 through August 4, 2018, the Montana Fair in Billings on August 10 through 18, 2018, and the Montana Dragon Boat Races in Kalispell on September 8 through 9, 2018.



RETAIL EVENTS: From Manhattan to Butte to Miles City and Sidney, we engaged our players and retail partners at over 24 in-store retail events between July 2018 and June 2019. These events allow us to work directly with our sales agents to promote retailer sales and our products, and interact with our players on a more intimate level.

SPONSORSHIP: The Montana Lottery continued its successful partnership with Learfield Sports, the licensor that represents the University of Montana and Montana State University athletics. Supporting student athletes and Montana's iconic collegiate sports programs is a source of both pride and fun for the Montana Lottery.

TWELFTH ANNUAL MONTANA

MILLIONAIRE GAME: The twelfth year for our Montana Millionaire raffle game began November 1, 2018. On the 35th day of sales, on December 5th, we sold out of all 150,000 tickets.

MARCH IS PROBLEM GAMBLING

AWARENESS MONTH: As we have for many years, the Montana Lottery again highlighted Problem Gambling Awareness Month in March of 2019 with a suite of messaging to our players and the public -- including multiple social media posts educating Montanans about recognizing the signs of problem gambling and the resources available throughout the state.

2019 SUMMER SCRATCH GAME –

WINNEBAGO®: In June 2019, the Montana Lottery launched our annual summer promotional Scratch ticket. This year, we featured a \$5 Winnebago® ticket. Players were able to win a 2019 Winnebago® MicroMinnie Travel Trailer in one of two ways – instantly on the ticket, or by entering a second chance drawing that was held on August 30, 2019. Both Winnebago® trailers prizes were claimed. Our \$5 summer Scratch ticket – Winnebago® – was our



highest selling game of FY19 with an average of 142 packs being activated for sale each week during the first 16 weeks.

Scratch revenue for FY19 were \$18,531,003; up by 3.72% compared to FY18 revenue. The Montana Lottery had a winner event for both winners of the trailer prize. Both winners are Montana residents and were very happy to have won such a unique prize and looked forward to many years of RV'ing enjoyment.

BIG WINS

QUARTER 1: JULY 1, 2018 – SEPTEMBER 30, 2018

- A Montana Cash jackpot ticket totaling \$390,000 was sold at McFiny's #1 in Billings on August 22, 2018.
- A Powerball win totaling \$100,008 was sold at Super 1 Foods in Helena on August 17, 2018.
- A Power Play Gold Crossword Scratch ticket win totaling \$75,000 was sold at Holiday #272 in Havre on July 3, 2018.
- A Montana Gold Scratch ticket win totaling \$75,000 was sold at Kum & Go #808 in Plentywood on August 6, 2018.

QUARTER 2: OCTOBER 1, 2018 – DECEMBER 31, 2018

- A Powerball ticket winning a prize totaling \$250,000 was sold at Cenex Zip Trip #74 in Red Lodge on October 24, 2018.
- A Powerball win totaling \$150,000 was sold at Stockman's Casino in Fergus on October 12, 2018.
- A Montana Cash jackpot ticket totaling \$120,001 was sold at Kelly Rae's in Kalispell on October 2, 2018.
- A Montana Cash win totaling \$110,000 was sold at Holiday #284 in Billings on November 1, 2018.

QUARTER 3: JANUARY 1, 2019 – MARCH 31, 2019

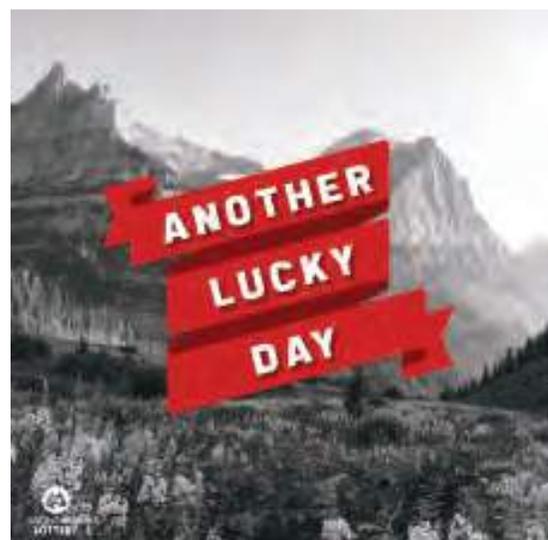
- A Montana Millionaire jackpot totaling \$1,000,000 was claimed on January 3, 2019. The winning Montana Millionaire ticket was purchased at McFiny's #1 in Billings.



- A \$500,000 Payout Scratch ticket top prize totaling \$500,000 was sold at Travel Centers of America in Laurel on January 8, 2019.
- A Break The Bank Scratch ticket top prize totaling \$175,000 was sold at Riverside Sinclair in Hamilton on January 30, 2019.
- A Montana Cash jackpot was won totaling \$160,001 and was sold at Jackpot Heights in Billings on January 19, 2019.

QUARTER 4: APRIL 1, 2019 – JUNE 30, 2019

- A Montana Cash jackpot ticket totaling \$380,001 was sold at Richest Hill Bar & Casino in Butte on May 2, 2019.
- A Lucky For Life top prize of \$1,000 a day for life was sold at Holiday #59 in Great Falls on April 23, 2019.
- A Montana Cash jackpot ticket totaling \$150,001 was sold at Git's Conoco in Columbus on June 17, 2019.



>>> RETAILERS OF THE YEAR <<<

Each year we recognize Montana Lottery retailers who have gone the extra mile.



The FY19 Montana Sports Action Retailer Of The Year Was Rhino Casino In Belgrade

Rhino Casino continuously demonstrated support and enthusiasm for the Montana Lottery. Rhino Casino staff are amazing people to work with and always have new ideas on improving sales with a commitment to improving customer service and satisfaction, which certainly contributed to the increase of 54.22% in sales growth.

The FY19 Bob Harper Memorial Excellence Award

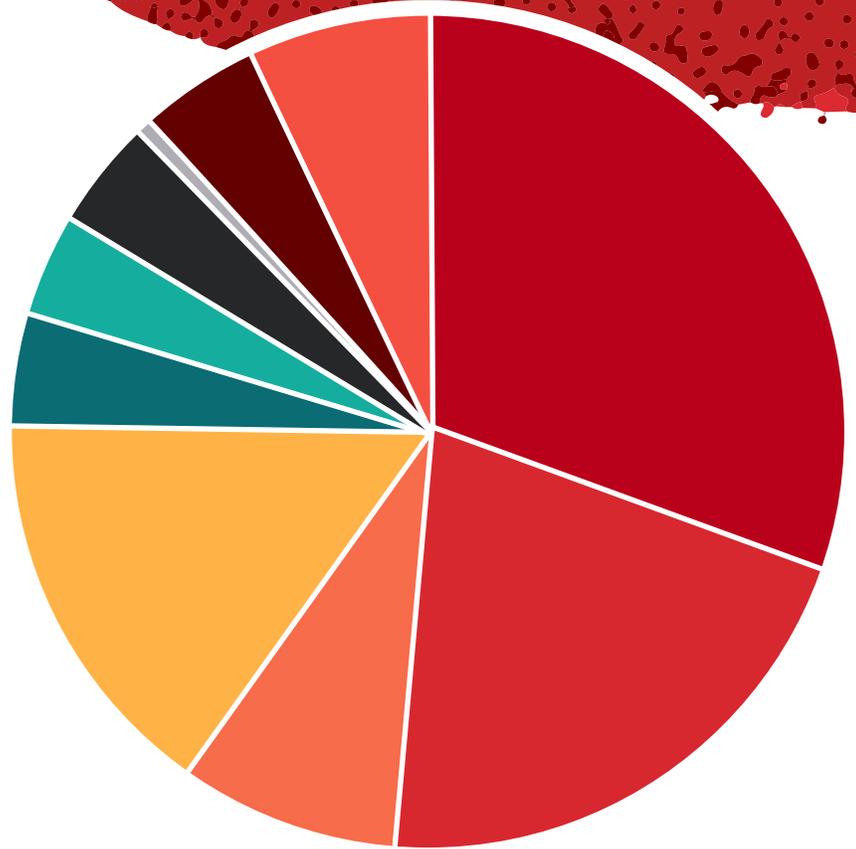
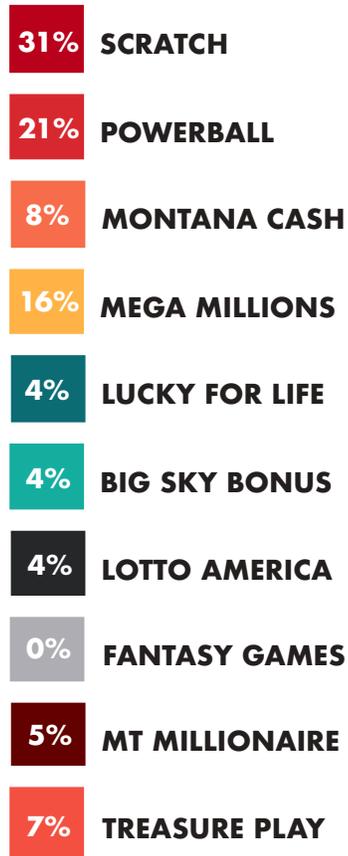
was awarded to Town Pump #4 in Butte. Attention to quality customer service and in-depth product knowledge and enthusiasm distinguishes Town Pump #4 in Butte. The staff is eager to share Lottery promotions and always shares jackpot announcements with their customers. It's no surprise their annual Lottery sales increased 38.76% between FY18 and FY19. Town Pump #4's Scratch sales increased by 56% as well, making them our 15th highest volume retailer!



Our FY19 Wyman Hewitt Retailer of the Year Award

went to Canyon Ferry Mini Basket in East Helena. Canyon Ferry Mini Basket is one of the Lottery's most enthusiastic retailers. From significant in-store advertising for Scratch products at each register, to them placing the DreamTouch vending machine in a prominent location, and their staff's in-depth knowledge of Lottery products, this retailer sets themselves apart. With a strong increase in sales between FY18 and FY19, Canyon Ferry Mini Basket moved into the top twenty Lottery retailer bracket.

PRODUCTS IN REVIEW



LOTTO PRODUCTS: The Montana Lottery finished FY19 with six Lotto games: Powerball, Mega Millions, Lotto America, Lucky For Life, Montana Cash and Big Sky Bonus. Four of those products are multi-state games, while Montana Cash and Big Sky Bonus are Montana-made and played exclusively in Montana. Our in-state only games are among our most popular games and offer the best overall odds. **We had 1,004 licensed retailers in FY19.** All traditional Lotto retailers receive a five percent commission on every dollar sold. Lotto revenue was \$34.59 million in FY19, up 9.51 percent from the year before. Lotto games paid out 3,243 prizes greater than \$100, which is \$6,113,593 in total winnings.

LOTTO REVENUE:

FY2019:
\$41,723,120

SCRATCH TICKETS: During FY19, the Montana Lottery launched 44 Scratch games. Our price points included \$1, \$2, \$3, \$5, \$10, and \$20 games, with top prizes ranging from \$1,000 to \$500,000. Each price point featured a variety of play styles including bingo, crossword, key number and key symbol match, Slingo® and licensed property games.

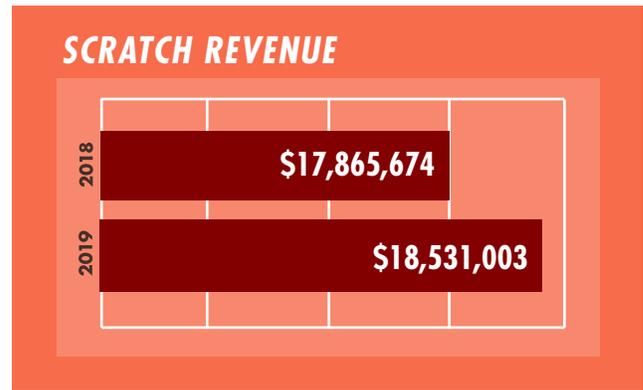
Unique games launched:

Lucky Every Day

- \$5 price point
- Cross-promotion with the Lucky Every Day Lotto game
- Second highest performing game of FY19 (based on first 16-week pack activation average)

Battleship®

- Featured unique Battleship® play style and familiar graphics from the popular board game
- \$3 price point



Scratch revenue for FY19 were \$18,531,003; up by 3.72% compared to FY18 revenue.

TREASURE PLAY: The Montana Lottery offers a selection of instant-win, terminal-issued games called Treasure Play at **365 licensed retailers**. In FY19, Treasure Play retailers received a five percent commission for selling Treasure Play tickets and saw the introduction of the Treasure Play Sales Incentive Program, which allows retailers the opportunity to earn up to five percent more commission for meeting quarterly sales goals. The incentive program has a ten percent commission cap on total commission paid per dollar. During FY19 Treasure Play consisted of six non-progressive games and six progressive jackpot games. Progressive jackpot games are generally more popular than non-progressive games primarily because play increases as jackpots increase. FY19 annual revenue for our Treasure Play line of games saw an increase from the year prior. Treasure Play revenue was \$4,122,791, up 5.1% from the previous year. The last quarter of FY19 introduced big changes to the product when the new terminal updates that improved accessibility to Treasure Play games were introduced. This included improved winner awareness, and added new buttons for sample ticket images and prize legends.



MONTANA SPORTS ACTION /

FANTASY GAMES: Montana Sports Action (MSA) was renamed Fantasy Games and is a fantasy sports product line offered by the Montana Board of Horse Racing and facilitated by the Montana Lottery. Fantasy Games consists of two fantasy sports games: Fantasy Racing and Fantasy Football. FY19 Fantasy Games revenue for the Montana Lottery was \$211,011, down five percent from FY18.



SPORTS BET MONTANA: Late in the FY19, the 2019 Montana Legislature authorized sports wagering – powered by the Montana Lottery – for our state. We sprung to action! The last weeks of FY19 were spent planning and building a new product and a new way to license sports wagering retailers. The fruits of our labor weren't seen publicly until December of 2019 – but we planted the seeds of a successful and fun new product in FY19 and our story wouldn't be complete without it.



>>> WINNERS SPOTLIGHT <<<

Montana Millionaire winner is Randy Mai, of Billings, claimed in January 2019

Randy Mai, of Billings, became our twelfth Montana Millionaire in January of 2019. He bought his ticket on Nov.

30 at McFiny's on 17th Street in Billings. It isn't the first time this McFiny's has sold the winning Montana Millionaire ticket. In 2011, the winning Montana Millionaire ticket was sold there as well. The Montana Lottery created Montana Millionaire in 2007 and the game has successfully made one Montanan a millionaire each year since. The game has other prizes, including three \$100,000 prizes and five \$10,000 prizes.



Lucky for Life Winner

Wanda Guzman, of Great Falls, became the one player in 30.8 million to win the top \$1,000 a day for life prize in the Lucky for Life Lotto game, an experience she described as "surreal." Guzman is the first Montanan to ever win the top prize in Lucky for Life, which is sold by 26 U.S. lotteries. Guzman bought her winning ticket as part of The Works, a Montana Lottery product that bundles all the Lotto games the state sells into one purchase.

She was visiting her daughter in Billings this week when news came out that someone in Montana had won the top Lucky for Life prize.

Her ticket was in Great Falls, but Guzman's sister had it and read the numbers over the phone to her. Guzman checked them against the computer. And with each number, she got a little more excited.

"I just couldn't believe it," Guzman said.



Helena Student Wins \$15,000 On Gift Scratch Ticket

Wasiin Naytha Ragged Robe was just excited to win \$15. "I got kind of happy," the 20-year-old Helena College student said. "I could use \$15."

Her mom picked up three Montana Lottery Scratch tickets Monday night at Helena's Friendly's Sinclair gas station. She gave Ragged Robe two.

One was Deluxe Super Hot 7's, a \$2 game from the Montana Lottery. Ragged Robe started scratching it. She thought she won \$15 – and that was good enough.

"But then I realized it was a comma, not a period," she said. The \$15 she thought she'd won was really \$15,000. The money will help her stay in college and get caught up on bills.

"And I'll give a little to my mom, too," she said.





Great Falls Man Claims Top Scratch Ticket Prize

Arnie Depping went to the Holiday Station Store at 1428 3rd St. NW in Great Falls and cashed in a few winning lottery tickets he'd been saving up. He decided to buy a few more Slingo® Trio Treasures with the money, a Scratch game from the Montana Lottery.

The first one he scratched netted the \$75,000 top prize.

"It paid off really well," he said.

He played the ticket at home and was certain the ticket was a winner. But just to be sure, Depping and his foster daughter went to the store to check it on the terminal there.

"I turned to her and said, 'We did it!'" Depping said.



Eureka Woman Claims Big Sky Bonus Prize

Debra Parrish is no stranger to the Montana Lottery. The Eureka woman has been playing for 30 years.

When Parrish bought her Big Sky Bonus tickets last week, she had a good feeling. This one was a winner, she thought.

And she was right.

Parrish claimed her \$17,589 Big Sky Bonus jackpot on Feb. 2. Her winning ticket was purchased at the Ksanka Store on U.S. Highway 93 North in Eureka.



Great Falls Woman Wins Powerball on A Whim

Virginia Busko-Gewald is not the Montana Lottery player in her family. That distinction falls to her brother, Ken Busko.

Busko plays so often and with such enthusiasm that when Busko-Gewald was grocery shopping recently at the Great Falls Albertsons at 2250 10th. Ave. South, she thought of her brother, thought of the Montana Lottery and thought: Might as well.

She didn't know what game to buy or how to play, so she bought the first game the clerk recommended: Powerball.

"I don't take it serious," Busko-Gewald said. "It's just fun!"

After the drawing Wednesday night, Busko-Gewald saw that she matched five numbers, and learned she had won \$50,000. Busko-Gewald couldn't believe it. She kept telling herself it was \$5,000 because she just couldn't believe it was \$50,000.

Busko-Gewald plans to pay some bills and visit her nephew in Korea and her niece in New York.



M E M B E R S O N L Y !

PLAYERS CLUB GREW BY 10 PERCENT!

The Montana Lottery began FY19 with 174,383 members in our exclusive Player's Club. **The club grew by 17,467 new members that year, for a total of 191,850.**

Our Player's Club is another way for Montana Lottery players to win! Players look for the "Bonus Play" logo on Lotto or Scratch games. These codes are their ticket into special weekly and monthly drawings -- exclusive to our Player's Club members. These codes can be used to play online-only Bonus Play games, which can earn them even more entries into our regular weekly and monthly drawings.

Members are the first to hear about new games, cash giveaways, second chance drawings, and other exciting Montana Lottery offerings.

NEW RETAILERS IN 2019

TRADITIONAL: 20 NEW RETAILERS IN FY19

Traditional retailer locations are super markets, convenience stores, drug stores and locations that do not have an on-premise liquor and gambling license. Traditional Retailers sell draw games like Power Ball, Mega Millions, Lotto America, Big Sky Bonus, Montana Cash, Lucky for Life and our seasonal Montana Millionaire game. They can also sell Scratch tickets ranging in price from \$1.00 to \$20.00.

FANTASY GAMES: 38 NEW RETAILERS IN FY19

Fantasy Games retailer locations are bars, taverns and casinos that have an on-premise liquor and gambling license.

Fantasy Games retailers sell all the Lottery products a traditional retailer can, as well as Fantasy Sports offerings such as fantasy football and fantasy racing. They can also sell our popular Treasure Play games.

There's a total of 58 new retailers in FY19.

Retailers in total for Montana Lottery FY19: 1,004.

DIFFERENCES BETWEEN FY18 AND FY19 The Montana Lottery offers a selection of instant-win, terminal-issued games called Treasure Play. FY18 Fantasy Game/Treasure Play retailers numbered 359 participating retailers, while there were 601 Traditional games retailers. The biggest growth in FY19 was seen with our Fantasy Games/Treasure Play products as our retailer partners see the value and variety that these products bring to their customers.

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2019, and 2018, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2019, and 2018, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

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, 2019, and 2018, the changes in its financial position, or its cash flows for each of the two fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

State law requires the lottery to make quarterly transfers to the General Fund. Of the \$12.2 million due to the General Fund for fiscal year 2019, the total cash transferred was approximately \$8.4 million. The Montana Lottery accrued the final transfer amount for the March and June quarters at the end of fiscal year 2019. The cash was transferred the following August and October. Our opinion is not modified with respect to this matter.

Other Matter

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 15 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 enterprise fund financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020, on our consideration of the Montana State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering

the Montana State Lottery's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (19-30A) on the Montana State Lottery's financial statements.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 17, 2020

**MONTANA LOTTERY
STATEMENT OF NET POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,607,581	\$ 2,609,121
Receivables (Net)	1,902,504	1,796,488
Multi-State Reserve Fund	65,000	65,000
Inventories	494,592	475,657
Prepaid Expenses	<u>17,732</u>	<u>34,713</u>
TOTAL CURRENT ASSETS	8,087,409	4,980,979
NONCURRENT ASSETS		
Computer, Furniture & Equipment	605,999	582,010
Leasehold Improvements	98,793	98,793
Accumulated Depreciation	(489,423)	(446,626)
Multi-State Reserve Fund	<u>994,498</u>	<u>821,138</u>
TOTAL NONCURRENT ASSETS	1,209,867	1,055,315
DEFERRED OUTFLOW OF RESOURCES		
Pension Deferred Outflows	404,438	484,499
OPEB Deferred Outflows	<u>9,833</u>	<u>2,399</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	414,271	486,898
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>9,711,547</u>	\$ <u>6,523,192</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 626,211	\$ 759,486
Estimated Prize Liability	2,477,419	3,046,706
Transfer Obligations	4,922,378	1,153,531
Unearned Revenue	95,950	114,985
Accrued Compensated Absences	<u>128,589</u>	<u>158,852</u>
TOTAL CURRENT LIABILITIES	8,250,547	5,233,560
NONCURRENT LIABILITIES		
Multi-State Prize Liability	956,870	754,449
Accrued Compensated Absences	89,858	48,284
Net Pension Liability	1,762,942	2,201,008
Other Post Employment Benefits	<u>131,843</u>	<u>122,589</u>
TOTAL NONCURRENT LIABILITIES	2,941,513	3,126,330
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	361,637	29,163
OPEB Deferred Inflows	<u>10,701</u>	<u>11,663</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	372,338	40,826
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	11,564,398	8,400,716
NET POSITION		
Net Investment in Capital Assets	215,369	234,177
Unrestricted	<u>(2,068,220)</u>	<u>(2,111,701)</u>
TOTAL NET POSITION	\$ <u>(1,852,851)</u>	\$ <u>(1,877,524)</u>

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Scratch Ticket Revenue	\$ 18,531,003	\$ 17,865,674
On Line Ticket Revenue	41,723,120	38,515,814
License, Permits, and Misc	<u>18,723</u>	<u>20,474</u>
Total Operating Revenues	60,272,846	56,401,962
DIRECT GAME COSTS:		
Scratch Ticket Prize Expense	11,110,279	11,268,840
On Line Ticket Prize Expense	23,382,132	21,282,363
Retailer Commissions	3,603,642	3,269,397
Cost of Tickets Sold	896,761	932,282
Vendor fees	<u>5,053,609</u>	<u>4,840,700</u>
Total Direct Game Costs	44,046,423	41,593,582
Income Before Operating Expenses	16,226,423	14,808,380
OPERATING EXPENSES:		
Advertising	439,744	588,502
Advertising Production	239,003	211,098
Audit Fees	34,286	76,262
Bad Debts Expense	5,102	(5,248)
Communications	154,722	149,765
Contractual Services	147,396	130,827
Depreciation and Amortization	51,781	50,497
Administrative Service Fee	80,410	80,432
Multi-State Dues	31,242	11,277
Public Relations	47,152	71,250
Other Post Employment Benefits	8,784	9,070
Other Expenses	42,089	30,876
Pension Expense	120,990	282,156
Personal Services	2,117,061	2,111,822
Repairs and Maintenance	16,441	21,177
Supplies and Materials	213,829	219,183
Travel	26,556	35,210
Utilities and Rent	<u>238,990</u>	<u>241,765</u>
Total Operating Expense	4,015,578	4,315,921
Operating Income	12,210,845	10,492,459
NONOPERATING REVENUES (EXPENSES):		
Interest Earnings	36,773	23,062
Non Employer Pension Revenue	0	31,486
Gain/Loss on Sale of Assets	<u>499</u>	<u>13,234</u>
Total Nonoperating Revenues(Expenses)	<u>37,272</u>	<u>67,782</u>
Income Before Operating Transfers	12,248,117	10,560,241
Operating Transfers Out - General Fund	(12,214,709)	(10,699,126)
Operating Transfers Out - Other Agencies	0	0
CHANGE IN NET POSITION	33,408	(138,885)
Total Net Position, Beginning of Period	(1,877,524)	(2,390,110)
Prior Period Adjustment (Note 2)	<u>(8,735)</u>	<u>651,471</u>
TOTAL NET POSITION, END OF PERIOD	<u>\$ (1,852,851)</u>	<u>\$ (1,877,524)</u>

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

**MONTANA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 60,142,693	\$ 56,379,942
Payments for Goods & Services	(11,401,101)	(10,395,996)
Payments to Employees	(2,268,932)	(2,227,193)
Payments for Prizes	(34,859,277)	(32,320,819)
Net Cash Provided by Operating Activities	<u>11,613,383</u>	<u>11,435,934</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(8,445,862)	(11,026,087)
Net Cash Used For Noncapital Financing	<u>(8,445,862)</u>	<u>(11,026,087)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(33,969)	(18,054)
Proceeds from Sale of Fixed Assets	1,495	13,577
Net Cash Used For Capital Financing	<u>(32,474)</u>	<u>(4,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	36,773	23,062
Received from (Paid to) MUSL Prize Reserve Fund	(173,360)	207,195
Net Cash Provided by (Used by) Investing Activities	<u>(136,587)</u>	<u>230,257</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,998,460	635,627
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,609,121</u>	<u>1,973,494</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>5,607,581</u></u>	\$ <u><u>2,609,121</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 12,063,937	\$ 10,492,459
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	51,781	50,497
Change in Assets and Liabilities:		
Decr (Incr) in Account Receivable	(106,016)	(46,267)
Decr (Incr) in Inventories	(18,935)	36,635
Decr (Incr) in Prepaid expenses	16,981	3,742
Incr (Decr) in Accounts Payable	(133,275)	473,630
Incr (Decr) in Lottery Prizes Payable	(366,866)	230,384
Incr (Decr) in Unearned Income	(19,035)	18,999
Incr (Decr) in Other Post Employment Benefits	859	10,635
Incr (Decr) in Pension Liability	112,641	159,737
Incr (Decr) in Compensated Absences Payable	11,311	5,483
Total Adjustments	<u>(450,554)</u>	<u>943,475</u>
Net Cash Provided by Operating Activities	\$ <u><u>11,613,383</u></u>	\$ <u><u>11,435,934</u></u>

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

MONTANA LOTTERY
Notes to the Financial Statements
June 30, 2019 and 2018

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, Montana Cash, Hot Lotto (which ended in FY2018), Montana Millionaire, Mega Millions, Lucky for Life, Big Sky Bonus, and Lotto America are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as unearned income until such time as the tickets become valid for the most current drawing.

Treasure Play revenue is recorded on a daily basis as games are played. Treasure Play games are instant chances for wins, so when these games are played the revenue from these games are earned as played.

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

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the year ended June 30, 2019, and 2018 was \$699,099, and \$589,834, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media 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, 2019, promotional credits resulted in a revenue reduction of approximately \$21,334 and an expense reclassification of approximately \$15,686. For the year ended June 30, 2018, promotional credits resulted in a revenue reduction of approximately \$21,186 and an expense reclassification of approximately \$15,772.

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 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 6/30/19	Quarter Ended 6/30/18	Year to Date 6/30/19	Year to Date 6/30/18
Lotto	\$269,277	\$126,429	\$ 666,285	\$ 575,706
Scratch	\$593,487	\$ 60,729	\$1,268,131	\$ 609,859
TOTALS	\$862,764	\$187,158	\$1,934,416	\$1,185,565

2. OTHER ACCOUNTING ISSUES

Prior Period Adjustment. The prior period adjustment for the year ended June 30, 2019, was made by the State Accounting Bureau for changes made to the Lottery's pension accounts. These adjustments were made to account for a change in methodology used to allocate the pension figures amongst multiple funds within a single business unit at the State level. A decrease was made to the Pension Deferred Outflows for \$8,735 using this methodology. The result of the above equates to an \$8,735 reduction to the Lottery's Net Position.

New Accounting Guidance Implemented. For the year ended June 30, 2018, the Lottery implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves the information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. An actuarial valuation of the total OPEB liability is required at least biennially for all plans.

GASB Statement No. 75 requires a retroactive restatement of financial statements for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying the statements is presented as a restatement of the beginning net position for the earliest period restated. In accordance with GASB 75, the Lottery restated OPEB liabilities beginning with the year ended June 30, 2018. A significant decrease of OPEB liabilities has been reported in the amount of \$608,460, creating an increase to beginning net position in the same amount. There was also an amount adjusted to the beginning net position for \$43,011 associated with GASB 68, *Pension Accounting for Employer and Nonemployer Contributing Entities*. This adjustment was made to record employer amounts for the Public Employee Retirement System pension plan for nongovernmental fund types.

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 an approved 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,	
	<u>2019</u>	<u>2018</u>
Short-term investment pool	\$1,494,130	\$1,460,079
Cash on deposit with State Treasurer	4,103,251	1,138,842
Cash in revolving deposit account	10,000	10,000
Petty Cash & Cash On-Hand	200	200
TOTALS	\$5,607,581	\$2,609,121

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$18,587, and \$32,098 as of June 30, 2019 and 2018, respectively, 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, 2019, receivables include \$2,159,366, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$2,992 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, 2019, 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, 2019. The allowance for ticket returns is \$283,405 as of June 30, 2019. The return of vendor fees related to the allowance for returns is \$23,551.

For the year ended June 30, 2018, receivables included \$2,088,392, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$2,453 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, 2018, 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, 2018. The allowance for ticket returns is \$321,666 as of June 30, 2018. The return of vendor fees related to the allowance for returns is \$27,309.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2019 and 2018 include scratch tickets valued at \$414,999, and \$405,463, 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, 2019, and 2018, supplies inventories totaled \$79,593, and \$70,194, respectively. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets include the following:

	June 30,	
	<u>2019</u>	<u>2018</u>
Prepaid Expenses	\$17,732	\$34,713

The prepaid expenses for the year ended June 30, 2019 consisted of \$5,000 for booth fees for upcoming events, and \$12,732 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2018 consisted of \$9,000 for booth fees for upcoming events, \$10,000 in annual lottery industry dues, \$245 in employee advances, and \$15,468 for prepaid commissions and vendor fees related to unearned revenue.

Property and Equipment. A summary of property and equipment for the Lottery for both years is as follows:

	June 30, 2017	Additions	Deletions	June 30, 2018
Leasehold Improvements	\$ 98,793	\$ -	-	\$ 98,793
Furniture & Equipment	\$ 570,815	\$ 18,054	\$ (6,859)	\$ 582,010
Accumulated Depreciation	\$ (402,645)	\$ (50,497)	\$ 6,516	\$ (446,626)

	June 30, 2018	Additions	Deletions	June 30, 2019
Leasehold Improvements	\$ 98,793	\$ -	-	\$ 98,793
Furniture & Equipment	\$ 582,010	\$ 33,969	\$ (9,980)	\$ 605,999
Accumulated Depreciation	\$ (446,626)	\$ (51,781)	\$ 8,984	\$ (489,423)

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 2015 Legislature passed HB617 which changed the transfer requirements. Any year forward, the Lottery is to transfer an amount to the General Fund that equals the transfer made by the Lottery for FY2015 which was \$12,363,365. Any amount over and above this threshold will then be transferred to the Office of Commissioner for Higher Education (OCHE) for the Montana STEM scholarship program. The transfer obligations outstanding at June 30, 2019 were \$4,922,378 to the General Fund and \$0 to OCHE. For the year ending June 30, 2018, the obligation outstanding at year end was \$1,153,531 due to the General Fund and \$0 to OCHE.

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

<u>Balance</u> <u>June 30, 2017</u> \$201,653	<u>Net Leave</u> <u>Earned/(Used)</u> \$5,483	<u>Balance</u> <u>June 30, 2018</u> \$207,136
<u>Balance</u> <u>June 30, 2018</u> \$207,136	<u>Net Leave</u> <u>Earned/(Used)</u> \$11,311	<u>Balance</u> <u>June 30, 2019</u> \$218,447

Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2019 and 2018:

	Year ended June 30, 2019				Amounts
	<u>Balance</u>			<u>Balance</u>	<u>due within</u>
	<u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>one year</u>
Multi-State Prize Liability	\$ 754,449	\$249,728	\$(47,307)	\$ 956,870	\$ -
Accrued Compensated Absences	\$ 48,284	\$ 68,115	\$(26,541)	\$ 89,858	\$128,589
Net Pension Liability	\$2,201,008	\$123,138	\$(561,204)	\$1,762,942	\$ -
Other Post Employment Benefits	\$ 122,589	\$ 9,254	\$ -	\$ 131,843	\$ -

	Year ended June 30, 2018				Amounts
	<u>Balance</u>			<u>Balance</u>	<u>due within</u>
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>one year</u>
Multi-State Prize Liability	\$ 952,083	\$220,722	\$(418,356)	\$ 754,449	\$ -
Accrued Compensated Absences	\$ -	\$ 87,373	\$(39,089)	\$ 48,284	\$158,852
Net Pension Liability	\$1,967,263	\$233,745	\$ -	\$2,201,008	\$ -
Other Post Employment Benefits	\$ 731,049	\$ -	\$(608,460)	\$ 122,589	\$ -

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the years ended June 30, 2019 and 2018, retailers earned bonus commissions of \$553,686 and \$421,698, respectively. For the years ended June 30, 2019 and 2018, total commissions were \$3,603,642 and \$3,269,397, 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, 2019 and 2018:

Year Ended June 30	2019	2018
Administrative Service Fees	\$80,410	\$80,432
Audit Fees	34,286	76,262
Computer Fees	91,209	82,407
Insurance	15,864	13,854
Mail Processing Fees	12,053	12,589
Other Expenses	2,574	3,235
Payroll Services	7,657	7,518
Printing	12,937	11,149
Record Retention	1,018	1,018
State Accounting System Support	3,880	4,027
Supplies & Materials	-	375
Telecommunications	1,336	9,526
Warrant Writing Services	901	1,672
	<u>\$264,125</u>	<u>\$304,064</u>

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, 2019, the prize expense of \$34,492,411 is 57.24% of net Lottery ticket revenue of \$60,254,123. For the year ended June 30, 2018, the prize expense of \$32,551,203 was 57.73% of net Lottery ticket revenue of \$56,381,488.

6. TRANSFERS OF NET REVENUE

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, MCA, to the state general fund. Once the amount of revenue transferred to the general fund during a fiscal year equals the amount transferred to the general fund in fiscal year 2015 (\$12,363,365), any additional net revenue must be transferred to the Montana STEM scholarship program special revenue account established in 20-26-617, MCA. For the years ended June 30, 2019 and 2018, the net revenue payable to the State General Fund totaled \$12,214,709, and \$10,699,126, respectively. For the years ended June 30, 2019 and 2018, the net revenue payable to the Montana STEM scholarship totaled \$0, and \$0, respectively.

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, Hot Lotto (which ended in FY2018), Mega Millions, and Lotto America are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of \$1,059,498 and \$886,138 as of June 30, 2019, and 2018, 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, 2019

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$316,710	\$ 35,268	\$ 351,978
Powerball Set Prize Reserve Account	48,006	114,397	162,403
Powerball Unreserved Account	1,817	100,811	102,628
Lotto America Prize Reserve Account	78,866	16,521	95,387
Mega Millions Prize Reserve Account	<u>312,565</u>	<u>34,537</u>	<u>347,102</u>
Total Reserves	<u>\$757,964</u>	<u>\$301,534</u>	<u>\$1,059,498</u>
Less Current Portion			<u>(65,000)</u>
Non Current Reserves			<u>\$ 994,498</u>

June 30, 2018

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$347,294	\$ 15,377	\$362,671
Powerball Set Prize Reserve Account	39,886	118,960	158,846
Powerball Unreserved Account	7,559	124,129	131,688
Lotto America Prize Reserve Account	-	28,812	28,812
Mega Millions Prize Reserve Account	<u>185,362</u>	<u>18,759</u>	<u>204,121</u>
Total Reserves	<u>\$580,101</u>	<u>\$306,037</u>	<u>\$886,138</u>
Less Current Portion			<u>(65,000)</u>
Non Current Reserves			<u>\$821,138</u>

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

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 2019, the Lottery received \$2,182 in interest, and had \$31,242 withdrawn for annual MUSL dues and assessments. During the fiscal year ended 2018, the Lottery received \$1,715 in interest, and had \$11,277 withdrawn for annual MUSL dues and assessments.

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

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes for Mega Millions plays and 51% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. RELATED PARTY TRANSACTIONS

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL) which requires the directors from each of the states to be on the MUSL board of directors. The Director of the Montana Lottery is on this board along with being the Secretary of the MUSL board of directors. The Director of the Lottery is in a management position for both MUSL and the Montana Lottery who have significant transactions between each other.

As described in Note 7 above, the Lottery has prize reserves with MUSL in the amounts of \$1,059,498 and \$886,138 for years ended 2019 and 2018, respectively. These are monies that are assets to the Lottery and would be transferred over if the lottery were to quit any of the multi-state games.

Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough amount/number of winners for any particular draw, MUSL would then reimburse any state for the excess amount of prizes paid out. In FY2019, the Lottery paid MUSL \$9,071,077 for its share of prizes and received reimbursements for prizes in the amount of \$661,225. In FY2018, the Lottery paid MUSL \$7,866,569 for its share of prizes and received reimbursements for prizes in the amount of \$562,157.

9. GAMES

Currently, Montana Lottery games are Scratch ticket games and seven Lotto games referred to as Powerball, Montana Cash, Hot Lotto, Lotto America, Mega Millions, Lucky for Life, and Big Sky Bonus. The Lottery also offers Treasure Play, 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. Cash prizes range from \$1 to \$500,000, plus specialty prizes for certain games.

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. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play.

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.

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, they can add Sizzler to their ticket for \$1. This multiplies any prize by three, except the jackpot. Drawings are held twice weekly on Wednesday and Saturday nights. This game ended November 11, 2017.

Mega Millions is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$15 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 \$1,000,000. 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.

Lucky for Life debuted January 2015. Lucky for Life is a multi-state game that allows players to win a top prize of \$1,000 a day for life. The second prize is \$25,000 a year for life. This pari-mutuel game has a set top prize and tickets cost \$2 each. Players select five numbers from a field of 48 and must match at least the Lucky Ball to win a prize. The drawings are conducted twice weekly on Monday and Friday nights.

Big Sky Bonus debuted April 2016. Big Sky Bonus is a Montana-only game that allows players to win a progressive jackpot. Players select 4 numbers from a field of 28 and must match at least 2 out of 4 to win a prize unless they hit the bonus number which is a 5th number picked out of a field of 17. Matching the bonus number at any time wins \$10. Matching 2 of 4 wins \$2, 3 of 4 wins \$20, and 4 of 4 wins the jackpot. The drawing is held every day at 7:30 p.m. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Lotto America is the newest on-line game for the Lottery. Lotto America allows players in the 13 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of \$2 million. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 52, and one Bonus number from 1 to 10. To win the pari-mutuel jackpot, a player must match all six numbers. Drawings are held twice weekly on Wednesday and Saturday nights. A multiplier called the All Star Bonus can be added to win 2X, 3X, 4X, or 5X to any prize except the jackpot for bigger prizes. Drawings are held every Wednesday and Saturday.

The Treasure Play games are offered on self-serve terminals in taverns and casinos that are licensed to sell Montana Lottery products. Introduced in November 2011, they are a suite of games with a pre-determined prize structure like a Scratch game. Players can tell instantly if they have won a prize. The tickets sell for \$1, \$2, \$3, \$5, and \$10.

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 are sold for \$20 each. Early bird drawings for \$25,000 and \$15,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 400 \$100 instant winners and 625 \$500 instant winners. On December 28, 2018, one \$1 million prize was awarded, along with three \$100,000 prizes and five \$10,000 prizes.

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.

10. COMMITMENTS - GAMING SUPPLIER CONTRACTS

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

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

On-line Services. On February 13, 2015, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2016. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 8.31% of net weekly Lottery sales of lotto and scratch games. The contract currently has a termination date of March 30, 2023.

11. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective January 1, 2017 through August 2027. The monthly lease payment is \$18,068.

12. INVESTMENTS

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). The applicable investment disclosures are described in the following paragraphs.

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

Short-term Investment Pool The State's Short Term Investment Pool (STIP) is an external investment pool managed and administered under the direction of the Montana Board of Investments as statutorily authorized by the Unified Investment Program. It is a commingled external investment pool and participants may request for redemption on a daily basis. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

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

Per MUSL, for 2019 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 72% was invested in Federal Agencies; another 3% was invested in the First American Government Obligation Fund which is used for overnight investing and does not have a rating from S&P or Moodys, etc. However, it is a very conservatively managed vehicle, investing exclusively in short-term U.S. government securities. The other 25% of the prize reserves are invested in Federal Agency repurchase agreements secured by U.S. government securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery does not have any authority or a policy regarding the investment portfolios.

The MUSL prize reserves are invested through the Montana Winners Trust with daily liquidity, and therefore, have low interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2019, the duration for the U.S. Government Treasury securities was a blended rate of 0.9 years.

The STIP securities are invested in various bond pools and investment portfolios which are liquid on a daily basis. Therefore, STIP itself, does have low risk. The duration for this pool as of June 30, 2019 is 41 days.

According to the STIP Investment Policy, "the STIP portfolio will minimize interest rate risk by:

- 1) Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) Maintaining a dollar-weighted average portfolio maturity (WAM) for 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
- 3) STIP will maintain a reserve account."

13. FAIR VALUE MEASUREMENT

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

Investments Measured at Net Asset Value

	June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$1,494,130			
Total Investments by net asset value level	<u>\$1,494,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at Net Asset Value

	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$1,460,079			
Total Investments by net asset value level	<u>\$1,460,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Short Term Investment Pool (STIP) has a daily redemption frequency and a daily redemption notice period. The fair value of this pool has been determined using the Net Asset Value (or its equivalent).

14. SUBSEQUENT EVENTS

During the 2019 Legislative session, House Bill 725 passed and was later signed by the Governor. This bill allowed sports wagering in the state with the Montana Lottery facilitating this activity. Though it is difficult to quantify the results of this new Lottery product, it may have a significant effect on the agency and its financial statements. This new gaming will most likely be started in the fiscal year ended 2020.

In accordance with Governmental Accounting Standards Board Statement No. 62, the Lottery disclosed that they have been involved in litigation after June 30, 2019. The litigation requests the court to find that the Lottery exceeded its statutory authority in limiting the issuance of sports wagering licenses to locations that hold an alcohol license. The Lottery's legal department is of the opinion that it will not be a material matter.

15. OTHER POST EMPLOYMENT BENEFITS

General. The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and Montana Lottery offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

Plan Description. The State OPEB plans are reported as single employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required to disclose additional information as required per GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the

difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

Basis of Accounting. OPEB liability is reported on an accrual basis on proprietary and fiduciary fund financial statements. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy. The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. 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 2019, the State plan's administratively established retiree medical premiums vary between \$327 and \$2,403 per month. Retiree dental premiums vary between \$52.00 and \$156.00 per month while vision premiums vary between \$9.71 and \$28.31, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

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.

Since the plan pays other postemployment benefits on a pay-as-you-go basis prior to fiscal year end 2019, the funded ratio of the OPEB obligation for fiscal year end 2018 is 0%.

Actuarial Methods and Assumptions. The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The

projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The State's OPEB Plan TOL in December 31, 2017, rolled forward to March 31, 2019, actuarial valuation was determined using the following actuarial assumptions and inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2017
Measurement date	March 31, 2019
Discount rate	3.79%
Projected payroll increases	4.00%
Actuarial cost method	Entry age normal funding method
Amortization period	20 years
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75
Average retirement age	62
Participation (of future retirees)	55% future retirees and 60% of future eligible spouses
Marital status	Actual spouse information is used for current retirees. Marital status at retirement for future members assumed to be 70%.
Mortality – Healthy	Assumed to follow RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.
Mortality – Disabled	Assumed to follow RP2000 Combined Mortality Table with no projections.
Healthcare cost trend rates	7.5% for both medical and prescription initially, decreasing 0.1% per year to an ultimate rate of 3.8%. Cost increases are assumed to apply at the end of the plan year.
Retiree Contribution Increases	Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is 7.0% in 2019 decreasing between 0.1% and 0.5% per year to an ultimate rate of 3.8%.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial assumptions include interest rate based upon the March 31, 2019, 20-year municipal bond index per GASB 75 requirements.

Changes in benefit terms since last measurement date: None

Sensitivity of the TOL to changes in discount rate. The following presents the TOL of the Lottery’s plan, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.79%) or 1-percentage-point higher (4.79%) than the current discount rate:

	1.0% Decrease (2.79%)	Current Discount Rate (3.79%)	1.0% Increase (4.79%)
<u>Lottery OPEB</u>			
June 30, 2019	\$162,071	\$131,843	\$108,754

Sensitivity of the TOL to changes in the healthcare cost trend rates. The following presents the TOL of the Lottery plan, as well as what they would be if calculated using healthcare cost trends that are 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current healthcare cost trend rates:

	1.0% Decrease (6.0%)	Current Discount Rate (7.0%)	1.0% Increase (8.0%)
<u>Lottery OPEB</u>			
June 30, 2019	\$106,907	\$131,843	\$165,688

OPEB Expense, Liability and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30,2019, the Lottery’s plan’s OPEB expense is \$8,784. The Lottery’s proportionate share of the State’s total OPEB liability is \$131,843 which is 0.236714% of the total State’s OPEB liability at year end.

At June 30, 2019, the Lottery’s OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$10,072
Changes in Assumptions or other inputs	\$ 5,223	\$ 629
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ 4,610	\$ -

Total	\$ 9,833	\$10,701

At June 30, 2018, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$10,976
Changes in Assumptions or other inputs	\$ -	\$ 687
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ 2,399	\$ -
Total	\$ 2,399	\$11,663

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
2020	\$ 334
2021	\$ 334
2022	\$ 334
2023	\$ 334
2024	\$ 334
Thereafter	\$ 1,853

16. EMPLOYEE RETIREMENT PLAN

Plan Description. The PERS-Defined Benefit Retirement Plan (DBRP) and Defined Contribution Retirement Plan (DCRP) are administered by the Montana Public Employee Retirement Administration (MPERA), and are a multiple-employer, cost-sharing plans established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). These plans provide retirement benefits to covered State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits. **Member's highest average compensation (HAC)**

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Vesting; 5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

Overview of Contributions.

Rates are specified by state law for periodic employer and employee contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

Employer contributions to the system: State and University System employers are required to contribute 8.27% of members' compensation. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions increased an additional 0.1% a year over 10 years, through 2024. The additional employer additional contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

Stand-Alone Statements. The PERS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* and the GASB 68 Report for the fiscal year ended. It is available from the PERB at PO Box 200131, Helena MT 59620-0131, 406-444-3154.

CAFR information including the stand alone financial statements can be found at the MPERA's website, <http://mpera.mt.gov/annualReports.shtml>. The latest actuarial valuation and experience study can be found at the MPERA's website, <http://mpera.mt.gov/actuarialValuations.asp>.

Actuarial Assumptions. The Total Pension Liability as of June 30, 2019, is based on the results of an actuarial valuation date of June 30, 2016 with update procedures to roll forward the Total Pension Liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the actuarial experience study, dated May 2017 for the six year period ended June 30, 2016. Among those assumptions were the following:

- General Wage Growth 3.50% (includes Inflation at 2.75%)
- Merit Increases 0% to 4.8%
- Investment Return (net of admin expense) 7.65%
- Admin Expense as a % of Payroll 0.26%
- Postretirement Benefit Increases;
 - (a) 3% for members hired **prior** to July 1, 2007,
 - (b) 1.5% for members hired **on or after** July 1, 2007, and for members hired **on or after** July 1, 2013;

- (a) 1.5% for each year PERS is funded at or above 90%;
- (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- (c) 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB. Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate. The discount rate used to measure the Total Pension Liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which established the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the six year period ended June 30, 2016, is outlined in a report dated May 2017, which can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building block method in which best-

estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The following presents the employer’s sensitivity of the Net Pension Liability to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The Net Pension Liability was calculated using the discount rate of 7.65% as well as what the Net Pension Liability would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

Sensitivity Analysis.

Employer Net Pension Liability	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
June 30, 2019	\$2,549,622	\$1,762,942	\$1,116,952
June 30, 2018	\$3,205,580	\$2,201,008	\$1,357,746

Summary of Significant Accounting Policies. The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability. In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective for fiscal year ended June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Lottery Proportionate Share of Net Pension Liability:

Net Pension Liability as of 6/30/19	Net Pension Liability as of 6/30/18	Percent of Collective NPL as of 6/30/19	Percent of Collective NPL as of 6/30/18	Change in Percent of Collective NPL
\$1,762,942	\$2,201,008	0.084465%	0.113008%	(0.028543%)

At June 30, 2019, the Lottery recorded a liability of \$1,762,942 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016, with roll forward provisions to June 30, 2017. For the fiscal years ended June 30, 2019, and 2018, the employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement periods July 1, 2016 to June 30, 2017. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2019, the Lottery's proportion was 0.084465%.

Changes in actuarial assumptions and methods:

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%
- Lowered the inflation rate from 3.00% to 2.75%
- Updated non-disabled mortality to the RP-2000 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year
- Increased rates of withdrawal
- Lowered the merit component of the total salary increase
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%
- Decreased the administrative expense load from 0.27% to 0.26%

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%

Changes in benefit terms:

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Recognition of Deferred Inflows and Outflows. At June 30, 2019 and 2018, the Lottery reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

June 30, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$134,060	\$ -
Changes in Assumptions	\$149,912	\$ -
Actual vs. Expected Investment Earnings	\$ -	\$ 27,379
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$334,258
Employer contributions subsequent to the measurement date – FY 2018 contributions	\$120,466	\$ -
Total	\$404,438	\$361,637

June 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 54,204	\$ 3,186
Changes in Assumptions	\$300,855	\$ -
Actual vs. Expected Investment Earnings	\$ -	\$ 14,782
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 11,195
Employer contributions subsequent to the measurement date – FY 2017 contributions	\$129,440	\$ -
Total	\$484,499	\$ 29,163

Amounts reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in each year end. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2019	\$ 28,071
2020	\$ 20,689
2021	\$(115,176)
2022	\$ (11,250)
2023	\$ 0
Thereafter	\$ 0