



SOUTH DAKOTA
LOTTERY
good fun

Annual Report
FY 2021



Good fun
happens every day.

A DIVISION OF THE SOUTH DAKOTA
DEPARTMENT OF REVENUE

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Message from the Secretary

Fiscal Year 2021 was another successful one for the Department of Revenue, and I can't thank our dedicated staff and stakeholders enough for their contributions.

This year was an exciting one from a Lottery standpoint, resulting in record sales and revenue distributions. These records were no coincidence, and I commend the Lottery and their partners for all their hard work.

A key in sustaining that success is the best technology for the Lottery staff and our partners. With new instant/online and video lottery systems now in place, I'm confident in our ability to continue to reach new heights.

The Department of Revenue as a whole also had a strong year. Our revenue figures across the board were strong, and our staff has worked tirelessly to implement a number of new laws.

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

Sincerely,

Jim Terwilliger

Jim Terwilliger

South Dakota Lottery Team

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 & Public Relations

Jordon Kitts
Director of Security & Video Lottery Operations

Nathan Remmich
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 Evans
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
Licensing Manager

Tim Gross
Video Lottery Specialist I

John Waggoner
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

Message from the Executive Director



**THANKS TO OUR
LOYAL PLAYERS
AND RETAIL
PARTNERS,
THE SOUTH
DAKOTA LOTTERY
PROVIDED **\$161.9**
MILLION TO FUNDS
THAT IMPROVE THE
QUALITY OF LIFE IN
SOUTH DAKOTA.**

We are pleased to report that the Lottery's Fiscal Year 2021 was truly one for the record books. I'm excited to share how we attained this success, as well as some exiting accomplishments that will pay dividends for years to come.

As a division of the Department of Revenue, the Lottery strives to remain a viable source of revenue and entertainment for the State of South Dakota. Throughout the Fiscal Year, our staff partnered with our stakeholders to ensure that our instant, lotto and video lottery programs did just that.

Thanks to our loyal players and the hard work of our staff and retail partners, the South Dakota Lottery provided \$161.9 million to funds that improve the quality of life in South Dakota. This is the largest contribution the Lottery has ever made in a single year!

Our record-breaking year translates to more than \$156.5 million to the State's General Fund, which funds local K-12 schools, state universities and technical institutes. We also provided more than \$5 million 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.

Since our inception in 1987, the Lottery has provided more than \$3.24 billion back to the State of South Dakota!

Fiscal Year 2021 marked our fourth 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. Our goal is to provide an array of scratch tickets that appeal to our players, and we believe our 34 new games launched did just that.

The video lottery industry also celebrated a record year, and we couldn't be more excited about its future. Throughout Fiscal Year 2021, the Lottery and Scientific Games partnered to implement a new video lottery system.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Norm Lingle". The signature is stylized with a large initial "N" and a long, sweeping underline.

Norm Lingle

**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**

Sales & Revenues

Total Fiscal Year 2021 Lottery revenue generated for state funds was more than \$161 million.
These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$47,477,806	\$33,291,957	\$2,661,794	\$5,059,850
Lotto Tickets	\$26,136,629	\$13,312,880	\$1,336,201	\$7,969,368
Video Lottery*	\$1,039,716,116	\$739,481,893	\$150,117,112	\$148,848,388

TOTAL \$161,877,606

*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	\$5,059,850		
Lotto Tickets	\$2,789,279	\$5,180,089	
Video Lottery	\$148,615,940		\$157,448
Video Lottery Licensing Fees	\$75,000		
TOTAL	\$156,540,069	\$5,180,089	\$157,448

*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 2021 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 **\$3.24 billion in revenue**.

Instant Tickets

The Lottery launched 34 new instant ticket games during Fiscal Year 2021. 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 28.02 percent from the previous year, and net revenues were up .13 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.

Lotto ticket sales were up 24.49 percent from the previous year and net revenues were up 15.6 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 29.73 percent from last year.

622

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

613

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

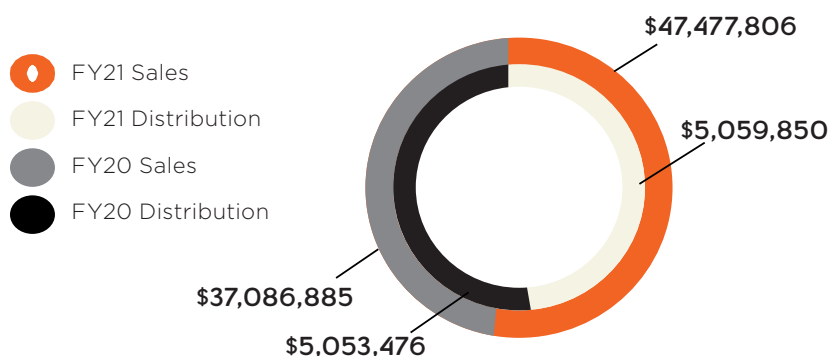
9,211

average number of active video lottery terminals during Fiscal Year 2021.

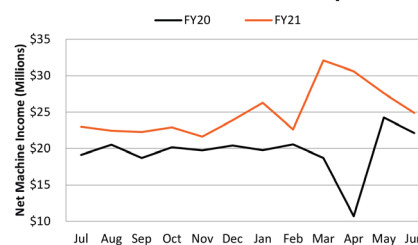
1,235

average number of licensed video lottery establishments during Fiscal Year 2021.

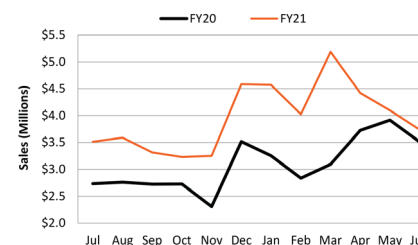
Instant Ticket Sales and Revenue



FY 21 vs. FY 20 Video Lottery NMI



FY 21 vs. FY 20 Instant Sales



Fiscal Year 2021 Beneficiaries

How
high
can you
stack
good
fun?

35%

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

65%

of 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.

Department of Social Services

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

Capital Construction Fund

61% Water and Environment Fund

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

10% Ethanol Fuel Fund

The Ethanol Fuel Fund provides annual production payments to qualified South Dakota ethanol producers.

29% State Highway Fund

The State Highway Fund is used for state highways and bridges.





Chair
**WILLIAM
SHORMA**

Dakota Dunes

Chair William Shorma has served on the South Dakota 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 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 includes nearly 19 years as president of Shur-Co. He launched Rush-Co. of Springfield in 2009 and is currently the company's CEO and key accounts manager.



Commissioner
**JASON
AHRENDT**

Sioux Falls

Vice Chair Jason Ahrendt has served on the South Dakota Lottery Commission since 2018. He currently resides in Sioux Falls where he was born and raised.

Vice Chair Ahrendt has been employed with State Farm as an insurance agent for more than 23 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.

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



Commissioner
**JAMIE
HUIZENGA**

Pierre

Commissioner Jamie Huizenga has served on the South Dakota Lottery Commission since 2018. He has been a resident of Pierre for nearly 26 years where he also serves on the Pierre 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.



Commissioner
**JOE
KAFKA**

Valley Springs

Commissioner Joe Kafka has served on the South Dakota 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 Governor 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.



Commissioner
**TONA
ROZUM**

Mitchell

Commissioner Tona Rozum has served in the Lottery Commission since January, 2021. She is a lifelong resident of Mitchell.

Commissioner Rozum is a graduate of Dakota Wesleyan University.

She has been a financial advisor since 1991. She has also worked in Main Street retail business and as a teacher.

Commissioner Rozum previously served four 2-year terms in the South Dakota legislature as a representative.

Retailer Spotlight



Circle S

One of the newest South Dakota Lottery retail locations is the Circle S in Sioux Falls. Although the retailer's doors have been open for 20 years, a change in ownership brings a new perspective.

Johnathan, the store manager, states that the relationship with the South Dakota Lottery "has been very profitable to the store. It's been awesome. It's been a chance for upselling."

A regular customer of Circle S recently won \$500 on the 50X Wild ticket creating an exciting event for Johnathan and his establishment.

Gary Cones Sinclair

Wanda and Gary Cone are the owners of Gary Cones Sinclair in Sioux Falls. After 33 years as a South Dakota Lottery retailer, Wanda and Gary are retiring from the business.

"We had fun with the lottery. We enjoyed being part of the lottery experience," Gary states. "My customers liked dreaming about being the next big winner. Our 'wall of winners' was a big hit with the customers. Where can you get that excitement for two dollars?"

Gary's advice to other retailers is "Be truthful and fair with your customers. Play for fun. If you're not playing, you can't win. Be responsible."



Dakota Cash Winner

Terri Kirkpatrick's routine stop at a convenience store proved to be a life-changing event after she claimed her \$168,007 Dakota Cash prize. Kirkpatrick purchased her ticket at Big D Oil Company, located on Lacrosse St. in Rapid City.

Kirkpatrick said. "That day was my deceased brother's birthday, so I think my brother was looking out for me too."

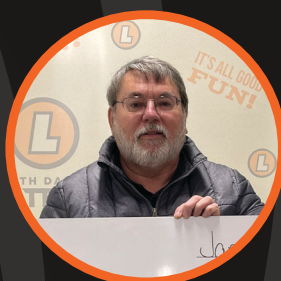
"Never say never," Kirkpatrick exclaimed. "You could always have a winning ticket. This is awesome!"

What's a ton of Good For

Fiscal Year 2021 Highlights



Terri Hagen
Hot Springs
\$150,000
Powerball



Lyle Hertel
Pierre
\$100,000
Dakota Cash



Jared Johnson
Sioux Falls
\$50,000
Powerball



Aaron Gregerson
Rapid City
\$100,000
Gold Premium Play



Robert Meier
Doland
\$100,000
Black Ice



Sandy Poncelet
Madison
\$100,000
\$100,000 Fortune



Barbara Wipf
Sioux Falls
\$100,000
Gold Premium Play



Shannon Keeble
Sioux Falls
Vegas Trip
007 Second Chance



Fely Goodface
Lower Brule
2020 Ford Shelby
GT350
Keys-N-Cash
Second Chance

Fun?  **Winning of course.**

Fiscal Year 2021 Highlights

Lottery Players Take a Second Chance

With an array of prizes up for grabs, South Dakota Lottery players certainly made the most of their second chances.

The second chance drawings, which are exclusive to members of the Lottery's Players Club, allow players to enter their non-winning scratch and lotto tickets into drawings. Throughout Fiscal Year 2021, the Lottery offered a total of 17 second chance drawings.

The staple of FY21's second chance draws was the VIP Only drawing. This monthly drawing gave fans of all price points a second chance with most non-winning tickets eligible. The VIP Only drawing featured a top prize of \$300 in scratch tickets.

A pair of Players Club members were also able to take their prizes on the road as both a 2020 Ford Shelby GT350 and a Polaris Ranger were top prizes from their respective drawings. Fely Goodface of Lower Brule won the Keys N Cash second chance drawing to win her vehicle, while Carol Callahan of Hartford was the Polaris Dollars N Dirt winner.

Instant Ticket Sales Reach New Pinnacle

Instant ticket sales were at the forefront of the Lottery's Fiscal Year 2021 success with a year over year increase of 28.02 percent.

For the fourth consecutive year, instant ticket sales reached new heights in South Dakota, eclipsing \$47.5 million. By comparison Fiscal Year 2020 featured \$37.1 million in instant ticket sales.

The record-setting year was no accident, as the Lottery staff launched 34 new scratch tickets that set the table for a successful year. Through a game selection process that includes player research, analysis of nationwide trends and more, it's safe to say these calculated selections paid off.

The Lottery also implemented a new end of game procedure to ensure that players have the best selection of scratch tickets. The new procedure, which was implemented after approval from the Lottery Commission, gives Lottery staff the ability to prevent tickets in the market from becoming stagnant.

Sioux Falls resident Shannon Keeble was another highlight in Fiscal Year 2021 with the prize that kept giving. Keeble was the winner of the 007 second chance drawing, giving her an all-expenses paid trip to Las Vegas. The trip was just the tip of the iceberg, as she took home \$13,000 after taking part in the James Bond Lottery Challenge.

The Lottery also spread holiday joy with its Holiday Hangover second chance drawing. This drawing allowed players to enter their non-winning holiday tickets for a chance to win cash prizes up to \$2,500.

The second chance drawings not only provided players with more ways to win, but they also drove strong growth in the Lottery's Players Club. At the close of Fiscal Year 2022, the Players Club eclipsed 22,000 active memberships.

With new technology on the horizon, the Lottery is gearing up for even more success in the Players Club to drive player engagement.

Last but certainly not least, the Lottery staff and retailers continued to make the most of its improved technology. With the new instant/online system, that was implemented in FY20, staff has the ability to manage inventories from afar.

With the continued use of this technology, player research and the implementation of vending machines, the Lottery and its retail partners look forward to continued success.



Fiscal Year 2021 Highlights



Lottery, L&S Agree to Advertising Contract

Good Fun is officially here to stay after the Lottery and Lawrence & Schiller reached a new agreement for advertising and related services. The new agreement was the result of a Request for Proposal that was issued December of 2019.

The new agreement, which is for five years with three additional one-year extensions, was made official July 1, 2020. Lawrence & Schiller had served as the Lottery's advertising agency since 2015, implementing the Good Fun brand that has been at the center of the Lottery's marketing efforts.

The Lottery and Lawrence & Schiller went to work even before the ink on the contract dried, implementing the next evolution of Good Fun. This included a new alternate logo, as well as new messaging related to beneficiary and winner awareness.

The strategy to these spots was simple, as it showcased exactly how much money both winners and the State

of South Dakota receive per day from the Lottery. With millions of dollars going to each, the stars of this campaign were naturally the familiar faces found on currency.

The campaign drew strong reviews, but the Lottery and Lawrence & Schiller are also planning even more improvements. With the digital age upon us, the Lottery and L&S are prioritizing these properties to provide players the latest technology.

This will include a new website, a revamped Players Club, an improved mobile app, and a robust Customer Relationship Management system. Each of these properties will work in cohesion to provide not only improved functionality, but also content based on each player's preferences.

In addition to the implementation of the Good Fun brand, Lawrence & Schiller's player research and overall marketing strategy have been a key to success for the Lottery. Since the partnership began, these strategies have played a role in record instant ticket sales.

Fiscal Year 2021 Highlights

Video Lottery System Migration Complete

South Dakota's video lottery industry welcomed a new era in Fiscal Year 2021, thanks to the migration to a new system.

The SD Lottery and Scientific Games completed the system migration over the span of multiple years, bringing the latest technology to the fingertips of both members of the video lottery industry and Lottery staff.

The new system offers a wide array of benefits to both the Lottery team and video lottery operators and establishments throughout the state. The center of these benefits is a new site controller, which handles a multitude of communications protocols. Thanks to this real-time communication, the Lottery has seen a drastic decrease of non-reporting terminals.

The new system also aids in combating the growing threat of fraudulent tickets. With this new technology available at establishments throughout the state, establishments can immediately verify the legitimacy of tickets when a player claims a prize.

The new system also allows operators to access valuable reporting and business intelligence tools, which are housed in the new Operator Portal.

The system migration is the result of a Request for Proposal issued by the Lottery in January 2018. After receiving approval from the Lottery Commission to enter into an agreement with Scientific Games in 2019, the parties began migrations in October 2020.

The culmination of these efforts was nearly 1,200 establishments migrated to the new system by April 1, 2021. The Lottery thanks Scientific Games and all of its partners in the industry for making this a successful system migration.

Did you Know?

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

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

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

By the Numbers:

At the conclusion of Fiscal Year 2021, there were 5,287 line machines in the field compared to 4,349 legacy machines. This was the first time in which line machines have outnumbered legacy machines.

The average Net Machine Income per terminal per day was \$114.64 for line machines. This outpaced an average of \$61.27 for terminal machines.



A New Way to Play!

The South Dakota Lottery provided its players with a new way to play through the introduction of vending machines.

The vending machines, which launched towards the latter half of the fiscal year, allow players to skip the line when purchasing their favorite instant and lotto products. These also aided players in maintaining social distancing during the COVID-19 pandemic.

To date, the Lottery has installed nearly 50 vending machines at retail locations throughout the state!

Independent 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, 2021 and 2020, 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 September 24, 2021.

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.

Auditor's Report

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

September 24, 2021



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, 2021 and June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Auditor's Report

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of June 30, 2021 and 2020, 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, 2021 and 2020, 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 *Message from Secretary Terwilliger, Lottery Team, Message from Executive Director Lingle, Fiscal Year 2021 Sales and Revenues, Fiscal Year 2021 Revenue Appropriations, Fiscal Year 2021 By the Numbers, Fiscal Year 2021 Beneficiaries, Lottery Commission, Retailer Spotlight, and Fiscal Year 2021 Highlights* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Message from Secretary Terwilliger, Lottery Team, Message from Executive Director Lingle, Fiscal Year 2021 Sales and Revenues, Fiscal Year 2021 Revenue Appropriations, Fiscal Year 2021 By the Numbers, Fiscal Year 2021 Beneficiaries, Lottery Commission, Retailer Spotlight, and Fiscal Year 2021 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 September 24, 2021 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

September 24, 2021

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 12,673,409	\$ 9,793,026
Restricted cash	24,600	26,700
Total cash	12,698,009	9,819,726
Accounts receivable	6,587,845	5,735,449
Restricted other receivables	710,560	675,602
Interest receivable	37,690	63,758
Restricted certificates of deposit	235,781	372,364
Total current assets	20,269,885	16,666,899
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization	172,082	209,861
Net pension asset	2,855	6,754
Total noncurrent assets	174,937	216,615
Total Assets	20,444,822	16,883,514
Deferred Outflows of Resources		
Deferred Outflows of Resources - Pensions	466,273	358,798
Total Deferred Outflows of Resources	466,273	358,798
Liabilities		
Current Liabilities		
Accounts payable	\$ 68,932	\$ 122,224
Prizes payable	5,642,308	3,783,230
Due to the Capital Construction Fund	1,280,089	906,139
Due to the General Fund	6,928,891	5,915,871
Due to other funds	86,056	66,890
Due to other governments	6,337	25,738
Operator security deposits	260,381	399,064
Escrows payable - special jurisdiction area sales	190,961	120,684
Compensated absences	159,238	148,708
Accrued liabilities	124,830	117,300
Unearned revenues	208,629	238,013
Total current liabilities	14,956,652	11,843,861
Noncurrent Liabilities		
Compensated absences	140,871	131,186
Total noncurrent liabilities	140,871	131,186
Total Liabilities	15,097,523	11,975,047
Deferred Inflows of Resources		
Deferred Inflows of Resources - Pensions	373,182	137,609
Total Deferred Inflows of Resources	373,182	137,609
Net Position		
Net Investment in Capital Assets	172,082	209,861
Restricted for Pensions	95,946	227,943
Restricted for MUSL Permitted Uses	710,560	675,602
Unrestricted	4,461,802	4,016,250
Total Net Position	\$ 5,440,390	\$ 5,129,656

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

South Dakota Lottery
Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenues		
Video lottery revenue, net (Note 6)	\$ 150,117,111	\$ 117,368,005
Instant ticket sales	47,477,806	37,086,885
On-line ticket sales	26,136,629	20,995,428
Terminal license fees	1,144,200	1,086,900
Retailer license fees	417,387	436,722
Other revenue	5,881	4,314
Total Operating Revenues	225,299,014	176,978,254
Direct Game Costs		
Instant prizes	33,291,957	25,891,005
On-line prizes	13,312,880	10,256,222
Instant retail commissions (Note 1)	2,661,794	2,094,624
On-line retail commissions (Note 1)	1,336,201	1,071,631
Instant ticket print costs	1,047,388	752,040
Total Direct Game Costs	51,650,220	40,065,522
Operating Revenues, Net of Direct Game Costs	173,648,794	136,912,732
Operating Expenses		
Personal services and benefits	2,211,201	2,202,183
Travel	145,600	136,740
Advertising	1,216,686	1,016,410
Contractual services	7,322,320	6,621,246
Supplies and materials	270,074	165,531
Depreciation and amortization	37,779	153,434
Bad debt expense	(2,646)	-
Payments to special jurisdiction areas	190,961	120,684
Total Operating Expenses	11,391,975	10,416,228
Operating Income	162,256,819	126,496,504
Non-Operating Revenues (Expenses)		
Pooled investment income	(67,446)	572,074
Interest income	1,236	11,416
Investment expenses	(2,269)	(2,305)
Non-operating revenue from MUSL	-	329,992
Total Non-Operating Revenue (Expenses)	(68,479)	911,177
Income Before Transfers	162,188,340	127,407,681
Transfers		
General Fund	(156,540,069)	(123,735,723)
Capital Construction Fund	(5,180,089)	(4,481,139)
Department of Social Services	(157,448)	(214,000)
Total Transfers	(161,877,606)	(128,430,862)
Change in Net Position	310,734	(1,023,181)
Net Position, Beginning of Year	5,129,656	6,152,837
Net Position, End of Year	\$ 5,440,390	\$ 5,129,656

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

South Dakota Lottery
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from customers and users	\$ 224,446,870	\$ 176,370,050
Payments for lottery prizes	(44,745,759)	(35,849,880)
Payments to suppliers	(13,273,100)	(11,285,684)
Payments for interfund services used	(780,428)	(838,756)
Payments for employee services	(2,051,459)	(2,031,890)
Other (payments) receipts	(183,558)	204,615
Net Cash Provided by Operating Activities	163,412,566	126,568,455
Noncapital Financing Activities		
Transfers to other funds	(160,490,636)	(127,070,004)
Net Cash Used by Noncapital Financing Activities	(160,490,636)	(127,070,004)
Investing Activities		
Pooled investment income	(41,378)	595,460
Investment expenses	(2,269)	(2,305)
Net Cash Provided by Investing Activities	(43,647)	593,155
Net Change in Cash and Cash Equivalents	2,878,283	91,606
Cash and Cash Equivalents, Beginning of Year	9,819,726	9,728,120
Cash and Cash Equivalents, End of Year	\$ 12,698,009	\$ 9,819,726
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 162,256,819	\$ 126,496,504
Adjustments to reconcile operating income		
Depreciation and amortization expense	37,779	153,434
Other revenue	1,236	11,416
Non-operating revenue from MUSL	-	329,992
Decrease/(increase) in assets		
Accounts receivable	(852,396)	(660,291)
Restricted other receivable	(34,958)	(12,821)
Restricted certificates of deposit	136,583	34,188
Prepaid expense	-	839
Net pension asset	3,899	(5,230)
Decrease/(increase) in deferred outflows of resources		
Deferred outflows of resources - pensions	(107,475)	180,278
Increase/(decrease) in liabilities		
Accounts payable	(53,292)	(267,051)
Prizes payable	1,859,078	297,347
Due to other funds	19,166	(25,886)
Due to other governments	(19,401)	25,738
Operator security deposits	(138,683)	(28,988)
Escrows payable	70,277	34,244
Compensated absences	20,215	(15,073)
Accrued liabilities	7,530	(11,629)
Unearned revenues	(29,384)	9,497
Increase/(decrease) in deferred inflows of resources		
Deferred inflows of resources - pensions	235,573	21,947
Total adjustments	1,155,747	71,951
Net Cash Provided by Operating Activities	\$ 163,412,566	\$ 126,568,455

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 Annual Comprehensive Financial Report. 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 Annual Comprehensive Financial Report.

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, 2021 and 2020.

	2021	2020
Uncollected instant/on-line ticket revenues	\$ 329,765	\$ 309,987
Allowance for doubtful instant/on-line accounts	(11,563)	(14,209)
Uncollected video lottery revenues and fees	6,269,643	5,439,671
	<u>\$ 6,587,845</u>	<u>\$ 5,735,449</u>
Total accounts receivable	<u>\$ 6,587,845</u>	<u>\$ 5,735,449</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, 2021 and 2020, the amount of cash on deposit with the Lottery was \$24,600 and \$26,700, respectively, and the amount of certificates of deposit being held by the Lottery was \$235,781 and \$372,364, respectively. The amount of \$6,514,100 and \$6,291,900 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, 2021 and 2020, respectively. The total security deposits on June 30, 2021 and 2020 were \$6,774,481 and \$6,690,964, 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, 2021 and 2020 were \$296,293 for on-line prizes and \$1,393,751 for instant prizes, and \$371,070 for on-line prizes and \$979,408 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, 2021 and 2020, there was a liability to the General Fund of \$6,179,762 and of \$5,374,473, 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 \$749,129 and \$541,398, and a liability for on-line ticket sales to the Capital Construction Fund of \$1,280,089 and \$906,139 as of June 30, 2021 and 2020, 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.

Subsequent Events

The Lottery has evaluated subsequent events through September 24, 2021, the date which the financial statements were available to be issued.

Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal years 2021 and 2020:

	2021		
	Beginning Balance	Additions	Ending Balance
Equipment	\$ 1,950,090	\$ -	\$ 1,363,187
Intangible assets - software	2,592,392	-	279,295
Total capital assets	4,542,482	-	1,642,482
Less accumulated depreciation and amortization			
Equipment	(1,940,972)	(2,867)	(1,356,936)
Intangible assets - software	(2,391,649)	(34,912)	(113,464)
Total accumulated depreciation and amortization	(4,332,621)	(37,779)	(1,470,400)
Total capital assets, net	\$ 209,861	\$ (37,779)	\$ 172,082

	2020		
	Beginning Balance	Additions	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	(1,938,104)	(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

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, 2021 and 2020, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$151,406 and \$114,271, 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, 2021 and 2020, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$148,703 and \$165,623, respectively.

The following is a schedule of changes in compensated absences at June 30, 2021 and 2020.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2021	\$ 279,894	\$ 124,633	\$ 104,418	\$ 300,109	\$ 159,238
Fiscal Year 2020	294,967	115,259	130,332	279,894	148,708

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 Annual 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, 2021, 2020, and 2019 were \$90,429, \$86,607, and \$81,296, respectively, equal to the required contributions each year.

At June 30, 2020 and 2019, SDRS was 100.04% and 100.09% funded, respectively, and accordingly had a net pension asset at June 30, 2021 and 2020. At June 30, 2021 and 2020, respectively, the South Dakota Lottery reported an asset of \$2,855 and \$6,754 for its proportionate share of the restricted net pension asset. For the fiscal years ended June 30, 2021 and 2020, the Lottery recorded pension expense of \$131,997 and \$196,995, 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, 2021</u>		
Difference between expected and actual experience	\$ 10,924	\$ 2,237
Changes in assumptions	91,976	370,945
Net difference between projected and actual earnings		
on pension plan investments	265,400	-
Changes in proportionate share	7,544	-
Contributions after the measurement date	90,429	-
Total	<u>\$ 466,273</u>	<u>\$ 373,182</u>
	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>

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, 2021:

Period ending June 30:	
2022	\$ 130,776
2023	115,126
2024	111,996
2025	111,996
2026	70,148
Total	<u>\$ 540,042</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2021 and 2020, was \$218,059 and \$220,627, respectively.

Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2021 and 2020:

	2021	2020
Cash in	\$ 1,039,716,116	\$ 801,476,364
Less cash out	739,481,893	566,740,353
Video lottery net machine income	300,234,223	234,736,011
Less operator share	150,117,112	117,368,006
Video lottery revenue available to the State	150,117,111	117,368,005
Less lottery operating share	1,501,171	1,173,680
Video lottery revenue to the General Fund	<u>\$ 148,615,940</u>	<u>\$ 116,194,325</u>

Note 7 - Transfers

Following is a summary of total transfers out for the fiscal years ended June 30, 2021 and 2020:

	2021	2020
General Fund proceeds from instant and on-line	\$ 7,100,000	\$ 6,925,000
Capital Construction Fund proceeds from on-line	3,900,000	3,575,000
General Fund proceeds from instant and on-line not yet transferred	749,129	541,398
Capital Construction Fund proceeds from on-line not yet transferred	1,280,089	906,139
Video lottery proceeds transferred to the General Fund	142,436,178	110,819,852
Video lottery proceeds to General Fund not yet transferred	6,179,762	5,374,473
Video lottery grant to Department of Social Services	157,448	214,000
Video lottery fees transferred to the General Fund	75,000	75,000
Total transfers	<u>\$ 161,877,606</u>	<u>\$ 128,430,862</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, 2021 and 2020, the prize reserve account balances were:

	2021		2020	
	MUSL Balance	SD Lottery Share	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 76,390,209	\$ 363,147	\$ 87,128,080	\$ 416,214
Powerball set prize reserve account	32,926,006	170,221	34,761,267	168,494
Mega Millions prize reserve account	93,276,388	306,063	89,579,474	326,331
Lotto America prize reserve account	4,610,151	146,786	4,264,072	135,787
Total MUSL prize reserves	<u>\$ 207,202,754</u>	<u>\$ 986,217</u>	<u>\$ 215,732,893</u>	<u>\$ 1,046,826</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 had contracted with Scientific Games to operate a video lottery system through December 24, 2020. The South Dakota Lottery entered into a new contract with Scientific Games for a central monitoring and control system that began in November 1, 2020 and continues through October 31, 2027.

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 Annual Comprehensive 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 left 19 guaranteed, annual payments. At June 30, 2021, the guaranteed minimum future payments are \$6.21 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 left 19 guaranteed, annual payments. At June 30, 2021, the guaranteed minimum future payments are \$450,000.



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