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SOUTH DAKOTA
LOTTERY

good fun

ANNUAL REPORT FY 2020

**SHOW
ME THE
MONEY**

WIN UP TO \$100,000!

WINNING NUMBERS

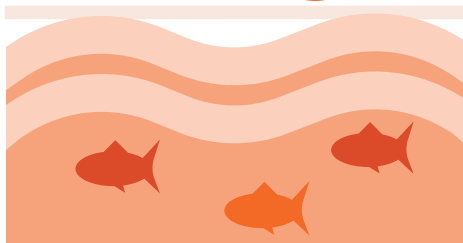
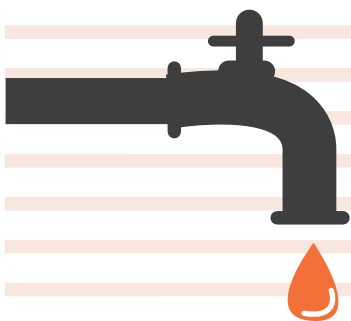
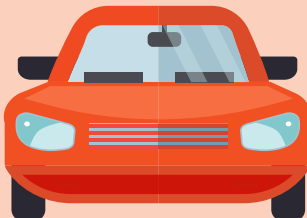
\$100 \$75 \$50 WIN

YOUR NUMBERS

\$15 \$5 \$75

SCRATCH AND WIN!

*YOU'RE A
Winner*



A DIVISION OF THE SOUTH DAKOTA
DEPARTMENT OF REVENUE

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**SOUTH DAKOTA
LOTTERY**

**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.**

-Mission Statement

SOUTH DAKOTA LOTTERY TEAM

“

A company's employees are its greatest asset and your people are your product.
-Richard Branson

”

Jim Terwilliger
DOR Secretary

David Wiest
DOR Deputy Secretary

Norm Lingle
Executive Director

Clark Hepper
Deputy Executive Director

Michael Houdyshell
Chief Legal Counsel

Marla Gruber
Director of Sales

Wade LaRoche
Director of Advertising

Jordon Kitts
Director of Security

Elizabeth Burdick
Business Analyst

David Dahl
Sales Supervisor

Whitney Ellwanger
Information Officer

Megan Gross
Information Officer

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

Sonja Campbell
Licensing Manager

Liza Sickler
Video Lottery Specialist I

Jamin McGray
Video Lottery Specialist II

Austin Jundt
Video Lottery Specialist I

Aric Frost
Accounting Manager

Julie Pirnat-Schultz
Accountant

Patricia Kirby
Accountant



FROM EXECUTIVE DIRECTOR LINGLE



Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$128.4 million to funds that improve the quality of life in South Dakota.



We are pleased to report that the Lottery continued its momentum from recent years during a successful Fiscal Year 2020. This year was another one for the record books in many facets, 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 \$128.4 million to funds that improve the quality of life in South Dakota. More than \$4 million was added to the Capital Construction Fund, which is used to pay for rural water systems, community drinking water, wastewater improvement projects, and recycling and waste disposal programs. We also provided more than \$123.0 million to the General Fund, which funds local K-12 schools, state universities and technical institutes. In total, we have distributed an impressive \$3.06 billion to our beneficiaries since our start in 1987.

Fiscal Year 2020 marked our third consecutive year of record-setting instant ticket sales. As always, this achievement wouldn't have been possible without the hard work of our retailers and sales staff, as well as our loyal players. The record-setting year provided players with 34 new games, as we made it a priority to give players options that appeal to them.

The video lottery industry also celebrated a record year. Now more than ever, video lottery

establishments are utilizing the latest technology to entertain players. New terminals throughout the state continued to yield positive results, and we look forward to the future of this industry once our system migration is complete.

While we are preparing to introduce new technology to the video lottery industry, we are excited to share the news of a successful system conversion for our instant/online games. We worked in partnership with International Gaming Technology (IGT) to launch the new system, and we are pleased to share the new features and capabilities that this technology provides both our retail partners and our staff.

We enjoyed a successful year, but we also faced challenges. Like many South Dakotans, we navigated uncharted territory due to the COVID-19 pandemic. The health and safety of our players, retail partners and staff were our top priorities during this time, and I thank our players and partners for their patience throughout the process.

I invite you to take some time to read more about our highlights and improvements from Fiscal Year 2020. 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 2021.

Sincerely,

Norm Lingle

FROM SECRETARY TERWILLIGER



As we close the book on Fiscal Year 2020, I want to thank our dedicated staff for facing the challenges that this year presented.

This year put all of us in uncertain times, and our team worked hard to provide the same level of customer service. Through new technology and strategies, we are pleased to report another successful year.

With a new instant/online system and a new video lottery system to follow, it's an exciting time for the South Dakota Lottery from a technology standpoint. The Lottery isn't alone within the Department of Revenue,

as we were pleased to welcome new technology such as online forms, increased payment options, and virtual visits from staff.

As we continue to look at ways we can best serve our customers and partners, it's clear that this enhanced technology will play a key role in doing just that.

The Department of Revenue also had a busy year from a legislative standpoint. A number of bills ran through our hands throughout FY20, and the year culminated in the implementation of many new laws.

We look forward to another successful year, and please reach out to our team for assistance.

Sincerely,

Jim Terwilliger

SALES & REVENUES

Total Fiscal Year 2020 Lottery revenue generated for state funds was more than \$128 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$37,086,885	\$25,891,005	\$2,094,624	\$5,053,476
Lotto Tickets	\$20,995,428	\$10,256,222	\$1,071,631	\$6,894,060
Video Lottery*	\$801,476,366	\$566,740,353	\$117,368,005	\$116,483,325

TOTAL \$128,430,861

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

REVENUE APPROPRIATIONS

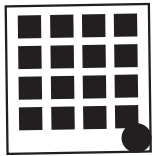
Revenue from each of the three types of lottery products is designated for specific purposes.

	General Fund	Capital Construction Fund	Department of Social Services*
Instant Tickets	\$5,053,476		
Lotto Tickets	\$2,412,921	\$4,481,139	
Video Lottery	\$116,194,325		\$214,000
Video Lottery Licensing Fees	\$75,000		
TOTALS	\$123,735,722	\$4,481,139	\$214,000

*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.

FISCAL YEAR 2020 BY THE NUMBERS

The South Dakota Lottery markets instant tickets and lotto games, and regulates and maintains video lottery to raise revenue for state programs and projects. Since its inception in 1987, the Lottery has distributed more than \$3.06 billion in revenue.



INSTANT TICKETS

The Lottery launched 34 new instant ticket games during Fiscal Year 2020. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$500,000, as well as merchandise prizes.

Instant ticket sales were up 15.0 percent from the previous year, and revenues were down 26.7 percent.

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.

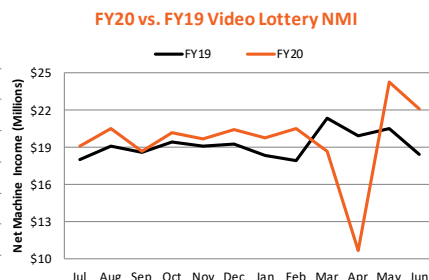
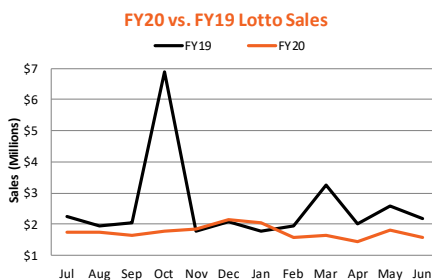
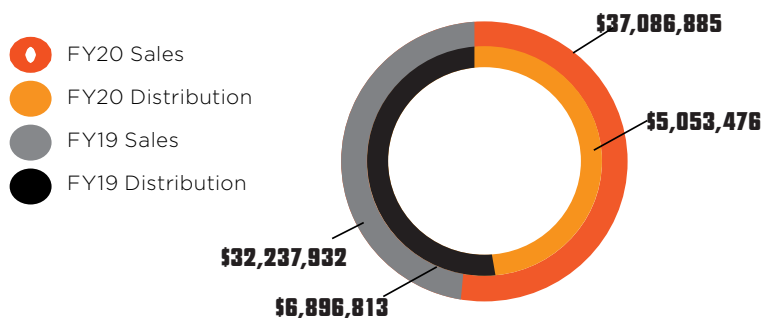
Instant ticket sales were down 31.6 percent from the previous year and revenues were down 16.5 percent.

VIDEO LOTTERY

The Lottery regulates 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 2.0 percent from last year.

Instant Ticket Sales and Revenue



622 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.

609 licensed lotto retailers. Lotto retailers receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

9,034 average number of active video lottery machines during Fiscal Year 2020.

1,241 average number of licensed video lottery establishments during Fiscal Year 2020.

FISCAL YEAR 2020 BENEFICIARIES



35%

in net revenue from lotto tickets goes to the state's General Fund.

65%

in net revenue from lotto tickets goes to the Capital Construction Fund

100%

of revenue from the sale of instant tickets is distributed to the state's General Fund.

50%

of video lottery net machine income goes to the state's General Fund.

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%) is retained by the Lottery for administration.

GENERAL FUND



49.5% supports local K-12 schools, state universities, and technical institutes.

DEPT. OF SOCIAL SERVICES



\$214,000 is used annually for problem gambling treatment services.

CAPITAL CONSTRUCTION FUND



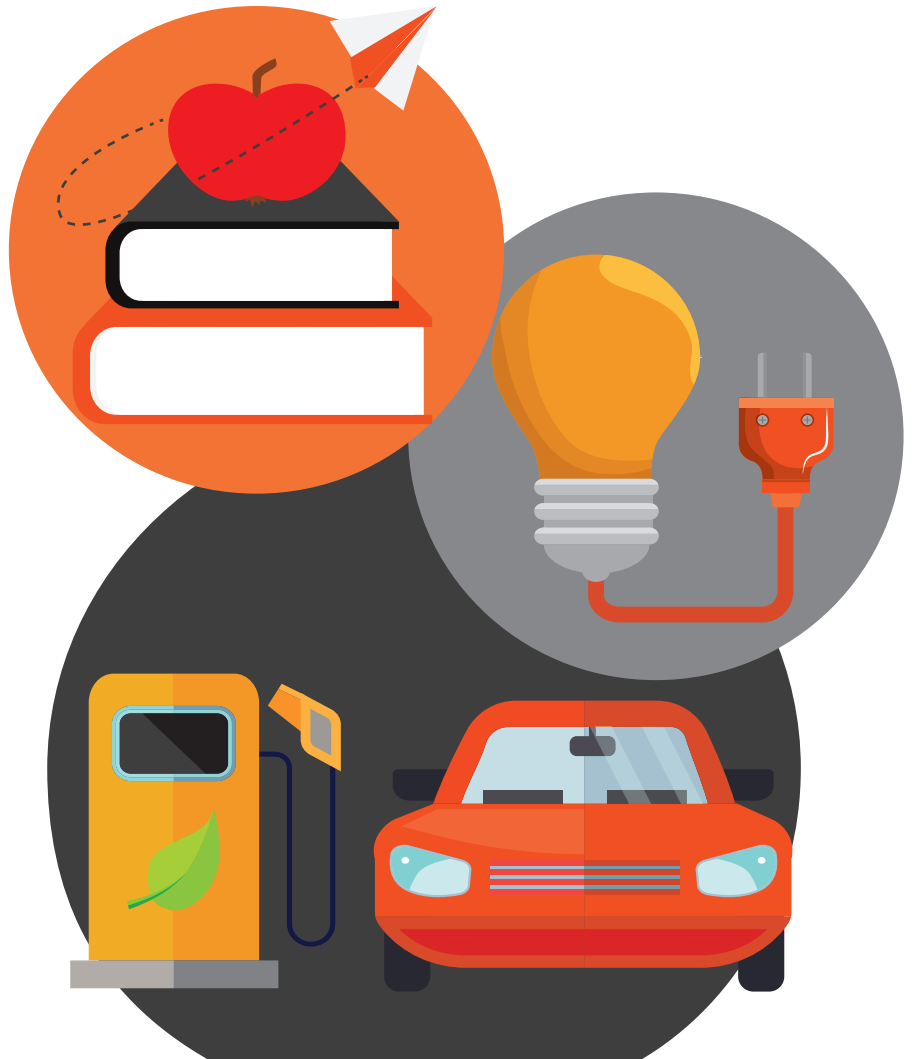
62% Water and Environment Fund - used for a variety of projects from drinking water and wastewater improvement to recycling to natural resource development.



15% Ethanol Fuel Fund - provides annual production payments to qualified South Dakota ethanol producers.



23% State Highway Fund - used for state highways and bridges.



LOTTERY COMMISSION



Chair William Shorma, Dakota Dunes

Chair William Shorma has served on the Lottery Commission since 2017. He has resided in Dakota Dunes since November of 2011.

Chair Shorma previously served as the SD District 16 Senator from May 2015 until January 2017. His career in public service also extends to numerous non-profit organizations, and he also served as president and director of the SD Chamber of Commerce and Industry.

Chair Shorma's professional career also includes nearly 18 years as president of Shur-Co. He also launched Rush-Co. of Springfield in 2009 and is currently the company's CEO and key accounts manager.

Jason Ahrendt, Sioux Falls

Commissioner Ahrendt has served in the Lottery Commission since 2018. He currently resides in Sioux Falls where he was born and raised.

Commissioner Ahrendt has been employed with State Farm for 22 years and he is also a board member of the Sanford Health Foundation. He previously served as a board member for the Good Samaritan Society.

Commissioner Ahrendt holds a bachelor's degree from the University of South Dakota.



Jamie Huizenga, Pierre

Commissioner Huizenga has served with the Lottery Commission since 2018. He has been a resident of Pierre for nearly 25 years where he also serves on the city commission.

Commissioner Huizenga is also a member of the Pierre/Ft Pierre Rotary Club, Chair of Pierre/Ft Pierre Ambulance Committee and the Rawlins Library Board. Commissioner Huizenga is employed by Nagel Agency, Inc. as a crop and farm insurance agent.

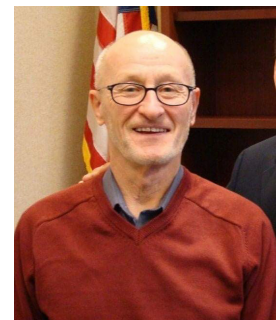
Commissioner Huizenga was born and raised in Platte. He holds a business administration degree from Northern State University and also served in the South Dakota National Guard.

Joe Kafka, Valley Springs

Commissioner Kafka has served on the Lottery Commission since 2016. He currently resides in Valley Springs after living in Pierre for 27 years.

Commissioner Kafka previously served as press secretary for governors Rounds and Dugaard. He also aided Gov. Dugaard with appointments to state boards and commissions.

Prior to joining state government, Commissioner Kafka enjoyed a 39-year career in journalism. This included work with the Associated Press in both Pierre and Washington D.C. He covered 22 legislative sessions in South Dakota.



David Wheeler, Huron

Commissioner Wheeler has served with the Lottery Commission since 2018. He was born and raised in Huron where he is currently a partner at the law firm of Blue, Wheeler & Banks.

Commissioner Wheeler has also served as president of the Huron School Board. He is a member of the city-appointed board for Huron Community Campus, which partners with universities and tech schools to bring higher education programs to Huron. Commissioner Wheeler also is an active member of Grace Episcopal Church, where he is president of the board of directors of the South Dakota Episcopal church camp.

RETAILER SPOTLIGHT



Locally owned and operated for more than 35 years, the Lil' Feller staff have been great partners to the South Dakota Lottery.

With more than 35 years in business, the Lil' Feller Convenience Store in Winner has not only become a staple of its community but also a mainstay of the Lottery.

Owned and operated by Brian Schaeffer and his family, the convenience store is one of the lone locally owned retailers in Winner. Schaeffer notes that he owned other locations prior to opening the Winner store in 1983, but he opted to focus on one location once his family grew.

Thanks in part to that familiarity, the Schaeffer family has embraced the Winner community as its home.

"We have a pretty big footprint here," Brian said. "We try to support the community as much as we can. I think that makes a big difference. We are also the only locally owned retail store at this time."

While Lil' Feller is an important part of the Winner area, it's also been with the South Dakota Lottery from day one. As the Lottery's inception became a reality,

Brian remembers it being something that appealed to his loyal customers.

"It was just something else that we could offer the public. We thought that it was a good draw for us. Quite often, when somebody buys Lottery tickets, they're also in for something else," Brian said.

Nearly 33 years of Lottery sales later, bringing Good Fun to customers is an important piece of Lil' Feller's business. Brian notes that Lottery products also bring excitement to him and his team, as big winners and high jackpots create a buzz.

"It's fun to watch the expression on people's faces when they win," Brian said. "It's also a draw when that jackpot gets high. There's a lot of electricity in the air when that happens. It brings people in and helps sales with other things."

Lil' Feller is also a location greatly appreciated by Lottery staff. Lil' Feller is always willing to provide aid to the Lottery in marketing its products, creating a great partnership for all parties. An example of this is Brian's willingness to showcase the Lottery's point of sale items.

"You need to have a change. You don't want the same stale displays all of the time," Brian said. "It's important that we keep that up."

This strategy has proved to be beneficial as Lil' Feller is one of the Lottery's top retailers in the area. Brian also notes that retailers throughout the state have more resources than ever before, which certainly helps in these efforts.

"Truthfully, the Lottery has done a really good job in keeping up with technology," Brian said. "A lot of the stuff they do benefits retailers, such as the upgrade in the Powerball and scratch ticket scanners."



For more information about our retailers look for our

LOTTERY LINK NEWSLETTER

<https://lottery.sd.gov/retailer/>

FISCAL YEAR 2020 HIGHLIGHTS

NEW INSTANT/ONLINE SYSTEM DEBUTS

The next wave of technology is here for the South Dakota Lottery and its instant/online retailers.

In November 2019, the Lottery and International Gaming Technology partnered to launch its new lotto system. The new system puts the latest technology at the fingertips of Lottery staff and retailers throughout the state.

This new technology transitioned the Lottery away from a mainframe that had been used since the 90s. In implementing the new system, the SD Lottery became the first to use IGT's complete system available.

This robust system includes sales and retailer wizards that provide both Lottery staff and retail partners with the best sales resources possible. The Lottery team can easily view sales statistics for certain products, view inventory at retail locations and provide terminal messaging in order to share the latest news with retailers and their staff.

The launch of the new system also included the new retailer pro terminals, which gave retailers improved communication along with a modern look.

Lottery players have also enjoyed the benefits of the new system first hand as they can now scan their lotto tickets by using the Lottery mobile app to see if they have a winner.

The Lottery has just hit the tip of the iceberg in terms of the new system's functionality, and we look forward to its continued benefits throughout the years.



COVID-19 IMPACT ON LOTTERY

Like many throughout the nation, the Lottery faced challenges throughout Fiscal Year 2020 due to the COVID-19 pandemic.

On March 13, 2020, the Lottery made drastic changes to its operations due to the COVID-19 pandemic. With the health and safety of players, retail partners and staff the top priority, the Lottery closed its validation centers and removed its sales staff from the field.

While our validation centers were closed and our sales staff was removed from the field, the SD Lottery staff worked remotely to continue to serve our partners and players.

The majority of instant/lotto and video lottery retailers remained open. Our video lottery operations staff worked remotely in order to provide the same level of support to video lottery establishments. As establishments temporarily closed, our team was able to manage the shutting down and eventual re-opening of video lottery establishments.

While our sales representatives were unable to visit instant/online retailers, they were able to use our system to ensure that retail locations throughout the state had the necessary resources. The functionality provided by the new system allowed our sales staff to view each retailer's inventory and provide more scratch tickets if necessary.

Our team was also just a phone call away, as we strived to continue to be a valued resource for retailers.

With validation centers closed, the way players claim their prizes was also affected. While most prizes were claimed via mail, prizes of \$5,000 could still be claimed at a validation center if an appointment was made.

The Lottery also made adjustments to its advertising strategy during this time. Throughout the pandemic, the Lottery suspended most of its paid advertising elements. In the meantime, the Lottery's communication focused on keeping all stakeholders notified of the situation of how the pandemic would affect their interactions with the Lottery.

FISCAL YEAR 2020 HIGHLIGHTS

LUCKY FOR LIFE PLAYERS CELEBRATE SECOND PRIZE

Lucky for Life continues to be fruitful for its South Dakota players, as we celebrated another two second prize winners during Fiscal Year 2020!



Since the South Dakota Lottery added Lucky for Life to its lineup in June 2017, the Mount Rushmore State has been home to five second prize winners as well as one top prize winner!

Philip resident Karen Hart won the second prize after the January 2, 2020 drawing. Karen purchased her winning ticket at Coyl's Super Valu in Philip and chose the prize of \$25,000 a year for the rest of her life!

"I figured that if you took the one lump sum, you could probably easily spend it and have nothing to show for it," Hart said. "This way, every year I get a little. This is kind of a little bit of extra security."

Hayes resident Fe Miller was the other Lucky for Life second prize winner. Fe chose the cash option of \$390,000.

"The main thing is that we can help my kids in the Philippines," Miller said. "We also have some bills that we can pay off. Money can be a bit tough right now, so this is great."

Fe purchased her winning ticket at the Lynn's Dakotamart in Fort Pierre, which has been the home of two Lucky for Life second prize winners since the game's launch.



FY2020 BIG WINNERS



Jacob Tyrrell - Garretson



Jayden Engle - White River



Michelle Kitterman - Wall



Kent Waldner - Carpenter



Chad Saathoff - Estelline



Jeffrey Alley - Box Elder

FISCAL YEAR 2020 HIGHLIGHTS



ANOTHER YEAR FOR THE RECORD BOOKS

The SD Lottery proved its record-setting ways are no fluke by topping itself once again in instant ticket sales.

For the third consecutive year, instant ticket sales reached a new pinnacle as Fiscal Year 2020 featured \$37,086,885 in sales. This tops last year's mark of \$32,237,932 and Fiscal Year 2018's tally of \$30,181,754.

Improved technology and research remained mainstays of success. With the aid of player research and ticket testing, 34 new scratch games were launched in FY2020. These new tickets gave players a variety of options throughout the year with fresh tickets always on the horizon.

The Lottery staff and retailers also had more technology at their hands than ever throughout the year thanks to the new instant/online system. The new system allowed staff to manage inventories from afar, which will continue to be a staple of our success moving forward.

Lottery Reminds Players to Keep the Fun Good

While responsible gaming has always been a key component of the Lottery's marketing efforts, our players got an extra reminder through our Keep the Fun Good campaign.

While each piece of its advertising contains responsible gaming messaging, the Lottery extended this with a full-fledged campaign. The Lottery began the campaign in early 2020 to coincide with March being problem gambling awareness month.

The television and radio ads reminded players that too much of a good thing can be a problem, and they were seen or heard nearly 6 million times by South Dakotans. The messaging also reminds players that help is available if they or someone they know has a gambling problem.

After a successful campaign, the Lottery plans to make this messaging a mainstay on its annual advertising campaigns. For more information, visit www.Keepthefungood.com



Our Keep the Fun Good commercial showed that too much of a good thing, can be bad.



AND THE WINNER IS... SD LOTTERY!

Our loyal players weren't the only winners throughout the year, as the South Dakota Lottery and its advertising partner Lawrence & Schiller earned high acclaim.

The Lottery and Lawrence & Schiller garnered five ADDY awards in 2020. The ADDY Awards are presented annually and is one of the most prestigious honors in the video and television industry.

"The Long Walk" commercial earned the highest honors, claiming the Best of Class, Judges Choice and Gold Winners honors. Our "Slow Clap" and "Makin' Bacon" were also Silver Winners.

The winning ads can be viewed at the SD Lottery's Youtube page.

FISCAL YEAR 2020 HIGHLIGHTS

VIDEO LOTTERY SYSTEM UPDATE



Throughout the year, the Lottery partnered with Scientific Games International to begin the video lottery system migration process.

The system migration, which should be completed by April 2021, will provide Lottery staff, video lottery operators and establishments with the latest technology. With a growing concern for fraudulent tickets throughout the video lottery industry, the system will include new site controllers. These site controllers

will combat fraudulent tickets with a real-time validation process, ensuring greater security for establishments and their employees.

The site controllers will also provide improved communication. Retailers will be able to enjoy real-time communications, which should reduce communication issues that are related to non-responding terminals, and have access to robust reporting and business intelligence tools.

While the new system won't launch until Fiscal Year 2021, the Lottery staff and Scientific Games partnered throughout 2020 to provide training opportunities and clear communication to members of the industry.

LOTTO PROMOS THRIVE IN 2020

Thanks in part to the new instant/online system, lotto players were able to enjoy a pair of exciting opportunities through lotto promotions.

On St. Patrick's Day, players had an extra chance to find luck that lasts a lifetime through our Lucky Leprechaun Day promotion. Through the promotion, players could purchase one Lucky for Life ticket and receive another one free.

This promotion garnered excellent results, generating more than \$90,000 in sales. The average Tuesday generates nearly \$7,000 in Lucky for Life sales.

On June 5, the Lottery celebrated 605 Day with another promotion. In celebration of South Dakota, the state's exclusive lotto game was the focus of the 605 Day promotion.

On June 5 only, players could purchase five Dakota Cash quick picks and get another free! Despite a low Dakota Cash jackpot, the promotion aided more than \$14,500 in Dakota Cash sales. In comparison, the average Friday generates \$8,415 in Dakota Cash sales.



DID YOU KNOW?

Whether it's modern graphics or a larger selection of game options, South Dakota Lottery players are continuing to choose new (line) video lottery terminals.

Continuing trends from recent years, video lottery line terminals continued to out-pace legacy machines in the field.

With the continued growth of these machines and a new video lottery system on the horizon, the future is bright for South Dakota's video lottery industry.

By the Numbers:

4,483 At the conclusion of Fiscal Year 2020, there were 4,483 line machines in the field compared to 4,644 legacy machines. This is the closest these figures have ever been.

\$94.44 The average Net Machine Income per terminal per day was \$94.44 for line machines. This outpaced an average of \$50.09 for terminal machines.

AUDITOR'S REPORT



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C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

RUSSELL A. OLSON
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, 2020 and 2019, 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 19, 2020.

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) as a basis for designing 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.

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

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.



Russell A. Olson
Auditor General

October 19, 2020

AUDITOR'S REPORT



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

RUSSELL A. OLSON
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, 2020 and June 30, 2019, 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.

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, 2020 and 2019, 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, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota Lottery Fund's basic financial statements. The *Lottery Staff, Message from the Executive Director, Fiscal Year 2020 Sales and Revenues, Fiscal Year 2020 Revenue Appropriations, Lottery Commission, Retailer Spotlight, and FY20 Highlights* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Lottery Staff, Message from the Executive Director, Fiscal Year 2020 Sales and Revenues, Fiscal Year 2020 Revenue Appropriations, Lottery Commission, Retailer Spotlight, and FY20 Highlights* 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 19, 2020 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.



Russell A. Olson
Auditor General

October 19, 2020

Financial Statements

South Dakota Lottery Statements of Net Position June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,793,026	\$ 9,706,620
Restricted cash	26,700	21,500
Total cash	9,819,726	9,728,120
Accounts receivable	5,735,449	5,075,158
Restricted other receivables	675,602	662,781
Interest receivable	63,758	87,144
Restricted certificates of deposit	372,364	406,552
Prepaid expenses	-	839
Total current assets	16,666,899	15,960,594
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization	209,861	363,295
Net pension asset	6,754	1,524
Total noncurrent assets	216,615	364,819
Total Assets	16,883,514	16,325,413
Deferred Outflows of Resources		
Deferred Outflows of Resources - Pensions	358,798	539,076
Total Deferred Outflows of Resources	358,798	539,076
Liabilities		
Current Liabilities		
Accounts payable	\$ 122,224	\$ 389,275
Prizes payable	3,783,230	3,485,883
Due to the Capital Construction Fund	906,139	792,003
Due to the General Fund	5,915,871	4,669,149
Due to other funds	66,890	92,776
Due to other governments	25,738	-
Operator security deposits	399,064	428,052
Escrows payable - special jurisdiction area sales	120,684	86,440
Compensated absences	148,708	157,601
Accrued liabilities	117,300	128,929
Unearned revenues	238,013	228,516
Total current liabilities	11,843,861	10,458,624
Noncurrent Liabilities		
Compensated absences	131,186	137,366
Total noncurrent liabilities	131,186	137,366
Total Liabilities	11,975,047	10,595,990
Deferred Inflows of Resources		
Deferred Inflows of Resources - Pensions	137,609	115,662
Total Deferred Inflows of Resources	137,609	115,662
Net Position		
Net Investment in Capital Assets	209,861	363,295
Restricted for Pensions	227,943	424,938
Restricted for MUSL Permitted Uses	675,602	662,781
Unrestricted	4,016,250	4,701,823
Total Net Position	\$ 5,129,656	\$ 6,152,837

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

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Video lottery revenue, net (Note 6)	\$ 117,368,005	\$ 115,116,734
Instant ticket sales	37,086,885	32,237,932
On-line ticket sales	20,995,428	30,708,432
Terminal license fees	1,086,900	1,089,000
Retailer license fees	436,722	462,119
Other revenue	4,314	28,741
Total Operating Revenues	176,978,254	179,642,958
Direct Game Costs		
Instant prizes	25,891,005	21,321,309
On-line prizes	10,256,222	16,383,207
Instant retail commissions (Note 1)	2,094,624	1,696,855
On-line retail commissions (Note 1)	1,071,631	1,564,614
Instant ticket print costs	752,040	872,955
Total Direct Game Costs	40,065,522	41,838,940
Operating Revenues, Net of Direct Game Costs	136,912,732	137,804,018
Operating Expenses		
Personal services and benefits	2,202,183	2,057,288
Travel	136,740	165,199
Advertising	1,016,410	1,024,128
Contractual services	6,621,246	5,405,984
Supplies and materials	165,531	162,695
Depreciation and amortization	153,434	269,756
Bad debt expense	-	1,976
Payments to special jurisdiction areas	120,684	86,440
Total Operating Expenses	10,416,228	9,173,466
Operating Income	126,496,504	128,630,552
Non-Operating Revenues (Expenses)		
Pooled investment income	572,074	880,788
Interest income	11,416	9,956
Investment expenses	(2,305)	(3,250)
Non-operating revenue from MUSL	329,992	-
Total Non-Operating Revenue (Expenses)	911,177	887,494
Income Before Transfers	127,407,681	129,518,046
Transfers		
General Fund	(123,735,723)	(123,016,381)
Capital Construction Fund	(4,481,139)	(6,192,003)
Department of Social Services	(214,000)	(214,000)
Total Transfers	(128,430,862)	(129,422,384)
Change in Net Position	(1,023,181)	95,662
Net Position, Beginning of Year	6,152,837	6,057,175
Net Position, End of Year	\$ 5,129,656	\$ 6,152,837

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

South Dakota Lottery
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from customers and users	\$ 176,370,050	\$ 179,794,011
Payments for lottery prizes	(35,849,880)	(36,246,948)
Payments to suppliers	(11,285,684)	(9,702,169)
Payments for interfund services used	(838,756)	(938,933)
Payments for employee services	(2,031,890)	(1,844,710)
Other (payments) receipts	204,615	(150,490)
Net Cash Provided by Operating Activities	126,568,455	130,910,761
Noncapital Financing Activities		
Transfers to other funds	(127,070,004)	(130,824,840)
Net Cash Used by Noncapital Financing Activities	(127,070,004)	(130,824,840)
Investing Activities		
Pooled investment income	595,460	855,038
Investment expenses	(2,305)	(3,250)
Net Cash Provided by Investing Activities	593,155	851,788
Net Change in Cash and Cash Equivalents	91,606	937,709
Cash and Cash Equivalents, Beginning of Year	9,728,120	8,790,411
Cash and Cash Equivalents, End of Year	\$ 9,819,726	\$ 9,728,120
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 126,496,504	\$ 128,630,552
Adjustments to reconcile operating income		
Depreciation and amortization expense	153,434	269,756
Other revenue	11,416	9,956
Non-operating revenue from MUSL	329,992	-
Decrease/(increase) in assets		
Accounts receivable	(660,291)	52,554
Restricted other receivable	(12,821)	(13,014)
Restricted certificates of deposit	34,188	35,892
Prepaid expense	839	10,573
Net pension asset	(5,230)	5,024
Decrease/(increase) in deferred outflows of resources		
Deferred outflows of resources - pensions	180,278	167,208
Increase/(decrease) in liabilities		
Accounts payable	(267,051)	238,806
Prizes payable	297,347	1,457,568
Due to other funds	(25,886)	1,816
Due to other governments	25,738	-
Operator security deposits	(28,988)	(54,292)
Escrows payable	34,244	3,255
Compensated absences	(15,073)	34,558
Accrued liabilities	(11,629)	17,736
Unearned revenues	9,497	54,761
Increase/(decrease) in deferred inflows of resources		
Deferred inflows of resources - pensions	21,947	(11,948)
Total adjustments	71,951	2,280,209
Net Cash Provided by Operating Activities	\$ 126,568,455	\$ 130,910,761

The accompanying notes are an integral part of 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 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.

As a Fund of the State, the Lottery has not presented a Management's Discussion and Analysis nor Required Supplementary Information that would otherwise be in accordance with GAAP. Such information is presented for the State as a whole in the State's CAFR.

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.

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, 2020 and 2019.

	2020	2019
Uncollected instant/on-line ticket revenues	\$ 309,987	\$ 518,130
Allowance for doubtful instant/on-line accounts	(14,209)	(14,209)
Uncollected video lottery revenues and fees	5,439,671	4,571,237
	<u>\$ 5,735,449</u>	<u>\$ 5,075,158</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, 2020 and 2019, the amount of cash on deposit with the Lottery was \$26,700 and \$21,500, respectively, and the amount of certificates of deposit being held by the Lottery was \$372,364 and \$406,552, respectively. The amount of \$6,291,900 and \$5,928,311 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, 2020 and 2019, respectively. The total security deposits on June 30, 2020 and 2019 were \$6,690,964 and \$6,356,363, 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.

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, 2020 and 2019 were \$371,070 for on-line prizes and \$979,408 for instant prizes, and \$488,414 for on-line prizes and \$765,175 for instant prizes, respectively.

Due to the General Fund

South Dakota Codified Laws (SDCL) 42-7A-63 sets the State's percentage of net video lottery machine income at 50 percent of which all but 0.5 percent is deposited into the General Fund. At June 30, 2020 and 2019, there was a liability to the General Fund of \$5,374,473 and of \$4,508,335, 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 \$541,398 and \$160,814, and a liability for on-line ticket sales to the Capital Construction Fund of \$906,139 and \$792,003 as of June 30, 2020 and 2019, 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.

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 19, 2020, the date which the financial statements were available to be issued.

Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal years 2020 and 2019:

	2020			Ending Balance
	Beginning Balance	Additions	Deletions	
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	(1,938,104)	(2,868)	-	(1,940,972)
Intangible assets - software	(2,241,083)	(150,566)	-	(2,391,649)
Total accumulated depreciation and amortization	(4,179,187)	(153,434)	-	(4,332,621)
Total capital assets, net	\$ 363,295	\$ (153,434)	\$ -	\$ 209,861

	2019			Ending Balance
	Beginning Balance	Additions	Deletions	
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

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, 2020 and 2019, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$114,271 and \$145,857, 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, 2020 and 2019, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$165,623 and \$149,110, respectively.

The following is a schedule of changes in compensated absences at June 30, 2020 and 2019.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2020	\$ 294,967	\$ 115,259	\$ 130,332	\$ 279,894	\$ 148,708
Fiscal Year 2019	260,409	154,024	119,466	294,967	157,601

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, 2020, 2019, and 2018 were \$86,607, \$81,296, and \$81,429, respectively, equal to the required contributions each year.

At June 30, 2019 and 2018, SDRS was 100.09% and 100.02% funded, respectively, and accordingly had a net pension asset at June 30, 2020 and 2019. At June 30, 2020 and 2019, respectively, the South Dakota Lottery reported an asset of \$6,754 and \$1,524 for its proportionate share of the restricted net pension asset. For the fiscal years ended June 30, 2020 and 2019, the Lottery recorded pension expense of \$196,995 and \$160,284, 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, 2020</u>		
Difference between expected and actual experience	\$ 26,496	\$ 3,057
Changes in assumptions	233,294	95,639
Net difference between projected and actual earnings on pension plan investments	-	38,913
Changes in proportionate share	12,401	-
Contributions after the measurement date	86,607	-
Total	<u>\$ 358,798</u>	<u>\$ 137,609</u>
	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>

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, 2020:

Period ending June 30:	
2021	\$ 130,776
2022	130,776
2023	115,126
2024	111,996
2025	111,996
2026-2027	70,148
Total	<u>\$ 670,818</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2020 and 2019, was \$220,627 and \$213,667, respectively.

Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2020 and 2019:

	2020	2019
Cash in	\$ 801,476,364	\$ 785,798,335
Less cash out	566,740,353	555,564,866
Video lottery net machine income	234,736,011	230,233,469
Less operator share	117,368,006	115,116,735
Video lottery revenue available to the State	117,368,005	115,116,734
Less lottery operating share	1,173,680	1,151,167
Video lottery revenue to the General Fund	<u>\$ 116,194,325</u>	<u>\$ 113,965,567</u>

Note 7 - Transfers

Following is a summary of total transfers out for the fiscal years ended June 30, 2020 and 2019:

	2020	2019
General Fund proceeds from instant and on-line	\$ 6,925,000	\$ 8,800,000
Capital Construction Fund proceeds from on-line	3,575,000	5,400,000
General Fund proceeds from instant and on-line not yet transferred	541,398	160,814
Capital Construction Fund proceeds from on-line not yet transferred	906,139	792,003
Video lottery proceeds transferred to the General Fund	110,819,852	109,457,232
Video lottery proceeds to General Fund not yet transferred	5,374,473	4,508,335
Video lottery grant to Department of Social Services	214,000	214,000
Video lottery fees transferred to the General Fund	75,000	90,000
Total transfers	<u>\$ 128,430,862</u>	<u>\$ 129,422,384</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.

At June 30, 2020 and 2019, the prize reserve account balances were:

	2020		2019	
	MUSL Balance	SD Lottery Share	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 87,128,080	\$ 416,214	\$ 81,718,236	\$ 399,662
Powerball set prize reserve account	34,761,267	168,494	38,605,436	179,534
Mega Millions prize reserve account	89,579,474	326,331	93,382,689	344,649
Lotto America prize reserve account	4,264,072	135,787	3,323,459	105,408
Total MUSL prize reserves	<u>\$ 215,732,893</u>	<u>\$ 1,046,826</u>	<u>\$ 217,029,820</u>	<u>\$ 1,029,253</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 had contracted with IGT Corporation to operate an on-line lottery gaming system through November 4, 2019. The South Dakota Lottery entered into a new contract with IGT to operate an on-line lottery gaming system that began 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.

Note 11 - Contingencies and Commitments

Prize Annuities

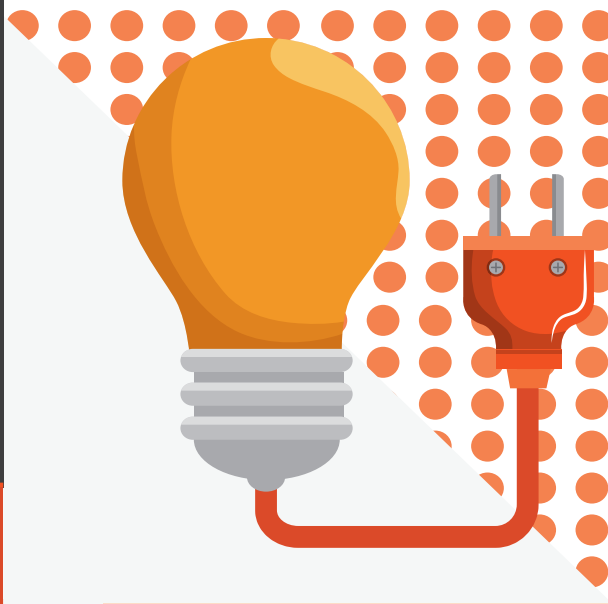
If a grand prize winner selects the annuity option, the South Dakota Lottery purchases the annuity contract in the name of the jackpot prize winner. The Lottery retains title to the annuity contract. If the insurance company issuing the annuity contract defaults, the Lottery is liable for the prize payments.

During the fiscal year ended June 30, 2019, the Lottery purchased an annuity from Lincoln Financial in the amount of \$9.3 million for a Lucky for Life grand prize winner. 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. At June 30, 2020, the guaranteed minimum future payments are \$6.57 million.

During the fiscal year ended June 30, 2020, the Lottery purchased an annuity from Lincoln Financial in the amount of \$527,000 for a Lucky for Life 2nd tier grand prize winner. 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. At June 30, 2020, the guaranteed minimum future payments are \$475,000.



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