



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

23-30

FINANCIAL AUDIT

Montana State Lottery

*For the Two Fiscal Years Ended
June 30, 2023*

MAY 2025

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2023, was issued August 19, 2024. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2025, is March 31, 2026.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Alexa O'Dell
William Soller
Miki Cestnik

May 2025

The Legislative Audit Committee
of the Montana State Legislature:

It is a pleasure to provide our financial audit report on the Montana State Lottery (lottery) for the fiscal year ended June 30, 2023, with comparative information for the fiscal year ended June 30, 2022. This report includes one audit finding addressing non-compliance and the related control deficiency regarding lottery's statutory responsibility to transfer net revenues on a quarterly basis to the General Fund and the Montana STEM scholarship account.

During this audit, we encountered significant delays in receiving timely information from lottery officials that contributed to the delay in issuing this audit report. We also caused some delays due to staff turnover and prioritizing our work on the Federal Single Audit. Beginning in September 2024, we had staff available to complete the audit, but encountered numerous delays. Since February 2025, lottery personnel have responded timely to all of our request in support of this audit and the state's Annual Comprehensive Financial Report.

Our Independent Auditor's Report contains an unmodified opinion, meaning a reader can rely on the information presented, and is included on page A-1 of the report. Lottery's financial statement and note disclosures follow the Independent Auditor's Report.

The lottery's written response to the audit is on page C-1. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Montana State Lottery and Sports Wagering Commission	Leo Prigge, CPA, Chair	Butte	January 1, 2027
	Jon Metropoulos, Attorney	Helena	December 31, 2024
	Steve Morris, Public Member	Helena	January 5, 2025
	Janna Taylor, Public Member	Dayton	December 31, 2024
	Tony Harbaugh, Law Enforcement	Miles City	January 5, 2025

Administrative Officials

Bob Brown, Director, effective March 2024

Scott Sales, Director, through March 2024

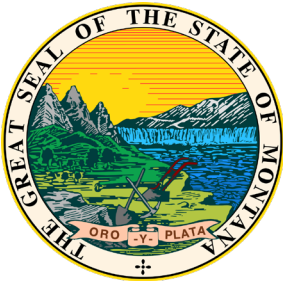
Bryan Costigan, Director of Security

Vacant, Director of Financial Services, effective March 2025

Philip Charpentier, Information Technology Director

For additional information concerning the Montana State Lottery, contact:

Bryan Costigan, Director of Security
 Montana State Lottery
 2525 N Montana Ave.
 Helena, MT 59601
 (406) 444-5813
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana State Lottery

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2023

A report to the Montana Legislature

BACKGROUND

The Montana State Lottery (lottery) began in 1987 after being ratified by the Montana electorate. The lottery offers scratch games and online games and beginning in 2021 Sports Bet. Online games currently include multi-state games such as Powerball, Mega Millions, Lucky for Life and Lotto America, as well as state-specific games such as Montana Cash and Montana Millionaire. The lottery markets an assortment of scratch games and Treasure Play games that are instant win games.

In fiscal year 2023, Sports Bet gross revenue was \$59.3 million and direct game costs were \$51.0 million. The lottery operating expense, funded from the net proceeds from ticket sales, totaled \$5.1 million in fiscal year 2023.

In fiscal year 2023, the Montana State Lottery's Net Operating Income was \$24.6 million, an \$8.0 million increase from fiscal year 2022. Driving this increase was a net increase in Online Ticket profits of \$9.2 million, and the fact that operating expenses increased by only \$33.4 thousand. In fiscal year 2023, lottery transferred \$22.6 million to the state's General Fund and \$2.0 million to the Montana STEM scholarship account. This audit report includes one recommendation to the lottery regarding non-compliance with statute that requires them to transfer net revenue quarterly and the related control deficiency because lottery's internal controls are not adequate to ensure compliance.

AUDITOR'S OPINION (page A-1): UNMODIFIED

An unmodified opinion means the financial statements and related note disclosures of the lottery present fairly the activity of the lottery, in all material respects. This means a reader can rely on the information presented.

For the full context of the lottery's financial activity, see the financial statements and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the Montana State Lottery: 1

To the legislature: 0

The prior audit did not include any recommendations to the Montana State Lottery.

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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RECOMMENDATION #1 (page 3):

Control and Compliance

We recommend Montana State Lottery:

- A. Improve internal controls by developing written procedures and providing training to other personnel of how to calculate net revenues and prepare quarterly financial statements.
- B. Comply with state law by completing four quarterly transfers of net revenues each year.

Lottery response: **Concur**

SUMMARY OF AUDIT WORK:

Our audit focused on revenues, expenses, and account balances resulting from scratch, online, and Sports Bet. In addition, we audited the statutorily required quarterly transfer of net revenues to the General Fund and Montana STEM Scholarship account and the related estimated prize liability. We also reviewed the accounts receivables associated with ticket sales at retailer locations. In addition, we completed audit procedures over the presentation of the financial statements and the accompanying note disclosures.

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 1

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Objectives of Audit

We performed a financial audit of the Montana State Lottery (lottery) for the fiscal year ended June 30, 2023, with comparative statements for the fiscal year ended June 30, 2022. The audit addresses the requirements of §23-7-410, MCA, for the legislative auditor to conduct, or have conducted, an annual audit of the Montana State Lottery. The objectives of the audit were to:

1. Obtain an understanding of the lottery's control systems to the extent necessary to support our audit of the financial statements and, if appropriate, make recommendations for improvements in management and internal controls for the lottery.
2. Determine whether the lottery's financial statements present fairly the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2023, with comparative financial statement amounts for the fiscal year ended June 30, 2022.
3. Determine whether the lottery complied with selected state laws and regulations.
4. Determine implementation status of the prior audit recommendations, if any.

We addressed these objectives by focusing our audit efforts on revenues, expenses, and account balances resulting from scratch, online, and Sports Bet. We also audited the statutorily required quarterly transfer of net revenues to the General Fund and Montana STEM Scholarship (STEM) account, the related estimated prize liability, and the accounts receivables associated with ticket sales at retailer locations. We also reviewed the presentation of the financial statements and the accompanying note disclosures. The prior audit report of the Montana State Lottery #22-30 did not include any recommendations to the lottery.

Background

The lottery is established in state law and governed by a five-member Lottery Commission (commission). The commission is responsible for overseeing lottery operations and maximizing the net revenue earned and transferred to the state's General Fund and STEM account. The governor appoints members of the commission to serve four-year staggered terms. The governor also appoints the director of the lottery. The commission sets the price of tickets and the number and size of prizes awarded from Montana-specific lottery games. The commission is attached to the Department of Administration (department) for administrative purposes. As such, the financial activity of the lottery is included in the state's Annual Comprehensive Financial Report (ACFR).

The lottery is a member of the Multi-State Lottery Association (MUSL), a nonprofit, government-benefit association. MUSL is owned and operated by member lotteries, and each state member lottery has a representative on the MUSL board of directors. The MUSL Board develops rules and regulations for all member state lotteries regarding games operated by MUSL. The lottery must comply with these regulations to offer MUSL games, such as Powerball.

The lottery accounts for its operations in an enterprise fund. This means the lottery operates like a private business enterprise where the intent is to finance or recover all costs through user charges. All funding for lottery operations comes from sales of the lottery games.

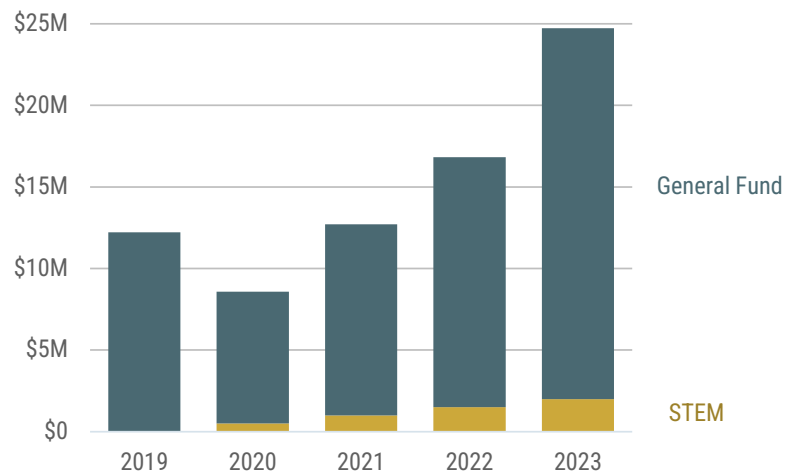
Transfer of Net Revenue

Section 23-7-402, MCA, specifies the quarterly transfer of the first \$2.0 million of net revenues to the STEM account and the remaining net revenues to the General Fund. Figure 1 illustrates the five-year trend information of net revenue transferred. The chart shows a steady increase in net revenues, except for a decrease in fiscal year 2020 because of the COVID-19 pandemic. Legislation, effective for fiscal year 2020, required \$500,000 of net revenues to be transferred to the STEM account, increasing each year until fiscal year 2024. Starting in fiscal year 2024, the amount transferred to the STEM account will be \$2.25 million.

Before the change in state law effective for 2020, transfers to the STEM account were only required if net revenues exceeded specified amounts. Net revenue did not exceed the amounts, so no transfers to the STEM account were made in fiscal years 2017-2019.

Figure 1
Net Revenue Transfers

Transfers of Net Revenues continue to increase.



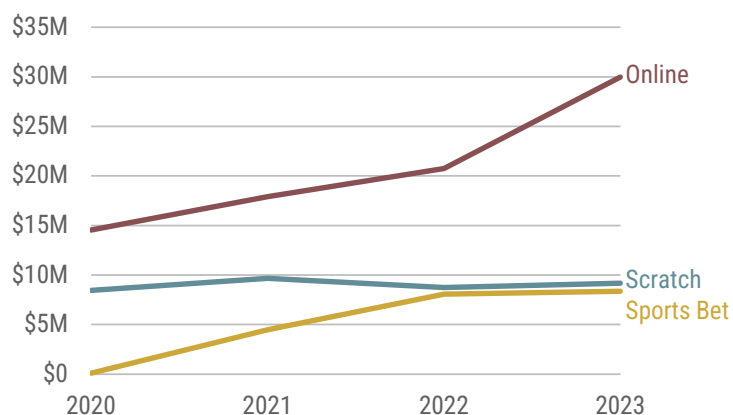
Source: Compiled by LAD from Audited Financial Statements in reports #19-30B, #21-30, and #23-30.

Game Revenue Less Prize Expense

Figure 2 illustrates a four-year game revenue trend for the three types of lottery games: Scratch, Online, and Sports Bet. These amounts are game revenue net of prize expense for each game type. Other direct game costs, not specific to each game type, total \$17.7 million and \$15.8 million, respectively, in fiscal year 2023 and 2022. These costs are retailer commissions, costs of tickets sold, and vendor fees.

Figure 2
Lottery Revenue

Online net game revenues continue to increase while Scratch and Sports Bet are leveling off.



Source: Compiled by LAD from Audited Financial Statements in reports #19-30B, #21-30, and #23-30.

Chapter II - Findings and Recommendation

In fiscal year 2023, the Montana State Lottery personnel did not have sufficient controls in place to ensure timely compliance with state law that requires quarterly transfer of net revenue to the General Fund and the Montana STEM Scholarship account (STEM).

Non-Compliance with State Law Requiring Quarterly Transfers

In fiscal year 2023, the lottery only made three of the required four quarterly cash transfers of net revenue to the General Fund and STEM account as mandated by §23-7-402(3), MCA. Typically, the Financial Services director calculates net revenue as part of preparation of quarterly financial statements that are presented to the lottery commission for approval. The cash transfers are made afterwards—normally in September, December, March, and June. However, the cash transfer for the third quarter, normally completed in June, was delayed until August 1, 2024, resulting in only three transfers during fiscal year 2023. Lottery personnel explained that the third quarter transfer was delayed because the Financial Services director was unavailable to calculate the net revenues and provide the quarterly financial statements to the commission for approval. An accrual was recorded before fiscal year-end 2023, for the estimated third quarter profits. However, no cash was transferred.

Because the lottery recorded an accrual for the third quarter net revenues, the financial statements reflect the total transfers to the General Fund and STEM account of \$22.7 million and \$2.0 million, respectively. However, the cash and cash equivalents asset on the lottery's financial statements and transfer obligation liability are approximately \$4.8 million higher than they should be if all quarterly transfers had been made. Of the total \$4.8 million transfers, \$500,000 was for the STEM account and the remaining was transferred to the General Fund. Had the STEM account received their cash transfer in June, they could have earned approximately \$1,576 in STIP interest earnings.

Lottery's control procedures do not include a provision for someone else to be cross-trained to complete the calculation and transfer of net revenues quarterly if the Financial Services director is unavailable. In addition, their controls do not address the commission's financial statement approval if they cannot meet, so the required quarterly transfer can occur.

The lottery's controls are not sufficient to ensure compliance with state law. As a result, this significant deficiency in internal controls is included in our report on page B-1.

RECOMMENDATION #1

We recommend the Montana State Lottery:

- A. *Improve internal controls by developing written procedures and providing training to other personnel of how to calculate net revenues and prepare quarterly financial statements.*
- B. *Comply with state law by completing four quarterly transfers of net revenues each year.*

Independent Auditor's Report and Montana State Lottery Financial Statements

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Alexa O'Dell
William Soller
Miki Cestnik

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Montana State Lottery (lottery), an enterprise fund of the State of Montana, which are comprised of the Statement of Net Position as of June 30, 2023, and 2022, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the lottery as of June 30, 2023, and 2022, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the lottery and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the lottery enterprise fund. They do not purport to, and do not, present fairly the financial position of the state of Montana, as of June 30, 2023, and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana State Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2025, 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 solely 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.

Respectfully submitted,

/s/ Alexa O'Dell

Alexa O'Dell, CPA
Deputy Legislative Auditor
Helena, MT

April 17, 2025

**MONTANA LOTTERY
STATEMENT OF NET POSITION
JUNE 30, 2023 AND 2022**

A-5

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,322,009	\$ 2,303,927
Receivables (Net)	6,805,064	7,501,327
Multi-State Reserve Fund	65,000	65,000
Inventories	468,310	527,376
Prepaid Expenses	<u>34,952</u>	<u>27,018</u>
TOTAL CURRENT ASSETS	13,695,335	10,424,648
NONCURRENT ASSETS		
Computer, Furniture & Equipment	658,390	589,765
Leasehold Improvements	112,322	112,322
Accumulated Depreciation	(581,180)	(568,333)
Intangible Right to Use Buildings	1,140,798	1,140,798
Accumulated Amortization	(414,835)	(207,418)
Multi-State Reserve Fund	<u>1,049,694</u>	<u>987,029</u>
TOTAL NONCURRENT ASSETS	1,965,189	2,054,163
DEFERRED OUTFLOW OF RESOURCES		
Pension Deferred Outflows	343,969	478,490
OPEB Deferred Outflows	<u>264,814</u>	<u>299,107</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	608,783	777,597
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>16,269,307</u>	\$ <u>13,256,408</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,005,137	\$ 1,118,589
Estimated Prize Liability	2,826,395	3,455,810
Transfer Obligations	9,379,000	5,430,899
Building Lease Payable	206,213	202,840
Unearned Revenue	371,934	332,005
Accrued Compensated Absences	<u>178,559</u>	<u>158,894</u>
TOTAL CURRENT LIABILITIES	13,967,238	10,699,037
NONCURRENT LIABILITIES		
Building Lease Payable	604,749	736,868
Multi-State Prize Liability	955,871	929,185
Accrued Compensated Absences	132,941	118,954
Net Pension Liability	2,275,971	1,841,526
Other Post Employment Benefits	<u>86,256</u>	<u>359,503</u>
TOTAL NONCURRENT LIABILITIES	4,055,788	3,986,036
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	237,926	759,352
OPEB Deferred Inflows	<u>426,065</u>	<u>188,487</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	663,991	947,839
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	18,687,017	15,632,912
NET POSITION		
Net Investment in Capital Assets	189,532	133,754
Unrestricted	<u>(2,607,242)</u>	<u>(2,510,258)</u>
TOTAL NET POSITION	\$ <u>(2,417,710)</u>	\$ <u>(2,376,504)</u>

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

<p style="text-align: center;">MONTANA LOTTERY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2023 AND 2022</p>
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	2023	2022
OPERATING REVENUES:		
Scratch Ticket Revenue	\$ 25,373,418	\$ 25,461,626
On Line Ticket Revenue	63,107,883	45,192,964
Sports Bet Ticket Revenue	59,358,439	45,388,398
License, Permits, and Misc	<u>9,429</u>	<u>9,873</u>
Total Operating Revenues	147,849,169	116,052,861
DIRECT GAME COSTS:		
Scratch Ticket Prize Expense	16,213,379	16,738,419
On Line Ticket Prize Expense	33,200,385	24,457,025
Sports Bet Ticket Prize Expense	50,986,105	37,320,279
Retailer Commissions	6,945,521	6,728,262
Cost of Tickets Sold	1,072,427	1,177,622
Vendor fees	<u>9,718,283</u>	<u>7,932,275</u>
Total Direct Game Costs	118,136,100	94,353,882
Income Before Operating Expenses	29,713,069	21,698,979
OPERATING EXPENSES:		
Advertising	544,953	472,978
Advertising Production	281,543	313,245
Audit Fees	50,219	95,067
Bad Debts Expense	(87)	(839)
Communications	328,096	242,537
Contractual Services	167,207	181,338
Depreciation and Amortization	243,636	242,951
Interest - Leases	14,987	15,726
Administrative Service Fee	101,090	99,328
Multi-State Dues	38,615	41,388
Public Relations	7,556	55,303
Other Expenses	64,435	43,276
Personal Services	2,994,103	2,861,022
Repairs and Maintenance	15,261	23,651
Supplies and Materials	197,582	342,468
Travel	40,377	29,467
Utilities and Rent	<u>28,533</u>	<u>25,818</u>
Total Operating Expense	5,118,106	5,084,724
Operating Income	24,594,963	16,614,255
NONOPERATING REVENUES (EXPENSES):		
Interest Earnings	1,187	2,132
Gain/Loss on Sale of Assets	<u>19,391</u>	<u>36,803</u>
Total Nonoperating Revenues(Expenses)	<u>20,578</u>	<u>38,935</u>
Income Before Operating Transfers	24,615,541	16,653,190
Operating Transfers Out - General Fund	(22,656,747)	(15,311,224)
Operating Transfers Out - OCHE	<u>(2,000,000)</u>	<u>(1,500,000)</u>
CHANGE IN NET POSITION	(41,206)	(158,034)
Total Net Position, Beginning of Period	<u>(2,376,504)</u>	<u>(2,218,470)</u>
TOTAL NET POSITION, END OF PERIOD	\$ <u>(2,417,710)</u>	\$ <u>(2,376,504)</u>

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

<p style="text-align: center;">MONTANA LOTTERY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022</p>

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 148,585,448	\$ 112,627,512
Payments for Goods & Services	(19,577,972)	(17,653,096)
Payments to Employees	(2,914,287)	(2,690,624)
Payments for Prizes	(101,002,598)	(78,588,924)
Net Cash Provided by Operating Activities	<u>25,090,591</u>	<u>13,694,868</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(20,708,646)	(14,236,190)
Net Cash Used For Noncapital Financing	<u>(20,708,646)</u>	<u>(14,236,190)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(96,120)	(13,529)
Proceeds from Sale of Fixed Assets	23,515	48,033
Principal & Interest Payments on Leases	(229,779)	(216,816)
Net Cash Used For Capital Financing	<u>(302,384)</u>	<u>(182,312)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	1,187	2,132
Activity in the MUSL Prize Reserve Fund	(62,666)	16,214
Net Cash Provided (Used) by Investing Activities	<u>(61,479)</u>	<u>18,346</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,018,082	(705,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,303,927</u>	<u>3,009,215</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>6,322,009</u></u>	\$ <u><u>2,303,927</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 24,594,963	\$ 16,614,255
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation & Amortization	243,636	242,951
Interest Expense	14,987	15,726
Change in Assets and Liabilities:		
Decr (Incr) in Account Receivable	696,263	(3,521,717)
Decr (Incr) in Inventories	59,066	(2,193)
Decr (Incr) in Prepaid expenses	(7,934)	(7,209)
Incr (Decr) in Accounts Payable	(113,452)	160,329
Incr (Decr) in Lottery Prizes Payable	(602,729)	(73,201)
Incr (Decr) in Unearned Income	39,929	95,450
Incr (Decr) in Pooled Realized Gains	73,081	0
Incr (Decr) in Other Post Employment Benefits	(1,376)	73,139
Incr (Decr) in Pension Liability	60,505	79,663
Incr (Decr) in Compensated Absences Payable	33,652	17,675
Total Adjustments	<u>495,628</u>	<u>(2,919,387)</u>
Net Cash Provided by Operating Activities	\$ <u><u>25,090,591</u></u>	\$ <u><u>13,694,868</u></u>

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

MONTANA LOTTERY
Notes to the Financial Statements
June 30, 2023 and 2022

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. An amendment was made to this statute in the 2019 Legislative session to include Sports betting.

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 Annual Comprehensive 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, 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.

Tickets sales for Sports Bet Montana wagers are recorded as revenue when the specific event for the bet has occurred and becomes official. All other wagers for future events that are placed by players are recorded as unearned revenue until such time the specific event has happened and is official.

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/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 years ended June 30, 2023, and 2022 was \$1,823,111, and \$1,268,488, 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, 2023, promotional credits resulted in a revenue reduction of approximately \$9,548 and an expense reclassification of approximately \$5,505. For the year ended June 30, 2022, promotional credits resulted in a revenue reduction of approximately \$7,335 and an expense reclassification of approximately \$5,300.

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. Sports Betting prize expense is determined based on each bet and the official results. 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 6/30/23	Quarter Ended 6/30/22	Year to Date 6/30/23	Year to Date 6/30/22
Lotto	\$1,624,230	\$146,404	\$2,144,805	\$ 588,246
Scratch	\$ 295,669	\$299,146	\$ 894,394	\$ 652,611
TOTALS	\$1,919,899	\$445,550	\$3,039,199	\$1,240,857

2. OTHER ACCOUNTING ISSUES

Implementation of GASB 87, Leases. For fiscal year ended June 30, 2022, the Lottery implemented GASB Statement 87, *Leases*, retroactive to the previous year. According to the statement, a lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract, for a period of time, in an exchange or exchange-like transaction. A lease liability is recorded at the present value of payments expected during the lease term; and an intangible right-to-use lease asset is recorded at the sum of the lease liability, certain direct costs, and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term.

The State uses an estimated incremental borrowing rate as the discount rate for leases unless the rate is explicitly stated in the contract or known. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but recognized as revenue or expense in the period performed. For more information on Lottery's sole lease, see Note 10.

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>2023</u>	<u>2022</u>
Short-term investment pool	\$ 26,874	\$ 25,494
Cash on deposit with State Treasurer	6,094,935	2,078,233
Cash in revolving deposit account	200,000	200,000
Petty Cash & Cash On-Hand	200	200
TOTALS	\$6,322,009	\$2,303,927

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$240,070, and \$244,167 as of June 30, 2023 and 2022, 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, 2023, receivables include \$7,182,710, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$112 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, 2023, 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, 2023. The allowance for ticket returns is \$410,606 as of June 30, 2023. The return of vendor fees related to the allowance for returns is \$32,848.

For the year ended June 30, 2022, receivables included \$7,937,161, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$485 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, 2022, 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, 2022. The allowance for ticket returns is \$474,260 as of June 30, 2022. The return of vendor fees related to the allowance for returns is \$37,941.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2023 and 2022 include scratch tickets valued at \$360,275 and \$422,293, 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, 2023, and 2022, supplies inventories totaled \$108,035, and \$105,083, 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>2023</u>	<u>2022</u>
Prepaid Expenses	\$34,952	\$27,018

The prepaid expenses for the year ended June 30, 2023 consisted of \$5,000 for upcoming events and \$29,952 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2022 consisted of \$27,018 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, 2021	Additions	Deletions	June 30, 2022
Leasehold Improvements	\$ 98,793	\$ 13,529	\$ -	\$ 112,322
Furniture & Equipment	\$ 664,636	\$ -	\$ (74,871)	\$ 589,765
Accumulated Depreciation	\$ (596,441)	\$ (35,533)	\$ 63,641	\$ (568,333)
	June 30, 2022	Additions	Deletions	June 30, 2023
Leasehold Improvements	\$ 112,322	\$ -	\$ -	\$ 112,322
Furniture & Equipment	\$ 589,765	\$ 96,120	\$ (27,495)	\$ 658,390
Accumulated Depreciation	\$ (568,333)	\$ (36,217)	\$ 23,370	\$ (581,180)

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 and the Office Commissioner of Higher Education. The 2019 Legislature passed SB60 which changed the transfer requirements again. Going forward, the Lottery is to transfer a set amount to the STEM scholarship first, and any residual would be transferred to the General Fund. The transfer obligations outstanding at June 30, 2023 were \$8,452,081 to the General Fund and \$1,000,000 to OCHE. For the year ending June 30, 2022, the obligation outstanding at year end was \$5,055,899 due to the General Fund and \$375,000 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, 2021</u>	<u>Net Leave</u> <u>Earned/(Used)</u>	<u>Balance</u> <u>June 30, 2022</u>
\$260,173	\$17,675	\$277,848
<u>Balance</u> <u>June 30, 2022</u>	<u>Net Leave</u> <u>Earned/(Used)</u>	<u>Balance</u> <u>June 30, 2023</u>
\$277,848	\$33,652	\$311,500

Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2023 and 2022:

Year ended June 30, 2023					
	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Building Lease	\$ 736,868	\$ 2,863	\$ (208,063)	\$ 531,668	\$206,213
Multi-State Prize Liability	\$ 929,185	\$101,020	\$ (74,334)	\$ 955,871	\$ -
Accrued Compensated Absences	\$ 118,954	\$ 43,423	\$ (29,436)	\$ 132,941	\$178,559
Net Pension Liability	\$1,841,526	\$434,445	\$ -	\$2,275,971	\$ -
Other Post Employment Benefits	\$ 359,503	\$ -	\$ (273,247)	\$ 86,256	\$ -

Year ended June 30, 2022

	Balance			Balance	Amounts
	July 1, 2021	Additions	Reductions	June 30, 2022	due within
					one year
Building Lease	\$ 939,708	\$ -	\$(202,840)	\$ 736,868	\$202,840
Multi-State Prize Liability	\$ 924,365	\$ 56,626	\$(51,806)	\$ 929,185	\$ -
Accrued Compensated Absences	\$ 147,146	\$ 56,323	\$(84,515)	\$ 118,954	\$158,894
Net Pension Liability	\$2,448,441	\$ -	\$(606,915)	\$1,841,526	\$ -
Other Post Employment Benefits	\$ 382,400	\$ -	\$(22,897)	\$ 359,503	\$ -

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% (6% for Sports Betting, 3% starting in FYE2023) 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, 2023 and 2022, retailers earned bonus commissions of \$677,507 and \$716,140, respectively. For the years ended June 30, 2023 and 2022, total commissions were \$6,945,521, and \$6,728,262, 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, 2023 and 2022:

Year Ended June 30	2023	2022
Administrative Service Fees	\$ 101,090	\$ 99,258
Audit Fees	50,219	95,067
Computer Fees	120,224	118,321
Insurance	17,989	17,595
Mail Processing Fees	7,350	8,001
Other Expenses	3,333	4,557
Payroll Services	10,237	10,323
Printing	8,894	11,460
Record Retention	1,288	1,229
State Accounting System Support	4,445	4,603
Warrant Writing Services	1,277	1,544
	<u>\$326,346</u>	<u>\$371,958</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, 2023, the prize expense of \$100,326,788 is 67.86% of net Lottery ticket revenue of \$147,839,740. For the year ended June 30, 2022, the prize expense of \$78,515,723 was 67.66% of net Lottery ticket revenue of \$116,042,988.

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. Senate Bill 90 established amounts to go to the STEM scholarships of \$2,000,000 for FY 2023, and \$2,250,000 for FY 2024 and all subsequent fiscal years thereafter. The residual amounts go to the General Fund.

For the years ended June 30, 2023 and 2022, the net revenue payable to the State General Fund totaled \$22,729,828, and \$15,311,224, respectively. For the years ended June 30, 2023 and 2022, the net revenue payable to the Montana STEM scholarship totaled \$2,000,000, and \$1,500,000, 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, 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 \$1,114,694 and \$1,052,029 as of June 30, 2023, and 2022, 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, 2023

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$ 38,112	\$ 238,061	\$ 276,173
Powerball Set Prize Reserve Account	24,015	96,002	120,017
Powerball Unreserved Account	42,199	116,624	158,823
Lotto America Prize Reserve Account	76,974	150,492	227,466
Mega Millions Prize Reserve Account	<u>95,412</u>	<u>236,803</u>	<u>332,215</u>
Total Reserves	<u>\$276,712</u>	<u>\$837,982</u>	<u>\$1,114,694</u>
Less Current Portion			(65,000)
Non Current Reserves			<u>\$1,049,694</u>

June 30, 2022

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$221,780	\$105,909	\$ 327,689
Powerball Set Prize Reserve Account	3,682	139,018	142,700
Powerball Unreserved Account	74,542	48,302	122,844
Lotto America Prize Reserve Account	56,738	111,623	168,361
Mega Millions Prize Reserve Account	<u>30,305</u>	<u>260,130</u>	<u>290,435</u>
Total Reserves	<u>\$387,047</u>	<u>\$664,982</u>	<u>\$1,052,029</u>
Less Current Portion			(65,000)
Non Current Reserves			<u>\$ 987,029</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 2023, the Lottery received \$997 in interest, had \$74,381 added into the account due to a Powerball redistribution adjustment, and a reduction of \$39,399 for annual dues. During the fiscal year ended 2022, the Lottery received \$558 in interest, and had \$6,147 added into the account due to a Mega Millions redistribution adjustment, and a reduction of \$27,739 for annual dues..

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

8. 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 other directors of other states. The Director of the Lottery is in a position to vote and have influence 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 \$1,114,694 and \$1,052,029 for years ended 2023 and 2022, 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 FY2023, the Lottery paid MUSL \$9,937,764 for its share of prizes and received reimbursements for prizes in the amount of \$1,844,705. In FY2022, the Lottery paid MUSL \$7,257,268 for its share of prizes and received reimbursements for prizes in the amount of \$2,354,374.

9. GAMES

Currently, Montana Lottery games are Scratch ticket games and six Lotto games referred to as Powerball, Montana Cash, 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 was facilitating Fantasy Sports games on behalf of the Board of Horse Racing. Until July of 2021, the Lottery was selling Montana Sports Action Fantasy Football and Fantasy Racing games. The Lottery also implemented Sports Bet Montana which is a sports wagering game.

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 \$20 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$8 to \$2 million for matching fewer than all six numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. Powerball is offered in 48 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. Power Play became part of the base game in July 2022. At the same time, the Lottery added Double Play ®. This optional add-on uses the same numbers in a separate drawing with separate prize levels up to \$10 million.

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 Lottery added a second jackpot for this game called Max Cash. Max Cash is a separate jackpot that grows based on the sales for adding an extra dollar to the normal Montana Cash ticket. It is only hit when a player wins the regular jackpot and purchased the Max Cash add on. 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.

Mega Millions is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$20 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, or five. 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 now conducted on a daily basis each night.

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 31 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 16. 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 three times weekly on Monday, 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.

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, \$10, \$20, and \$30. Some games include progressive jackpots.

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 \$100,000 and \$25,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 2,000 \$100 instant winners and 2,100 \$500 instant winners. On December 26, 2023, three \$1 million prizes will be awarded.

The Montana Lottery offered 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. Both of these games were discontinued in July 2021.

Sports Bet Montana is the newest of games implemented. In the 2019 legislature, HB725 was passed and set into law sports wagering in the State of Montana. The Lottery implemented the game in March 2020 with the ability to bet at a kiosk installed in an authorized location, or wager on a phone application which also has to be done in an authorized location. Players can make plays either on the kiosks or with an account the player has set up. The minimum bet is \$2, the maximum bet is \$1,000, and the maximum prize available is \$100,000. These bets can be for any sports event available through the Lottery and can vary in many types of wagers.

10. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On August 1, 2022 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 8.00% of net weekly Lottery sales of lotto and scratch games. The contract currently has a termination date of March 30, 2023 with two year extensions.

11. LEASES/INSTALLMENT PURCHASES PAYABLE

Leases are agreements that grant the State use of property in exchange for payments over a period of time. The Lottery has a lease for the use of a building with no option to purchase.

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. The following shows the principal and interest of this lease for the periods referenced;

	Principal	Interest
2024	\$206,213	\$10,603
2025	\$209,641	\$ 7,175
2026	\$213,126	\$ 3,690
2027	\$107,888	\$ 520

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 2023 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 64% was invested in Federal Agencies; another 1% 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. Another 30% was invested in structured securities, and the other 5% of the prize reserves are invested in CDs.. 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, 2023, the duration for the U.S. Government Treasury securities was a blended rate of 1.87 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, 2023 is 57days.

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 115 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

		Fair Value Measurements Using		
	June 30, 2023	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)	<u>\$26,874</u>			
Total Investments by net asset value level	<u>\$26,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at Net Asset Value

	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)	
	June 30, 2022			
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$ 25,494			
Total Investments by net asset value level	\$ 25,494	\$ -	\$ -	\$ -

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. 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.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan.

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 Statement 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. There are no assets recorded, just the liabilities as reported contributions are not a result of direct funding to the plan, but are a measure of the difference in retiree payments into the plan and actual medical costs associated with those individuals paid for by the plan. 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 post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-12, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. As of December 31, 2022, the State OPEB plan's administratively established retiree medical premiums vary between \$466 and \$2,272 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively dental premiums vary between \$41.10 and \$70.00 per month and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

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, meaning 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, 2021, rolled forward to March 31, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2022
Experience study period	January 1, 2022 through December 31, 2022
Actuarial measurement date (1)	March 31, 2023
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent of payroll, open basis
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75

Actuarial assumptions:

Discount rate	3.98%
Projected payroll increases	3.50%
Participation:	
Future retirees	40.00%
Future eligible spouses	70.00%
Marital status at retirement	70.00%

Mortality – Healthy	Mortality follows Pub-2010, General Employee table, projected generationally using MP-2021.
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Mortality – Disabled	For retirees, mortality follows Pub-2010, General Disabled table set forward 1 year for males and females, projected generationally using MP-2021.
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(1) Updated procedures were used to roll forward the total OPEB liability measurement date.

Changes in actuarial assumptions and methods since last measurement date: The discount rate increased from 3.31% to 3.98%.

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 (2.98%) or 1-percentage-point higher (4.98%) than the current discount rate:

	1.0% Decrease (2.98%)	Current Discount Rate (3.98%)	1.0% Increase (4.98%)
<u>Lottery OPEB</u>			
June 30, 2023	\$115,054	\$86,256	\$65,597

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 (6.5%) or 1-percentage-point higher (9.0%) than the current healthcare cost trend rates:

	1.0% Decrease	Current Discount Rate (6.5%/9.0%)	1.0% Increase
<u>Lottery OPEB</u>			
June 30, 2023	\$65,963	\$86,256	\$115,160

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2023, the Lottery's plan's OPEB expense is \$(1,377). The Lottery's proportionate share of the State's total OPEB liability is \$86,256 which is 0.2882% of the total State's OPEB liability at year end.

At June 30, 2023, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$186,892
Changes in Assumptions or other inputs	\$262,531	\$239,173
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 2,283	\$ -
Total	\$264,814	\$426,065

At June 30, 2022, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 45,998
Changes in Assumptions or other inputs	\$298,248	\$142,489
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ 859	\$ -
Total	\$ 299,107	\$188,487

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
2024	\$(12,163)
2025	\$(12,163)
2026	\$(12,163)
2027	\$(12,163)
2028	\$(12,163)
Thereafter	\$(102,720)

15. 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. Benefits are established by state law and can only be amended by the Legislature.

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 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:

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.

Second retirement: (requires returning to PERS-covered employer or PERS service)

Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit: A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018), no service credit for second employment, start the same benefit amount the month following termination, and Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retired before January 1, 2016 and accumulate at least 2 years of additional service credit: A recalculated retirement benefit based on provisions in effect after the initial retirement, GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retired on or after January 1, 2016 and accumulate 5 or more years of service credit: The same retirement as prior to the return to service, a second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date, and GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

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 Montana Statute 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.

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: Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional 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. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers' reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Special Funding: The state of Montana, as the non-employer contributing entity, paid to the Plan, additional contributions that qualify as *special funding*. Those employers who received *special funding* are all participating employers.

Stand-Alone Statements. The PERS financial information is reported in the Public Employees' Retirement Board's *Annual Comprehensive Financial Report* (ACFR) 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.

ACFR information including the stand alone financial statements can be found at the MPERA's website <https://mpera.mt.gov/docs/CAFR/FY2022-ACFR.pdf>. 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, 2023, is based on the results of an actuarial valuation date of June 30, 2022, using the following actuarial assumptions, applied to all periods included in measurement. After the member has completed 12 full months of retirement, the member's benefit increases by applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit. Among those assumptions were the following:

- General Wage Growth 3.50% (includes Inflation at 2.75%)
- Merit Increases 0% to 4.80%
- Investment Return (net of admin expense) 7.30%
- Postretirement Benefit Increases;
 - (a) 3% for members hired **prior** to July 1, 2007,
 - (b) 1.5% for members hired between July 1, 2007, and June 30, 2013;
 - (c) 1.5% for members hired after July 1, 2013

For each year PERS is reduced by 0.1% for each 2.0% PERS is funded below 90%. 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing, disabled members, and service retired members and beneficiaries based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 for males and females. Projected generationally using MP-2021.

Mortality assumption among contingent survivors, and healthy retirees are based on PUB-2010 General Amount Weighted Contingent Survivor and Healthy Retiree Mortality tables projected to 2021 with ages set forward one year for males and females. For healthy retirees, the percentage is adjusted 104% for males and 103% for females. Projected generationally using MP-2021.

Discount Rate. The discount rate used to measure the Total Pension Liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would 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 2126. 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	3.0%	(0.33%)
Domestic Equity	30.0%	5.90%
International Equity	17.0%	7.14%
Real Assets	5.0%	4.03%
Private Investments	15.0%	9.13%
Real Estate	9.0%	5.41%
Core Fixed Income	15.0%	1.14%
Non-Core Fixed Income	6.0%	3.02%
Total	100.0%	

The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the Plan about every five years. The long-term rate of return as June 30, 2022, is based on analysis in the experience study report dated May 2, 2022 without consideration for administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and the adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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 7.30%, 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.

	1.0% Decrease	Current Discount Rate	1.0% Increase
<u>Employer Net Pension Liability</u>			
June 30, 2023	\$3,280,918	\$2,275,971	\$1,432,832
June 30, 2022	\$2,923,136	\$1,841,526	\$ 934,302
June 30, 2021	\$3,370,135	\$2,448,441	\$1,674,225

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 6/30/23	Net Pension Liability as of 6/30/22	Percent of Collective NPL as of 6/30/23	Percent of Collective NPL as of 6/30/22	Change in Percent of Collective NPL
\$2,275,971	\$1,841,526	0.101561%	0.1002230%	0.006460%

At June 30, 2023, the Lottery recorded a liability of \$2,275,971 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2023, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2022, with roll forward provisions to June 30, 2023. For the fiscal years ended June 30, 2023, and 2022, 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, 2022 to June 30, 2023. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2023, the Lottery's proportion was 0.101561%.

Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of Net Pension Liability:

- The discount rate was increased from 7.06% to 7.30%
- The investment rate of return was increased from 7.06% to 7.30%
- Updated all mortality tables to PUB2010 tables for general employees.
- Updated the rates of withdrawal, retirement, and disability.
- Lowered the payroll growth assumption from 3.50% to 3.25%.
- The inflation rate was increased from 2.40% to 2.75%

Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes to the Plan 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, 2023 and 2022, 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, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 29,014	\$ -
Changes in Assumptions	\$ 84,816	\$ 166,622
Actual vs. Expected Investment Earnings	\$ 66,890	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 71,304
Employer contributions subsequent to the measurement date – FY 2020 contributions	\$163,249	\$ -
Total	\$343,969	\$237,926

June 30, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 19,653	\$ 13,331
Changes in Assumptions	\$272,764	\$ -
Actual vs. Expected Investment Earnings	\$ -	\$746,021
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ 36,590	\$ -
Employer contributions subsequent to the measurement date – FY 2019 contributions	\$149,483	\$ -
Total	\$478,490	\$759,352

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 are recognized in the employer's pension expense as follows:

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2023	\$ (3,812)
2024	\$(133,544)
2025	\$ (72,144)
2026	\$ 152,294
Thereafter	\$ 0

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel



Deputy Legislative Auditors:
Alexa O'Dell
William Soller
Miki Cestnik

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana State Lottery (lottery), as of and for the two years ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the lottery's basic financial statements, and have issued our report thereon dated April 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the lottery's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

As described in recommendation #1, the Montana State Lottery's internal controls over compliance with statutory requirements to transfer net revenues on a quarterly basis are not sufficient.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Montana State Lottery Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the lottery's response to the finding identified in our audit and described on page C-1 of this report. The lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Alexa O'Dell

Alexa O'Dell, CPA
Deputy Legislative Auditor
Helena, MT

April 17, 2025

MONTANA STATE
LOTTERY

LOTTERY RESPONSE



May 10, 2025

Mr. Angus Maciver
Legislative Auditor
Office of the Legislative Auditor
State Capital Building
Helena, MT 59620-1705

RECEIVED
May 8, 2025
LEGISLATIVE AUDIT DIV.

RE: Response to the 2023 Montana Lottery Financial Audit

Dear Mr. Maciver:

Thank you for the opportunity to respond to the report on the Montana Lottery Financial Audit, dated May 10, 2025.

The Montana Lottery concurs with the audit findings and will take the necessary action to comply with all recommendations.

The following is our response and action plan to the recommendation:

RECOMMENDATION #1

We recommend the Montana State Lottery:

- A. Improve internal controls by developing written procedures and provide training to other personnel of how to calculate net revenues and prepare quarterly financial statements**
- B. Comply with state law by completing four quarterly transfers of net revenues each year.**

The Montana Lottery will document procedures on how net revenues are calculated, quarterly financial statements created, and the timely transfer of net revenues. Once these procedures are verified, controls will be established to confirm accuracy and timeliness. Finally, training on the procedures and controls will be given to the staff.

Thank you again for the opportunity to respond. Your team has been especially patient and understanding during this time while the Lottery works to recover from the loss of our Finance Director. Please convey my appreciation to them for their efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Brown".

Bob Brown
Montana Lottery Director



Audit Action Plan:

Audit Recommendation	Lottery Response	Corrective Action Plan	Responsible Area	Target Date
RECOMMENDATION #1 We recommend the Montana State Lottery: A. Improve internal controls by developing written procedures and provide training to other personnel of how to calculate net revenues and prepare quarterly financial statements B. Comply with state law by completing four quarterly transfers of net revenues each year.	Concur	<ul style="list-style-type: none"> • Create procedures on how Lottery net revenues are calculated. • Create procedures on how quarterly financial statements are produced. • Procedures will be created and implemented to ensure the timely transfer of funds in accordance with the Montana Code Annotated. • Control procedures will also be defined to verify net revenue data, financial statement data and to verify the tasks have been completed within the required timeframe. • Train backup personnel on the established procedures and controls. 	MT Lottery Finance (primary)	Oct 31, 2025