



**MONTANA  
LOTTERY**

**ANNUAL REPORT  
2020**



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The 2020 Fiscal Year simply wasn't normal.

It started out that way. The year for the Montana Lottery began with a kind of momentum we haven't seen in decades: We were launching an exciting product – sports wagering – and spent much of the year happily consumed with drafting rules and parameters, building a technological platform, designing the product brand and building up a personality for a new and innovative part of our business. We worked our way all the way up to the starting line: In March of 2020, we were placing terminals all around the state at more than 130 new Sports Bet Montana sales agents. We had a technology team staged and ready to go.

The timing seemed perfect: rolling out a sports wagering product just before March Madness? Perfection!

But the world lived through a very different kind of March 2020 than the one we all imagined – and the lessons we, as a business, learned from one of the most extraordinary years of our commercial life will stay with us for a long time.

And that is something we are very thankful for.

The lessons we learned in 2020 were about perseverance, flexibility, patience and how to be a good partner. We ended this unusual year down only about 1 percent in revenue for the year – and poised for a kind of growth across nearly all of our product lines we simply could not have imagined the year before.

We measure the success of FY2020 in several ways. First, the commission our sales agents earn on sales of our products became not just a line in an annual report, but a cushion between some of our partners and disaster. We came to see ourselves in a new way. We offer Montanans a fun product, but we are also part of the success of the Montana private sector and the money that stays in the communities where we sell our products – a full \$4.2 million this year -- tells the story of our success as much as the money we transfer back to the state – what a private business would call its "profit."

Which is not to say we didn't see growth! This fiscal year saw extraordinary sales in our Scratch line of products, which began during the pandemic and continued through rounds of social and commercial changes. We saw strong sales in Sports Bet Montana, despite only having limited weeks of sales after launch before the end of the fiscal year. We've also had strong sales in our Treasure Play line of products.

This added up to \$500,000 to the Montana STEM Scholarship Program, a 100 percent Lottery-funded scholarship program for Montana high school graduates attending Montana universities, community and tribal colleges. The dollar amount of our support of the STEM Scholarship Program is described by law and is set to grow until it exceeds \$2 million; we're proud of every dollar. The majority of our money – as always – is transferred back to the state, in accordance with Montana law. In FY2020, we also transferred \$8.1 million to the state.

It was not a normal year – but it wasn't a bad year – and it set us up for growth.

# MONTANA LOTTERY COMMISSION

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

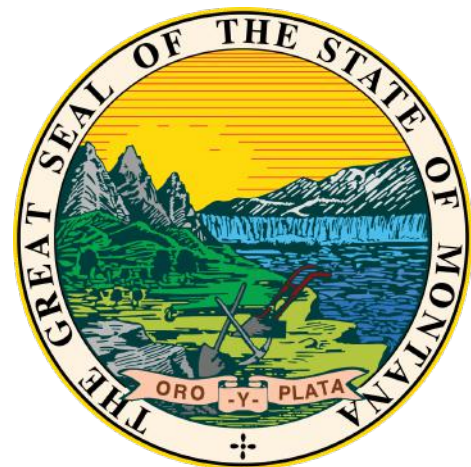
**WILBUR REHMANN, Chair, Helena**

**THOMAS KEEGAN, Helena**

**LEO PRIGGE, Butte**

**JESSIKA KYNETT, Livingston**

**JOHN TARR, Helena**



**\$694  
MILLION \***

*total amount Montana Lottery has paid out in prizes since 1987*

**\$78  
MILLION \***

*total amount our Montana small business partners have earned in commission from selling Montana Lottery products*

**\$289  
MILLION \***

*total amount the Montana Lottery has transferred back to the State of Montana*

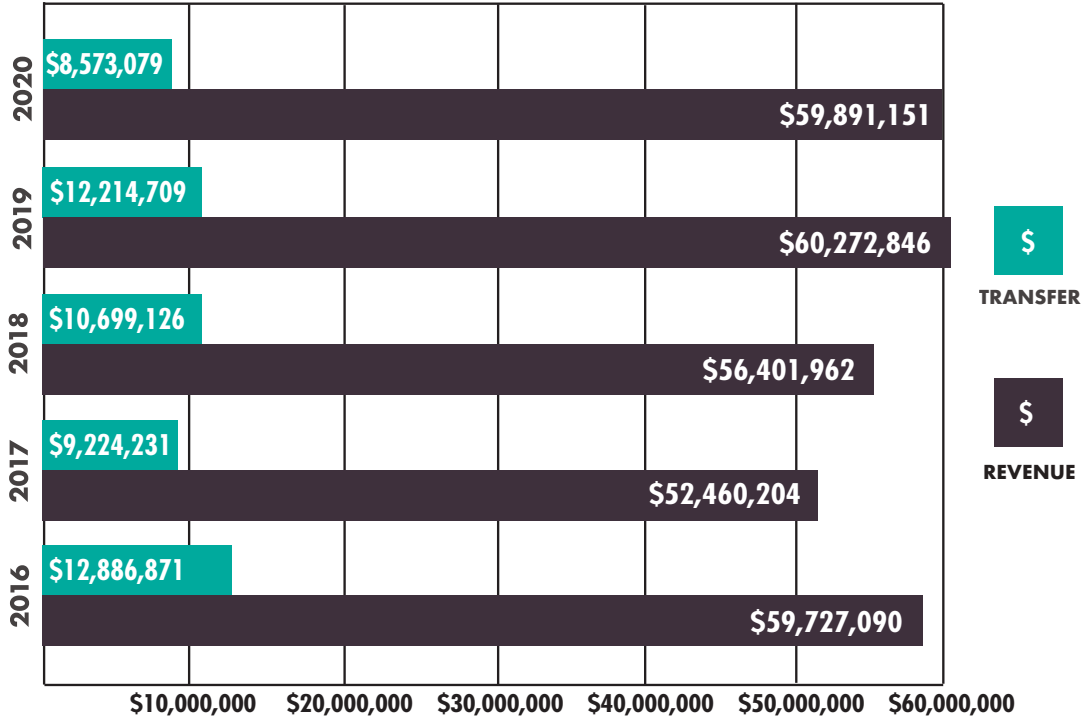
## BENEFICIARY INFO

The Montana Lottery operates like a private business: We cover 100 percent of our costs with our own revenues. Anything leftover – what a private business calls “profit” -- is transferred back to the state. But even when they get to the state, our revenues don’t stay in one place.

The first portion of our profit funds the Montana STEM Scholarship. The Montana Lottery is the sole source of funding for this scholarship program, which is administered by the Office of the Commissioner of Higher Education and supports Montana high school students seeking degrees in science, technology, engineering, mathematics and healthcare at a Montana university, tribal or community college. In FY2020, the Lottery allocated \$500,000 to the scholarship, an amount prescribed by law. Under that law, Lottery funding for the scholarship grows every year until it reaches \$2.25 million in FY2024. Funding remains at that level every year after.

The rest of our money flows to the state’s General Fund, where lawmakers allocate it to the state’s priorities.

## HISTORIC CHART ON REVENUES AND TRANSFERS



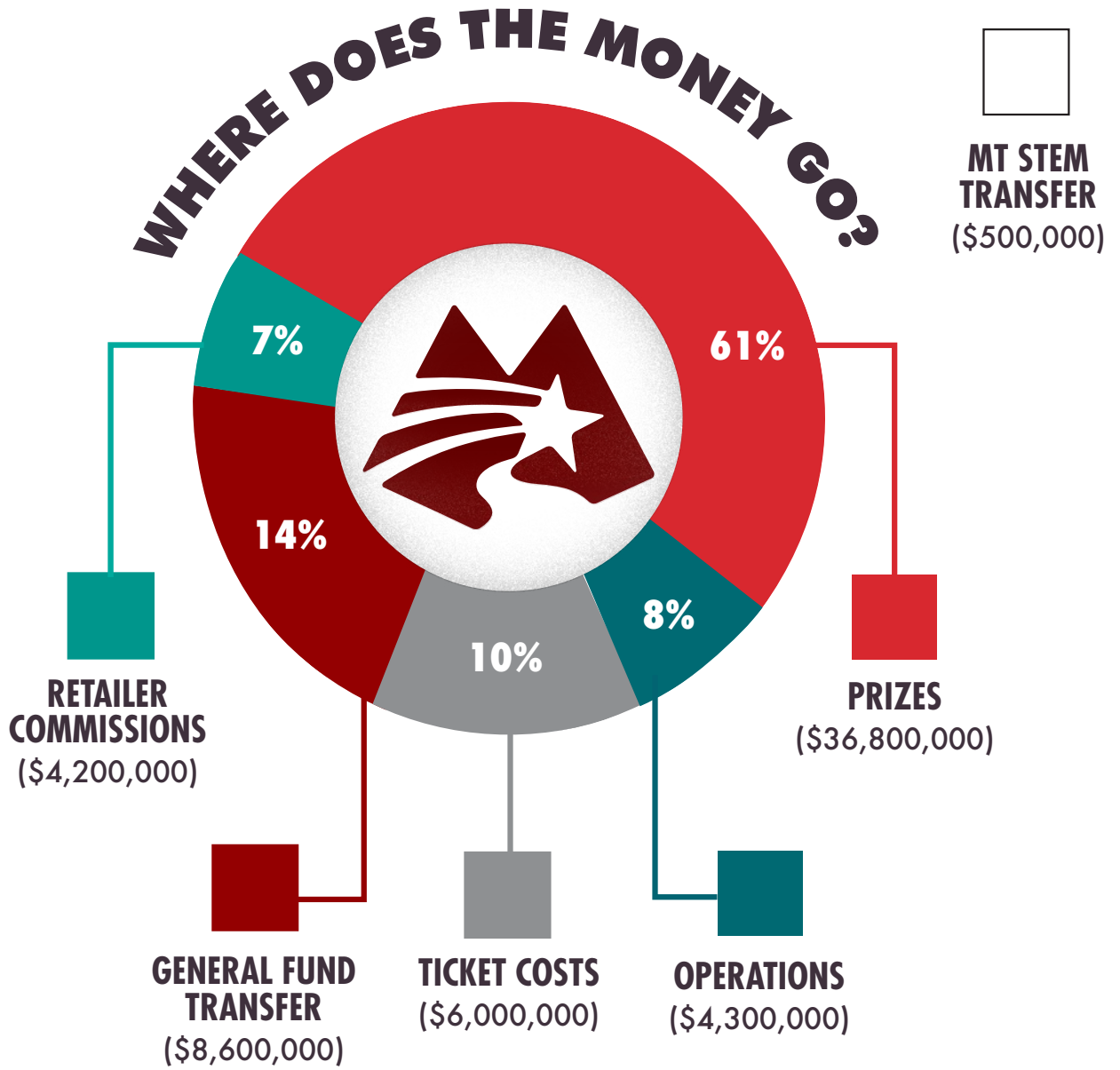
2020\*

**\$36,800,000**

TOTAL PRIZES PAID IN 2020

**\$8,600,000**

TRANSFER TO THE GENERAL FUND



**\$59,900,000**

TOTAL LOTTERY REVENUE

*Winners Happen!*

\*All Numbers Rounded

## LOTTERY REVENUE BREAKDOWN

Product Group	2019	2020	Difference
Lotto	\$41,729,672	\$35,175,593	- 15.71%
Scratch	\$18,531,003	\$24,239,040	+ 30.80%
Sports Bet Montana	\$0	\$476,518	--
<b>Grand Total</b>	<b>\$60,260,675</b>	<b>\$59,891,151</b>	<b>(\$369,524)</b>

## Products

# SCRATCH games

**SCRATCH REVENUE FOR FY20 WAS \$24,239,040;  
UP BY 30.8% COMPARED TO FY19 REVENUE.**

During FY20, the Montana Lottery launched 48 Scratch games. Our price points included \$1, \$2, \$3, \$5, \$10, and \$20 games, with top prizes ranging from \$1,000 to \$500,000. Each price point featured a variety of play styles including bingo, crossword, key-number and key-symbol match, Slingo® and licensed property games.

### 2020 Summer Scratch Game - 4X4 PAYOUT:

Players looking for a Scratch game with a top cash prize of \$75,000 and an awesome brand-new Ford® F-150 XLT SuperCrew truck merchandise prize needed to look no further than our \$5 - 4X4 PAYOUT ticket. Additionally, there were four second chance drawings of \$2,000 each awarded in June, July, August and September. This Ford®-licensed property game, along with full ad campaign support, launched in May of 2020. It sold out in record time and culminated with the awarding of the brand-new Ford® truck to a winner from Helena.



## Scratch Special Mentions

**\$3 Treasure Hunt:** Launched in December 2019, this vibrant game featured sparkly, holographic paper stock and a unique “Your Coordinates” play style. On average, this game moved 22% faster into sales than the other \$3 extended play game available at the time, which shows how quickly it was flying off the shelves.

**\$10 50X:** Of the three \$10 games available in FY20, 50X had the highest 16-week pack activation average. 50X's unique appeal had to be its use of MicroMotion in the ticket artwork, which let the metallic mint and copper colors shine through on this attractive game. Additionally, players also enjoyed the feature where they could multiply their prize by up to 50 times and had the chance to win a \$175,000 cash top prize.



**ONLINE DRAW GAME REVENUE FOR FY20 WAS \$35,175,593**

**ONLINE DRAW GAMES:** The Montana Lottery finished FY20 with six Lotto games: Powerball, Mega Millions, Lotto America, Lucky For Life, Montana Cash and Big Sky Bonus. Four of those products are multi-state games, while Montana Cash and Big Sky Bonus are Montana-made and played exclusively in Montana. Our in-state only games are among our most popular games and offer the best overall odds. We had 1,144 licensed sales agents in FY20. All traditional Lotto retailers receive a 5 percent commission on every dollar sold.

**TREASURE PLAY:** The Montana Lottery offers a selection of instant-win, terminal-issued games called Treasure Play at 365 licensed sales agents. In FY19, Treasure Play sales agents received a 5 percent commission for selling Treasure Play tickets and saw the introduction of the Treasure Play Sales Incentive Program, which allows sales agents the opportunity to earn up to 5 percent more commission for meeting quarterly sales goals. The incentive program has a 10 percent commission cap on total commission paid per dollar. During FY19 Treasure Play consisted of six non-progressive games and six progressive jackpot games. Progressive jackpot games are generally more popular than non-progressive games primarily because play increases as jackpots increase. The last quarter of FY19 introduced big changes to the product when the new terminal updates that improved accessibility to Treasure Play games were introduced. This included improved winner awareness, and added new buttons for sample ticket images and prize legends.



**FANTASY GAMES:** Fantasy Games is a fantasy sports product line offered by the Montana Board of Horse Racing and facilitated by the Montana Lottery. Fantasy Games consists of two fantasy sports games: Fantasy Racing and Fantasy Football.





**SPORTS BET MONTANA:** The 2020 fiscal year saw the debut of an exciting new kind of product at the Montana Lottery: Sports wagering. Sports wagering was authorized by the 2019 Montana Legislature and work on launching what became Sports Bet Montana (SBM) began in May of 2019, just before the beginning of the 2020 fiscal year.

Much of the 2020 fiscal year was spent working to create the licensing framework, design, technology, look and feel of Sports Bet Montana. The product itself debuted in December of 2019 when we began accepting licensing applications for the new product line.

Citizens got their first look at the product in March of 2020, but the excitement was short-lived. Before we had finished placing terminals in retail locations, major U.S. sports leagues began shutting down and within a matter of days of the player launch of Sports Bet Montana, our state and the rest of the nation – and much of the world – were under various shelter in place orders.

This historic experience placed our product launch in stasis, but the unusual and challenging end of FY20 also served as a kind of test case for the design of our product. Sports Bet Montana was designed to benefit the Montana private sector – our retail sales agents who are employers in the community – in a meaningful way. Our sales agents receive a 6 percent commission on every bet placed.

When the shelter in place order was lifted in April of 2020, our sales agents – and, indeed, the entire Montana community – found itself in a uniquely challenging situation. As the Lottery worked to re-boot our SBM product launch, our partners were leaning into every revenue-generating effort that could safely be employed

to keep their businesses running. Sports Bet Montana was part of that mix, largely because we designed the success of the Montana private sector to be a significant part of the benefit of SBM to the public, not an afterthought.

Together with our players, our private business partners, our vendor and with the support of our entire staff, we successfully re-launched Sports Bet Montana and the product enjoyed strong sales as U.S. sports leagues came back on-line.

We only experienced three and a half months of sales for Sports Bet Montana in the FY2020 year – and one of them was essentially a month of zero sales as those businesses were closed outright – but we saw nearly half a million dollars in sales. At the end of the fiscal year, SBM was poised for strong growth and the continued resumption of normal commerce and social lives promises the kind of significant sales we anticipated as the product was in its development.



**80% OF BETS PLACED USING SBM KIOSKS**

**20% OF BETS PLACED USING THE SBM MOBILE APP**

**AVERAGE DAILY SALES (EXCLUDING DAYS WITH \$0 SALES): \$6,585**

**TOTAL SALES FOR FY2020: \$476,518**

**26.53% OF BETS WERE PLACED ON SATURDAYS (RANK #1)**

## *Sales Agents*

The 2020 Fiscal Year was one of rapid growth, coupled with new public health challenges that temporarily slowed our ability to place new terminals, leaving the agency poised for a big year of growth ahead with lots of pent-up demand for our products.

Among our traditional Lottery, **we added 13 new sales agents**, mostly convenience stores. We also saw a lot of licenses changing hands, which typically occurs when a business is sold or changes hands within a corporation and the new owners also choose to offer Montana Lottery products. We had 34 traditional locations that had ownership changes.

We made several changes to our MPNG™ terminal sales agent network. These terminals offer instant-win games and all Lotto products via a player-activated device. This equipment is licensed exclusively to bars, taverns and casinos and offers popular Montana games like Three Card Poker and Shake-A-Day. We redesigned our main screen on our Treasure Play, a move which not only boosted sales but also **attracted seven new Treasure Play sales agents solely by word of mouth.**

Not surprisingly, our largest jump in sales agents occurred with Sports Bet Montana. This entirely new product line rolled out with terminal installations in January of 2020. By the end of the fiscal year, **we had 169 new locations licensed.** Most of those were existing Lotto/Treasure Play sales agents, however; **we also added 37 new locations.** Of those new sales agents, a solid 21 of them also added Lotto and Treasure Play to their carried products, as well.

The COVID-19 pandemic slowed installations for some sales agents for a wide variety of reasons. **We ended the fiscal year with well over 250 new sales agents in various stages of the terminal installation process. This puts us well poised for a rapid expansion in the next fiscal year.**

## **SALES AGENT AND TERMINAL NUMBERS AS OF FY2020**

**NUMBER OF SALES AGENTS TOTAL: 1,144**

*This number reflects the total number of Montana businesses that have at least one kind of Montana Lottery license. That includes traditional Lottery, Treasure Play/Fantasy Games and Sports Bet Montana. Many businesses have more than one kind of license and offer more than one kind of Lottery product.*

**NUMBER OF TREASURE PLAY/FANTASY GAMES SALES AGENTS: 350**

**NUMBER OF SPORTS BET MONTANA SALES AGENTS: 168**

**NUMBER OF TERMINALS INSTALLED: 1,249**

*This figure reflects the total number of Montana Lottery terminals of all types installed throughout the state as of June 30, 2020.*

**NUMBER OF PHOTONS™: 614**

*Our clerk-operated Photon terminals offer Lotto and Scratch products. Businesses that sell our Scratch products sell either in-lane, at the cash register or through a separate, customer-operated vending-style machine.*

**NUMBER OF DREAMTOUCH™ TERMINALS: 46**

*Our DreamTouch terminal is a player-activated, vending style machine that offers Scratch and Lotto products. The user interface is a large touchscreen.*

**NUMBER OF WINSTATION™ TERMINALS: 57**

*Our WinStation terminal is an earlier version of a player-activated, vending style machine that offers Scratch and Lotto products. Although an older terminal type than the DreamTouch, our WinStation terminals are reliable and often preferred in certain environments.*

**NUMBER OF TREASURE PLAY MPNGS™: 350**

*Our Treasure Play™ line of games and Fantasy Games are offered exclusively on branded, player-activated terminals.*

**NUMBER OF SPORTS BET MONTANA MPSBS™: 168**

*Sports Bet Montana™ is offered on the MPSB terminal which is exclusively branded and offers only Sports Bet Montana bets and content.*



## *Members Only!*

### **PLAYERS CLUB GREW BY 8 PERCENT!**

The Montana Lottery began FY20 with 191,850 members in our members-only Player's Club.

**The club grew by 15,744 new members that year, for a total of 207,594.**

Our Player's Club is another way for Montana Lottery players to win! Look for the "Bonus Play" logo on Lotto or Scratch games. (And most of our games offer it!) Those codes are a player's into special weekly and monthly drawings -- exclusive to our Player's Club members. Players can also use those codes to play online-only Bonus Play games, which earn even more entries into our regular weekly and monthly drawings.

We also have Player's Club exclusive second chance drawings for certain games -- or certain prizes!

We never know when those will pop up.

Player's Club members are also the first to hear about new games, cash giveaways and other exciting Montana Lottery happenings.





# LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Statement of Net Position of the Montana State Lottery as of June 30, 2020, and 2019, the related Statement of Revenues, Expenses and Changes in Net Position Statement of Changes in Net Position, and the Statement of Cash Flows for the fiscal years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery as of June 30, 2020, and 2019, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

*Emphasis-of-Matter*

As discussed in Note 1 to the financial statements, the financial statements present only the enterprise fund of the Montana State Lottery and do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2020, and 2019, the changes in its financial position, or its cash flows for each of the two fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the enterprise fund financial statements of the Montana State Lottery. The information on pages 1-12 of the report is presented for purposes of additional analysis and is not a required part of the enterprise fund financial statements of the Montana State Lottery. Such information has not been subjected to the auditing procedures applied in the audit of the enterprise fund financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2021, on our consideration of the Montana State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Lottery's internal control over financial reporting and compliance. It is included in the Legislative Auditor's separately issued report (19-30B) on the Montana State Lottery's financial statements.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

January 28, 2021

**MONTANA LOTTERY  
STATEMENT OF NET POSITION  
JUNE 30, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,555,069	\$ 5,607,581
Receivables (Net)	3,514,044	1,902,504
Multi-State Reserve Fund	65,000	65,000
Inventories	404,674	494,592
Prepaid Expenses	<u>26,922</u>	<u>17,732</u>
<b>TOTAL CURRENT ASSETS</b>	<b>5,565,709</b>	<b>8,087,409</b>
<b>NONCURRENT ASSETS</b>		
Computer, Furniture & Equipment	630,514	605,999
Leasehold Improvements	98,793	98,793
Accumulated Depreciation	(545,566)	(489,423)
Multi-State Reserve Fund	<u>1,038,051</u>	<u>994,498</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,221,792</b>	<b>1,209,867</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Pension Deferred Outflows	305,769	404,438
OPEB Deferred Outflows	<u>41,414</u>	<u>9,833</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>347,183</b>	<b>414,271</b>
<b>COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ <u>7,134,684</u></b>	<b>\$ <u>9,711,547</u></b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,009,869	\$ 626,211
Estimated Prize Liability	2,173,172	2,477,419
Loan Payable	80,000	0
Transfer Obligations	2,078,721	4,922,378
Unearned Revenue	200,685	95,950
Accrued Compensated Absences	<u>110,321</u>	<u>128,589</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,652,768</b>	<b>8,250,547</b>
<b>NONCURRENT LIABILITIES</b>		
Multi-State Prize Liability	979,256	956,870
Accrued Compensated Absences	155,477	89,858
Net Pension Liability	1,772,282	1,762,942
Other Post Employment Benefits	<u>118,213</u>	<u>131,843</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>3,025,228</b>	<b>2,941,513</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Deferred Inflows	282,766	361,637
OPEB Deferred Inflows	<u>71,609</u>	<u>10,701</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>354,375</b>	<b>372,338</b>
<b>COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	<b>9,032,371</b>	<b>11,564,398</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	183,741	215,369
Unrestricted	<u>(2,081,428)</u>	<u>(2,068,220)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>(1,897,687)</u></b>	<b>\$ <u>(1,852,851)</u></b>

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



<b>MONTANA LOTTERY</b> <b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b> <b>FOR THE YEARS ENDED JUNE 30, 2020 AND 2019</b>
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	2020	2019
<b>OPERATING REVENUES:</b>		
Scratch Ticket Revenue	\$ 24,239,036	\$ 18,531,003
On Line Ticket Revenue	35,615,617	41,723,120
License, Permits, and Misc	<u>36,498</u>	<u>18,723</u>
Total Operating Revenues	59,891,151	60,272,846
<b>DIRECT GAME COSTS:</b>		
Scratch Ticket Prize Expense	15,791,608	11,110,279
On Line Ticket Prize Expense	20,974,612	23,382,132
Retailer Commissions	4,165,531	3,603,642
Cost of Tickets Sold	1,026,103	896,761
Vendor fees	<u>4,926,037</u>	<u>5,053,609</u>
Total Direct Game Costs	46,883,891	44,046,423
Income Before Operating Expenses	13,007,260	16,226,423
<b>OPERATING EXPENSES:</b>		
Advertising	481,174	439,744
Advertising Production	275,730	239,003
Audit Fees	65,675	34,286
Bad Debts Expense	2,136	5,102
Communications	160,174	154,722
Contractual Services	169,718	147,396
Depreciation and Amortization	56,143	51,781
Administrative Service Fee	85,699	80,410
Multi-State Dues	0	31,242
Public Relations	49,972	47,152
Other Expenses	55,726	42,089
Personal Services	2,522,838	2,246,835
Repairs and Maintenance	17,726	16,441
Supplies and Materials	292,086	213,829
Travel	26,400	26,556
Utilities and Rent	<u>239,708</u>	<u>238,990</u>
Total Operating Expense	4,500,905	4,015,578
Operating Income	8,506,355	12,210,845
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest Earnings	26,763	36,773
Gain/Loss on Sale of Assets	<u>0</u>	<u>499</u>
Total Nonoperating Revenues(Expenses)	<u>26,763</u>	<u>37,272</u>
Income Before Operating Transfers	8,533,118	12,248,117
Operating Transfers Out - General Fund	(8,073,079)	(12,214,709)
Operating Transfers Out - OCHE	(500,000)	0
CHANGE IN NET POSITION	(39,961)	33,408
Total Net Position, Beginning of Period	(1,852,851)	(1,877,524)
Prior Period Adjustment (Note 2)	<u>(4,875)</u>	<u>(8,735)</u>
TOTAL NET POSITION, END OF PERIOD	<u>\$ (1,897,687)</u>	<u>\$ (1,852,851)</u>

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



**MONTANA LOTTERY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for Sales & Services	\$ 58,382,210	\$ 60,142,693
Payments for Goods & Services	(11,573,073)	(11,401,101)
Payments to Employees	(2,435,527)	(2,268,932)
Payments for Prizes	<u>(37,048,081)</u>	<u>(34,859,277)</u>
Net Cash Provided by Operating Activities	7,325,529	11,613,383
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer to Other Funds	(11,416,736)	(8,445,862)
Operating Loan Proceeds	<u>80,000</u>	<u>0</u>
Net Cash Used For Noncapital Financing	(11,336,736)	(8,445,862)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Fixed Assets	(24,515)	(33,969)
Proceeds from Sale of Fixed Assets	<u>0</u>	<u>1,495</u>
Net Cash Used For Capital Financing	(24,515)	(32,474)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends on Investments	26,763	36,773
Received from (Paid to) MUSL Prize Reserve Fund	<u>(43,553)</u>	<u>(173,360)</u>
Net Cash Used by Investing Activities	(16,790)	(136,587)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,052,512)	2,998,460
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,607,581</u>	<u>2,609,121</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,555,069</u>	<u>\$ 5,607,581</u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income	\$ 8,506,355	\$ 12,063,937
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation	56,143	51,781
<b>Change in Assets and Liabilities:</b>		
Decr (Incr) in Account Receivable	(1,611,540)	(106,016)
Decr (Incr) in Inventories	89,918	(18,935)
Decr (Incr) in Prepaid expenses	(9,190)	16,981
Incr (Decr) in Accounts Payable	383,658	(133,275)
Incr (Decr) in Lottery Prizes Payable	(281,861)	(366,866)
Incr (Decr) in Unearned Income	104,735	(19,035)
Incr (Decr) in Other Post Employment Benefits	10,822	859
Incr (Decr) in Pension Liability	29,138	112,641
Incr (Decr) in Compensated Absences Payable	<u>47,351</u>	<u>11,311</u>
<b>Total Adjustments</b>	<u>(1,180,826)</u>	<u>(450,554)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 7,325,529</u>	<u>\$ 11,613,383</u>

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

**MONTANA LOTTERY**  
Notes to the Financial Statements  
June 30, 2020 and 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is \$5,000 and the threshold for capitalizing buildings/land improvements is \$25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Montana Cash, 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 become 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, and gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the year ended June 30, 2020, and 2019 was \$1,009,922, and \$699,099, 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, 2020, promotional credits resulted in a revenue reduction of approximately \$21,949 and an expense reclassification of approximately \$16,221. For the year ended June 30, 2019, promotional credits resulted in a revenue reduction of approximately \$21,334 and an expense reclassification of approximately \$15,686.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for these games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 6/30/20	Quarter Ended 6/30/19	Year to Date 6/30/20	Year to Date 6/30/19
Lotto	\$123,897	\$269,277	\$ 488,644	\$ 666,285
Scratch	\$233,574	\$593,487	\$ 636,296	\$1,268,131
<b>TOTALS</b>	\$357,471	\$862,764	\$1,124,940	\$1,934,416

## 2. OTHER ACCOUNTING ISSUES

Prior Period Adjustments. The prior period adjustments for the year ended June 30, 2020 and 2019, respectively, were made by the State Accounting Bureau for changes made to the Lottery's pension accounts. These adjustments were made to account for a change in methodology used to allocate the pension figures amongst multiple funds within a single business unit at the State level. A decrease was made to the Pension Deferred Outflows for \$4,875 and \$8,735, respectively, using this methodology. The result of the above equates to a \$4,875 and \$8,735 reduction to the Lottery's Net Position.

## 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>2020</u>	<u>2019</u>
Short-term investment pool	\$1,521,062	\$1,494,130
Cash on deposit with State Treasurer	23,807	4,103,251
Cash in revolving deposit account	10,000	10,000
Petty Cash & Cash On-Hand	200	200
<b>TOTALS</b>	<b>\$1,555,069</b>	<b>\$5,607,581</b>

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$178,973, and \$18,587 as of June 30, 2020 and 2019, 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, 2020, receivables include \$3,944,776, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$675 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, 2020, 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, 2020. The allowance for ticket returns is \$470,506 as of June 30, 2020. The return of vendor fees related to the allowance for returns is \$39,099.

For the year ended June 30, 2019, receivables included \$2,159,366, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$2,992 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2019, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2019. The allowance for ticket returns is \$283,405 as of June 30, 2019. The return of vendor fees related to the allowance for returns is \$23,551.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2020 and 2019 include scratch tickets valued at \$306,802, and \$414,999, 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, 2020, and 2019, supplies inventories totaled \$97,872, and \$79,593, respectively. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets include the following:

	June 30,	
	2020	2019
Prepaid Expenses	\$26,922	\$17,732

The prepaid expenses for the year ended June 30, 2020 consisted of \$26,922 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2019 consisted of \$5,000 for booth fees for upcoming events, and \$12,732 for prepaid commissions and vendor fees related to unearned revenue.

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

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

	June 30,			June 30,
	2019	Additions	Deletions	2020
Leasehold Improvements	\$ 98,793	\$ -	-	\$ 98,793
Furniture & Equipment	\$ 605,999	\$ 24,515	\$ -	\$ 630,514
Accumulated Depreciation	\$ (489,423)	\$ (56,143)	\$ -	\$ (545,566)

Estimated Prize Liability. The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

Obligation to Transfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The 2015 Legislature passed HB617 which changed the transfer requirements. Any year forward, the Lottery is to transfer an amount to the General Fund that equals the transfer made by the Lottery for FY2015 which was \$12,363,365. Any amount over and above this threshold will then be transferred to the Office of Commissioner for Higher Education (OCHE) for the Montana STEM scholarship program. The 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, 2020 were \$1,953,721 to the General Fund and \$125,000 to OCHE. For the year ending June 30, 2019, the obligation outstanding at year end was \$4,922,378 due to the General Fund and \$0 to OCHE.

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

<u>Balance</u> <u>June 30, 2018</u> \$207,136	<u>Net Leave</u> <u>Earned/(Used)</u> \$11,311	<u>Balance</u> <u>June 30, 2019</u> \$218,447
<u>Balance</u> <u>June 30, 2019</u> \$218,447	<u>Net Leave</u> <u>Earned/(Used)</u> \$47,351	<u>Balance</u> <u>June 30, 2020</u> \$265,798

Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2020 and 2019:

	<b>Year ended June 30, 2020</b>			Balance June 30,2020	Amounts due within one year
	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>		
Multi-State Prize Liability	\$ 956,870	\$ 54,448	\$( 32,062)	\$ 979,256	\$ -
Accrued Compensated Absences	\$ 89,858	\$ 92,730	\$( 27,111)	\$ 155,477	\$110,321
Net Pension Liability	\$1,762,942	\$ 9,340	\$ -	\$1,772,282	\$ -
Other Post Employment Benefits	\$ 131,843	\$ -	\$( 13,630)	\$ 118,213	\$ -



**Year ended June 30, 2019**

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

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) 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, 2020 and 2019, retailers earned bonus commissions of \$1,219,143 and \$553,686, respectively. For the years ended June 30, 2020 and 2019, total commissions were \$4,165,531 and \$3,603,642, 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, 2020 and 2019:

<b>Year Ended June 30</b>	2020	2019
Administrative Service Fees	\$ 85,699	\$ 80,410
Audit Fees	65,675	34,286
Computer Fees	97,844	91,209
Insurance	15,538	15,864
Mail Processing Fees	10,109	12,053
Other Expenses	6,046	2,574
Payroll Services	8,185	7,657
Printing	10,627	12,937
Record Retention	1,158	1,018
State Accounting System Support	3,802	3,880
Supplies & Materials	-	-
Telecommunications	-	1,336
Warrant Writing Services	1,561	901
	<u>\$306,244</u>	<u>\$264,125</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, 2020, the prize expense of \$36,766,220 is 61.43% of net Lottery ticket revenue of \$59,854,653. For the year ended June 30, 2019, the prize expense of \$34,492,411 was 57.24% of net Lottery ticket revenue of \$60,254,123.

## **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. For FY 2019, revenue must be transferred quarterly from the enterprise fund established by 23-7-401, MCA, to the state general fund. Once the amount of revenue transferred to the general fund during a fiscal year equals the amount transferred to the general fund in FY 2015 (\$12,363,365), any additional net revenue must be transferred to the Montana STEM scholarship program special revenue account established in 20-26-617, MCA. Beginning in FY2020, Section 23-7-402(3)(a-e), MCA states an established amount will be transferred to the STEM scholarship first, then any residual will be transferred to the General Fund. The established amounts to go to the STEM scholarships are \$500,000 for FY 2020, \$1,000,000 for FY 2021, \$1,500,000 for FY 2022, \$2,000,000 for FY 2023, and \$2,250,000 for FY 2024 and all subsequent fiscal years thereafter. For the years ended June 30, 2020 and 2019, the net revenue payable to the State General Fund totaled \$8,073,079, and \$12,214,709, respectively. For the years ended June 30, 2020 and 2019, the net revenue payable to the Montana STEM scholarship totaled \$500,000, and \$0, respectively.

## **7. MULTI-STATE LOTTERY**

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, 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 \$1,103,051 and \$1,059,498 as of June 30, 2020, and 2019, 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, 2020

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$339,013	\$ 19,238	\$ 358,251
Powerball Set Prize Reserve Account	35,144	127,034	162,178
Powerball Unreserved Account	8,554	115,241	123,795
Lotto America Prize Reserve Account	101,240	21,326	122,566
Mega Millions Prize Reserve Account	<u>303,240</u>	<u>33,021</u>	<u>336,261</u>
Total Reserves	<u>\$787,191</u>	<u>\$315,860</u>	<u>\$1,103,051</u>
Less Current Portion			<u>(65,000)</u>
<b>Non Current Reserves</b>			<u>\$1,038,051</u>

June 30, 2019

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$316,710	\$ 35,268	\$351,978
Powerball Set Prize Reserve Account	48,006	114,397	162,403
Powerball Unreserved Account	1,817	100,811	102,628
Lotto America Prize Reserve Account	78,866	16,521	95,387
Mega Millions Prize Reserve Account	<u>312,565</u>	<u>34,537</u>	<u>347,102</u>
Total Reserves	<u>\$757,964</u>	<u>\$301,534</u>	<u>\$1,059,498</u>
Less Current Portion			<u>(65,000)</u>
<b>Non Current Reserves</b>			<u>\$994,498</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 2020, the Lottery received \$2,148 in interest, and had \$19,019 added into the account due to a Mega Millions redistribution adjustment. During the fiscal year ended 2019, the Lottery received \$2,182 in interest, and had \$31,242 withdrawn for annual MUSL dues and assessments.

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

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

## **8. RELATED PARTY TRANSACTIONS**

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

As described in Note 7 above, the Lottery has prize reserves with MUSL in the amounts of \$1,103,051 and \$1,059,498 for years ended 2020 and 2019, 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 FY2020, the Lottery paid MUSL \$5,415,880 for its share of prizes and received reimbursements for prizes in the amount of \$3,032,382. In FY2019, the Lottery paid MUSL \$9,071,077 for its share of prizes and received reimbursements for prizes in the amount of \$661,225.

## **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 is facilitating Fantasy Sports games on behalf of the Board of Horse Racing. Currently the Lottery is selling Montana Sports Action Fantasy Football and Fantasy Racing games. 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 \$40 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$4 to \$1 million for matching fewer than all six numbers. Drawings are held twice weekly on Wednesday and Saturday nights. Powerball is offered in 45 lottery jurisdictions including Montana. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing, creating a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play.

The Montana Cash game allows players the chance to win a minimum parimutuel jackpot of \$40,000. Players select five numbers from a field of 45 and must match at least two out of five to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The 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. Drawings are held each Tuesday and Friday night.

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

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

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

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

Montana Millionaire is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially and are sold for \$20 each. Early bird drawings for \$25,000 and \$15,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 550 \$100 instant winners and 750 \$500 instant winners. On December 27, 2019, one \$1 million prize was awarded, one \$250,000 prize, along with three \$100,000 prizes and four \$10,000 prizes.

The Montana Lottery offers a product line called Montana Sports Action on behalf of the Montana Board of Horse Racing. The product line began in August 2008 with a game called Fantasy Football. To play the game, players choose five offensive players and a defensive unit from the official roster of professional football players and teams. The players can also select a bet amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares of the prize pool players are eligible to win should their team have one of the three highest point totals for the week. Tickets are sold weekly through the professional playoffs, excluding the championship game. A second game called Fantasy Racing was

introduced in February 2009 and follows the NASCAR® Sprint Cup Series. Teams are created by selecting a driver from the top nine ranked drivers for the week, three drivers ranked from 10 through 34, and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Like Fantasy Football, players may also choose to purchase a higher-cost ticket to increase the share of the prize pool in the event their team has one of the three highest point totals for that race.

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

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

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



## 11. LEASES/INSTALLMENT PURCHASES PAYABLE

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

## 12. INVESTMENTS

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

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

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

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

Per MUSL, for 2020 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 74% was invested in Federal Agencies; another 5% 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 9% was invested in a short-term Treasury Bill, and the other 12% of the prize reserves are invested in Federal Agency

repurchase agreements secured by U.S. government securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

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

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

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

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

The MUSL prize reserves are invested through the Montana Winners Trust with daily liquidity, and therefore, have low interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2020, the duration for the U.S. Government Treasury securities was a blended rate of 1.67 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, 2020 is 60 days.

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

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

### 13. FAIR VALUE MEASUREMENT

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

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

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

Level 3 – Prices are determined using unobservable inputs.

#### Investments Measured at Net Asset Value

	June 30, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)	\$1,521,062			
Total Investments by net asset value level	<u>\$1,521,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### Investments Measured at Net Asset Value

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

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

#### **14. SUBSEQUENT EVENTS**

During the Fiscal year end 2020, there was litigation requested by third party businesses for the court to find that the Lottery had exceeded its statutory authority in limiting the issuance of sports wagering licenses to locations that hold an alcohol license.

In October 2020, the state district court in Helena ruled that the Lottery did not have authority to limit the issuance of sports wagering licenses to locations that hold an alcohol license. The Lottery, therefore, began to process and review applications submitted by individuals and businesses who wished to obtain a sports wagering license but did not have an alcohol license. It is concluded that this is a resolved issue and nothing more is expected.

#### **15. OTHER POST EMPLOYMENT BENEFITS**

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

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 No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (GASB 75).*

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

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

*Funding Policy.* The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Montana Code Annotated, Title 2, Chapter 18, Part 8 gives authority for establishing and amending the funding policy to the Department of Administration. As of December 31, 2019, the State OPEB plan's administratively established retiree medical premiums vary between \$448 and \$1,777 per month. Retiree dental premiums vary between \$41.10 and \$70.00 per month while vision premiums vary between \$7.64 and \$22.26, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. 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.

*Actuarial Methods and Assumptions.* The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined

Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The State's OPEB Plan TOL in December 31, 2019, rolled forward to March 31, 2020, actuarial valuation was determined using the following actuarial assumptions and inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2019
Experience study period	January 1, 2017 through December 31, 2019
Actuarial measurement date (1)	March 31, 2020
Actuarial cost method	Entry age normal funding method
Amortization method	Open basis
Amortization period	20 years
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75
Actuarial assumptions:	
Discount rate	2.75%
Projected payroll increases	2.50%
Participation:	
Future retirees	40.00%
Future eligible spouses	70.00%
Marital status at retirement	70.00%
Mortality – Healthy	Assumed to follow RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.
Mortality – Disabled	Assumed to follow RP-2000 Combined Mortality Table with no projections.
Healthcare cost trend rates	7.5% for both medical and prescription initially, decreasing 0.1% per year to an ultimate rate of 3.8%. Cost increases are assumed to apply at the end of the plan year.

Retiree Contribution Increases      Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is 7.0% in 2019 decreasing between 0.1% and 0.5% per year to an ultimate rate of 3.8%.

(1) Updated procedures were used to roll forward the total OPEB liability measurement date.

*Changes in actuarial assumptions and methods since last measurement date:* Changes in actuarial assumptions include a participation rate reduction from 55% to 40% based on recent experience study, a revision to rates per the Retirement System pension valuations as of July 1, 2019, and the interest/discount rate was based on the average of multiple March 3, 2020 municipal bond rate sources.

*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 (1.75%) or 1-percentage-point higher (3.75%) than the current discount rate:

	1.0% Decrease (1.75%)	Current Discount Rate (2.75%)	1.0% Increase (3.75%)
<u>Lottery OPEB</u>			
June 30, 2020	\$153,384	\$118,213	\$92,611

*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 (5.0%) or 1-percentage-point higher (7.0%) than the current healthcare cost trend rates:

	1.0% Decrease (5.0%)	Current Discount Rate (6.0%)	1.0% Increase (7.0%)
<u>Lottery OPEB</u>			
June 30, 2020	\$92,706	\$118,213	\$154,333

*OPEB Expense, Liability and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* For the year ended June 30, 2020, the Lottery's plan's OPEB expense is \$6,139. The Lottery's proportionate share of the State's total OPEB liability is \$118,213 which is 0.2563% of the total State's OPEB liability at year end.

At June 30, 2020, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

**June 30, 2020**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$31,292
Changes in Assumptions or other inputs	\$ 41,414	\$40,317
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ -	\$ -
Total	\$ 41,414	\$71,609

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

**June 30, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$10,072
Changes in Assumptions or other inputs	\$ 5,223	\$ 629
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ 4,610	\$ -
Total	\$ 9,833	\$10,701

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

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
---------------------	--



2020	\$ (2,709)
2021	\$ (2,709)
2022	\$ (2,709)
2023	\$ (2,709)
2024	\$ (2,709)
Thereafter	\$(16,752)

## 16. EMPLOYEE RETIREMENT PLAN

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

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

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

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

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

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

Employer contributions to the system: State and University System employers are required to contribute 8.27% of members' compensation. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions increased an additional 0.1% a year over 10 years, through 2024. The additional employer additional contributions including the 0.27% added in 2007 and

2009, will terminate on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

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

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

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

- General Wage Growth 3.50% (includes Inflation at 2.75%)
- Merit Increases 0% to 6.30%
- Investment Return (net of admin expense) 7.65%
- Admin Expense as a % of Payroll 0.26%
- Postretirement Benefit Increases;
  - (a) 3% for members hired **prior** to July 1, 2007,
  - (b) 1.5% for members hired **on or after** July 1, 2007, and for members hired **on or after** July 1, 2013;
    - (a) 1.5% for each year PERS is funded at or above 90%;
    - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
    - (c) 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB. Mortality assumptions

among Disabled Retirees are based on RP-2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

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

*Target Allocations.*

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash Equivalents	3.0%	4.09%
Domestic Equity	36.0%	6.05%
Foreign Equity	18.0%	7.01%
Fixed Income	23.0%	2.17%
Private Equity	12.0%	10.53%
Real Estate	8.0%	5.65%

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the six year period ended June 30, 2016, is outlined in a report dated May 2017, which can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

*Sensitivity Analysis.*

<u>Employer Net Pension Liability</u>	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
June 30, 2020	\$2,546,264	\$1,772,282	\$1,121,848
June 30, 2019	\$2,549,622	\$1,762,942	\$1,116,952
June 30, 2018	\$3,205,580	\$2,201,008	\$1,357,746

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

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

collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Lottery Proportionate Share of Net Pension Liability:

Net Pension Liability as of 6/30/20	Net Pension Liability as of 6/30/19	Percent of Collective NPL as of 6/30/20	Percent of Collective NPL as of 6/30/19	Change in Percent of Collective NPL
\$1,772,282	\$1,762,942	0.084786%	0.084465%	0.000723%

At June 30, 2020, the Lottery recorded a liability of \$1,772,282 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2016, with roll forward provisions to June 30, 2017. For the fiscal years ended June 30, 2020, and 2019, the employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement periods July 1, 2016 to June 30, 2017. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2020, the Lottery's proportion was 0.084786%.

**Changes in actuarial assumptions and methods:**

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

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

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

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.

- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%

**Changes in benefit terms:**

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

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

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

*Recognition of Deferred Inflows and Outflows.* At June 30, 2020 and 2019, 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, 2020**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 84,038	\$ 83,393
Changes in Assumptions	\$ 75,239	\$ -
Actual vs. Expected Investment Earnings	\$ 21,488	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$199,373
Employer contributions subsequent to the measurement date – FY 2019 contributions	\$125,004	\$ -
Total	\$305,769	\$282,766

**June 30, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$134,060	\$ -



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

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

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2020	\$ 3,545
2021	\$(132,825)
2022	\$ 7,994
2023	\$ 19,286
2024	\$ 0
Thereafter	\$ 0