

FISCAL YEAR  
**2019**  
ANNUAL REPORT



**SOUTH DAKOTA**  
**LOTTERY**  
— **GOOD FUN** —

A DIVISION OF THE SOUTH DAKOTA  
DEPARTMENT OF REVENUE

## LOTTERY STAFF

---

**Norm Lingle**  
Executive Director

**Clark Hepper**  
Deputy Executive Director

**Marla Gruber,**  
Director of Sales

**Elizabeth Burdick**  
Business Analyst

**Angela Bieber**  
Information Officer

**Whitney Ellwanger**  
Information Officer

**Starla Volk**  
Sales Supervisor

**Dan Sahr,**  
Sales Supervisor

**Matthew Piersall**  
Sales Representative

**Jane Aasby**  
Sales Representative

**Cynthia Delzer**  
Sales Representative

**Lana Okeson**  
Sales Representative

**Jeffrey Thomas**  
Sales Representative

**Pat Boyles**  
Sales Representative

**Connor Berg**  
Sales Representative

**Lindsey Binstock**  
Sales Representative

**Scott Howard**  
Sales Representative

**Mathew Sommerfeld**  
Warehouse Security

**Jennifer Van Roekel**  
Validation Clerk

**Debbie Gordon**  
Validation Clerk

**Lonnie Moody**  
Systems Administrator

**Mason Propst**  
Video Lottery Specialist I

**Shawn Castonguary**  
Video Lottery Specialist I

**Sonja Campbell**  
Licensing Manager

**Liza Sickler**  
Video Lottery Specialist I

**Jamin McGray**  
Video Lottery Specialist II

**Tonya Johnson**  
Accounting Manager

**Aric Frost**  
Accountant

**Julie Pirnat-Schultz**  
Accountant

**Patricia Kirby**  
Accountant

## LOTTERY COMMISSION

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**Jamie Huizenga,** Pierre

**Joe Kafka,** Valley Springs

**Jason Ahrendt,** Sioux Falls

**William Shorma,** Dakota Dunes

**David Wheeler,** Huron

## VALIDATION CENTERS & MAILING ADDRESS

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Rapid City, SD 57701  
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**South Dakota Lottery, 711 E. Wells Ave., Pierre, SD 57501 | [lottery.sd.gov](http://lottery.sd.gov)**

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## MISSION STATEMENT

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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 EXECUTIVE DIRECTOR

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To the Governor, Legislature, and People of South Dakota:

Fiscal Year 2019 was another record-setting one for the South Dakota Lottery staff and Commission, and I'm pleased to share our accomplishments with you in our Annual Report. As a division of the Department of Revenue, our staff and partners collaborated to improve our lotto, instant, and video lottery programs, ensuring that the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$129.4 million to funds that improve the quality of life in South Dakota. More than \$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 \$123.0 million to the General Fund which funds local K-12 schools and state universities and technical institutes. In total, we have distributed an impressive \$2.94 billion to our beneficiaries since our start in 1987.

In Fiscal Year 2019, we celebrated a second consecutive record-breaking year in terms of instant ticket sales. The record sales were no accident, as we once again utilized feedback from our partners to aid us in the release of 29 new instant tickets.

Even non-winning instant tickets provided an additional element of good fun, as it was an exciting year for our Players Club's Second Chance Drawings. This year, these drawings included prizes such as a new truck, a year's worth of pork, and tickets to entertainment events. Best of all, entering these drawings has never been easier thanks to our mobile app.

Players could also enjoy exciting promotions with our lotto games. The South Dakota Lottery offered promotions which allowed our players to receive free lotto tickets. These promotions not only aided our sales, but they also introduced players to all of the games in our lotto lineup. These promotions, as well as a record-setting Mega Millions jackpot, helped lead to another strong year in lotto sales.

The video lottery industry also celebrated a record year. New terminals throughout the state continued to yield positive results. As this technology continues to evolve, we look forward to providing our partners and players in the video lottery industry new options that best appeal to them.

As a division of the Department of Revenue, we also welcomed Jim Terwilliger as our cabinet secretary. Secretary Terwilliger is no stranger to our operations, having served 12 years with the Bureau of Finance and Management as deputy commissioner and state economist.

I invite you to take some time to read more about our highlights and improvements from Fiscal Year 2019. As always, the South Dakota Lottery reminds its players to please play responsibly.

We look forward to continuing our service to the State of South Dakota and its residents in Fiscal Year 2020.

Sincerely,



“ Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$129.4 million to funds that improve the quality of life in South Dakota.”

NORM LINGLE

# SALES & REVENUES

Total Fiscal Year 2019 Lottery revenue generated for state funds was more than \$129 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$32,237,932	\$21,321,309	\$1,696,855	\$6,896,813
Lotto Tickets	\$30,708,432	\$16,383,207	\$1,564,614	\$8,256,004
Video Lottery*	\$785,798,335	\$555,564,866	\$115,116,734	\$114,269,567
			<b>Total</b>	<b>\$129,422,384</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.

	General Fund	Capital Construction Fund	Department of Social Services*
Instant Tickets	\$6,896,813		
Lotto Tickets	\$2,064,001	\$6,192,003	
Video Lottery	\$113,965,567		\$214,000
Video Lottery License Fees	\$90,000		
<b>Totals</b>	<b>\$123,016,381</b>	<b>\$6,192,003</b>	<b>\$214,000</b>

*\*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 proceeds from the sale of instant tickets are transferred to the state General Fund, nearly half of which supports local K-12 schools, state universities, and technical institutes.

The General Fund receives 25% in net revenue from lotto tickets. The Capital Construction Fund receives the other 75%. The Capital Construction Fund 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 General Fund, which supports public K-12 and higher education as well as programs within the Department of Social Services, human services facilities, and corrections and court systems. A small amount (0.5% of NMI) is kept by the Lottery for operation costs.

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

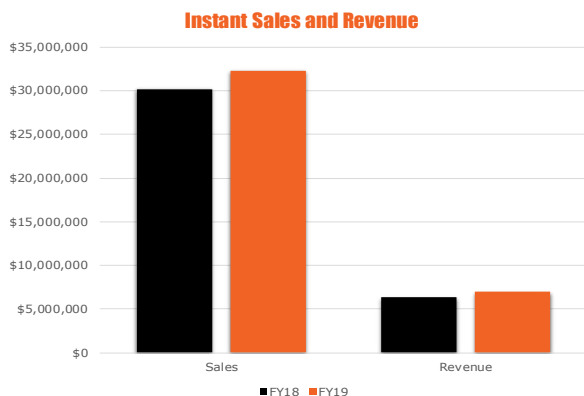
# FISCAL YEAR 2019 HIGHLIGHTS

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 over \$2.94 billion in revenue.

## INSTANT TICKETS

The Lottery launched 29 new instant ticket games during Fiscal Year 2019. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$500,000, as well as merchandise prizes.

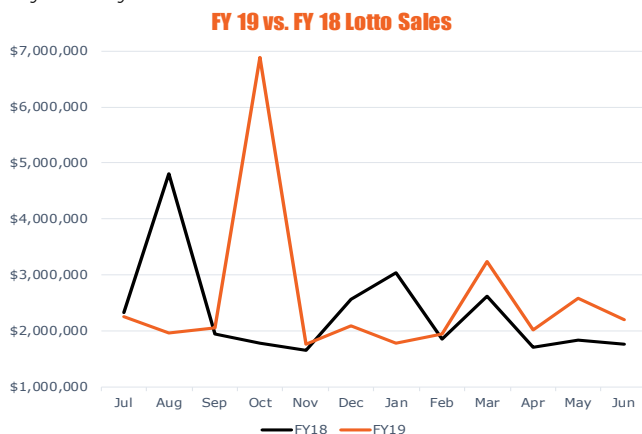
At the close of Fiscal Year 2019, there were 629 licensed instant ticket retailers across the state. Retailers receive a 5% commission for selling tickets, a 1% commission for cashing winning tickets with prizes up to \$100, and a 1% commission for selling tickets with prizes of more than \$100.



Fiscal Year 2019 instant ticket sales were up 6.8% from the previous year and revenues were up 7.8%. 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, Lotto America and Lucky For Life are multi-state games. Dakota Cash with EZ Match is played only in South Dakota.



At the end of Fiscal Year 2019, there were 616 licensed lotto retailers. Lotto retailers receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

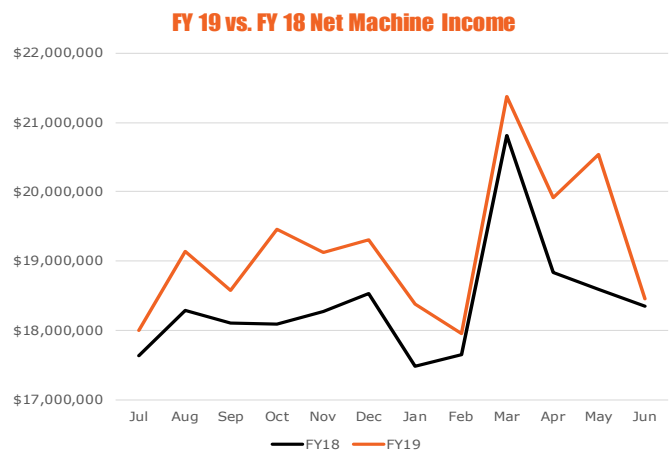
Lotto games reported an overall sales increase of 9.7% and transfers decreased 1.7% from Fiscal Year 2018. The General Fund receives 25% in net revenue from lotto tickets. The Capital Construction Fund receives the other 75%.

## 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 Net Machine Income (NMI) increased by 4.4% in Fiscal Year 2019. The average number of active video lottery machines during Fiscal Year 2019 was 9,027, and the average number of licensed establishments was 1,246. 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 the state's share is retained by the Lottery for administration.

Revenue from video lottery net machine income during Fiscal Year 2019 was distributed to 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 2019 HIGHLIGHTS

## LOTTERY CELEBRATES FIRST LUCKY FOR LIFE TOP PRIZE WINNER

Brandi Jo Hanson's lucky numbers will pay dividends to the tune of \$1,000 a day for the rest of her life.

The 23-year-old Aberdeen resident claimed her life-changing prize from the South Dakota Lottery after becoming the state's first Lucky for Life top prize winner. Hanson purchased her ticket at Ken's SuperFair Foods in Aberdeen prior to the Dec. 31 drawing.

"I feel very blessed. I'm very grateful," Hanson said. "It's life-changing. It's a little overwhelming. I was really scared at first, and I didn't know what to do. Now, after talking things out with my financial advisor, we have a plan."

Hanson somewhat created her own luck in ringing in the new year with the top prize. She notes that she purchases lotto tickets about once a week, and when she does, she chooses her numbers based on her grandmother's birthday, her grandfather's birthday or their anniversary.

In this instance, she chose her grandmother's birthday, which makes her win even more special.

"It makes me feel like she's watching over me up there," Hanson said.

Hanson's Lucky for Life win granted her a unique dilemma. She could either choose the game's \$1,000 a day for life prize or a one-time payment of \$5.7 million.



## FY2019 BIG WINNERS



Christopher Whitley - Redfield, SD



Stuart Laabs - Rapid City, SD



Leo Bald Eagle - Rapid City, SD



Nicholas Rollings - Sioux Falls, SD



Roger Dejean - Huron, SD



Barbara Ordal - Madison, SD

# FISCAL YEAR 2019 HIGHLIGHTS

## INSTANT TICKETS HAVE BACK-TO-BACK RECORD YEARS



Fiscal Year 2018's instant ticket sales didn't sit atop the record books for long, thanks to a history-making Fiscal Year 2019.

Like the year before, new tickets were a key component in the new sales record. Fiscal Year 2019 featured the debut of 29 new tickets, which helped the Lottery accumulate \$32,237,932 in sales. The success of Fresh Fridays was no accident though, as the Lottery once again utilized the expertise of players across the state to select these new tickets.

In partnership with Lawrence & Schiller, the Lottery surveyed players' perception of certain tickets to gauge their interest in new play styles, price points, and ticket art. The perception studies have been pivotal in the consecutive record-setting years and will continue to be utilized in the future.

## NEW SECOND CHANCE DRAWINGS PROVIDE UNIQUE PRIZES

South Dakota Lottery players who purchased non-winning instant tickets didn't despair as our second chance drawings provided several exciting opportunities.

The second chance drawings, which are exclusive to the South Dakota Lottery's Players Club members, allow players to enter qualifying non-winning tickets into a drawing. Whether it was a new truck, a year's worth of pork, concert tickets and more, players enjoyed more play styles than ever when it came to these drawings.

Fort Thompson's Raquel Moffer was one of FY19's big second chance winners as she claimed a brand new Ford F150 through our Trucks & Bucks promotion. Moffer had participated in the Lottery's second chance drawings in the past, but her exhilaration multiplied when she learned what her prize was.



"I was actually at work when I made the call up to the Pierre office. When she told me I had won, I just thought that it was just some lottery tickets or \$500 cash," Moffer said. "When she told me I won a new truck I was shocked. I was in the office, so my coworkers were wondering what was going on. It was an exciting moment."

Moffer was one of the many Players Club members who used the South Dakota Lottery's mobile app to take a second chance. The app allows players to simply scan their tickets to enter second chance drawings, making them more convenient than ever.

"Get the mobile app. It's very helpful, especially with the new tickets out," Moffer said. "You can scan the tickets to see if you're a winner or not then you have the second chance option if it's not. I've actually been promoting it quite a bit."

## AND THE WINNER IS...THE SD LOTTERY!



Our players weren't the only big winners this year, as the South Dakota Lottery received a bronze Telly award for its 2019 instant ticket TV spots.

The Telly Awards are presented annually and is one of the most prestigious honors in the video and television industry. The Lottery earned its Telly for the instant ticket TV spots that included the couch cushion, claw machine, and cereal box commercials.

The Lottery's honor holds even more prestige considering the 2019 event featured a record-setting number of entries.



# FISCAL YEAR 2019 HIGHLIGHTS

## PROMOTIONS ADD EXCITEMENT TO LOTTO LINEUP

Sky-high jackpots weren't the only thing that generated excitement among lotto players, as the South Dakota Lottery debuted a pair promotions related to its lotto lineup.

In July, the Lottery offered the Try Lucky for Free promotion, which gave players who purchased five Lotto America tickets a free Lucky for Life ticket. The promotion aided the Lottery's efforts in introducing the games to players, as Lucky for Life was launched in June 2017, while Lotto America was launched in November 2017.

The promotion paid dividends as Lotto America Sales increased 27.03% during the 30-day period of the promotion compared to the 30-day period prior to the promotion. Lucky for Life sales increased 16.38% when the two 30-day periods were compared.

Throughout February, we offered players a free Powerball ticket with the purchase of five Dakota Cash tickets. This promotion proved to be fruitful for Eugene Flynn of North Sioux City, who received a Powerball ticket worth \$50,000.



## COMING SOON! NEW LOTTO SYSTEM



Throughout Fiscal Year 2019, the Lottery completed a Request For Proposal (RFP) in search of a new lotto system that will benefit retailers and players throughout the state.

After receiving pitches from multiple potential suitors, the Lottery entered a contract with International Gaming Technology (IGT). The two parties are aiming towards a November 2019 conversion date and began rolling out elements of it to retailers at the conclusion of FY19.

Testing elements included the new Retailer Pro terminal (pictured), which received positive feedback from retailers across the state. As the conversion is completed, retailers and players can expect new elements, such as the ability to scan lotto tickets in the Lottery's mobile app, that will enhance their lotto experience.

## VIDEO LOTTERY SALES REACH NEW HEIGHTS

Options for our video lottery players have never been better, which was proven by a record year in sales.

The state's share of Net Machine Income totaled \$115.1 million, breaking the previous record that was set in Fiscal Year 2008. The record year was due in large part to the continued use of line game terminals, which continue to show positive trends.

At the conclusion of Fiscal Year 2019, the growth in video lottery line games continued to grow with 4,058 machines throughout the state. The state also featured 4,888 legacy terminals at the end of the year.

While the line games were at a slight disadvantage in quantity, their quality proved to be the preference of our players. At the conclusion of Fiscal Year 2019, the line games not only averaged more Net Machine Income per day, but they also provided more cash in and total Net Machine Income.

With industry trends continuing to point toward the effectiveness of the new machines, the South Dakota Lottery will continue to partner with members of the industry to grow video lottery's success even more.



# 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 Kristi Noem  
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, 2019 and 2018, 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 10, 2019.

### 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

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## 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

October 10, 2019

# AUDITOR'S REPORT

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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem  
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, 2019 and 2018, 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

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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, 2019 and 2018, 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.

## **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, 2019 and 2018, 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**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota Lottery Fund's basic financial statements. The *Message from the Director, Fiscal Year 2019 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 2019 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 October 10, 2019 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, 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

October 10, 2019



# FINANCIAL STATEMENTS

*South Dakota Lottery*  
**STATEMENT OF NET POSITION**  
*June 30, 2019 and 2018*

	2019	2018
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 9,706,620	\$ 8,750,511
Restricted cash	21,500	39,900
Total cash	9,728,120	8,790,411
Accounts receivable	5,075,158	5,127,712
Restricted other receivables	662,781	649,767
Interest receivable	87,144	61,394
Restricted certificates of deposit	406,552	442,444
Prepaid expenses	839	11,412
Total current assets	15,960,594	15,083,140
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization	363,295	633,051
Net pension asset	1,524	6,548
Total noncurrent assets	364,819	639,599
<b>Total Assets</b>	<b>16,325,413</b>	<b>15,722,739</b>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows of Resources - Pensions	539,076	706,284
<b>Total Deferred Outflows of Resources</b>	<b>539,076</b>	<b>706,284</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 389,275	\$ 150,469
Prizes payable	3,485,883	2,028,315
Due to the Capital Construction Fund	792,003	1,395,339
Due to the General Fund	4,669,149	5,468,269
Due to other funds	92,776	90,960
Operator security deposits	428,052	482,344
Escrows payable - special jurisdiction area sales	86,440	83,185
Compensated absences	157,601	138,251
Accrued liabilities	128,929	111,193
Unearned revenues	228,516	173,755
Total current liabilities	10,458,624	10,122,080
Noncurrent Liabilities		
Compensated absences	137,366	122,158
Total noncurrent liabilities	137,366	122,158
<b>Total Liabilities</b>	<b>10,595,990</b>	<b>10,244,238</b>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows of Resources - Pensions	115,662	127,610
<b>Total Deferred Inflows of Resources</b>	<b>115,662</b>	<b>127,610</b>
<b>Net Position</b>		
Net Investment in Capital Assets	363,295	633,051
Restricted for Pensions	424,938	585,222
Restricted for MUSL Permitted Uses	662,781	649,767
Unrestricted	4,701,823	4,189,135
<b>Total Net Position</b>	<b>\$ 6,152,837</b>	<b>\$ 6,057,175</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, 2019 and 2018

	2019	2018
<b>Operating Revenues</b>		
Video lottery revenue, net (Note 6)	\$ 115,116,734	\$ 110,312,658
Instant ticket sales	32,237,932	30,181,754
On-line ticket sales	30,708,432	27,999,156
Terminal license fees	1,089,000	1,094,500
Retailer license fees	462,119	480,978
Other revenue	28,741	6,165
<b>Total Operating Revenues</b>	<b>179,642,958</b>	<b>170,075,211</b>
<b>Direct Game Costs</b>		
Instant prizes	21,321,309	19,470,632
On-line prizes	16,383,207	14,208,961
Instant retail commissions (Note 1)	1,696,855	1,692,953
On-line retail commissions (Note 1)	1,564,614	1,421,278
Instant ticket print costs	872,955	636,466
<b>Total Direct Game Costs</b>	<b>41,838,940</b>	<b>37,430,290</b>
<b>Operating Revenues, Net of Direct Game Costs</b>	<b>137,804,018</b>	<b>132,644,921</b>
<b>Operating Expenses</b>		
Personal services and benefits	2,057,288	1,558,513
Travel	165,199	128,234
Advertising	1,024,128	1,042,949
Contractual services	5,405,984	4,652,022
Supplies and materials	162,695	91,214
Depreciation and amortization	269,756	245,572
Bad debt expense	1,976	20,743
Payments to special jurisdiction areas	86,440	83,185
<b>Total Operating Expenses</b>	<b>9,173,466</b>	<b>7,822,432</b>
<b>Operating Income</b>	<b>128,630,552</b>	<b>124,822,489</b>
<b>Non-Operating Revenues (Expenses)</b>		
Pooled investment income	880,788	45,840
Interest income	9,956	2,552
Investment expenses	(3,250)	(3,032)
Non-operating revenue from MUSL	-	21,676
<b>Total Non-Operating Revenue (Expenses)</b>	<b>887,494</b>	<b>67,036</b>
<b>Income Before Transfers</b>	<b>129,518,046</b>	<b>124,889,525</b>
<b>Transfers</b>		
General Fund	(123,016,381)	(117,569,592)
Capital Construction Fund	(6,192,003)	(6,995,339)
Department of Social Services	(214,000)	(181,329)
<b>Total Transfers</b>	<b>(129,422,384)</b>	<b>(124,746,260)</b>
<b>Change in Net Position</b>	<b>95,662</b>	<b>143,265</b>
Net Position, Beginning of Year	6,057,175	5,913,910
<b>Net Position, End of Year</b>	<b>\$ 6,152,837</b>	<b>\$ 6,057,175</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, 2019 and 2018

	2019	2018
<b>Operating Activities</b>		
Receipts from customers and users	\$ 179,794,011	\$ 169,759,870
Payments for lottery prizes	(36,246,948)	(34,013,943)
Payments to suppliers	(9,752,578)	(8,908,395)
Payments for interfund services used	(888,524)	(664,381)
Payments for employee services	(1,844,710)	(1,845,033)
Other (payments) receipts	(150,490)	(98,453)
<b>Net Cash Provided by Operating Activities</b>	<b>130,910,761</b>	<b>124,229,665</b>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	-	(279,295)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>-</b>	<b>(279,295)</b>
<b>Noncapital Financing Activities</b>		
Transfers to other funds	(130,824,840)	(124,201,301)
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>(130,824,840)</b>	<b>(124,201,301)</b>
<b>Investing Activities</b>		
Pooled investment income	855,038	34,764
Investment expenses	(3,250)	(3,032)
<b>Net Cash Provided by Investing Activities</b>	<b>851,788</b>	<b>31,732</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>937,709</b>	<b>(219,199)</b>
Cash and Cash Equivalents, Beginning of Year	8,790,411	9,009,610
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 9,728,120</b>	<b>\$ 8,790,411</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 128,630,552	\$ 124,822,489
<b>Adjustments to reconcile operating income</b>		
Depreciation and amortization expense	269,756	245,572
Other revenue	9,956	2,552
Non-operating revenue from MUSL	-	21,676
<b>Decrease/(increase) in assets</b>		
Accounts receivable	52,554	(218,055)
Restricted other receivable	(13,014)	(8,372)
Restricted certificates of deposit	35,892	9,137
Prepaid expense	10,573	8,588
Net pension asset	5,024	(6,548)
<b>Decrease/(increase) in deferred outflows of resources</b>		
Deferred outflows of resources - pensions	167,208	(95,267)
<b>Increase/(decrease) in liabilities</b>		
Accounts payable	238,806	118,239
Prizes payable	1,457,568	(334,350)
Due to other funds	1,816	(34,676)
Operator security deposits	(54,292)	11,163
Escrows payable	3,255	11,656
Compensated absences	34,558	(46,264)
Accrued liabilities	17,736	(8,466)
Unearned revenues	54,761	(139,434)
Net pension liability	-	(253,434)
<b>Increase/(decrease) in deferred inflows of resources</b>		
Deferred inflows of resources - pensions	(11,948)	123,459
Total adjustments	2,280,209	(592,824)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 130,910,761</b>	<b>\$ 124,229,665</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

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## **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 September 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 October 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 November 15, 1990. The current lotto games offered by the Lottery are Powerball, Mega Millions, Dakota Cash, Lucky for Life, and Lotto America.

### **Basis of Presentation**

The South Dakota Lottery Fund is accounted for as a proprietary type enterprise fund for the State of South Dakota and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). 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). These financial statements for the Lottery are separate and apart from those of the State and do not present the total financial position of the State, nor changes in the State's financial position or cash flows for the fiscal years then ended.

Proprietary funds are accounted for using the accrual basis of accounting. 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 and Cash Equivalents**

Cash and cash equivalents include 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 recognized as bad debt expense through charges to the valuation allowance and credits to receivable accounts.

Accounts receivable represents the following at June 30, 2019 and 2018.

	2019	2018
Uncollected instant/on-line ticket revenues	\$ 518,130	\$ 498,434
Allowance for doubtful instant/on-line accounts	(14,209)	(12,233)
Uncollected video lottery revenues and fees	4,571,237	4,641,511
Total accounts receivable	<u>\$ 5,075,158</u>	<u>\$ 5,127,712</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.

## 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, 2019 and 2018, the amount of cash on deposit with the Lottery was \$21,500 and \$39,900, respectively, and the amount of certificates of deposit being held by the Lottery was \$406,552 and \$442,444, respectively. The amount of \$5,928,311 and \$5,953,400 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, 2019 and 2018, respectively. The total security deposits on June 30, 2019 and 2018 were \$6,356,363 and \$6,435,744, 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.

## 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.



# NOTES TO THE FINANCIAL STATEMENTS

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## 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, 2019 and 2018 were \$488,414 for on-line prizes and \$765,175 for instant prizes, and \$541,184 for on-line prizes and \$637,633 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, 2019 and 2018, there was a liability to the General Fund of \$4,508,335 and of \$4,568,584, 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 \$160,814 and \$899,685, and a liability for on-line ticket sales to the Capital Construction Fund of \$792,003 and \$1,395,339 as of June 30, 2019 and 2018, respectively.

## Due to Other Funds

A liability has been created for services provided by other funds of the State 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 Revenues

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 Outflows of Resources and Deferred Inflows 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 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 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 winning tickets of prizes meeting certain thresholds for each game may receive a selling bonus. For a listing of on-line retailer selling bonuses, visit <https://lottery.sd.gov/about/laws>.

## 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 of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net position.

## Subsequent Events

The Lottery has evaluated subsequent events through October 10, 2019, the date which the financial statements were available to be issued.

# NOTES TO THE FINANCIAL STATEMENTS

## New Accounting Pronouncements

The Lottery is evaluating the following new Standards released by the GASB, but not yet implemented:

### To be Implemented for the Fiscal Year Ended June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities*, clarifies fiduciary relationships and reporting. The Standard will unlikely apply to the Lottery.
- GASB Statement No. 90, *Majority Equity Interests*, clarifies reporting of when a government has a majority equity position in another entity, which may result in the equity method of reporting or a component unit relationship. The Lottery is analyzing the effect of this Statement.

### To be Implemented for the Fiscal Years Ended June 30, 2021 and Beyond:

- GASB Statement No. 87, *Leases*, changes reporting of nearly all leasing arrangements for lessors and lessees. The Lottery is analyzing the effect of this Statement.
- GASB Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period* removes the GAAP related to capitalization of interest costs. Unless the Lottery issues debt for construction purposes, the Standard will likely not apply.

## Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal years 2019 and 2018:

	2019			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,950,090	\$ -	\$ -	\$ 1,950,090
Intangible assets - software	2,592,392	-	-	2,592,392
Total capital assets	4,542,482	-	-	4,542,482
Less accumulated depreciation and amortization				
Equipment	(1,934,570)	(3,534)	-	(1,938,104)
Intangible assets - software	(1,974,861)	(266,222)	-	(2,241,083)
Total accumulated depreciation and amortization	(3,909,431)	(269,756)	-	(4,179,187)
Total capital assets, net	\$ 633,051	\$ (269,756)	\$ -	\$ 363,295

# NOTES TO THE FINANCIAL STATEMENTS

	2018			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,950,090	\$ -	\$ -	\$ 1,950,090
Intangible assets - software	2,313,097	279,295	-	2,592,392
Total capital assets	4,263,187	279,295	-	4,542,482
Less accumulated depreciation and amortization				
Equipment	(1,929,035)	(5,535)	-	(1,934,570)
Intangible assets - software	(1,734,824)	(240,037)	-	(1,974,861)
Total accumulated depreciation and amortization	(3,663,859)	(245,572)	-	(3,909,431)
Total capital assets, net	\$ 599,328	\$ 33,723	\$ -	\$ 633,051

## Note 3 - 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, 2019 and 2018, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$145,857 and \$118,340, 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, 2019 and 2018, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$149,110 and \$142,069, respectively.

The following is a schedule of changes in compensated absences at June 30, 2019 and 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2019	\$ 260,409	\$ 154,024	\$ 119,466	\$ 294,967	\$ 157,601
Fiscal Year 2018	306,673	153,886	200,150	260,409	138,251

## Note 4 - 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, 2019, 2018, and 2017 were \$81,296, \$81,429, and \$87,984, respectively, equal to the required contributions each year.

# NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2018 and 2017, SDRS was 100.02% and 100.10% funded, respectively, and accordingly had a net pension asset at June 30, 2019 and 2018. At June 30, 2019 and 2018, respectively, the South Dakota Lottery reported an asset of \$1,524 and \$6,548 for its proportionate share of the restricted net pension asset. For the fiscal years ended June 30, 2019 and 2018, the Lottery recorded pension expense (revenue) of \$160,284 and (\$231,790), 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
<u>As of June 30, 2019</u>		
Difference between expected and actual experience	\$ 57,600	\$ -
Changes in assumptions	386,903	-
Net difference between projected and actual earnings on pension plan investments	-	115,175
Changes in proportionate share	13,277	487
Contributions after the measurement date	81,296	-
Total	<u>\$ 539,076</u>	<u>\$ 115,662</u>
<u>As of June 30, 2018</u>		
Difference between expected and actual experience	\$ 104,914	\$ -
Changes in assumptions	508,398	-
Net difference between projected and actual earnings on pension plan investments	-	125,888
Changes in proportionate share	11,543	1,722
Contributions after the measurement date	81,429	-
Total	<u>\$ 706,284</u>	<u>\$ 127,610</u>

## Note 5 - 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, 2019:

<u>Period ending June 30:</u>	
2020	\$ 130,776
2021	130,776
2022	130,776
2023	115,126
2024	111,996
2025-2026	182,144
Total	<u>\$ 801,594</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2019 and 2018, was \$213,667 and \$219,999, respectively.



# NOTES TO THE FINANCIAL STATEMENTS

## Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
Cash in	\$ 785,798,335	\$ 740,599,652
Less cash out	555,564,866	519,974,335
Video lottery net machine income	230,233,469	220,625,317
Less operator share	115,116,735	110,312,659
Video lottery revenue available to the State	115,116,734	110,312,658
Less lottery operating share	1,151,167	1,103,126
Video lottery revenue to the General Fund	<u>\$ 113,965,567</u>	<u>\$ 109,209,532</u>

## Note 7 - Transfers

Following is a summary of total transfers out for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
General Fund proceeds from instant and on-line	\$ 8,800,000	\$ 6,900,000
Capital Construction Fund proceeds from on-line	5,400,000	5,600,000
General Fund proceeds from instant and on-line not yet transferred	160,814	899,685
Capital Construction Fund proceeds from on-line not yet transferred	792,003	1,395,339
Video lottery proceeds transferred to the General Fund	109,457,232	104,640,948
Video lottery proceeds to General Fund not yet transferred	4,508,335	4,568,584
Video lottery grant to Department of Social Services	214,000	181,329
Video lottery transfer to General Fund per HB 1044 Section 46	-	500,000
Video lottery fees transferred to the General Fund	90,000	60,375
Total transfers	<u>\$ 129,422,384</u>	<u>\$ 124,746,260</u>

## Note 8 - 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, Lotto America, 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 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 0.031 percent may be placed in a prize reserve account. The prize pool for Lotto America and All Star Bonus is 50 percent of sales and up to 4 percent shall 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, 2019 and 2018, the prize reserve account balances were:

	2019		2018	
	MUSL Balance	SD Lottery Share	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 81,718,236	\$ 399,662	\$ 81,746,568	\$ 403,649
Powerball set prize reserve account	38,605,436	179,534	35,410,219	170,316
Mega Millions prize reserve account	93,382,689	344,649	58,073,937	214,918
Lotto America prize reserve account	3,323,459	105,408	1,009,868	31,863
Total MUSL prize reserves	<u>\$ 217,029,820</u>	<u>\$ 1,029,253</u>	<u>\$ 176,240,592</u>	<u>\$ 820,746</u>

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.

## Note 9 - Contractual Arrangements

**Instant Tickets** – The South Dakota Lottery entered into contracts with Scientific Games and Pollard Banknote Limited to provide instant game tickets through August 29, 2022.

**Video Lottery Vendor** – The South Dakota Lottery has contracted with Scientific Games to operate a video lottery system through December 24, 2020. The South Dakota Lottery has entered into a seven year contract with Scientific Games for a central monitoring and control system that begins in December 2020.

**On-line Lottery Vendor** – The South Dakota Lottery has contracted with IGT Corporation to operate an on-line lottery gaming system through November 4, 2019. The South Dakota Lottery has entered into a new contract with IGT to operate an on-line lottery gaming system that begins on November 5, 2019 and continues through November 4, 2026.

## Note 10 - 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## **Note 11 - Contingencies and Commitments**

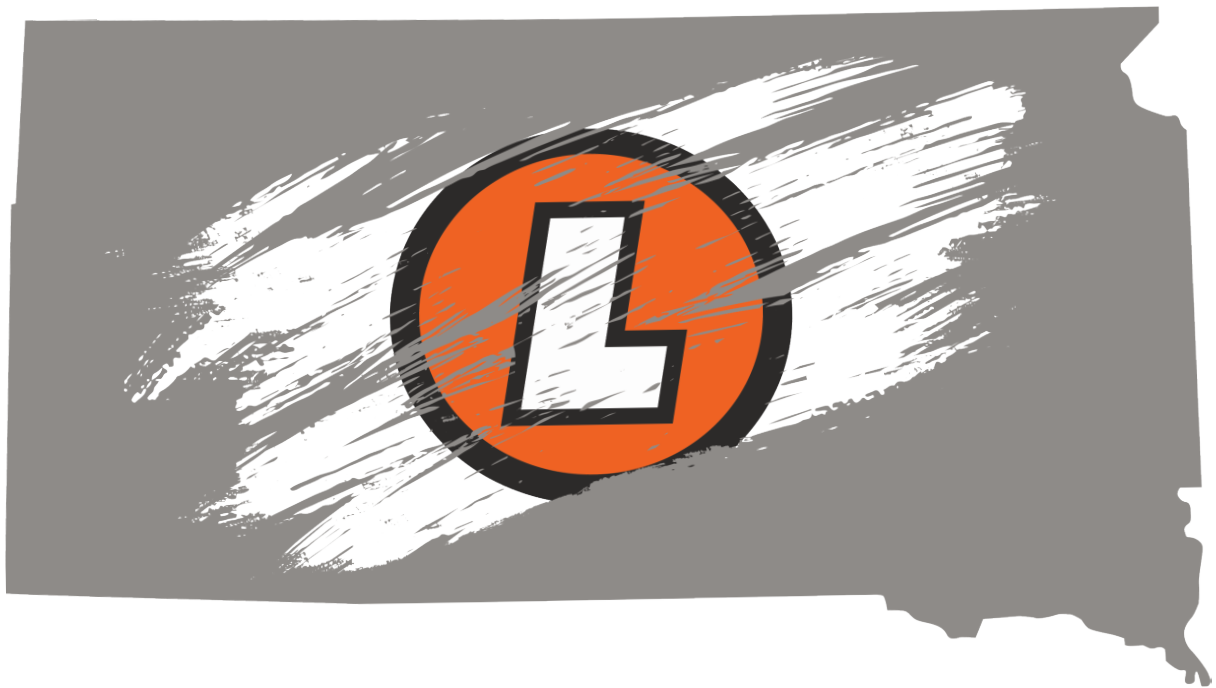
### **Prize Annuities**

If a grand prize winner selects the annuity option, the South Dakota Lottery purchases the annuity contract in the name of the jackpot prize winner. The Lottery retains title to the annuity contract. If the insurance company issuing the annuity contract defaults, the Lottery is liable for the prize payments.

The Lottery purchased an annuity from Lincoln Financial in the amount of \$9.3 million for a Lucky for Life grand prize winner in February 2019. The annuity is guaranteed for 20 years or the life of the prize winner, whichever is longer. The grand prize winner received the first annual payment when the prize was claimed, which leaves 19 guaranteed, annual payments. For the fiscal year ended June 30, 2019, the guaranteed minimum future payments are \$6.935 million.



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