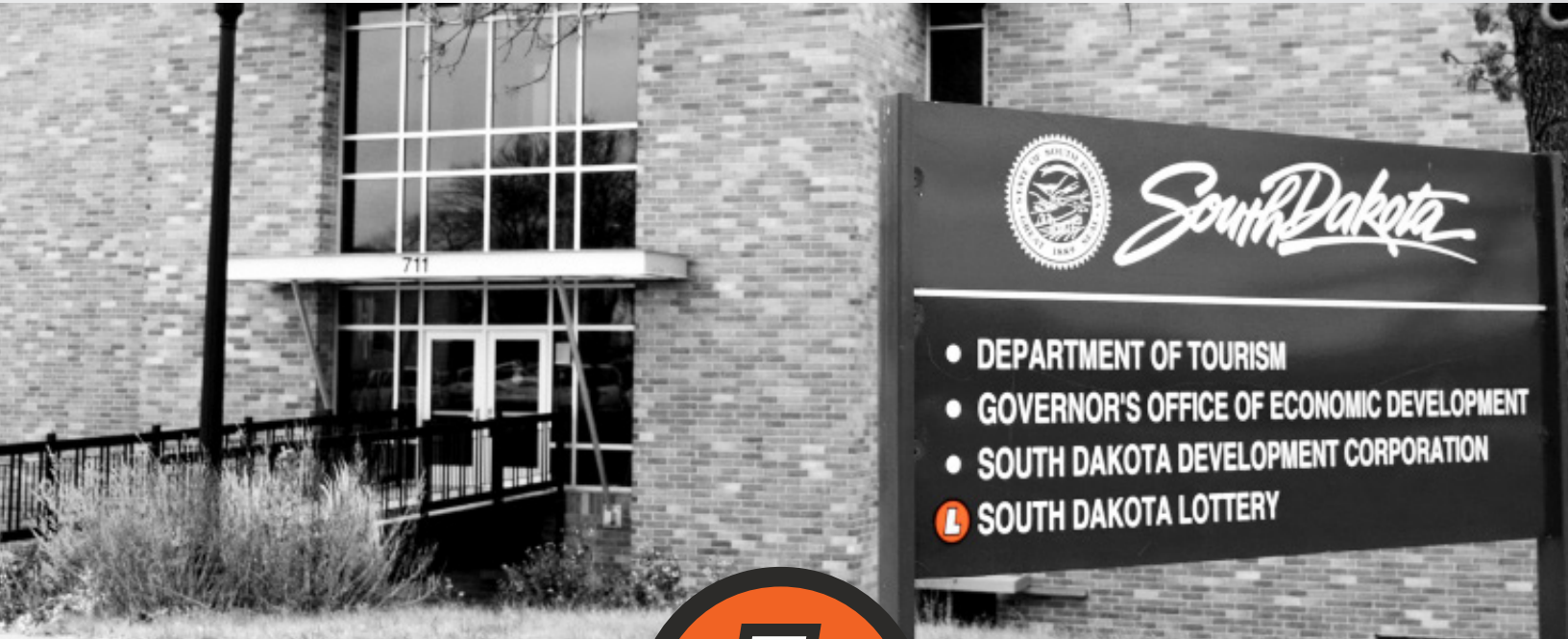


FISCAL YEAR

2017

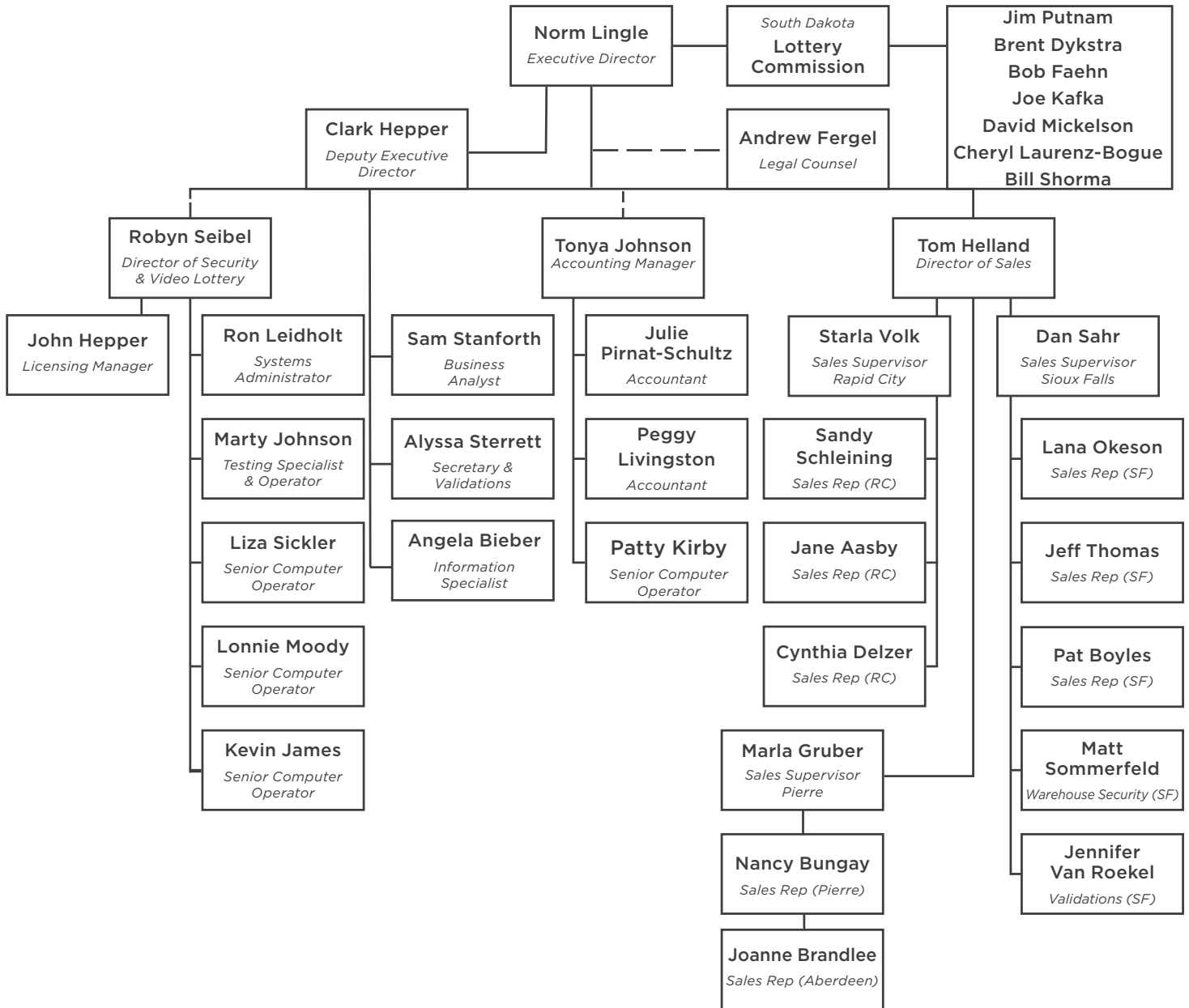
ANNUAL REPORT



**SOUTH DAKOTA
LOTTERY™**

A DIVISION OF THE SOUTH DAKOTA
DEPARTMENT OF REVENUE

LOTTERY STAFF ORGANIZATIONAL CHART



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MISSION STATEMENT

To work cooperatively with our partner licensees to promote and ensure the integrity, fairness, security and honesty of lottery games, to maximize revenues for state programs and initiatives, and to ensure the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

FROM THE DIRECTOR

To the Governor, Legislature, State Treasurer, Attorney General, Lottery Commission, and People of South Dakota:

Fiscal Year 2017 was another exciting year for the South Dakota Lottery's dedicated staff and commission. I am pleased to share some of our accomplishments with you in our annual report as we reach 30 years of the South Dakota Lottery providing good fun.

As a division of the Department of Revenue, we are always striving to bring improvements to all facets of Lottery, which includes our lotto, instant, and video lottery programs. Our top priority is ensuring that the Lottery continues to be a sustainable source of revenue for the State of South Dakota, while also providing an enjoyable experience for our players in a secure and fair manner.

Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$117.9 million that improved the quality of life in South Dakota. \$5.6 million was added to the capital construction fund which is used to pay for rural water systems, community drinking water and wastewater improvement projects, and recycling and waste disposal programs. We also provided \$112,328,802 to the state's general fund which funds local K-12 schools and state universities and technical institutes. In total, we have distributed an impressive \$2.69 billion to our beneficiaries since our start in 1987.

The Lottery remains committed to balancing our good fun with promoting the responsible play of all our products. During Fiscal Year 2017, we were pleased to participate once again in National Problem Gambling Month during March and in the National Council on Problem Gambling's holiday campaign against providing lottery tickets as gifts to minors. We're also a member in good standing of the South Dakota Council on Responsible Gambling.

I invite you to take some time to read more about our highlights and improvements from Fiscal Year 2017; I also encourage you to stay up to date on the South Dakota Lottery through our website (lottery.sd.gov) and social media platforms (Facebook, Twitter, and YouTube).

We look forward to continuing our service to the State of South Dakota and its residents in fiscal year 2018.

Sincerely



Norm Lingle



“Our top priority is ensuring that the Lottery continues to be a sustainable source of revenue for the State of South Dakota, while also providing an enjoyable experience for our players in a secure and fair manner.”

NORM LINGLE

SALES & REVENUES

Total fiscal year 2017 Lottery revenue generated for state funds was more than \$117.9 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$ 26,068,946	\$ 17,147,116	\$ 1,499,341	\$ 5,240,567
Lotto Tickets	\$ 23,009,677	\$ 11,593,185	\$ 1,134,101	\$ 7,044,532
Video Lottery ¹	\$ 702,820,214	\$ 490,444,018	\$ 106,188,098	\$ 105,688,235
			Total	\$ 117,973,335

¹ Video Lottery sales are cash in; prizes are cash out; private share of net machine income is retailer commission.

REVENUE APPROPRIATIONS

Revenue from each of the three types of lottery products is designated for specific purposes.

	General Fund	Capital Construction Fund	Department of Social Services *
Instant Tickets	\$ 5,240,567	\$ -	\$ -
Lotto Tickets	\$ 1,400,000	\$ 5,644,532	\$ -
Video Lottery	\$ 105,613,235	\$ -	\$ 162,661
Video Lottery License Fees	\$ 75,000	\$ -	\$ -
Totals	\$ 112,328,802	\$ 5,644,532	\$ 162,661

* The SD Lottery annually provides the Department of Social Services with funding for problem gambling services. Funding comes from the Lottery's 0.5% of net machine income for administration.



All state revenue from video lottery terminals and instant tickets are transferred to the state's general fund.

Revenue generated from video lottery terminals, or net machine income (NMI), is calculated by taking the cash put into the machines minus the prizes paid out. The NMI for each machine is split between the State of South Dakota and the licensed operator who owns the machine, each earning half of the total. The state's share (49.5% of NMI) is transferred to the general fund, which supports public and higher education, programs like Medicaid and Temporary Assistance to Needy Families, human services facilities, and corrections and court systems. A small amount (0.5% of NMI) is kept by the Lottery for operation costs.

The first \$1.4 million in revenue from lotto tickets is put into the general fund. Anything beyond that amount is

transferred to the Capital Construction Fund which filters money to the following areas:

- **Water and Environment Fund** - used for a variety of projects from drinking water and wastewater improvement to recycling to natural resource development.
- **Ethanol Fuel Fund** - provides annual production payments to qualified South Dakota ethanol producers.
- **State Highway Fund** - used for state highways and bridges.

The South Dakota Lottery prides itself on using every dollar earned as an investment in the future of South Dakota.

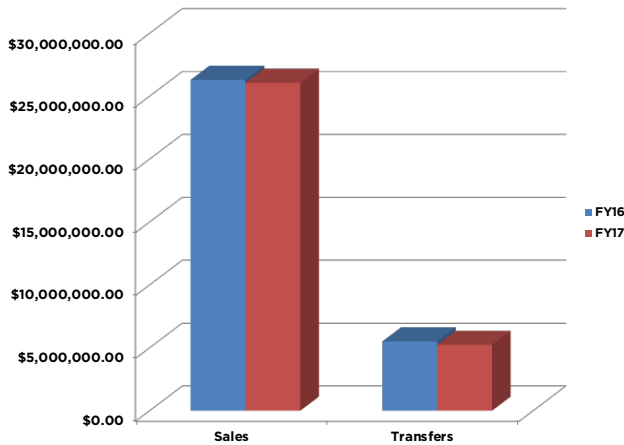
FISCAL YEAR 2017 HIGHLIGHTS

The South Dakota Lottery markets instant tickets and lotto games and regulates, maintains, and markets video lottery— all of which creates revenue for state programs and projects. Since its inception in 1987, the Lottery has distributed more than \$2.69 billion in revenue.

INSTANT TICKETS

The Lottery launched 28 new instant ticket games during fiscal year 2017. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$500,000.

Instant Sales and Transfers



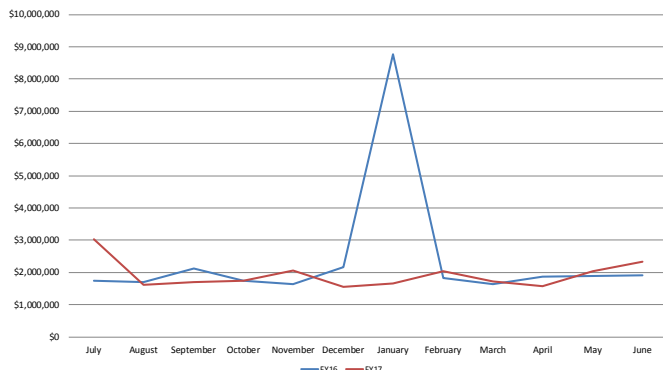
At the close of Fiscal Year 2017, there were 629 licensed instant ticket retailers across the state. Retailers receive a 5% commission for selling instant tickets, a 1% commission for cashing winning tickets with prizes up to \$100, and a 1% commission for selling tickets with prizes of more than \$100.

Fiscal Year 2017 instant ticket sales decreased 0.9% from the previous year and transfers were down 5%. Revenue from the sale of instant tickets is distributed to the state's general fund.

LOTTO TICKETS

South Dakota offered five lotto games. Powerball, Mega Millions, Hot Lotto, and Lucky For Life are multi-state games. Dakota Cash with EZ Match is played exclusively in South Dakota.

Lotto Sales



At the end of Fiscal Year 2017, there were 616 licensed lotto retailers. Lotto retailers receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

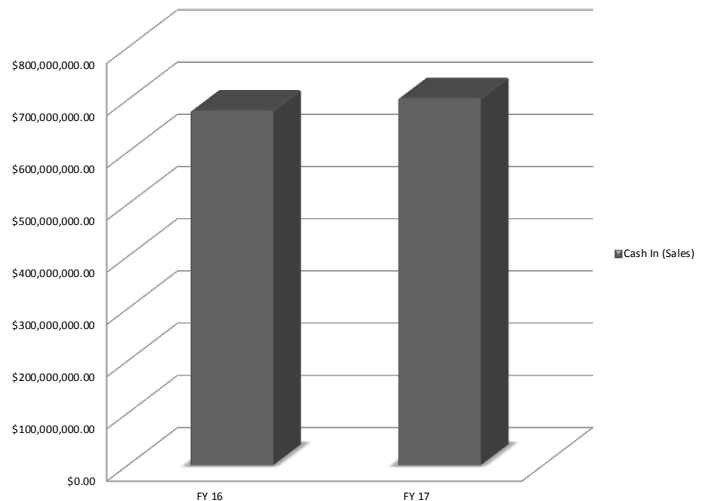
Lotto games reported an overall sales decrease of 20.64% and transfers were down 22.99% from Fiscal Year 2016. The first \$1.4 million of revenue from the sale of lotto tickets is distributed to the state's general fund, and the remaining balance is distributed to the capital construction fund.

Lotto revenues in Fiscal Year 2017 struggled to overcome the lack of a jackpot run in any of the games offered.

VIDEO LOTTERY

The Lottery regulates, markets, and oversees video lottery game activities through licensing procedures for the machines, operators, and establishments, as well as the maintenance of a comprehensive secure central computer system.

Cash In (Sales)



Video lottery sales (cash in) increased by 3.52% in fiscal year 2017. The average number of active video lottery machines during fiscal year 2017 was 9,067 and the average number of licensed establishments was 1,335. The revenue from video lottery is calculated on net machine income, which is cash-in (sales) minus cash-out (prizes). Net machine income is divided between the state and machine operators on a 50/50 split. One-half of one percent (0.5%) of net machine income is retained by the Lottery for administration.

Revenue from video lottery net machine income during fiscal year 2017 was distributed to the state's general fund.

The Lottery's website, lottery.sd.gov, offers winning numbers, prize claim forms, retailer forms, licensing and accounting information, recent winners' stories, and other general information about the Lottery.

The Lottery also maintains a Facebook page (facebook.com/sdlottery), a Twitter feed (@sdlottery), and its own YouTube channel.

FISCAL YEAR 2017 HIGHLIGHTS

FY2017 TOP WINNERS



Patricia Meyer from Brookings, SD won **\$500,000** on game #546 Money Money Money 2/7/2017.



Joan Minor from Inwood, IA won **\$138,779** playing Dakota Cash on 2/16/2017.



Joyce Medley from Rapid City, SD won **\$100,000** on game #550 Wild Cash Bonanza on 12/20/2016.



Johnny Spelbring from Sommerset, SD won **\$50,000** playing Powerball on 9/28/16.



Robert Sigdestad from Arvada CO won **\$50,000** on Game # 572 Joker's Wild on 3/13/2017.



Chris Olson From Whitewood, SD won **\$50,000** playing Powerball on 3/21/17.

FY2017 TOP WINNERS CONTINUED

Melvin Lee Young from Allen, SD won **\$150,012** playing Powerball.

Teresa Baker from Sioux Falls, SD won **\$100,000** playing game #545 Make My Year.

Evelyn Edwards from Brookings, SD won **\$90,585** playing Dakota Cash.

Beryl Tilton II from Rapid City, SD won **\$50,000** playing game #532 Caesars.

Thomas Taylor from Sioux Falls, SD won **\$50,000** playing game #557 Stacks Of Cash.

Edward Janis from Kyle, SD won **\$50,000** playing game #582 30th Anniversary.

Did you know?

Over the past 30 years more than 25,000 players have won \$500 or more on scratch tickets.



FISCAL YEAR 2017 HIGHLIGHTS

LUCKY FOR LIFE GAME LAUNCHES

The South Dakota Lottery expanded its lotto game lineup as Lucky for Life sales began June 4, 2017.

Lucky for Life costs \$2 per play and tickets can be purchased via play slip or Quick Pick. Five numbers are randomly drawn from a field of 48 white ball numbers and one Lucky Ball is picked from among 18 numbers. Matching five of five white ball numbers and the Lucky Ball wins the player the top prize of \$1,000 a day for life while hitting five numbers without the Lucky Ball is worth the second prize of \$25,000 a year for life. The odds of winning the top prize in Lucky for Life is 1:30.8 million and the odds of winning any prize are about 1:7.8.



The lone month of Lucky for Life in Fiscal Year 2017 resulted in \$159,432 in sales.

More information on the game is available at lottery.sd.gov/games/lottogames/luckyforlife. Lucky for Life is currently played in 23 states and the District of Columbia.

30TH ANNIVERSARY CELEBRATION BEGINS



At the conclusion of fiscal year 2016, the South Dakota Lottery began its celebration of 30 years of good fun.

Our summer-long 30th Anniversary Celebration kicked off June 23-24 at the 605 Summer Classic in Sioux Falls. Our celebration included a variety of promotions, giveaways and contests—including a \$1,000 grand prize.

The South Dakota Lottery will continue its 30th anniversary celebration at various locations throughout Fiscal Year 2018.

LINGLE INDUCTED INTO LOTTERY INDUSTRY HALL OF FAME

South Dakota Lottery Executive Director Norm Lingle became one of the newest members of the Public Gaming Research Institute (PGRI) Lottery Industry Hall of Fame.

Lingle was inducted Oct. 4, 2016 at the North American Association of State and Provincial Lotteries (NASPL) Annual Conference in Atlanta, GA. Lingle has served as the head of the South Dakota Lottery since 2005.

In his position with the Lottery, Lingle oversees the instant, online and video lottery programs. During his tenure, he's advanced the use of technology throughout the agency; worked with the Lottery Commission for the approval of line-up games for video lottery; and assisted the Commission in facilitating and adopting a yearly strategic plan outlining annual goals and objectives.

Lingle is also active within the Multi State Lottery Association (MUSL) having served as MUSL President and Chair of the Powerball, Hot Lotto and Wild Card 2 game groups. He currently serves as the Chair of the MUSL Security and Integrity Committee.

The Lottery Industry Hall of Fame was founded in 2005 as a means of honoring those who promote excellence and integrity in the lottery industry.



FISCAL YEAR 2017 HIGHLIGHTS

MONTHLY MOOLA OFFERS SECOND CHANCE FOR PLAYERS

The South Dakota Lottery's latest Play It Again promotion launched in March 2016 in the form of Monthly Moola.

Monthly Moola, which is a feature of the Lottery's Player's Club, allowed South Dakotans to enter non-winning \$2 and \$3 scratch tickets into a drawing. The monthly drawings' included a top prize of \$2,500 as well as \$100 in scratch tickets. Each drawing features three random winners.

The new promotion is a departure from the Lottery's usual Play It Again giveaways in which monthly drawings were held for scratch tickets or gift cards and a \$30,000 grand prize was awarded at the end of the promotion.



DAKOTA CASH ADDS EZ MATCH OPTION



South Dakota's exclusive lotto game added another way to win.

Beginning Aug. 28, 2016, the Dakota Cash game featured an EZ match option, which brought scratch and lotto together in one game. For an additional dollar, players could add the EZ Match option to their ticket. This option gives players a second set of numbers, which could lead to an additional prize ranging from \$2 to \$100.

Prize amounts from the Dakota Cash drawing and the EZ Match option are distributed in one sum.

NEW VIDEO LOTTERY MACHINES CONTINUE STRONG INCOME

Video lottery players continued to enjoy a new look for terminals during fiscal year 2017 as the line machines proved to be entertaining for our players.

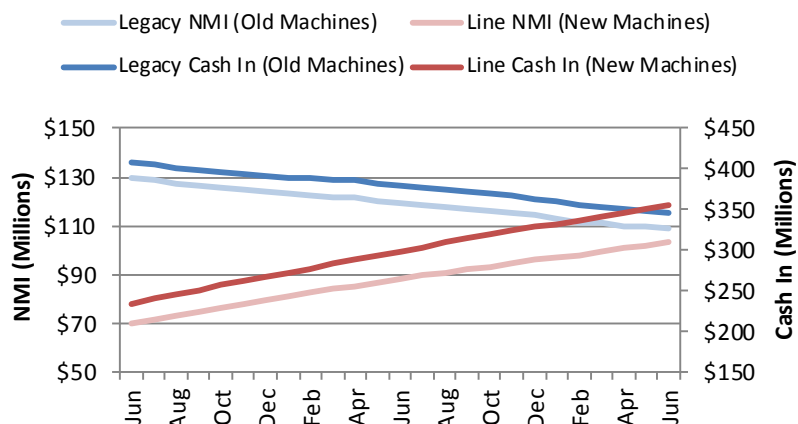
Improved graphics and a wider array of games are just a pair of the reasons why the use of these new machines continues to grow within the State of South Dakota.

The number of line games in South Dakota grew from 2,855 at the end of Fiscal Year 2016 to 3,255 at the conclusion of Fiscal Year 2017.

These machines also proved to be worthwhile for owners, as the new machines produced more cash in than the old machines—despite the old machines outnumbering the new throughout the state.

The South Dakota Lottery strives to provide the latest technology to its operators, retailers, and players, and we will continue to partner with manufacturers on video lottery machine updates.

Cash In & NMI - Legacy vs. Line



Note: As of June 30, 2017 there were 5,862 old machines in South Dakota compared to 3,255 new machines

AUDITOR'S REPORT



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S 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 Honorable Dennis Daugaard
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the South Dakota Lottery Fund's basic financial statements and have issued our report thereon dated November 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Dakota Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Dakota Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of South Dakota Lottery's internal control.

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

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

AUDITOR'S REPORT

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota 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 determination of financial statement amounts. 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

November 21, 2017

AUDITOR'S REPORT



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

AUDITOR'S REPORT

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the South Dakota Lottery Fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota Lottery's basic financial statements. The *Message from the Director, Fiscal Year 2017 Sales and Revenues, Revenue Appropriations, and Highlights* sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Message from the Director, Fiscal Year 2017 Sales and Revenues, Revenue Appropriations, and Highlights* sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017 on our consideration of South Dakota Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the effectiveness of the South Dakota Lottery's 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 South Dakota Lottery's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

November 21, 2017

FINANCIAL STATEMENTS

South Dakota Lottery
STATEMENT OF NET POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	\$ 8,990,010	\$ 9,494,706
Restricted cash	19,600	18,200
Total cash	9,009,610	9,512,906
Accounts receivable	4,909,657	4,580,059
Restricted other receivables	641,395	633,133
Interest receivable	50,318	42,271
Restricted certificates of deposit	451,581	451,581
Prepaid expenses	20,000	16,000
Total current assets	15,082,561	15,235,950
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization	599,328	837,179
Net pension asset	-	319,851
Total noncurrent assets	599,328	1,157,030
Total Assets	15,681,889	16,392,980
Deferred Outflows of Resources		
Deferred Outflows of Resources - Pensions	611,017	600,067
Total Deferred Outflows of Resources	611,017	600,067
Liabilities		
Current Liabilities		
Accounts payable	32,230	395,568
Prizes payable	2,362,665	1,513,895
Due to the Capital Construction Fund	1,244,532	1,137,710
Due to the General Fund	5,074,117	5,072,571
Due to other funds	125,636	116,718
Due to other governments	-	17,194
Operator security deposits	471,181	469,781
Escrows payable - Reservation sales	71,529	64,366
Compensated absences	163,089	189,793
Accrued liabilities	119,659	116,051
Unearned revenues	313,189	263,702
Total current liabilities	9,977,827	9,357,349
Noncurrent Liabilities		
Compensated absences	143,584	164,302
Net pension liability	253,434	-
Total noncurrent liabilities	397,018	164,302
Total Liabilities	10,374,845	9,521,651
Deferred Inflows of Resources		
Deferred Inflows of Resources - Pensions	4,151	476,085
Total Deferred Inflows of Resources	4,151	476,085
Net Position		
Net Investment in Capital Assets	599,328	837,179
Restricted for Pensions	353,432	443,833
Restricted for MUSL Permitted Uses	641,395	633,134
Unrestricted	4,319,755	5,081,165
Total Net Position	\$ 5,913,910	\$ 6,995,311

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

FINANCIAL STATEMENTS

South Dakota Lottery

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Video lottery revenue	\$ 106,188,098	\$ 103,801,272
Instant ticket sales	26,068,946	26,299,493
On-line ticket sales	23,009,677	28,992,932
Terminal license fees	1,097,700	1,117,700
Retailer license fees	392,850	401,810
Total Operating Revenues	<u>156,757,271</u>	<u>160,613,207</u>
Direct Game Costs		
Instant prizes	17,147,116	17,132,245
On-line prizes	11,593,185	14,584,767
Instant retail commissions	1,499,341	1,479,346
On-line retail commissions	1,134,101	1,515,613
Instant ticket print costs	441,768	550,853
Total Direct Game Costs	<u>31,815,511</u>	<u>35,262,824</u>
Operating Revenues, Net of Direct Game Costs	<u>124,941,760</u>	<u>125,350,383</u>
Operating Expenses		
Personal services and benefits	2,014,621	1,769,797
Travel	130,358	135,908
Advertising	946,999	901,000
Contractual services	4,415,670	4,814,694
Supplies and materials	270,971	264,920
Depreciation and amortization	237,851	237,002
Payments to reservations	71,529	64,366
Total Operating Expenses	<u>8,087,999</u>	<u>8,187,687</u>
Operating Income	<u>116,853,761</u>	<u>117,162,696</u>
Non-Operating Revenues (Expenses)		
Pooled investment income	147,577	321,921
Investment expenses	(3,077)	(3,057)
Non-operating revenue from MUSL	3,134	72,632
Miscellaneous revenue	53,199	41,326
Total Non-Operating Revenue (Expenses)	<u>200,833</u>	<u>432,822</u>
Income Before Transfers	<u>117,054,594</u>	<u>117,595,518</u>
Transfers		
General Fund	(112,328,802)	(109,755,998)
Capital Construction Fund	(5,644,532)	(7,737,710)
Department of Social Services	(162,661)	(159,554)
Total Transfers	<u>(118,135,995)</u>	<u>(117,653,262)</u>
Change in Net Position	<u>(1,081,401)</u>	<u>(57,744)</u>
Net Position, Beginning of Year	<u>6,995,311</u>	<u>7,053,055</u>
Net Position, End of Year	<u>\$ 5,913,910</u>	<u>\$ 6,995,311</u>

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

FINANCIAL STATEMENTS

South Dakota Lottery

STATEMENT OF CASH FLOWS

For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 156,520,851	\$ 161,141,947
Payments for lottery prizes	(27,891,531)	(32,008,938)
Payments to suppliers	(8,310,373)	(8,642,875)
Payments for interfund services used	(904,178)	(923,764)
Payments for employee services	(1,968,034)	(1,805,044)
Other (payments) receipts	(58,857)	65,817
Net Cash Provided by Operating Activities	<u>117,387,878</u>	<u>117,827,143</u>
Capital and Related Financing Activities		
Purchase of capital assets	-	(13,500)
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(13,500)</u>
Noncapital Financing Activities		
Transfers to other funds	(118,027,627)	(117,394,190)
Net Cash Used by Noncapital Financing Activities	<u>(118,027,627)</u>	<u>(117,394,190)</u>
Investing Activities		
Pooled investment income	139,530	319,027
Investment expenses	(3,077)	(3,057)
Net Cash Provided by Investing Activities	<u>136,453</u>	<u>315,970</u>
Net Change in Cash and Cash Equivalents	<u>(503,296)</u>	<u>735,423</u>
Cash and Cash Equivalents, Beginning of Year	9,512,906	8,777,483
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,009,610</u></u>	<u><u>\$ 9,512,906</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 116,853,761	\$ 117,162,696
Adjustments to reconcile operating income		
Depreciation and amortization expense	237,851	237,002
Other revenue	53,199	41,326
Non-operating revenue from MUSL	3,134	72,632
Decrease/(increase) in assets		
Accounts receivable	(329,598)	267,712
Restricted other receivable	(8,262)	67,674
Restricted certificates of deposit	-	4,664
Prepaid expense	(4,000)	-
Net pension asset	319,851	223,747
Decrease/(increase) in deferred outflows of resources		
Deferred outflows of resources - pensions	(10,950)	(116,629)
Increase/(decrease) in liabilities		
Accounts payable	(363,338)	118,501
Prizes payable	848,770	(85,660)
Due to other funds	8,918	25,051
Due to other governments	(17,194)	(21,806)
Operator security deposits	1,400	(14,764)
Escrows payable	7,163	(4,812)
Compensated absences	(47,422)	12,922
Accrued liabilities	3,608	(1,793)
Unearned revenues	49,487	(7,826)
Net pension liability	253,434	-
Increase/(decrease) in deferred inflows of resources		
Deferred inflows of resources - pensions	(471,934)	(153,494)
Total adjustments	534,117	664,447
Net Cash Provided by Operating Activities	<u><u>\$ 117,387,878</u></u>	<u><u>\$ 117,827,143</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION. The South Dakota Lottery markets instant tickets and lotto games, and regulates video lottery to raise revenue for State programs and projects.

The South Dakota Lottery was created during the 1987 Legislative Session by the passage of Senate Bill 254. The legislation authorized the Lottery to market instant games, with sales commencing on Sept. 30, 1987.

Video Lottery was created by the passage of Senate Bill 129 during the 1989 Legislative Session. It gave the Lottery authority to license and regulate a video lottery game with play commencing on Oct. 16, 1989.

Lotto games were approved by the 1990 Legislature through the passage of Senate Bill 86. South Dakota was accepted as a member of the Multi-State Lottery Association (MUSL) in April of 1990 and began selling tickets on Nov. 15, 1990. The current lotto games offered by the Lottery are Powerball, Mega Millions, Hot Lotto, Dakota Cash, and Lucky for Life.

BASIS OF PRESENTATION. The South Dakota Lottery Fund is accounted for as a proprietary type enterprise fund for the State of South Dakota. Proprietary funds are accounted for using the accrual basis of accounting. The accompanying financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The South Dakota Lottery is considered part of the primary government as reported by the State of South Dakota. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

USE OF ESTIMATES. The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH. Cash includes cash on hand, demand deposits, and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, C/O 500 East Capital, Pierre, South Dakota 57501.

RESTRICTED CASH. Restricted cash is the amount of operator security deposits in the form of cash on deposit with the Lottery.

ACCOUNTS RECEIVABLE. Receivables are stated at the amounts the Lottery expects to collect from outstanding balances. The Lottery provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Lottery has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

Accounts receivable represents the following at June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Uncollected instant/on-line ticket revenues	\$526,990	\$486,764
Allowance for doubtful instant/on-line accounts	(18,072)	(18,072)
Uncollected video lottery revenues and fees	4,400,739	4,111,367
Total accounts receivable	<u>\$4,909,657</u>	<u>\$4,580,059</u>

RESTRICTED OTHER RECEIVABLE. The Restricted Other Receivable account represents the South Dakota Lottery's share of funds held by the Multi-State Lottery Association (MUSL) in an Unreserved Account. The earnings from MUSL

NOTES TO THE FINANCIAL STATEMENTS

operations are deposited into this account and considered to be distributions to the member lotteries. This money may be used by a member lottery only for the purposes approved by the MUSL Board.

PREPAID EXPENSES. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The prepayments are charged to expenses over the period of their economic benefit.

OPERATOR SECURITY DEPOSITS. Administrative Rules of South Dakota (ARSD) 48:02:05:04(18) requires video lottery operators to furnish to the Lottery by July 1 of each year, security equal to one-eighteenth of the State's share of estimated annual net machine income derived from the operator's video lottery machines. Security may be in the form of a surety bond, deposit in cash, an irrevocable letter of credit, or a certificate of deposit issued by a South Dakota financial institution with the Lottery endorsed on it as a payee. As of June 30, 2017 and 2016, the amount of cash on deposit with the Lottery was \$19,600 and \$18,200, respectively, and the amount of certificates of deposit being held by the Lottery was \$451,581. The amount of \$5,792,000 and \$5,115,700 was in the form of surety bond or irrevocable letter of credit and are not reported on the Statements of Net Position as of June 30, 2017 and 2016, respectively. The total security deposits on June 30, 2017 and 2016 were \$6,263,181 and \$5,585,481, respectively.

CAPITAL ASSETS. Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical cost, if the original cost is unavailable. Equipment is capitalized when the cost of individual items is \$5,000 or more. Intangible assets are capitalized when the cost of individual items is more than \$250,000. Depreciation or amortization on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 10 years for all equipment and 3 to 25 years for intangible assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal.

Capital Assets consisted of the following for fiscal years 2017 and 2016:

	2017				2016			
	Beginning Balance	Additions	Deletions	Ending Balance	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$1,972,159	\$—	(\$22,069)	\$1,950,090	\$1,958,659	\$13,500	\$—	\$1,972,159
Intangible Assets-Software	2,313,097	—	—	2,313,097	2,313,097	—	—	2,313,097
Total Capital Assets	4,285,256	—	(22,069)	4,263,187	4,271,756	13,500	—	4,285,256
Less Accumulated Depreciation/Amortization for:								
Equipment	(1,944,563)	(6,541)	22,069	(1,929,035)	(1,938,871)	(5,692)	—	(1,944,563)
Intangible Assets-Software	(1,503,514)	(231,310)	—	(1,734,824)	(1,272,204)	(231,310)	—	(1,503,514)
Total Accumulated Depreciation/Amortization	(3,448,077)	(237,851)	22,069	(3,663,859)	(3,211,075)	(237,002)	—	(3,448,077)
Total Capital Assets, Net	\$837,179	(\$237,851)	\$—	\$599,328	\$1,060,681	(\$223,502)	\$—	\$837,179

PENSIONS. For purposes of measuring the restricted net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. South Dakota Lottery contributions and restricted net pension asset are recognized on an accrual basis of accounting.

PRIZES. Prize expense for instant games is recorded as prizes are paid. Adjustments are made based on the predetermined prize structure for each instant game as necessary. Prizes payable represents the difference between the amount of prize expense recognized and actual prizes paid. Prize expense and prizes payable for on-line games are recorded based on actual drawing results. Prizes payable represents unpaid prizes not yet claimed or reverted. A minimum of 50 percent of the projected revenue from the sale of lottery tickets, computed on a year-round basis, is allocated for payment of prizes. Prizes may be claimed up to 180 days after the official end of the game. Unclaimed prizes are added to

NOTES TO THE FINANCIAL STATEMENTS

the prize pools of subsequent lottery games. Reverted prizes during the fiscal years ended June 30, 2017 and 2016 were \$618,469 for on-line prizes and \$364,961 for instant prizes, and \$300,781 for on-line prizes and \$707,636 for instant prizes, respectively.

DUE TO THE GENERAL FUND. South Dakota Codified Laws (SDCL) 42-7A-63 sets the State's percentage of net machine income at 50 percent of which all but 0.5 percent is deposited into the General Fund. At June 30, 2017 and 2016, there was a liability to the General Fund of \$4,333,550 and of \$4,054,832, respectively.

DUE TO THE GENERAL FUND AND THE CAPITAL CONSTRUCTION FUND. The Lottery maximizes net proceeds to the State from the sale of instant and on-line tickets. These net proceeds are transferred to the General Fund and Capital Construction Fund on an annual basis on or about July 1. There was a liability for instant ticket sales to the General Fund of \$740,567 and \$1,017,739, and a liability for on-line ticket sales to the Capital Construction Fund of \$1,244,532 and \$1,137,710 as of June 30, 2017 and 2016, respectively.

DUE TO OTHER FUNDS. A liability has been created for services provided by other components of state government but not yet paid as of June 30.

ESCROWS PAYABLE. The passage of House Bill 1344 by the 1989 Legislature authorized tribal governments to receive up to 50 percent of the State's revenue on lottery products sold on that reservation. Fifty percent of the State's share of revenue on the reservations has been escrowed for payment to the tribes.

ACCRUED LIABILITIES. Accrued liabilities that have been incurred but not yet paid as of June 30 include accrued wages, benefits, and retailer bonuses.

UNEARNED REVENUE. A liability has been recorded for on-line tickets sold for future drawings that were collected before June 30. A liability has also been recorded for video lottery distributor and manufacturer renewal fees owed July 1 but collected before June 30.

DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES. In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

NET POSITION. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported in three categories:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation/amortization (if applicable) and reduced by the outstanding balances of any bonds, notes, or other debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, and contributors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted – Consists of all other net assets that do not meet the definition of the two preceding categories. When both restricted and unrestricted funds are eligible for use in payment of expenses, the type of expense to be incurred is analyzed to determine the best funding source based on available funds and plans for future projects.

REVENUE RECOGNITION. Sales of instant and on-line tickets are made to the public through licensed retailers. Instant ticket sales for games in progress are recorded as packs of tickets are settled. Adjustments based upon the known relationship of the number of tickets sold to the number of winning tickets redeemed through the end of the accounting

NOTES TO THE FINANCIAL STATEMENTS

period are made as necessary. Instant ticket sales for ended games and on-line ticket sales are reported as the actual ticket sales made to the public through the licensed retailers.

RETAILER COMMISSIONS. Lottery retailers selling instant and on-line tickets receive a 5 percent commission on each ticket sold or distributed to the public. Instant retailers receive a 1 percent selling commission for selling instant prize winning tickets over \$101 and a 1 percent cashing commission for cashing instant prize winning tickets of \$1 up to \$100.

On-line retailers selling a jackpot winning Powerball or Mega Millions ticket may receive a bonus of \$50,000. Selling bonuses of \$20,000 and \$1,000 may be paid to retailers selling Powerball tickets of \$1,000,000 and \$50,000, respectively. Selling bonuses of \$25,000 and \$500 may be paid to retailers selling Mega Millions tickets of \$1,000,000 and \$5,000, respectively. If a retailer sells a Powerball Power Play ticket winning \$2,000,000 or \$50,000 (times the multiplier), a bonus of \$25,000 or \$1,000 times the multiplier may be paid, respectively. If a retailer sells a Mega Millions with Megaplier ticket winning the second prize (automatically worth \$1,000,000 regardless of the multiplier) or the \$5,000 third prize (times the multiplier), a bonus of \$25,000 or \$500 times the multiplier may be paid, respectively. Retailers who sell a Dakota Cash jackpot winning ticket may receive a bonus equal to 5 percent of the value of the winning ticket not to exceed \$5,000. Retailers who sell a Hot Lotto jackpot, \$30,000 or \$3,000 winning ticket may receive a bonus of \$10,000, \$3,000 or \$300, respectively. Retailers who sell a Sizzler ticket winning \$90,000 or \$9,000 may receive a bonus of \$9,000 or \$900, respectively. Retailers selling a top prize Lucky for Life winning ticket may receive a bonus of \$5,000. Retailers selling a second prize Lucky for Life winning ticket may receive a bonus of \$500.

NON-OPERATING REVENUES AND EXPENSES. Revenues and expenses that result from activities not associated with the sale of lottery products are classified as non-operating.

RECLASSIFICATIONS. Certain reclassifications have been made to the 2016 financial statement presentation in order to conform to the 2017 presentation. The reclassifications had no impact on net position.

SUBSEQUENT EVENTS. The Lottery has evaluated subsequent events through November 21, 2017, the date which the financial statements were available to be issued.

NOTE 2. COMPENSATED ABSENCES

All permanent full-time employees earn annual leave. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2017 and 2016, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$141,083 and \$156,591, respectively. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of 12 weeks of the employee's annual compensation. At June 30, 2017 and 2016, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$165,590 and \$197,504, respectively.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences Payable					
Fiscal Year 2017	\$354,095	\$176,494	\$223,916	\$306,673	\$163,089
Fiscal Year 2016	\$341,173	\$179,354	\$166,432	\$354,095	\$189,793

NOTE 3. PENSION PLAN

The South Dakota Lottery participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by contacting the SDRS in writing at South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731. More information regarding the state's share of the plan will be included in the State of South Dakota CAFR (Comprehensive Annual Financial Report).

NOTES TO THE FINANCIAL STATEMENTS

State law requires employees to contribute 6 percent of their salary to the plan and the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The South Dakota Lottery's contributions to the SDRS for the fiscal years ended June 30, 2017, 2016, and 2015 were \$87,984, \$85,562, and \$82,597, respectively, equal to the required contributions each year.

At June 30, 2017 and 2016, SDRS was 96.9% and 104.1% funded, respectively, and accordingly had a net pension liability at June 30, 2017, and a net pension asset at June 30, 2016. At June 30, 2017 and 2016, respectively, the South Dakota Lottery reported a liability of (\$253,434) and an asset of \$319,851 for its proportionate share of the restricted net pension (liability) asset. For the fiscal years ended June 30, 2017 and 2016, the Lottery recorded pension expense of \$90,401 and \$46,375, respectively. Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
As of June 30, 2017:		
Difference between expected and actual experience	\$88,225	-
Changes in assumption	151,795	-
Net difference between projected and actual earnings on pension plan investments	87,984	-
Changes in Proportionate Share	1,110	\$4,151
Contributions after the measurement date	281,903	-
Total	\$ 611,017	\$ 4,151

	Deferred Outflows of Resources	Deferred Inflows of Resources
As of June 30, 2016:		
Difference between expected and actual experience	\$65,491	-
Changes in assumption	253,622	-
Net difference between projected and actual earnings on pension plan investments	195,392	\$471,947
Changes in Proportionate Share	-	4,138
Contributions after the measurement date	85,562	-
Total	\$600,067	\$ 476,085

NOTE 4. OPERATING LEASES

The South Dakota Lottery entered into agreements to lease buildings and certain equipment. Some of the operating leases contain the provision that the South Dakota Lottery may renew the operating leases at the expiration date of the lease on a year-to-year basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature.

The following schedule is a summary of future minimum rental payments by years required under operating leases with lease terms in excess of one year as of June 30, 2017:

Period Ending June 30:

2018	\$130,776
2019	130,776
2020	130,776
2021	130,776
2022	130,776
Later years	409,266
Total Minimum Payments	\$1,063,146

NOTES TO THE FINANCIAL STATEMENTS

Total rental expense for all operating leases for the fiscal years ended June 30, 2017 and 2016, was \$231,770 and \$163,542, respectively.

NOTE 5. VIDEO LOTTERY

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash In	\$702,820,214	\$678,898,195
Less Cash Out	<u>490,444,018</u>	<u>471,295,651</u>
Video Lottery Net Machine Income	212,376,196	207,602,544
Less Operator and Establishment Share	<u>106,188,098</u>	<u>103,801,272</u>
Video Lottery Revenue Available to the State	106,188,098	103,801,272
Less Lottery Operating Share	<u>1,061,881</u>	<u>1,038,013</u>
Video Lottery Revenue to the General Fund	<u><u>\$105,126,217</u></u>	<u><u>\$102,763,259</u></u>

NOTE 6. TRANSFERS

Following is a summary of total transfers for the fiscal years ended June 30, 2017 and 2016:

Transfers Out:	<u>2017</u>	<u>2016</u>
General Fund Proceeds from Instant and On-Line	\$5,900,000	\$5,900,000
Capital Construction Fund Proceeds from On-Line	4,400,000	6,600,000
General Fund Proceeds from Instant and On-line not yet transferred	740,567	1,017,739
Capital Construction Fund Proceeds from On-Line not yet transferred	1,244,532	1,137,710
Video Lottery Proceeds transferred to the General Fund	101,294,685	98,708,427
Video Lottery Proceeds to General Fund not yet transferred	4,333,550	4,054,832
Video Lottery Grant to Department of Social Services	162,661	159,554
Video Lottery Fees transferred to the General Fund	<u>60,000</u>	<u>75,000</u>
Total Transfers Out	<u><u>\$118,135,995</u></u>	<u><u>\$117,653,262</u></u>

NOTE 7. PARTICIPATION IN THE MULTI-STATE LOTTERY ASSOCIATION

The South Dakota Lottery is a member of the Multi-State Lottery Association (MUSL), which operates the Powerball/Power Play, Hot Lotto, and the Mega Millions/Megaplier games. Each MUSL member sells tickets through its licensed retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the prize liability less the actual low-tier prize liability. The Wild Card 2 game was ended on February 24, 2016. Lucky for Life is not a product of the MUSL. The Lucky for Life game is owned by the New England Lotteries, which has granted the South Dakota Lottery a license to participate.

The prize pool for Powerball is 50 percent of each drawing period's sales and up to 5 percent shall be placed into a prize reserve account. The Power Play prize pool is 45.934 percent of sales and 4.066 percent may be placed in a prize reserve account. In drawings where the ten (10X) multiplier is available, the Power Play prize pool is 49.969 percent of sales and .031 percent may be placed in a prize reserve account. The prize pool for Wild Card 2 was 57 percent of sales and 3 percent was placed in a prize reserve account. The prize pool for Hot Lotto is 50 percent of sales and up to 1 percent shall be placed in a prize reserve account. The Sizzler prize pool is 47.8813 percent of sales with 2.1187 percent may be placed in a prize reserve account. The prize pool for Mega Millions and Megaplier is up to 55 percent of sales and up to 5 percent of Mega Million sales shall be placed in a prize reserve account. A prize reserve fund serves as a contingency reserve to protect MUSL in cases of unforeseen liabilities. The money in a reserve fund is to be used at the discretion of the MUSL game group.

The prize reserve fund monies may be absorbed by a replacement game or are refundable to member states if MUSL or the MUSL game group disbands or if a member leaves MUSL or a game group. Members who leave must wait one year before receiving their remaining share, if any, of the prize reserve fund. The reserves are held by MUSL and are not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2017 and 2016, the prize reserve account balances were:

	2017 MUSL Balance	2017 SD Lottery Share	2016 MUSL Balance	2016 SD Lottery Share
Powerball Prize Reserve Account	\$77,900,260	\$445,778	\$72,114,390	\$450,952
Powerball Set Prize Reserve Account	39,992,162	201,239	39,307,288	196,066
Wild Card Prize Reserve Account	-	-	(7,580)	(2,549)
Hot Lotto Prize Reserve Account	6,070,116	271,720	7,170,477	304,009
Mega Millions Prize Reserve Account	38,041,470	153,335	38,541,036	153,759
Total MUSL Prize Reserves	<u>\$162,004,008</u>	<u>\$1,072,072</u>	<u>\$157,125,611</u>	<u>\$1,102,237</u>

Also held by MUSL is the Unreserved Account into which is deposited the earnings from MUSL operations. The earnings to this account are considered to be distributions to the member lotteries. This money may be used by a member lottery for the purposes approved by the MUSL Board. This account balance is recorded as a Restricted Other Receivable.

Powerball and Mega Millions jackpot winners can choose a lump sum cash payment or receive the jackpot prize over 30 annual payments. Treasury zero coupon bonds that provide payments corresponding to the member lottery's obligation to these prize winners are purchased by MUSL in the name of the member lottery. MUSL holds these bonds and will cash the bonds when due and wire the money to the member lottery's account on or before the anniversary date of the win. The Hot Lotto jackpot will be paid in a single lump sum cash payment with all initial withholding taxes paid.

NOTE 8. CONTRACTUAL ARRANGEMENTS

A. Instant Tickets - The South Dakota Lottery entered into contracts with Scientific Games and Pollard Banknote Limited to provide instant game tickets through August 29, 2019.

B. Video Lottery Vendor - The South Dakota Lottery has contracted with Scientific Games to operate a video lottery system through December 24, 2019, with possible extension through December 24, 2024.

C. On-line Lottery Vendor - The South Dakota Lottery has contracted with IGT Corporation to operate an on-line lottery gaming system through August 2, 2019.

NOTE 9. RISK MANAGEMENT

The South Dakota Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The South Dakota Lottery participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund; 2) coverage of employee medical claims through the State's health insurance program; 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund; 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund; and, 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

NOTE 10. Contingencies and Commitments

Prize Annuities: The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts. The Lottery remains liable for the payment of the guaranteed minimum prizes in the event the insurance companies issuing the annuity contracts default. There are no guaranteed minimum prize payments for which annuity contracts have been purchased as of June 30, 2017 and 2016. There were no specified payments for the years ended June 30, 2017 and 2016, respectively.



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