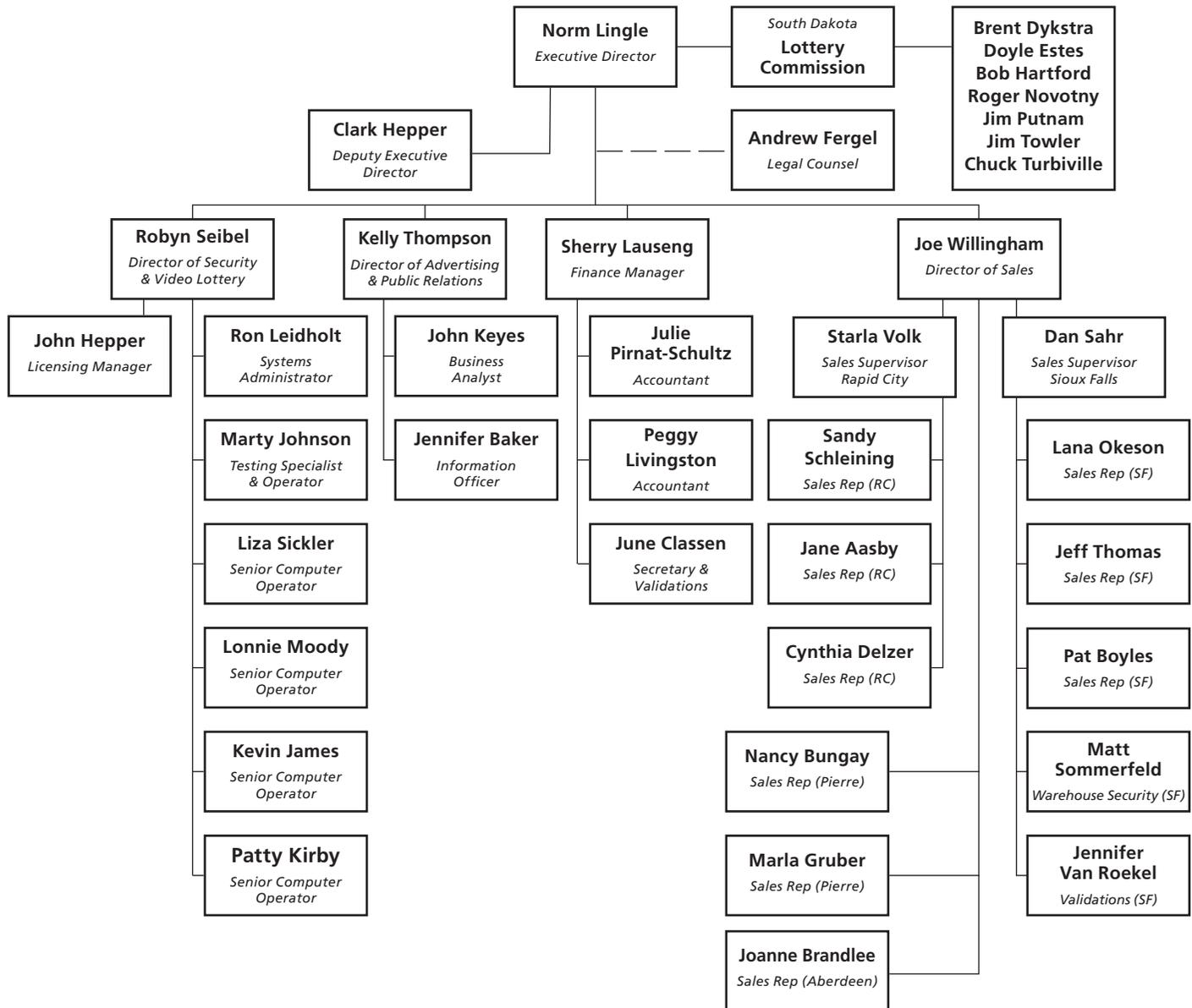


# ANNUAL REPORT FY 2015



A DIVISION OF THE SOUTH DAKOTA DEPARTMENT OF REVENUE

# LOTTERY STAFF ORGANIZATIONAL CHART



## VALIDATION CENTERS & MAILING ADDRESS

### PIERRE

711 E. Wells Avenue  
Pierre, SD 57501  
Phone: 605-773-5770  
Fax: 605-773-5786

### SIoux FALLS

3824 S. Western Avenue  
Sioux Falls, SD 57105  
Phone: 605-367-5840  
Fax: 605-367-5845

### RAPID CITY

1000 Cambell Street  
Rapid City, SD 57701  
Phone: 605-394-5106  
Fax: 605-394-5844

**South Dakota Lottery, PO Box 7107, Pierre, SD 57501 | [lottery.sd.gov](http://lottery.sd.gov)**

# TABLE OF CONTENTS

---

PAGE	
<b>2</b>	<b>Lottery Staff and Office Locations</b>
<b>4</b>	<b>Message from the Director</b>
<b>5</b>	<b>Fiscal Year 2015</b> <i>Sales and Revenues</i> <i>Revenue Appropriations</i> <i>Highlights</i> <i>Video Lottery Performance</i>
<b>9</b>	<b>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</b>
<b>11</b>	<b>Independent Auditor’s Report</b>
<b>13</b>	<b>Financial Statements</b> <i>Statement of Net Position</i> <i>Statement of Revenues, Expenses, and Changes in Fund Net Position</i> <i>Statement of Cash Flows</i> <i>Notes to the Financial Statements</i>

## 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 and People of South Dakota:

Each year, the South Dakota Lottery's Annual Report details our progress in generating revenue from lotto, scratch, and video lottery, and recounts the successes and advancements over the past year that will strengthen and enhance the Lottery in the future. Fiscal year 2015 was a busy one for our staff and the South Dakota Lottery Commission and I'm happy to share our accomplishments with you.

During fiscal year 2015, our retail partners and loyal players made it possible for the South Dakota Lottery to provide more than \$112 million to the state funds we support. The Capital Construction Fund received over \$6.1 million for rural water systems, drinking water and wastewater improvement projects, and waste disposal and recycling programs. \$94.7 million was provided to the Property Tax Reduction Fund which helps lower local property taxes on owner-occupied and agricultural property. And \$10.9 million was transferred to the state General Fund which supports K-12 education, state universities and technical institutes. Since its inception in 1987, the Lottery has distributed over \$2.47 billion in revenue.

In the following pages, you'll find out more about our achievements and improvements from fiscal year 2015; I also encourage you to stay up-to-date on the South Dakota Lottery through our website ([lottery.sd.gov](http://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 2016.

Sincerely,



Norm Lingle  
Executive Director  
South Dakota Lottery



“During fiscal year 2015, our retail partners and loyal players made it possible for the South Dakota Lottery to provide more than \$112 million to the state funds we support.”

NORM LINGLE

# SALES & REVENUES

Total fiscal year 2015 Lottery revenue generated for state funds was more than \$112 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$25,839,734	\$16,929,551	\$1,453,501	\$5,649,130
Lotto Tickets	\$25,340,133	\$12,814,156	\$1,358,225	\$7,577,367
Video Lottery*	\$641,668,506	\$442,538,510	\$99,564,998	\$98,847,722
			<b>Total</b>	<b>\$112,074,219</b>

*\*Video lottery sales are cash in; prizes are cash out; private share of net machine income is retailer commission.*

# REVENUE APPROPRIATIONS

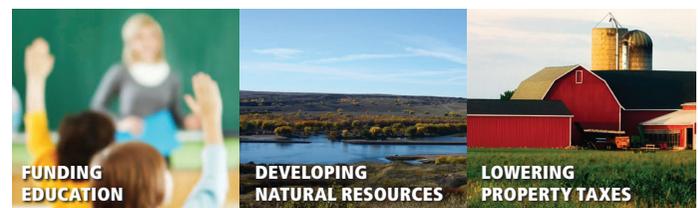
Revenue from each of the three types of lottery products is designated for specific purposes. All monies from the sale of scratch tickets are transferred to the state General Fund, nearly half of which supports local K-12 schools, state universities and technical institutes.

	General Fund	Capital Construction Fund	Property Tax Reduction Fund	Department of Social Services*
Instant Tickets	\$5,649,130			
Lotto Tickets	\$1,400,000	\$6,177,367		
Video Lottery	\$3,824,712		\$94,744,636	\$188,374
Video Lottery License Fees	\$90,000			
<b>Totals</b>	<b>\$10,963,842</b>	<b>\$6,177,367</b>	<b>\$94,744,636</b>	<b>\$188,274</b>

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.

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. Of the state's share, 49.5% is transferred to the Property Tax Reduction Fund which is used to replace local property tax revenue for K-12 schools and lowers local property tax levies on owner-occupied and agricultural land.

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

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

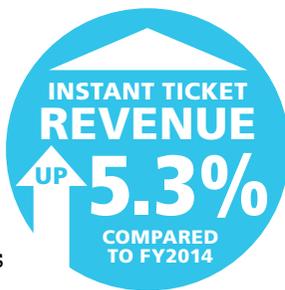
# FISCAL YEAR 2015 HIGHLIGHTS

---

The South Dakota Lottery markets instant tickets and lotto games, and regulates, maintains and markets video lottery to raise revenue for state programs and projects. Since its inception in 1987, the Lottery has distributed just under \$2.47 billion in revenue.

## INSTANT TICKETS

The Lottery launched 27 new instant ticket games during fiscal year 2015. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$400,000 as well as merchandise prizes.



At the close of fiscal year 2015, there were 620 licensed instant ticket retailers across the state. Retailers receive a 5% commission for selling 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 2015 instant ticket sales were up 1.3% from the previous year and revenues were up 5.3%. Revenue from the sale of instant tickets is distributed to the General Fund.

## LOTTO TICKETS

South Dakota currently offers five lotto games. Powerball, Mega Millions, Wild Card 2, and Hot Lotto are multi-state games. Dakota Cash is played only in South Dakota. The multi-state MONOPOLY Millionaires' Club lotto game was introduced in the state during fiscal year 2015 but the game was discontinued in December 2014 due to lower than expected ticket sales nationwide.

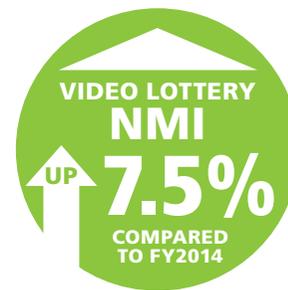


At the end of fiscal year 2015, there were 608 licensed lotto retailers. Lotto retailers receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

Lotto games reported an overall sales decrease of 11.3%; transfers were down 15.0% from fiscal year 2014. The first \$1.4 million of revenue from the sale of lotto tickets is distributed to the General Fund, and the balance is distributed to the Capital Construction Fund.

## VIDEO LOTTERY

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



Video lottery sales (cash in) increased by 8.7% in fiscal year 2015. The average number of active video lottery machines during fiscal year 2015 was 8,928 and the average number of licensed establishments was 1,372. The revenue from video lottery is calculated on net machine income, which is cash-in (sales) minus cash-out (prizes). Net machine income (NMI) is divided between the state and machine operators on a 50/50 split. One-half of one percent (0.5%) of the state's share is retained by the Lottery for administration.

Revenue from video lottery net machine income during fiscal year 2015 was distributed to the Property Tax Reduction Fund. With legislation passed during the 2015 South Dakota Legislature eliminating the Property Tax Reduction Fund, beginning July 1, 2015, video lottery revenue goes into the General Fund.

The Lottery's website, [lottery.sd.gov](http://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](https://facebook.com/sdlottery)), a Twitter feed (@sdlottery), and its own YouTube channel.

# FISCAL YEAR 2015 HIGHLIGHTS

## PLAY IT AGAIN

The Lottery held its first Play It Again grand prize giveaways in fiscal year 2015. On Dec. 18, 2014, Wanda Howey-Fox of Yankton took home the \$10,000 grand prize when her name was drawn from the nearly 19,000 non-winning 10K Run tickets entered into the drawing. Edward Ries of Mobridge won \$30,000 in the second Play It Again grand prize drawing held on Feb. 27, 2015. His name was chosen from the nearly 77,000 non-winning \$2 and \$3 tickets entered.



## MONOPOLY MILLIONAIRES' CLUB

The MONOPOLY Millionaires' Club debuted on Oct. 19, 2014, as a lotto style game that also offered a chance to win trips to Las Vegas to appear on a nationally televised game show. On Dec. 26, 2014, the MONOPOLY Millionaires' Club lotto game was suspended. The MONOPOLY Millionaires' Club instant ticket was introduced on Mar. 20, 2015, offering the same chance to win trips to Las Vegas and appear on the game show.



Tyler Haeffner of Brandon won \$10,000 playing the Money Bags mini-game

A total of 18 South Dakota players won trips to the game show in fiscal year 2015. Each game show taping includes a local segment featuring a South Dakota trip winner playing a mini game for cash prizes – our players have won from \$100 to \$10,000 in mini game prizes.

All trip winners also have the chance to win cash during the show either by being called onstage to play a game or if someone from their section is called up on stage to play. If that person wins, everyone in their section wins.

The game show airs Saturday nights at 11:35 p.m. CT on KSFY and Sunday nights at 5:00 p.m. MT on KOTA.

## FY2015 JACKPOT WINNERS

July 1, 2014

● 7/19/14 EMPI 14 of Watertown  
● **\$230,000** Wild Card 2 jackpot



9/27/14

Christa Ramierz of Hoven  
● **\$200,000** Wild Card 2 jackpot



● 10/15/14 John Chalk Jr. of Brandon, MS  
● **\$1 MILLION** Powerball winner



11/15/14

Brent Banning & Robi Jones-Ward, both of Rapid City  
split the **\$366,232** Dakota Cash jackpot

● 1/24/15 Charles Beynon of Watertown  
● **\$102,417** Dakota Cash jackpot



3/4/15

Merle Hulm of Bison  
● **\$53,679** Dakota Cash jackpot

● 5/13/15 Laura Landreth of Rushville, NE  
● **\$97,589** Dakota Cash jackpot

June 30, 2015

# VIDEO LOTTERY PERFORMANCE

Video lottery net machine income (NMI) for fiscal year 2015 finished 7.50% ahead of fiscal year 2014 (see chart at right). Throughout fiscal year 2015 NMI for each month exceeded the same month from the previous year. Historically video lottery sees the highest monthly NMI in the month of March and fiscal year 2015 was no exception. NMI in March totaled \$17,953,211 which was the highest revenue month for video lottery since Oct. 2010.

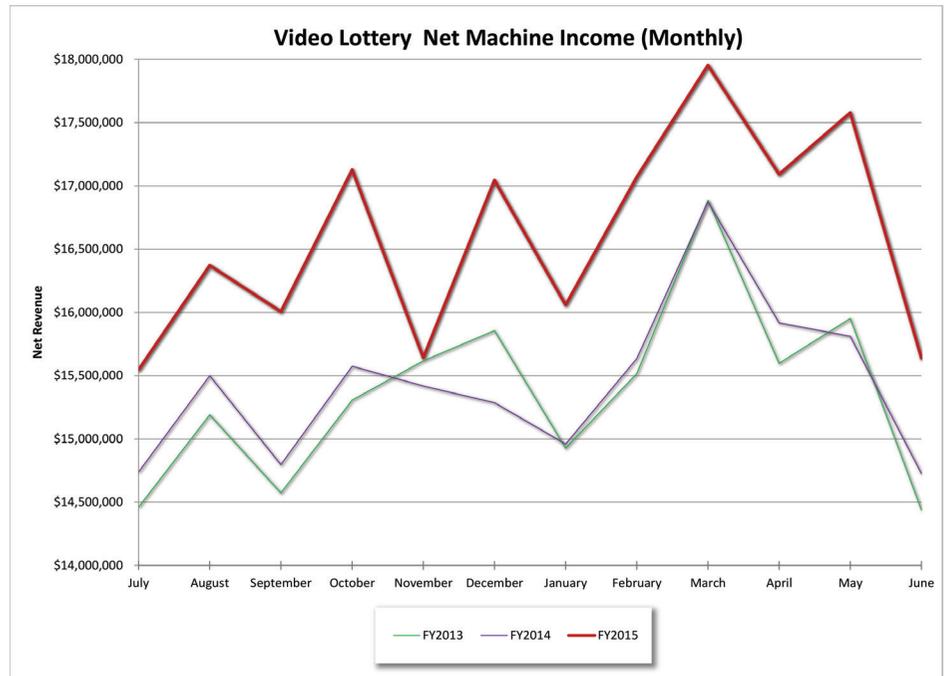
## STRATEGIC PLAN

Building on the success of the strategic plan initiated in fiscal year 2013, the South Dakota Lottery Commission held a two-day strategic planning session in April of 2015. The meeting brought together Lottery officials, vendors, industry association representatives, and video lottery owners and operators to discuss the future of video lottery in South Dakota and the development of the continuing strategies necessary to keep it a viable source of revenue.

The strategic planning session identified two legislative objectives: adding progressives to the current video lottery game line-up and increasing the maximum bet. Other non-legislative objectives included the sharing of manufacturers' performance information, upgrading the video lottery management system, and the use of real time communications.

## MARKETING

The South Dakota Lottery in fiscal year 2015 continued its efforts to actively market video lottery



through two distinct advertising strategies.

A pilot project began in March of 2015 using geo-targeted advertising to determine the impact of a concentrated marketing campaign on net machine income. For three months, the Lottery focused all of its video lottery advertising efforts on an area in southeastern South Dakota which included the counties of Bon Homme, Clay, Hanson, Hutchinson, Lincoln, McCook, Minnehaha, Turner, Union and Yankton. The campaign utilized TV and radio commercials, static billboards and digital marketing.

For April and May of 2015, net machine income in the target area was up 10.25% from the previous year while the rest of the state was up 8.53% for the same period. The pilot project is expected to

continue in fiscal year 2016 with the marketing campaign moving to another sector of the state.



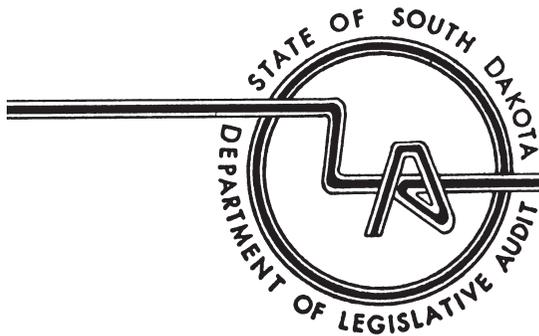
An advertising tool kit was developed and made available free of charge to all video lottery establishments and operators for use in promoting their businesses on a local level.

The kit contained templates for newspaper ads and posters as well three 30-second radio ads and music beds that could be customized for each casino. The only costs to the business itself were the purchase of air time, ad space and printing.

The Lottery continues to expand its ongoing marketing plan to promote video lottery and increase its player base.

# AUDITOR'S REPORT

---



427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595  
FAX (605) 773-6454

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, 2015 and 2014, 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 October 30, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the South Dakota Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

# AUDITOR'S REPORT

---

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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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

October 30, 2015

# AUDITOR'S REPORT

---



427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595  
FAX (605) 773-6454

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, 2015 and 2014, 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.

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

# AUDITOR'S REPORT

---

## 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Implementation of New Accounting Standards

As described in Note 3 to the financial statements, the South Dakota Lottery implemented the provisions of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As discussed in Note 1 to the financial statements, the implementation of these standards resulted in a restatement of beginning net position. Our opinion is not modified with respect to this matter.

## 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, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and 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 *Sales and Revenue, Revenue Appropriations, Fiscal Year 2015 Highlights, and Video Lottery Performance* sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Sales and Revenue, Revenue Appropriations, Fiscal Year 2015 Highlights, and Video Lottery Performance* 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 them.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of the South Dakota Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Lottery's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

October 30, 2015

# FINANCIAL STATEMENTS

## South Dakota Lottery STATEMENT OF NET POSITION June 30, 2015 and 2014

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Current Assets:		
Cash	\$8,749,183	\$8,608,666
Restricted Cash	28,300	24,182
Total Cash	<u>8,777,483</u>	<u>8,632,848</u>
Accounts Receivable	4,847,771	4,844,516
Restricted Other Receivable	700,807	813,003
Interest Receivable	39,377	47,919
Restricted Certificates of Deposit	456,245	462,699
Prepaid Expenses	16,000	
Total Current Assets	<u>14,837,683</u>	<u>14,800,985</u>
Noncurrent Assets:		
Capital Assets less Accumulated Depreciation/Amortization	1,060,681	1,786,401
Restricted Net Pension Asset	543,598	
Total Noncurrent Assets	<u>1,604,279</u>	<u>1,786,401</u>
<b>Total Assets</b>	<b><u>16,441,962</u></b>	<b><u>16,587,386</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources-Related to Pensions	483,438	
<b>Total Deferred Outflows of Resources</b>	<b><u>483,438</u></b>	<b><u>0</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	277,067	262,300
Prizes Payable	1,599,555	1,235,946
Due to the Property Tax Reduction Fund		3,545,146
Due to the Capital Construction Fund	577,367	1,417,262
Due to the General Fund	5,373,842	1,362,306
Due to Other Funds	91,667	96,404
Due to Other Governments	39,000	17,640
Operator Security Deposits	484,545	486,881
Escrows Payable-Reservation Sales	69,178	64,997
Accrued Liabilities	298,563	274,365
Unearned Revenue	271,528	286,824
Total Current Liabilities	<u>9,082,312</u>	<u>9,050,071</u>
Noncurrent Liabilities:		
Accrued Liabilities	160,454	150,125
<b>Total Liabilities</b>	<b><u>9,242,766</u></b>	<b><u>9,200,196</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows of Resources-Related to Pensions	629,579	
<b>Total Deferred Inflows of Resources</b>	<b><u>629,579</u></b>	<b><u>0</u></b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	1,060,681	1,786,401
Restricted For:		
Pension Obligations	397,457	
MUSL Permitted Uses	700,807	813,003
Unrestricted	4,894,110	4,787,786
<b>Total Net Position</b>	<b><u>\$7,053,055</u></b>	<b><u>\$7,387,190</u></b>

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, 2015 and 2014*

	<b>FY2015</b>	<b>FY2014</b>
<b>OPERATING REVENUES:</b>		
Video Lottery Revenue	\$99,564,998	\$92,623,364
Instant Ticket Sales	25,839,734	25,517,805
On-Line Ticket Sales	25,340,133	28,580,432
Terminal License Fees	1,112,200	1,101,800
Retailer License Fees	410,425	449,210
<b>Total Operating Revenue</b>	<b>152,267,490</b>	<b>148,272,611</b>
<b>DIRECT GAME COSTS:</b>		
Instant Prizes	16,929,551	16,759,787
On-Line Prizes	12,814,156	14,486,518
Instant Retail Commissions	1,453,501	1,444,198
On-Line Retail Commissions	1,358,225	1,509,118
Instant Ticket Print Costs	417,172	535,620
<b>Total Direct Costs</b>	<b>32,972,605</b>	<b>34,735,241</b>
<b>Gross Profit</b>	<b>119,294,885</b>	<b>113,537,370</b>
<b>OPERATING EXPENSES:</b>		
Personal Services and Benefits	1,767,388	1,805,799
Travel	130,068	135,302
Advertising	767,331	799,873
Contractual Services	4,361,251	4,300,481
Supplies and Materials	237,751	166,984
Depreciation/Amortization	725,720	784,410
Bad Debt Expense	3,615	
Payments to Reservations	69,178	64,997
<b>Total Operating Expenses</b>	<b>8,062,302</b>	<b>8,057,846</b>
<b>Operating Income</b>	<b>111,232,583</b>	<b>105,479,524</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Pooled Investment Income	138,496	243,118
Investment Costs	(16,608)	(13,199)
Non-operating Revenue from MUSL	33,758	14,075
Miscellaneous Revenue	59,956	35,399
<b>Total Non-operating Revenue (Expenses)</b>	<b>215,602</b>	<b>279,393</b>
<b>Income Before Transfers</b>	<b>111,448,185</b>	<b>105,758,917</b>
<b>TRANSFERS:</b>		
Transfers to the Property Tax Reduction Fund	94,744,636	91,697,131
Transfers to the General Fund	10,963,842	6,837,306
Transfers to the Capital Construction Fund	6,177,367	7,517,262
Transfers to the Department of Social Services	188,374	169,326
<b>Total Transfers</b>	<b>112,074,219</b>	<b>106,221,025</b>
<b>Change in Net Position</b>	<b>(626,034)</b>	<b>(462,108)</b>
Net Position Beginning of Year	7,387,190	7,849,298
Restatement Due to New Standard (see Note 1)	291,899	
Adjusted Net Position Beginning of Year	7,679,089	7,849,298
<b>NET POSITION END OF YEAR</b>	<b>\$7,053,055</b>	<b>\$7,387,190</b>

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, 2015 and 2014

	<b>FY2015</b>	<b>FY2014</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$152,206,765	\$147,820,174
Payments for Lottery Prizes	(29,333,900)	(31,567,874)
Payments to Suppliers	(7,746,814)	(8,303,255)
Payments for Interfund Services Used	(933,356)	(733,214)
Payments for Employee Services	(1,838,419)	(1,813,767)
Other Receipts (Payments)	107,653	(41,726)
Net Cash Provided (Used) by Operating Activities	<u>112,461,929</u>	<u>105,360,338</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Capital Assets		(21,800)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>0</u>	<u>(21,800)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers to Other Funds	(112,447,724)	(106,566,154)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(112,447,724)</u>	<u>(106,566,154)</u>
<b>Cash Flows from Investing Activities</b>		
Pooled Investment Income	147,038	239,931
Investment Costs	(16,608)	(13,199)
Net Cash Provided (Used) by Investing Activities	<u>130,430</u>	<u>226,732</u>
Net Increase (Decrease) in Cash during the Fiscal Year	144,635	(1,000,884)
Cash at Beginning of Year	8,632,848	9,633,732
<b>Cash at End of Year</b>	<b><u>\$8,777,483</u></b>	<b><u>\$8,632,848</u></b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income	\$111,232,583	\$105,479,524
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Depreciation/Amortization Expense	725,720	784,410
Other Revenue	59,956	35,399
Non-operating Revenue from MUSL	33,758	14,075
<b>Decrease/(Increase) in Assets:</b>		
Accounts Receivable	(6,870)	(441,168)
Allowance for Doubtful Accounts	3,615	
Restricted Other Receivable	112,196	4,114
Restricted Certificates of Deposit	6,454	9,500
Prepaid Expense	(16,000)	
Restricted Net Pension Asset	(330,866)	
<b>Decrease/(Increase) in Deferred Outflows of Resources:</b>		
Deferred Outflows of Resources - Related to Pensions	(404,271)	
<b>Increase/(Decrease) in Liabilities:</b>		
Accounts Payable	14,767	(194,095)
Prizes Payable	363,609	(361,370)
Due to Other Funds	(4,737)	29,523
Due to Other Governments	21,360	17,640
Operator Security Deposits	(2,336)	(6,900)
Escrows Payable	4,181	(3,088)
Accrued Liabilities	34,527	(7,968)
Unearned Revenue	(15,296)	742
<b>Increase/(Decrease) in Deferred Inflows of Resources:</b>		
Deferred Inflows of Resources - Related to Pensions	629,579	
Total Adjustments	<u>1,229,346</u>	<u>(119,186)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$112,461,929</u></b>	<b><u>\$105,360,338</u></b>

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, Power Play, Mega Millions, Megaplier, Hot Lotto, Sizzler, Wild Card 2 and Dakota Cash.

**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.

**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.** Accounts receivable (net) represents the following on June 30:

	2015	2014
Uncollected instant/on-line ticket revenues	\$974,302	\$1,212,489
Allowance for doubtful instant/on-line accounts	(18,072)	(14,457)
Uncollected video lottery revenues and fees	3,891,541	3,646,484
	<u>\$4,847,771</u>	<u>\$4,844,516</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 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.

# NOTES TO THE FINANCIAL STATEMENTS

**OPERATOR SECURITY DEPOSITS.** 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, 2015 and 2014, the amount of cash on deposit with the Lottery was \$28,300 and \$24,182 and the amount of certificates of deposit being held by the Lottery was \$456,245 and \$462,699, respectively. The amount of \$4,753,400 and \$4,956,100, respectively, was in the form of surety bond or irrevocable letter of credit and are not reported on the Statement of Net Position. The total security deposits on June 30, 2015 and 2014 were \$5,237,945 and \$5,442,981, 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 2015 and 2014:

	2015				2014			
	Beginning Balance	Additions	Deletions	Ending Balance	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$1,958,659	\$ -	\$ -	\$1,958,659	\$1,942,349	\$ 21,800	\$ 5,490	\$1,958,659
Intangible Assets-Software	2,313,097	-	-	2,313,097	2,313,097	-	-	2,313,097
Total Capital Assets	4,271,756	-	-	4,271,756	4,255,446	21,800	5,490	4,271,756
Less Accumulated								
Depreciation/Amortization for:								
Equipment	(1,444,461)	(494,410)	-	(1,938,871)	(896,851)	(553,100)	5,490	(1,444,461)
Intangible Assets-Software	(1,040,894)	(231,310)	-	(1,272,204)	(809,584)	(231,310)	-	(1,040,894)
Total Accumulated								
Depreciation/Amortization	(2,485,355)	(725,720)	-	(3,211,075)	(1,706,435)	(784,410)	5,490	(2,485,355)
Total Capital Assets, Net	\$1,786,401	(\$725,720)	\$ -	\$1,060,681	\$2,549,011	(\$762,610)	\$ -	\$1,786,401

**PENSIONS.** In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and in Nov. 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. The requirements of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions.

Accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating financial statements for all periods presented. 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

# NOTES TO THE FINANCIAL STATEMENTS

(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.

Beginning net position has been restated to reflect the related restricted net pension asset and deferred outflows of resources as of July 1, 2014 as follows:

Net position June 30, 2014 as previously reported	\$ 7,387,190
Restatement for pension accounting:	
Restricted net pension asset	212,732
Pension related deferred outflows of resources	79,167
Net position July 1, 2014, as restated	<u>\$7,679,089</u>

**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 the prize pools of subsequent lottery games. Reverted prizes during the fiscal years ended June 30, 2015 and 2014 were \$333,668 for on-line prizes and \$655,677 for instant prizes, and \$438,817 for on-line prizes and \$471,049 for instant prizes, respectively.

**DUE TO THE PROPERTY TAX REDUCTION FUND AND THE GENERAL FUND.** 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 Property Tax Reduction Fund. As of July 1, 2015, the Property Tax Reduction Fund was eliminated and replaced by the General Fund. At June 30, 2015 and 2014, there was a liability to the General Fund of \$3,824,712 and to the Property Tax Reduction Fund of \$3,545,146, 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 \$1,549,130 and \$1,362,306, and a liability for on-line ticket sales to the Capital Construction Fund of \$577,367 and \$1,417,262 as of June 30, 2015 and 2014, 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.

# NOTES TO THE FINANCIAL STATEMENTS

---

**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.

**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, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

**Restricted net position** consists of Pension Obligations which is the sum of the ending Restricted Net Pension Asset balance and the ending Deferred Outflows Related to Pension balance less the ending Deferred Inflows Related to Pension balance. Restricted net position also includes funds held by the Multi-State Lottery Association (MUSL) in an unreserved account. The earnings paid to this account are considered to be distributions to the member lotteries, but account funds may be used by a member lottery only for the purposes approved by the MUSL Board.

**Unrestricted net position** consists of 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 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 \$10,000, respectively. Selling bonuses of \$20,000 and \$500 may be paid to retailers selling Mega Millions tickets of \$1,000,000 and \$5,000, respectively. If a retailer sells a Power Play ticket winning \$2,000,000 or \$10,000 (times the multiplier), a bonus of \$25,000 or \$1,000 times the multiplier may be paid, respectively. If a retailer sells a Megaplier ticket hitting 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 Wild Card 2 jackpot winning ticket may receive a bonus equal to 1 percent of the value of the winning ticket, not to exceed \$10,000; a retailer selling a \$6,000 winning ticket may receive a bonus of \$600.

# NOTES TO THE FINANCIAL STATEMENTS

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 jackpot, \$90,000 or \$9,000 winning ticket may receive a bonus of \$10,000, \$9,000 or \$900, respectively.

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

## **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, 2015 and 2014, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$147,487 and \$135,791, 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, 2015 and 2014, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$193,685 and \$182,540, respectively. The following is a schedule of changes in compensated absences at June 30, 2015 and 2014.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences Payable					
<b>Fiscal Year 2015</b>	<b>\$ 318,331</b>	<b>\$ 180,865</b>	<b>\$ 158,024</b>	<b>\$ 341,172</b>	<b>\$ 180,719</b>
Fiscal Year 2014	310,633	166,384	158,686	318,331	168,206

## **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).

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, 2015, 2014, and 2013 were \$82,598, \$79,167, and \$71,379, respectively, equal to the required contributions each year.

At June 30, 2014, SDRS is 107% funded and accordingly has a restricted net pension asset. At June 30, 2015, the South Dakota Lottery reported an asset of \$543,598 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2015, pension revenue of \$22,961 was recorded. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

# NOTES TO THE FINANCIAL STATEMENTS

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 45,996	
Changes in assumption	354,845	
Net difference between projected and actual earnings on pension plan investments		\$ 629,579
Contributions after the measurement date	<u>82,597</u>	
<b>Total</b>	<b><u>\$ 483,438</u></b>	<b><u>\$ 629,579</u></b>

## **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, 2015:

Period Ending June 30:	
2016	\$ 88,006
2017	94,572
2018	94,572
2019	94,572
2020	94,572
Later years	<u>811,242</u>
<b>Total Minimum Payments</b>	<b><u>\$1,277,536</u></b>

Total rental expense for all operating leases for the fiscal years ended June 30, 2015 and 2014, was \$72,967 and \$62,315, respectively.

## **NOTE 5. VIDEO LOTTERY**

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash In	\$ 641,668,506	\$ 590,520,297
Less Cash Out	<u>442,538,510</u>	<u>405,273,569</u>
Video Lottery Net Machine Income	199,129,996	185,246,728
Less Operator and Establishment Share	<u>99,564,998</u>	<u>92,623,364</u>
Video Lottery Revenue Available to the State	99,564,998	92,623,364
Less Lottery Operating Share	<u>995,650</u>	<u>926,233</u>
Video Lottery Revenue to the Property Tax Reduction Fund/General Fund	<b><u>\$ 98,569,348</u></b>	<b><u>\$ 91,697,131</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

---

## **NOTE 6. TRANSFERS**

Following is a summary of total transfers for the fiscal years ended June 30, 2015 and 2014:

Transfers Out:	<u>2015</u>	<u>2014</u>
General Fund Proceeds from Instant and On-Line	\$ 5,500,000	\$ 5,400,000
Capital Construction Fund Proceeds from On-Line	5,600,000	6,100,000
General Fund Proceeds from Instant and On-line not Yet Transferred	1,549,130	1,362,306
Capital Construction Fund Proceeds from On-Line not Yet Transferred	577,367	1,417,262
Video Lottery Proceeds Transferred to the Property Tax Reduction Fund	94,744,636	88,151,985
Video Lottery Proceeds to General Fund not Yet Transferred	3,824,712	3,545,146
Video Lottery Grant to Department of Social Services	188,374	169,326
Video Lottery Fees Transferred to the General Fund	90,000	75,000
<b>Total Transfers Out</b>	<b><u>\$112,074,219</u></b>	<b><u>\$106,221,025</u></b>

## **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, Wild Card 2, Hot Lotto, Mega Millions/Megaplier, and the Monopoly Millionaires Club 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. Monopoly Millionaires Club sales began October 19, 2014, and were suspended December 26, 2014.

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 49.36 percent of sales and .64 percent may be placed in a prize reserve account. The prize pool for Wild Card 2 is 57 percent of sales and 3 percent shall be 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. The prize pool for Monopoly Millionaires Club was 50 percent of each drawing period's sales and up to 4 percent was 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. At June 30, 2015 and 2014, the prize reserve account balances were:

# NOTES TO THE FINANCIAL STATEMENTS

	2015 MUSL Balance	2015 SD Lottery Share	2014 MUSL Balance	2014 SD Lottery Share
Powerball Prize Reserve Account	\$ 74,843,800	\$ 466,390	\$ 76,376,927	\$ 457,309
Powerball Set Prize Reserve Account	35,096,120	218,233	35,199,525	227,313
Wild Card Prize Reserve Account	128,321	(31,148)	496,452	73,614
Hot Lotto Prize Reserve Account	8,022,038	338,443	7,411,908	338,443
Monopoly Millionaires Club	361,844	1,744		
Mega Millions Prize Reserve Account	37,271,793	159,356	35,842,966	173,216
<b>Total MUSL Prize Reserves</b>	<b>\$155,723,916</b>	<b>\$1,153,018</b>	<b>\$155,327,778</b>	<b>\$1,269,895</b>

Also held by MUSL is the Unreserved Account into which is deposited the earnings from MUSL operations. The earnings paid 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 Wild Card 2 jackpot is paid in cash. 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 a contract with Scientific Games to provide instant game tickets through August 29, 2016.
- 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 GTECH 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 Lottery is uninsured for property loss. 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; and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.



 /sdlottery

 @sdlottery

 /sdlottery

[lottery.sd.gov](http://lottery.sd.gov)