



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State Lottery

*For the Fiscal Year Ended
June 30, 2024*

JUNE 2026

LEGISLATIVE AUDIT
DIVISION

24-30

FINANCIAL AUDITS

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

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

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

MARY CAFERRO

Mary.Caferro@legmt.gov

SCOTT DEMAROIS

Scott.Demarois@legmt.gov

SHERRY ESSMANN

Sherry.Essman@legmt.gov

JANE GILLETTE

Jane.Gillette@legmt.gov

JERRY SCHILLINGER, CHAIR

Jerry.Schillinger@legmt.gov

JANE WEBER

Jane.Weber@legmt.gov

SENATORS

BECKY BEARD

Becky.Beard@legmt.gov

DENISE HAYMAN

Denise.Hayman@legmt.gov

EMMA KERR-CARPENTER

Emma.KC@legmt.gov

FORREST MANDEVILLE

Forrest.Mandeville@legmt.gov

TOM MCGILLVRAY

Tom.McGillvray@legmt.gov

LAURA SMITH, VICE CHAIR

Laura.Smith@legmt.gov

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AUDIT STAFF

JENNIFER ERDAHL, CPA, CFE FLORA WASKE

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LEGISLATIVE AUDIT DIVISION

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



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

June 2026

The Legislative Audit Committee
of the Montana State Legislature:

It is a pleasure to provide our completed financial audit report for the Montana State Lottery (lottery) for the fiscal year ended June 30, 2024. This report provides a more detailed recommendation to lottery, stemming from the recommendation issued as part of our audit of the State of Montana's basic financial statements for fiscal year 2025 (#25-01). This report also discusses ongoing challenges in the timely completion of lottery's statutory responsibility to transfer net revenues to the General Fund and the Montana STEM scholarship account, as well as a recommendation regarding an internal control deficiency related to lottery's service organization.

During this audit, we experienced significant delays in receiving the financial statements from lottery officials, which in turn contributed to significant delays in issuing this audit report. After financial statements were available, we also contributed to some delays while maintaining a focus on work supporting the audit of the state's Basic Financial Statements.

Our Independent Auditor's Report contains a disclaimer of an opinion, meaning we are unable to express an opinion on the financial statements. The disclaimer of an opinion is due to a scope limitation imposed by management resulting from lottery's inability to provide required representations over the completeness and accuracy of the financial reporting package.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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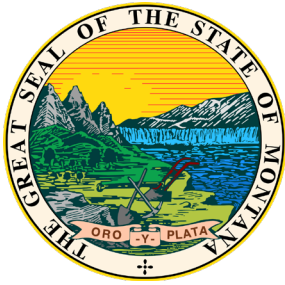
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APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Montana State Lottery and Sports Wagering Commission	Leo Prigge, CPA, Chair	Butte	January 1, 2027
	Jon Metropoulos, Attorney	Helena	January 1, 2026
	Steven Morris, Public Member	Helena	January 5, 2025
	Janna Taylor, Public Member	Superior	January 1, 2026
	Tony Harbaugh, Law Enforcement	Miles City	January 5, 2025
Administrative Officials	Bob Brown, Director, effective March 2024		
	Scott Sales, Director, through March 2024		
	Cory Bailey, Director of Security, effective November 2025		
	Bryan Costigan, Director of Security, through October 2025		
	Jolene Boyd, Director of Financial Services, effective May 2025		
	Philip Charpentier, Information Technology Director		

For additional information concerning the Montana State Lottery, contact:

Cory Bailey, Director of Security
 Montana State Lottery
 2525 N. Montana Ave.
 Helena, MT 59601
 (406) 444-5813
 e-mail: Cory.Bailey@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT Montana State Lottery

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

A report to the Montana Legislature

BACKGROUND

The Montana State Lottery (lottery) began in 1987 after being ratified by the Montana electorate. The lottery offers scratch games and online games, and beginning in 2021, Sports Bet.

Online games currently include multi-state games such as Powerball, Mega Millions, Lucky for Life, and Lotto America, as well as state-specific games such as Montana Cash and Montana Millionaire. The lottery markets an assortment of scratch games and Treasure Play games that are instant win games.

The Montana State Lottery (lottery) could not provide the required management representations over the completeness and accuracy of its financial reporting package. We found that key accounting duties and institutional knowledge were concentrated with the longtime financial services director, and other staff members were not fully trained or prepared to take over those responsibilities. After the loss of the financial services director, lottery struggled to complete its financial statements, explain accounting balances, support certain records, and make required transfers of lottery revenue on time. During the audit, we also found errors in financial records for two lottery games, weak review controls, and system access that allowed some employees to both enter and approve their own transactions.

We issued a disclaimer of opinion, meaning that we could not determine whether the lottery's financial statements were fairly presented. Management could not provide representations over the completeness and accuracy of the financial reporting package. Due to this scope limitation, we could not gather enough evidence to determine the accuracy and completeness of the financial statements. As a result, readers should not rely on the financial statements as a complete and reliable picture of the lottery's finances for fiscal year 2024.

AUDITOR'S OPINION (page A-1): **DISCLAIMER**

A disclaimer of opinion means the auditor is unable to issue an opinion on the financial statements and related note disclosures of the lottery. Users of the lottery's financial statements should not rely on the statements for decision-making purposes.

The lottery's financial statements and notes are included beginning on page A-3.

(continued on back)

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

legmt.gov/lad

Room 171, State Capitol
PO Box 201705
Helena, MT 59620-1705
(406) 444-3122

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RECOMMENDATIONS:

In this report, we issued the following recommendations:
To the Montana State Lottery: 1
To the legislature: 0

RECOMMENDATION #1 (page 9):

Internal Control

The Montana State Lottery needs to consider and implement solutions to address a variety of internal control weaknesses related to complete and accurate financial reporting.

Lottery response: Concur

SUMMARY OF AUDIT WORK:

While we are unable to opine on the financials, we did complete some audit procedures prior to identifying the scope limitation. As a result of that work, as well as audit work to support the audit of the state's basic financial statements, we identified noncompliance with state law and internal control weaknesses. This report expands on a recommendation to the lottery previously issued as part of our audit of the state's basic financial statements for fiscal year 2025. This report also discusses ongoing challenges in timely transferring net revenues to the state's General Fund and STEM Scholarship account, as well as a recommendation to obtain assurances over service organization controls on an annual basis.

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

In this report, we identified the following:
Material Weaknesses in Internal Control: 2
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

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

Chapter I – Introduction and Background

Introduction

We performed a financial audit of the Montana State Lottery (lottery) for the fiscal year ended June 30, 2024. The audit addresses the requirements of § 23-7-410, MCA, for the legislative auditor to conduct, or have conducted, an annual audit of the Montana State Lottery. The objectives of the audit were to:

1. Obtain an understanding of the lottery’s control systems to the extent necessary to support our audit of the financial statements and, if appropriate, make recommendations for improvements in management and internal controls for the lottery.
2. Determine whether the lottery’s financial statements present fairly the financial position, results of operations, and cash flows, for the fiscal year ended June 30, 2024.
3. Determine whether the lottery complied with selected state laws and regulations.
4. Determine implementation status of the prior audit recommendations.

We were unable to complete objective two due to a scope limitation for the audit. The scope limitation results from lottery’s inability to provide the required written representations over the completeness and accuracy of the fiscal year 2024 financial reporting package. This issue is discussed in more detail in Chapter 2, Finding 1 on page 5.

Background

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

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

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

Delay in Financial Reporting

The lottery's fiscal year 2024 financial reporting process relied heavily on the knowledge and work of the longtime financial services director. That employee was primarily responsible for recording lottery game activity and preparing the lottery's financial statements. The lottery had not adequately documented those procedures, reviewed or updated related controls, or cross-trained other employees to perform the work. The lottery over-relied on this single individual and lacked a financial reporting process that could continue effectively without the key employee.

In spring 2025, the lottery lost its longtime financial services director and could not complete and support its fiscal year 2024 financial statements timely. As a result, the financial statements for fiscal year 2024 were only partially completed before the director's passing and were not provided to us until October 2025.

During our audit on the state's fiscal year 2025 basic financial statements, we reviewed support for identified systemic errors found in financial transactions for two lottery games dating back several years. Although those errors were not large enough to cause a material misstatement at the statewide level, we reported them as a significant deficiency in our audit of the state's basic financial statements (#25-01). When combined with other weaknesses in the lottery's financial reporting, these issues amounted to a material weakness in the lottery's internal controls. Further details are provided in Recommendation 1 of Chapter 2.

Prior Audit Recommendation

Our prior audit report (23-30) contained one recommendation to the lottery to improve internal controls by providing training to other personnel for net revenue calculation and preparation of quarterly financial statements, and to comply with § 23-7-402(3), MCA, which requires quarterly transfers of net revenue to the General Fund and the Montana STEM Scholarship account. Because the lottery did not make the third-quarter transfer on time in fiscal year 2023, it should have made five transfers in fiscal year 2024. Actual transfers for fiscal year 2024 occurred as summarized in Table 1 below.

Table 1
Cash Transfer of Net Lottery Revenue* Fiscal Year 2024

Net Revenue Associated With	Amount of Transfers	Days After Quarter End (When Transfer Made)
Fiscal Year 2023, Third Quarter	\$4,819,728	123
Fiscal Year 2023, Fourth Quarter	\$4,559,272	81
Fiscal Year 2024, First Quarter	\$6,930,859	72
Fiscal Year 2024, Second Quarter (OCHE)	\$562,500	87
Fiscal Year 2024, Second Quarter (General Fund)	\$7,098,797	131

*To each the General Fund and STEM account unless otherwise noted.

Source: Compiled by the Legislative Audit Division from department records.

Before the end of fiscal year 2024, the lottery recorded an accrual to estimate net third and fourth quarter revenues owed to the General Fund and STEM account. However, the cash for the third quarter accrual was not transferred before the end of the fiscal year. As a result, the prior audit recommendation was not implemented, leaving both cash and the transfer liability about \$5.4 million higher than they would have been if the third quarter cash transfer had been made as required.

The prior audit report was finalized in May 2025, after fiscal year 2024 ended. As a result, the lottery did not have time to train a backup staff member to calculate and transfer net revenues if the financial services director was unavailable. The lottery also did not address how to obtain commission approval for transfers when the commission could not meet. Commission approval is not required by law, but it has historically been standard operating procedure for lottery. These ongoing weaknesses meant the lottery's controls were insufficient to ensure compliance with state law during fiscal year 2024. The prior audit recommendation still stands. We are not making a new recommendation at this time and will follow up in our next audit. This significant internal control deficiency is noted on page B-1 of our report.

Chapter II - Findings and Recommendation

Internal Controls and Management

Responsibility for Financial Reporting

State policy requires all agencies to set up and maintain internal controls. Management must create policies and procedures to protect assets, check the accuracy of financial data, and ensure compliance with laws and regulations. State policy indicates internal controls are needed for accountability, good financial practices, audit preparation, and fraud prevention. It further notes that internal controls provide reasonable assurance that the entity's objectives will be achieved.

This section highlights several internal control weaknesses found during the audit. A common theme among the internal control weaknesses is the lottery's reliance on outdated control procedures developed, along with institutional knowledge of the former financial services director that was not formally documented. Because lottery personnel had not reviewed or updated control procedures for several years and had over-relied on the financial services director, systemic weaknesses in lottery policies and procedures went undetected.

This section also explains how these weaknesses, along with staff turnover at the lottery, led to a scope limitation and a disclaimer of opinion in the Independent Auditor's Report.

Errors in Lottery Financial Records

The lottery's financial reporting controls are not sufficient to ensure accurate and complete recording of their routine activity and balances of their lottery games.

The lottery personnel prepare routine entries to record lottery sales activity, prize expenses, vendor fees, and prize liability based on sales activity for each lottery game. This information is necessary to calculate net revenue, which is required by law to be transferred to the General Fund and the Montana STEM Scholarship account on a quarterly basis.

In approximately August 2025, the Legislative Fiscal Division and the Department of Administration's State Financial Services Division (SFSD) personnel both identified some unusual balances for lottery activity. Research was completed by the Governor's Office of Budget and Program Planning (OBPP) personnel. Systemic errors were identified in financial transactions for two lottery games dating back several years. The lottery financial services director was the only employee responsible for recording activity for the two lottery games with systemic errors. These two lottery games were launched in fiscal years 2019 and 2021. As a result, lottery's activity and balances in its underlying financial records are not correct for fiscal year 2024. As part of this audit, we reviewed the errors identified by SFSD and OBPP through fiscal year 2024. See Table 2 (page 6) for a summary of misstatements.

Table 2
Accumulated Misstatements in Lottery Financial Records
as of June 30, 2024

Account	Enterprise Fund
Cash/Cash Equivalents	\$4.7 million (understated)
Receivable	\$7.0 million (overstated)
Liability (due to other fund)	\$2.3 million (overstated)
Transfers-Out	\$2.3 million (overstated)
Contracted Services	\$0.6 million (understated)
Lottery Prize Expense	\$1.6 million (overstated)

Source: Compiled by the Legislative Audit Division from department records.

The lottery relied on control procedures developed several years ago and on the institutional knowledge of its long-serving financial services director.

Segregation of Duties Within the Accounting System

Assigned roles in the state's accounting system allowed most lottery accounting staff to record and approve their own journals.

The state's accounting system is designed so users cannot both enter and approve journal entries unless they have a privileged security role. The nature of lottery's activity leaves it particularly vulnerable to this privileged access role. During the audit period, we found that three of the five accounting staff in the lottery's accounting department had this privileged role. This allows them to record certain financial transactions without review or approval. Such access does not provide the proper segregation of duties, as required by state policy. It also increases the risk that material misstatements could occur and go undetected, since users can post directly to the accounting records without oversight.

Internal Controls Over Service Organization Activities

The lottery's internal controls over financial information from its service organization were ineffective for fiscal year 2024.

The lottery relies on one main service provider, Intralot, for most of its game services. Intralot's information is used to record key financial data, including ticket sales, prize expenses, and commission expenses. The contract with Intralot requires a Service Organization Controls (SOC) 1 Type 2 audit every other year. In years without a SOC 1 Type 2 audit, lottery's usual practice is to complete a quarterly sample of Intralot data and verify it against retailer records. This compensating control process helps ensure the accuracy of Intralot information used in the state's accounting records.

In fiscal year 2024, the lottery was expected to conduct quarterly samples of Intralot financial information. One sample was completed on time, but the other three were not finished until late February 2025. For the quarterly review to be effective, it must be done promptly. Lottery staff said the delay happened because only one employee was responsible for starting the review.

We identified the lack of an annual SOC 1 Type 2 report for Intralot as a significant audit risk. This is also considered a material weakness in lottery's internal controls for fiscal year 2024. When we shared this concern, lottery stated that its vendor contract now requires annual SOC 1 Type 2 reports. Lottery staff also said they have changed the process for quarterly reviews to involve more staff. While this is a material weakness, the lottery has already changed its contract to require an annual SOC 1 Type 2 report, so we will not make a recommendation.

Financial Statement Preparation

Staff at the lottery are unable to respond to audit inquiries regarding their fiscal year 2024 financial statements and notes.

The lottery's fiscal year 2024 financial statements and note disclosures were submitted to audit in October 2025. These documents were prepared by the former financial services director. New employees responsible for financial reporting only performed a brief review before submission. When we requested more information about the financial statement presentation and found discrepancies in the statements and disclosures, the current lottery staff could not provide explanations.

Other state agencies have faced similar internal knowledge gaps related to reviewing internal control policies and procedures or preparing accurate financial reports. These agencies have managed these risks by:

- Contracting for financial reporting package preparation,
- Contracting for reviews of internal control policies and procedures,
- Hiring staff with specialized knowledge,
- Providing specialized training to improve staff skills.

Each option involves costs, but state law does not prevent the lottery from using these solutions.

Missing Management Representations

Management at the lottery did not take responsibility for information in their fiscal year 2024 financial statements.

The engagement letter between the lottery and our office was signed in September 2023 by the former lottery director. This agreement outlines the auditor's and management's responsibilities. Management must prepare accurate financial statements, maintain reliable systems, and provide the auditor full access to information, records, and staff.

Auditing standards require management to provide written representations at the end of the audit. The written representations state that they are responsible for accurate and complete financial statements and internal controls, and that they have fully disclosed all relevant information, including related party transactions, fraud, legal issues, estimates, and subsequent events. These written representations are essential for the auditor to conclude that the financial statements are reliable. If management cannot or will not provide these representations, auditing standards require the auditor to either withdraw from the engagement or disclaim an opinion. Because state law requires us to audit the lottery, we cannot withdraw.

Near the end of the audit, we discussed the need for reliable management representations with lottery management. We shared concerns about errors in the accounting records and financial statements. Management said they could not provide written representations due to a lack of knowledge about fiscal year 2024 activity after the loss of their financial services director. As a result, we have disclaimed an opinion on lottery's fiscal year 2024 financial statements, as reported on page A-1.

Summary

The various internal control weaknesses discussed above inhibit management's ability to prepare timely, accurate financial statements.

Due to the volume of activity processed by Intralot, we consider the lottery's lack of obtaining a SOC 1 Type 2 report for fiscal year 2024 and no operating compensating controls, as well as staff's ability to enter and approve their own transactions, to be a material weakness in internal control.

We also consider the lottery's inability to prepare the financial statements and take responsibility for the accuracy and completeness of the lottery's financial information, in conjunction with not accurately reporting activity on the state's accounting system, to be a material weakness in internal control.

RECOMMENDATION #1

We recommend the Montana State Lottery improve their internal controls over financial reporting by:

- A. Understanding data provided by Intralot to ensure journal entries are recorded to the state's accounting system to accurately reflect gaming activity.*
 - B. Reducing the number of staff with the privileged security role to those necessary to maintain segregation of duties.*
 - C. Obtaining assistance and expertise over financial reporting by training existing staff and/or hiring additional staff or a contractor.*
 - D. Ensuring a combination of staff collectively have the comprehensive knowledge of lottery financial activity to be comfortable in making required representations over complete and accurate financial reporting as part of audits, regardless of turnover.*
-

Independent Auditor's Report and Montana State Lottery Financial Statements

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



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

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Montana State Lottery (lottery), an enterprise fund of the State of Montana, which are comprised of the Statement of Net Position as of June 30, 2024, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of the lottery. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

Management has not provided certain written representations required by Auditing Standard Section AU-C Section 580, Written Representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with Generally Accepted Accounting Principles, the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, and the completeness and accuracy of financial records. Additionally, while we did not complete the audit, we are aware of errors in the cash, accounts receivable, expenditures and due to other funds accounts, that had we finished the audit we would have considered. The draft notes also omitted a related party disclosure that would have been considered in forming an opinion as well.

Emphasis of Matter

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the lottery enterprise fund. They do not purport to, and do not, present fairly the financial position of the state of Montana, as of June 30, 2024, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the lottery financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Report on Other Legal and Regulatory Requirements***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2026, on our consideration of the lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the lottery's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Alexa O'Dell

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

May 19, 2026

**MONTANA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024
(Unaudited)**

A-3

	2024
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts for Sales & Services	\$ 151,736
Payments for Goods & Services	(20,500)
Payments to Employees	(3,012)
Payments for Prizes	(108,024)
Other Operating Revenues	1
Net Cash Provided by Operating Activities	<u>20,201</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	<u>(23,971)</u>
Net Cash Used For Noncapital Financing	(23,971)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Fixed Assets	(77)
Proceeds from Sale of Fixed Assets	14
Principal & Interest Payments on Leases	<u>(217)</u>
Net Cash Used For Capital Financing	(280)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends on Investments	(200)
Activity in the MUSL Prize Reserve Fund	5
Net Cash Provided (Used) by Investing Activities	<u>(195)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(4,245)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,322</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,077</u>

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

MONTANA LOTTERY STATEMENT OF NET POSITION June 30, 2024 (Unaudited)
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	Year Ended June 30, 2024
ASSETS:	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 2,076,013
Receivables (Net)	9,164,306
Due from Primary Government	0
Due from Component Units	0
Inventories	657,188
Inventories - Work in Process	0
Cash Collateral - Security Lending	0
Prepaid Expenses	<u>25,737</u>
TOTAL CURRENT ASSETS	11,923,244
NONCURRENT ASSETS	
Computer, Furniture & Equipment	699,634
Leasehold Improvements	112,322
Equipment - Work in Process	0
Accumulated Depreciation	(592,221)
Investments	0
Intangible Right to Use Buildings	1,140,798
Accumulated Amortization	(622,253)
Multi-State Reserve fund	<u>1,314,271</u>
TOTAL NONCURRENT ASSETS	2,052,551
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflows	275,881
OPEB Deferred Outflows	<u>230,194</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	506,075
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>14,481,870</u>
LIABILITIES:	
CURRENT LIABILITIES	
Accounts Payable	\$ 788,798
Estimated Prize Liability	4,026,112
Due to Primary Government	0
Transfer Obligations	6,970,276
Liability under Security Lending	980
Building Lease Payable	209,641
Unearned Revenue	311,952
Accrued Compensated Absences	158,630
Current Portion Long-Term Obligations	0
Other Current Liabilities	<u>0</u>
TOTAL CURRENT LIABILITIES	12,466,389
NONCURRENT LIABILITIES	
Building Lease Payable	321,014
Multi-State Prize Liability	932,900
Accrued Compensated Absences	184,410
Long Term Obligations	209,641
Net Pension Liability	2,356,640
Other Post Employment Benefits	<u>82,780</u>
TOTAL NONCURRENT LIABILITIES	4,087,385
DEFERRED INFLOWS OF RESOURCES	
Pension Deferred Inflows	92,227
OPEB Deferred Inflows	<u>369,550</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	461,777
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES	17,015,551
NET POSITION	
Net Investment in Capital Assets	219,735
Unrestricted	<u>(2,658,038)</u>
TOTAL NET POSITION	\$ <u>(2,438,303)</u>

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

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2024
(Unaudited)

	Year Ended June 30, 2024
OPERATING REVENUES:	
Scratch ticket revenue	\$ 27,235,936
Powerball revenue	22,082,859
Montana Cash revenue	6,457,698
MT Millionaire revenue	7,600,000
Mega Millions revenue	10,559,791
Treasure Play revenue	7,853,061
Lucky for Life revenue	4,118,600
Big Sky Bonus revenue	2,620,344
Lotto America revenue	1,895,332
Sports Bet revenue	63,721,790
License, permits, and misc	<u>9,974</u>
Total Operating Revenues	154,155,385
Less Direct Game Costs:	
Scratch ticket prize expense	18,279,289
On-line ticket prize expense	35,483,539
Sports Bet ticket prize expense	55,437,911
Retailer commission	7,559,779
Cost of tickets sold	799,235
Vendor fees	<u>9,661,978</u>
Total Direct Game Costs	127,221,731
Income Before Operating Expenses	26,933,654
OPERATING EXPENSES:	
Advertising	688,462
Advertising Production	217,834
Audit Fees	65,225
Bad Debts Expense	(442)
Communications	328,487
Contractual Services	218,483
Depreciation and Amortization	37,746
Interest	0
Administrative Service Fee	118,994
Multi-State Dues	38,615
Public Relations	53,399
Other	7,678
Personal Services	2,863,790
Repairs and Maintenance	17,174
Supplies and Materials	277,504
Travel	33,347
Utilities and Rent	<u>244,040</u>
Total Operating Expense	5,210,336
Operating Income	21,723,318
NONOPERATING REVENUES (EXPENSES)	
Interest earnings	4,835
Security Lending Income	0
Security Lending Expense	0
Gain/Loss on sale of asset	9,624
Capital Contribution - Non State	0
Pension Expense	(178,239)
OPEB Expenses	<u>20,917</u>
Total Nonoperating Revenues(Expenses)	<u>(142,863)</u>
Income Before Operating Transfers	21,580,455
Operating Transfers Out - General Fund	(19,312,432)
Operating Transfers Out -OCHE	<u>(2,250,000)</u>
Total Operating Transfers	<u>(21,562,432)</u>
CHANGE IN NET POSITION	(20,592)
Total Net Position, Beginning of Period	(2,417,711)
TOTAL NET POSITION, END OF PERIOD	<u>\$ (2,438,303)</u>

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

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
June 30, 2024

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

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

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

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

Property and Equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of

property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is \$5,000 and the threshold for capitalizing buildings/land improvements is \$25,000.

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

Ticket sales for on-line 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 revenue until such time as the tickets become valid for the most current drawing.

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

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,” and GASB No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.” Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

2. OTHER ACCOUNTING ISSUES

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.

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 giveaways, and during new game introductions. The tickets distributed because 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.

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. Prizes for Sport Bet are recorded as they are paid out for each event. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for online games must be claimed within six months aft the appropriate draw dates and scratch games must be claimed within six months of the announced end of each game. Unclaimed prizes reduce the Lottery Prize expenses and liabilities.

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 deposited in revolving account with a non-state financial institution, cash on hand and cash deposited with the Montana State Treasurer. The funds held by the State Treasurer are pooled with other funds of the state. These funds are highly liquid and may be drawn on daily. The reported value of cash and cash equivalents approximates the fair market value.

Cash and cash equivalents consist of the following:

	June 30,
	<u>2024</u>
Short-term investment pool	\$ 27,338
Cash on deposit with State Treasurer	1,848,475
Cash in revolving deposit account	200,000
Petty Cash & Cash On-Hand	200
TOTALS	\$2,076,013

Receivables. For the year ended June 30, 2024, receivables of \$9,164,306 represent \$9,655,849 due to the Lottery for tickets purchased by retailers, \$42,753 due for returned vendor fees, and an estimated allowance of (\$534,421) for ticket returns. The estimated allowance is based on historical unsold or returned tickets.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for the quarter ended June 30, 2024, includes scratch tickets valued at \$565,492, 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 ends.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the year ended June 30, 2024, supplies inventories totaled \$91,696 respectively. These inventories are also recorded at cost using the specific identification method.

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

	Additions	Deletions	June 30, 2024
Leasehold Improvements	\$ -	\$ -	\$ 112,322
Furniture & Equipment	\$ 77,090	\$ (35,846)	\$ 699,634
Accumulated Depreciation	\$ (42,485)	\$ 31,444	\$ (592,221)

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

Obligation to Transfer Funds. Montana Code Annotated § 23-7-402, the Montana Lottery must quarterly transfer \$562,500 to the Montana STEM scholarship program and any remaining net revenues to the state general fund. The transfer obligation outstanding on June 30, 2024, was \$1,501,542 which represents \$939,042 owed to the state general fund and \$562,500 to the Office of Commissioner of Higher Education.

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. As of June 30, 2024, the Lottery has recognized a compensated absences liability of \$343,040.

Commissions. Montana Code Annotated § 23-7-301(10), provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold and 3% on all sports betting wagers placed. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the twelve months ended June 30, 2024, retailers earned commissions of \$7,559,779.

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 year ended June 30, 2024:

Warrant Writing

\$ 1638

Payroll Services	9,697
Computer and Phone Service Fees	123,147
Records Retention	1,288
Printing and Mail	12,542
State Accounting System Support	4,895
Administrative Service Fees	<u>144,858</u>
TOTAL	\$298,065

5. PRIZES

Paid Prizes. Montana Code Annotated § 23-7-402, provides, "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, 2024, the prize expense of \$109,200,739 is 70.8% of net Lottery ticket revenue of \$154,155,385.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, 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 balances of \$1,314,271 as of June 30, 2024, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	June 30, <u>2024</u>
Powerball Prize Reserve Account	\$ 252,108
Powerball Set Prize Reserve Account	112,286
Powerball Unreserved Account	381,411
Lotto America Prize Reserve Account	236,802
Mega Millions Prize Reserve Account	<u>331,664</u>
Total	<u>\$ 1,314,271</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. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

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.

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

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 50% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, eight lotto games referred to as Powerball, Montana Cash, Mega Millions, Treasure Play, Lucky for Life, Big Sky Bonus, Lotto America, and Montana Millionaire, a limited-edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Sports Bet Montana which is a sports wagering game.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately \$20 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from \$8 to \$2,000,000 for matching fewer than all 6 numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, the Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play. Power Play became part of the base game in July 2022. At the same time, the Lottery added Double Play®. This optional add-on uses the same numbers in a separate drawing with separate prize levels up to \$10 million.

Montana Cash game allows players the chance to win a minimum pari-mutuel jackpot of \$40,000. Players select 5 numbers from a field of 45 and must match at least 2 out of 5 to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The Lottery also implemented an add-on jackpot where for an extra \$1 a player is entered into a second jackpot called Max Cash. This second jackpot, which is progressive, can only be won if the ticket wins the original jackpot first and the extra \$1 was paid. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

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. 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 Monday, Wednesday and Saturday.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at \$20 million. 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. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs \$1 extra per play.

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 every night.

Treasure Play games are offered on self-serve terminals in taverns and casinos that are licensed to sell Montana Lottery products. Introduced in November 2011, they are a suite of games with a pre-determined prize structure like a scratch game. Players can tell instantly if they have won a prize. The tickets sell for \$1, \$2, \$3, \$5, \$10, \$20, and \$30.

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 you 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 pm. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Montana Millionaire is a seasonal raffle-type game offering three \$1 million top prizes. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2023 game offered 380,000 tickets, which sell for \$20 each. Early bird drawings for \$100,000 and \$25,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 2,000 \$100 instant winners and 2,1000 \$500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on November 1, 2023. Three \$1 million prizes were awarded. Montana Millionaire is scheduled to sell from November 1 through December 31, 2024, with a drawing on New Year's Day 2025.

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 of \$100,000. These bets can be for any sports event available through the Lottery and can vary in many types of wagers.

8. 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 has been amended and extended till March 31, 2026. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 8.00% of net weekly Lottery sales of lotto and scratch games. Intralot receives 40% of the gross gaming revenue for the Sports Bet Montana product.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling \$1,740,000. The first annual payment of \$87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of \$3,000,000. The first annual payment of \$150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for \$7,360,000. The first annual payment of \$368,000 was made February 15, 1991.

On November 23, 1991 a fourth jackpot prize was awarded totaling \$46,967,738.57. The first annual payment of \$2,355,739 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling \$2,000,000. The first annual payment of \$100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling \$700,565. The first annual payment of \$35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling \$31,401,656. The first payment of \$1,571,656 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling \$11,000,000. The first annual payment of \$550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was \$35.1 million (\$19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was \$96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled \$48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

10. LEASES/INSTALLMENT PURCHASES PAYABLE

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

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

11. 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 (STIP) The STIP is an investment program within the State of Montana's Unified Investment Program administered by the Montana Board of Investments. The STIP is managed to preserve principal while providing daily liquidity for agencies, component units, and political subdivisions of the State of Montana. Funds may be invested for one or more days. While STIP participants own STIP shares, they do not own the underlying investments of the pool. Income is distributed monthly on a pro-rata basis. Cash and cash equivalents are reported at cost. STIP shares are purchased and sold in the same manner as individuals investing in mutual funds, where the unit prices is computed based on market prices on securities in the pool plus or minus any additional assets or liabilities. STIP participants purchase and sell shares at \$1 per share. The fair value of the pool has been determined using the Net Asset Value (or its equivalent). As of June 30, 2024, the fund traded at \$0.999634 per share.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation

The STIP pool is managed by the Board of Investments and has a credit risk as measured by major credit rating services; however, the pool is not rated. The MUSL prize reserves are invested in the Montana Winners Trust, which primarily invests in government sponsored securities. The Lottery does not have a policy regarding the investment portfolios of the STIP or the Montana Winners Trust.

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.

Pooled cash and investments maintained by the State Treasurer are not deemed to have custodial credit risk with regard to the Lottery. The Lottery does not have a policy concerning the investment portfolios of the STIP or the Montana Winners Trust.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because the MUSL prize reserve and STIP are pooled investments, the Lottery district does not concentrate a risk of loss in a single issuer.

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 a policy regarding the investment portfolios of the STIP or the Montana Winners Trust.

The MUSL prize reserves are invested through the Montana Winners Trust with daily liquidity and have low-interest-rate risk. The MUSL board's investment policy limits the individual security and the portfolios maturity.

According to STIP investment policy, the STIP portfolio minimizes interest rate risk by:

1. Structuring the investment portfolio so securities mature to meet cash requirement 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 (WAM) for 120 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. Maintaining a reserve account.

12. 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 (NAV) – Certain investment that do not have a readily determinable fair value but can be valued by a per-share value outstanding at the close of the period.

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>June 30, 2024</u>	Short Term Investment Pool (STIP) using NAV		
	\$ 28,492		

13. OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

Basis of Accounting. OPEB liability is reported on an accrual basis. 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. Section 2-18-12, MCA gives authority for establishing and amending the funding policy to the Department of Administration.

As of December 31, 2023, the State OPEB plan's administratively established retiree medical premiums vary between \$484.00 and \$2,362.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$42.34 and \$71.27 per month and vision hardware premiums vary between \$7.64 and \$22.26 per month, depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

Actuarial Methods and Assumptions. The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The State's OPEB Plan TOL in December 31, 2023, rolled forward to June 30, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	Other Postemployment Benefits	
	State Single Employer Plan	
	Retiree/Surviving	
	Spouse	Spouse
Contributions (weighted average):		
Before Medicare eligibility	\$ 15,372	\$ 7,370
After Medicare eligibility	5,592	5,213
Actuarial valuation date	December 31, 2022	
Experience study period	January 1, 2022, through December 31, 2022	
Actuarial measurement date ⁽¹⁾	March 31, 2024	
Actuarial cost method	Entry age normal funding method	
Amortization method	Level percent of payroll, open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	4.12%	
Projected payroll increases	3.50%	
Participation:		
Future retirees	40.00%	
Future eligible spouses	70.00%	
Marital status at retirement	70.00%	

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

Mortality - Contributing Members: For MPERA members, mortality follows the Pub-2010 General Employee table, projected generationally using MP-2021. For safety MPERA members, mortality follows the Pub-2010 Safety table, projected generationally using MP-2021.

Mortality - Retired: For MPERA retirees, mortality follows the Pub-2010 General Retiree table set forward 1 year and adjusted 104.00% for males, or adjusted 103.00% for females, projected generationally using MP-2021. For safety MPERA retirees, mortality follows the Pub-2010 Safety Retiree table set forward 1 year and adjusted 105% for males, or adjusted 100% for females, projected generationally using MP-2021.

Mortality - Surviving Beneficiaries: For MPERA survivors, mortality follows the Pub-2010 Contingent Survivor table set forward 1 year for males and females, projected generationally using MP-2021. For safety MPERA survivors, mortality follows the Pub-2010 Contingent Survivor table set forward 1 year for males, projected generationally using MP-2021.

Mortality - Disabled: For MPERA retirees, mortality follows the Pub-2010 General Disabled table set forward 1 year for males and females, projected generationally using MP-2021. For safety MPERA retirees, mortality follows the Pub-2010 Safety Disabled table set forward 1 year for males, projected generationally using MP-2021.

Changes in actuarial assumptions and methods since last measurement date: The discount rate increased from 3.98% to 4.12%.

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 (3.12%) or 1-percentage-point higher (5.12%) than the current discount rate:

	1.0% Decrease (3.12%)	Current Discount Rate (4.12%)	1.0% Increase (5.12%)
<u>Lottery OPEB</u>	\$ 110,120	\$ 82,780	\$ 63,090

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 or 1-percentage-point higher than the current healthcare cost trend rates:

1.0% Decrease	Current Discount Rate	1.0% Increase
---------------	-----------------------	---------------

	(5.1/6.7%)	(6.1/7.7%)	(7.1/8.7%)
<u>Lottery OPEB</u>	\$ 63,304	\$ 82,780	\$ 110,519

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2024, the Lottery's plan's OPEB expense is \$19,508. The Lottery's proportionate share of the State's total OPEB liability is \$82,780 which is 0.2711% of the total State's OPEB liability at year end.

At June 30, 2024, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in Assumptions or other inputs	\$ 222,049	\$ 369,550
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 8,145	\$ -
Total	\$230,194	\$369,550

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

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
2025	\$ (27,871)
2026	(27,871)
2027	(27,871)
2028	(27,871)
2029	(27,871)
<u>Total</u>	<u>\$ (139,359)</u>

14. EMPLOYEE RETIREMENT PLAN

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions*, employers and the non-employer contributing entity are required to recognize and report certain amounts associated with participation in the Public Employees' Retirement System Defined Benefit Retirement Plan (the Plan). This includes the proportionate share of the collective Net Pension Liability; Pension Expense; and Deferred Outflows and Deferred Inflows of Resources associated with pensions. Employers are provided guidance in GASB Statement 68, paragraph 74, where pension amounts must be combined as a total or aggregate for reporting, whether provided through cost-sharing, single-employer, or agent plans. This report provides information for employers who are using a June 30, 2023, measurement date for the 2024 reporting. If an

employer's fiscal year end is after June 30th, the employer will not use the measurements shown in this report but will need to wait for the measurement date as of June 30, 2024.

Summary of Significant Accounting Policies

MPERA prepared financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net Position. 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 in which they are due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America. MPERA applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

General Information about the Pension Plan

Plan Description: The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, and local governments, and 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 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 benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

Benefits provided: 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 (HAC). Member rights are vested after five years of service.

Service retirement:

Hired prior to July 1, 2011:

- Age 60, 5 years of membership service
- Age 65, regardless of membership service
- Any age, 30 years of membership service

Hired on or after July 1, 2011:

- Age 65, 5 years of membership service
- Age 70, regardless of membership service

Early Retirement:

Hired prior to July 1, 2011:

- Age 50, 5 years of membership service

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; and

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.

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 a part of a member's highest average compensation.

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)

After the member has completed 12 full months of retirement, the member’s benefit increases by the applicable percentage (provided below) each January, **inclusive** of all other adjustments to the member’s benefit.

3.0% for members hired **prior to** July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

1.5% for each year PERS is funded at or above 90%;

1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and

0% whenever the amortization period for PERS is 40 years or more.

Contributions: The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member’s compensation. Contributions are deducted from each member’s salary and remitted by participating employers.

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

Not Special Funding: Per Montana law, state agencies and universities paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies and universities but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

Fiscal Government	Member		State & Universities		Local		
	Employer	Employer	School Districts Year Hired < 07/01/11		Hired > 07/01/11		
			State	Employer	State		
2024	7.900%	7.900%	9.170%	9.070%	0.100%	8.800%	0.370%
2023	7.900%	7.900%	9.070%	8.970%	0.100%	8.700%	0.370%
2022	7.900%	7.900%	8.970%	8.870%	0.100%	8.600%	0.370%
2021	7.900%	7.900%	8.870%	8.770%	0.100%	8.500%	0.370%
2020	7.900%	7.900%	8.770%	8.670%	0.100%	8.400%	0.370%
2019	7.900%	7.900%	8.670%	8.570%	0.100%	8.300%	0.370%
2018	7.900%	7.900%	8.570%	8.470%	0.100%	8.200%	0.370%
2017	7.900%	7.900%	8.470%	8.370%	0.100%	8.100%	0.370%
2016	7.900%	7.900%	8.370%	8.270%	0.100%	8.000%	0.370%
2015	7.900%	7.900%	8.270%	8.170%	0.100%	7.900%	0.370%
2014	7.900%	7.900%	8.170%	8.070%	0.100%	7.800%	0.370%
2012 – 2013	6.900%	7.900%	7.170%	7.070%	0.100%	6.800%	0.370%
2010 – 2011	6.900%		7.170%	7.070%	0.100%	6.800%	0.370%

2008 – 2009	6.900%		7.035%	6.935%	0.100%	6.800%	0.235%
2000 - 2007	6.900%		6.900%	6.800%	0.100%	6.800%	0.100%

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

Employer contributions to the system:

Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non-Employer Contributions:

Special Funding

The state contributed 0.1% of members' compensation on behalf of local government entities.

The state contributed 0.37% of members' compensation on behalf of school district entities.

The state contributed a Statutory Appropriation from the General Fund of \$34,979,900.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end. The basis for the Total Pension Liability (TPL) as of June 30, 2023, is on an actuarial valuation performed by the Plan's actuary as of June 30, 2023.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the employer's and the State of Montana's NPL for June 30, 2023, and 2022, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid. The

employer recorded a liability of \$2,356,640 and the employer's proportionate share was 0.096570 percent.

As of measurement date	Net Pension Liability as of 6/30/2023	Net Pension Liability as of 6/30/2022	Percent of Collective NPL as of 6/30/2023	Percent of Collective NPL as of 6/30/2022	Change in Percent of Collective NPL
MONTANA STATE LOTTERY Proportionate Share	\$ 2,356,640	\$1,841,526	0.096570%	0.092807%	0.003763%

Changes in actuarial assumptions and methods: There have been no changes to the assumptions or other inputs that affected the measurement of the TPL since the previous measurement date.

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

Changes in proportionate share: There were no changes to the Plan between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense: At June 30, 2023, the employer recognized a Pension Expense of \$209,688 for its proportionate share of the Plan's pension expense. The employer also recognized grant revenue of \$58,627 for the support provided by the State of Montana for its proportionate share of the pension expense associated with the employer.

As of measurement date	Pension Expense as of 6/30/2023	Pension Expense as of 6/30/2022
Employer's Proportionate Share	\$151,061	\$146,157
State of Montana Proportionate Share associated with the Employer	58,627	66,871
Total	\$209,688	\$213,027

Recognition of Deferred Inflows and Outflows: At June 30, 2023, the employer reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	\$93,861	\$0
Projected Investment Earnings vs. Actual Investment Earnings	5,979	0
Changes in Assumptions	0	84,056

Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	0	8,171
Employer Contributions Subsequent to the Measurement Date	176,041	
Total	\$275,881	\$92,227

Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

For the Measurement Year ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in future years as an increase or (decrease) to Pension Expense
2024	\$(89,215)
2025	\$(28,220)
2026	\$139,352
2027	\$(14,304)
Thereafter	\$ 0

Actuarial Assumptions: The total pension liability as of June 30, 2023, was determined on the results of an actuarial valuation date of June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement. Among those assumptions were the following:

Investment Return (net of pension plan investment expense, including inflation)	7.30%
General Wage Growth *	3.50%
*includes Inflation at	2.75%
Merit Increases	0% to 4.80%
Postretirement Benefit Increases	
Guaranteed Annual Benefit Adjustment (GABA) each January. After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.	
Members hired prior to July 1, 2007	3.0%
Members hired between July 1, 2007 & June 30, 2013	1.5%
Members hired on or after July 1, 2013	1.5%
For each year PERS is funded at or above 90%, the 1.5%	

<p>is reduced by 0.1%. for each 2.0% PERS is funded below 90% 0% whenever the amortization period for PERS is 40years or more</p>	
<p>Mortality: Active Participants Disabled Retirees Contingent Survivors Healthy Retirees</p>	<p>PUB-2010 General Amount Weighted Employee Mortality projected to 2021 for males and females. Projected generationally using MP-2021. PUB-2010 General Amount Weighted Disabled Retiree Mortality table, projected to 2021, set forward one year for both males and females. PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year for males and females. Projected generationally using MP-2021. PUB-2010 General Amount Weighted Healthy Retiree Mortality table projected to 2021, with ages set forward one year and adjusted 104% for males and 103% for females. Projected generationally using MP-2021.</p>

The actuarial assumptions and methods utilized in the June 30, 2023 valuation, were developed in the five-year experience study for the period ending 2021. However, the current long-term rate of return is based on analysis in the experience study, without consideration for the administrative expenses analysis shown in the experience study.

Discount Rate: The discount rate used to measure the TPL was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board’s funding policy, which established the contractually required rates under the Montana Code Annotated. The state contributed 0.10% of the 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 2127. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations: The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the Plan about every five years. The long-term rate of return as of June 30, 2023, is based on analysis in the experience study report

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return Arithmetic Basis
Cash	3.0%	(0.33%)
Domestic Equity	30.0%	5.90%
International Equity	17.0%	7.14%
Private Investments	15.0%	9.13%
Real Assets	5.0%	4.03%
Real Estate	9.0%	5.41%
Core Fixed Income	15.0%	1.14%
Non-Core Fixed Income	6.00%	3.02%
Total	100.0%	

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:

The following presents the employer's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.30%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

As of measurement date	1.0% Decrease (6.30%)	Current Discount Rate	1.0% Increase (8.30%)
MONTANA STATE LOTTERY's Net Pension Liability	\$3,404,158	\$2,356,640	\$1,477,866

PERS Defined Contribution Plan

Montana State Lottery contributed to the state of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the PERB and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 & 3, MCA.

All new PERS 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 benefit and defined contribution retirement plans.

Member and employer contribution rates are specified by state law 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.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the measurement period ended June 30, 2023, the PERS-DCRP employer did not recognize any net pension liability or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 348 employers that have participants in the PERS-DCRP totaled \$1,409,309.

Pension plan fiduciary net position: The stand-alone financial statements (76d) of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. These reports, as well as the actuarial valuations and experience study, are available from the PERB at PO Box 200131, Helena MT 59620- 0131, (406) 444-3154 or are available on the MPERA website at <https://mpera.mt.gov/about/annualreports1/annualreports>.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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



B-1
Deputy Legislative Auditors:
Alexa O'Dell
William Soller
Miki Cestnik

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

The Legislative Audit Committee
of the Montana State Legislature:

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana State Lottery (lottery), an enterprise fund of the State of Montana, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the lottery's basic financial statements, and have issued our report thereon dated May 19, 2026. Our report disclaims an opinion on the financial statements because we were unable to obtain management representations regarding financial activities and compliance to support our audit work. As a result, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the lottery's financial statements and notes for fiscal year 2024.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

We consider the deficiencies described below to be material weaknesses.

As described in recommendation 1, several deficiencies in internal control rise to the level of a material weakness.

- Lottery did not obtain a SOC 1 Type 2 report which is necessary to rely on the accuracy and completeness of information provided by Intralot. While the lottery could have performed internal control procedures to test the accuracy and completeness of the Interlot data, no such controls were in place for all of fiscal year 2024. These deficiencies, in conjunction with the fact that several staff members were able to both enter and approve the same transactions posted to the state's accounting records from Intralot reports, rise to level of a material weakness.
- Errors were identified, dating back several years, in how two games were recorded on the state's accounting records. The lottery relied heavily on the financial manager to process lottery transactions. As a result, these errors went undetected. When the financial manager was no longer available, other lottery staff were not able to explain lottery activity or answer questions about the amounts reported in the draft financial statements and disclosed in the notes that were also prepared by the financial manager. Consequently, management did not have the knowledge necessary over the fiscal year 2024 financial statements, notes, and underlying transactions to provide management representations.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

- As described beginning on page 2 the lottery's internal controls over compliance with statutory requirements to transfer net revenues on a quarterly basis are not sufficient.

Compliance and Other Matters

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

Montana State Lottery Response to Findings

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

Purpose of this Report

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

Respectfully submitted,

/s/ Alexa O'Dell

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

May 19, 2026

MONTANA STATE
LOTTERY

LOTTERY RESPONSE



May 27, 2026

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

RECEIVED
May 27, 2026
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

I would like to take this opportunity to thank the staff of the Legislative Audit Division for the work performed as part of the Lottery Financial Audit for the fiscal year ended June 30, 2024. The diligence demonstrated by your staff in reviewing the Lottery's procedures, internal controls, accounting practices and our financial statements should be commended. As always, we feel that the services provided by your agency benefit the Lottery and Montana.

As a result of your work, the following recommendation was made, and I would like to take this opportunity to respond.

Recommendation 1:

We recommend the Montana State Lottery improve their internal controls over financial reporting by:

- A. Understanding data provided by Intralot to ensure journal entries are recorded to the state's accounting system to accurately reflect gaming activity.*
- B. Reducing the number of staff with the privileged security role to those necessary to maintain segregation of duties.*
- C. Obtaining assistance and expertise over financial reporting by training existing staff and/or hiring additional staff or a contractor*
- D. Ensuring a combination of staff collectively have the comprehensive knowledge of lottery financial activity to be comfortable in making required representations over complete and accurate financial reporting as part of audits, regardless of turnover.*

Response:

The Lottery concurs with this recommendation.

The Lottery is currently reviewing and validating data provided by Intralot to ensure journal entries are recorded in the accounting system accurately to reflect game activity. This includes reconstructing and standardizing journal entries and reviewing procedures to improve accuracy, consistency, and compliance with applicable accounting standards.

The Lottery is reviewing user roles and access to strengthen segregation of duties and ensure access is limited to only those necessary to perform assigned responsibilities.



The Lottery is also in the process of hiring an additional position, Contract Compliance Monitor, that will assist with financial review, reconciliations, and additional oversight of financial reporting activities. Existing staff are continuing to increase their understanding of gaming activity and the financial reporting processes through educational training, review, and cross training to improve continuity and strengthen overall reporting controls regardless of turnover. These corrective actions are intended to strengthen internal controls and improve the accuracy and reliability of financial reporting.

The Lottery appreciated the opportunity to discuss the Lottery Financial Audit Report with your staff during the exit conference on May 18, 2026. I'd like to thank your staff for their professionalism and the fairness with which they approached issues that arose during the audit period.

Sincerely,

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

Bob Brown
Director
Montana Lottery