



**GOOD FUN**

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**Play  
Responsibly**

**KEEP  
THE  
FUN  
GOOD**

[KeepTheFunGood.com](https://KeepTheFunGood.com)



**SOUTH DAKOTA  
LOTTERY**  
*good fun*



## MESSAGE FROM THE SECRETARY

The Department of Revenue enjoyed another successful Fiscal Year, and that wouldn't have been possible without the hard work of our dedicated team and our stakeholders.

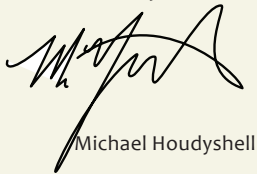
I was humbled to accept a new role as Secretary of the Department of Revenue during Fiscal Year 2022. Prior to being appointed Secretary, I had spent more than 10 years with the Department of Revenue serving as Director of the Property and Special Taxes Division and Chief Legal Counsel.

From a Lottery standpoint, another record year has played a pivotal role in the state's budget. Through our staff, retail partners and players, the Lottery continues to be an important contributor to its beneficiaries.

The Department of Revenue's achievements extend beyond tax collection. Customer service remained a top priority throughout 2022. New and improved products such as the Property Tax Transparency Portal and a new motor carrier connect system aim to make processes easier for both citizens and businesses.

We look forward to another great year in Fiscal 2023. Our devoted staff is always just a phone call or office visit away if you need assistance.

Sincerely,



Michael Houdyshell



## MESSAGE FROM THE EXECUTIVE DIRECTOR

The South Dakota Lottery is pleased to report that Fiscal Year 2022 was yet another record-breaking year. I'm excited to share how we have continued to reach new heights, and how we have set the table to continue that trend.

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. Our staff collaborated with our partners to ensure that our instant, lotto and video lottery programs did just that.

Thanks to our players and the hard work of our staff and retail partners, the South Dakota Lottery provided \$179.2 million to funds that improve the quality of life in South Dakota. For the third consecutive year, we have set a record for the Lottery's largest contribution in a single year!

Our record-breaking year translates to more than \$175.2 million to the State's General Fund, which funds local K-12 schools, state universities and technical institutes. We also provided more than \$3.7 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.

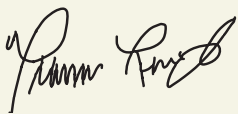
As we approach the Lottery's 35th anniversary, we have provided more than \$3.42 billion back to the State of South Dakota!

Fiscal Year 2022 marked our fifth consecutive year of record-setting instant ticket sales. This achievement is not only a testament to our staff, but the many retailers across the state who strive to provide great customer service to our players. We aim to provide scratch ticket players with an array of fun options, and the 33 tickets launched this year achieved this goal.

The video lottery industry also reached a new pinnacle in terms of net machine income. With new machines continuing to thrive and our new, robust central system, we couldn't be more excited about the future of these products.

I invite you to take some time to read more about our highlights and improvements during Fiscal Year 2022. 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,



Norm Lingle





## LOTTERY TEAM

**MICHAEL HOUDYSHELL**  
DOR SECRETARY

**DAVID WIEST**  
DOR DEPUTY SECRETARY

**NORM LINGLE**  
EXECUTIVE DIRECTOR

**CLARK HEPPER**  
DEPUTY EXECUTIVE  
DIRECTOR

**KIRSTEN JASPER**  
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

**MARCIE BUYSMAN**  
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 PROBST**  
LICENSING MANAGER

**ROB POLASKY**  
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

**ALEC NORWICK**  
ACCOUNTANT

**SHAWNA SHAW**  
ACCOUNTANT



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 \$3.42 billion in revenue.

## INSTANT TICKETS

The Lottery launched 33 new instant ticket games during Fiscal Year 2022. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$300,000.

Instant ticket sales were up 2.2 percent from the previous year, and net revenues were up 104.46 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 3.7 percent from the previous year and net revenues were down 4.75 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 10.1 percent from last year.

## SALES & REVENUES

Total Fiscal Year 2022 Lottery revenue generated for state funds was more than \$179 million. These revenues come from three main sources, as evidenced in the chart below.

	SALES	PRIZES	COMMISSION	REVENUE DISTRIBUTED
INSTANT TICKETS	\$48,287,378	\$28,528,972	\$2,719,732	\$10,348,489
LOTTO TICKETS	\$26,913,825	\$14,405,524	\$1,396,518	\$7,591,044
VIDEO LOTTERY*	\$1,144,778,435	\$819,330,770	\$162,723,832	\$161,310,594
TOTAL				\$179,250,127

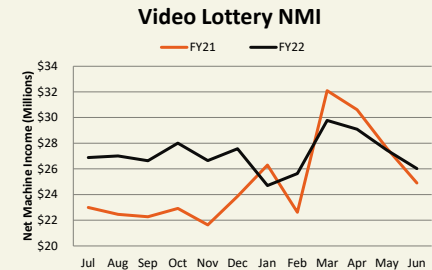
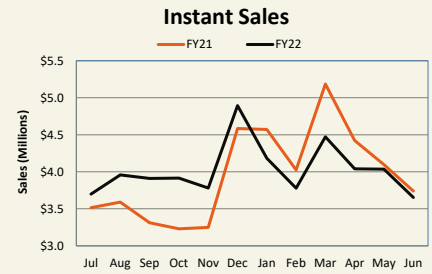
\*Video lottery sales are cash in; prizes are cash out; private share of net machine income is retailer commission.

## 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	\$10,348,489		
LOTTO TICKETS	\$3,795,522	\$3,795,522	
VIDEO LOTTERY	\$161,021,594		\$214,000
VIDEO LOTTERY LICENSING FEES	\$75,000		
TOTAL	\$175,240,605	\$3,795,522	\$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.



*fy22 by*  
**THE NUMBERS**

**630**

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.

**620**

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

**9,664**

average number of active video lottery terminals during Fiscal Year 2022.

**1,271**

average number of licensed video lottery establishments during Fiscal Year 2022.

# Good for South Dakota. Fun for South Dakotans.

49.5% goes to the  
**General Fund**,  
which supports local K-12  
schools, state universities, and  
technical institutes.

**\$214,000**  
was provided annually to the  
**Department of  
Social Services**  
for problem gambling treatment services.

## The Capitol Construction Fund is comprised of three parts:



61% goes to the **Water and Environment Fund** which is used for a variety of projects from drinking water and wastewater improvement to recycling to natural resource development.



5% goes to the **Ethanol Fuel Fund** which provides annual production payments to qualified South Dakota ethanol producers.



34% goes to the **State Highway Fund** and is used for state highways and bridges.

## Good fun happens every day.

**Like \$491K  
per day  
back to SD.**



## where the money goes

**50%**

50% of net revenue  
from lotto tickets goes  
to the state's  
General Fund.

**50%**

50% of net revenue  
from lotto tickets  
goes to the Capital  
Construction Fund.

**100%**

100% of revenue from  
the sale of instant  
tickets is distributed  
to the state's General  
Fund.

**49.5%**

49.5% 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.





Left to Right: Commissioner Ahrendt, Commissioner Kafka, Chair Shorma, Commissioner Huizenga, and Commissioner Rozum.

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.



The revenue generated for beneficiaries wasn't the only way the South Dakota Lottery gave back.

Throughout the course of the fiscal year, Lottery staff participated in several charitable activities to help serve their communities.

At the forefront of these efforts was the Lottery's participation with Feeding South Dakota. Through volunteering at Feeding South Dakota, Lottery staff compiled thousands of boxes of food that went to South Dakotans in need.

Lottery staff also participates in United Way fundraising and clean up efforts throughout the Pierre community. These exercises not only benefit our communities, but they also give staff another opportunity for team building.

The Lottery plans on continuing this efforts in the years to come.



SD Lottery sales rep Lindsay Evans with retail manager Pat.

Carlson's Tona received a \$1,000 retailer bonus check.



Wanda from Madison Discount Liquor received a \$1,000 retailer bonus check.



## FISCAL YEAR 2022 HIGHLIGHTS

1. \$30,000 Huron - Aces & 8s, Abel Lopez Miranda
2. \$50,000 Tea - Special Edition Cashword, Anonymous
3. \$40,000 Deadwood - Jokers Wild, Anonymous
4. \$30,000 Chancellor - Fatter Wallet, Anonymous
5. \$2,000,000 Yankton - Powerball, Emil Goodteacher & Donna Knodel
6. \$30,000 Aberdeen - VIP Cashword, Kyle Westadt
7. \$25,000 Rapid City - Silver Cash Word, Lisa Yellow Elk
8. \$100,000 Sioux Falls - Powerball, Anonymous
9. \$40,000 Rapid City - Xtrem Crossword, Anonymous
10. \$40,000 Ethan - Black Pearls, Casta Myers
11. \$100,000 Watertown - Powerball, Anonymous
12. \$50,000 Huron - Double Play, Anonymous
13. \$300,000 Gettysburg - 100X Wild, Anonymous
14. \$1,000 Mission - 20X The Cash, Anonymous
15. \$65,000 Yankton - Fattest Wallet, Anonymous
16. \$40,000 Rapid City - 20X The Cash, Anonymous
17. \$20246 Belle Fourche - Dakota Cash, Anonymous
18. \$300,000 Rapid City - 100X Wild, Anonymous
19. \$47,117 Harrisburg - Dakota Cash, Anonymous
20. \$50,000 Watertown - Powerball, Anonymous
21. \$100,000 Goodwin - Powerball, Anonymous
22. \$25,000 Sioux Falls - Lucky Numbers, Anonymous
23. \$25,000 Jefferson - Silver Cashword, Beth Fennel
24. \$10,000 Centerville - 100X Wild, Anonymous
25. \$100,000 Canistota - Powerball, Anonymous
26. \$5,204 Rapid City - Lucky for Life, David Vaughn
27. \$50,000 Madison - Double Play, Anonymous
28. \$20,000 Rapid City - Dakota Cash, Anonymous



**A. Judy Badger**  
Ft. Pierre  
\$5,000  
Lucky for Life



**B. Coleman Caldwell**  
Oacoma  
\$50,000  
Special Edition Cashword



**C. Holly Loyd**  
Yankton  
\$100,000  
50X Wild



**F. Louise Desersa**  
Pine Ridge  
\$100,000  
50X The Cash



**G. Robert Janis**  
Pine Ridge  
\$100,000  
Black Ice



**D. Linda Tracy**  
Sioux Falls  
\$73,783  
Dakota Cash



**E. Damian Mullaney**  
Brookings  
\$252,392  
Dakota Cash

## Lotto Game Changes Take Effect

South Dakota Lottery players had more ways to win after changes to Powerball and Lucky for Life took place in Fiscal Year 2022.

In July, Lucky for Life players had the chance for a lifetime of winning every day after the game moved to a daily draw. The game had previously held drawings each Monday and Thursday night.

Shortly after Lucky for Life's change, even more excitement was added when Powerball added a Monday draw and the Double Play feature. Previously, Powerball held drawings each Wednesday and Saturday.

The optional Double Play feature, which costs players an additional \$1, incorporates an additional drawing with a top prize of \$10 million. Players will have the same numbers for both the regular Powerball and Double Play drawings if they choose the add on and the Double Play drawing takes place shortly after Powerball's.

Both game changes reflected positively in terms of sales. In Fiscal Year 2022, Lotto America sales grew 42.67 percent compared to the previous year. Powerball also saw a 3.19 percent growth in sales.

## Instant Ticket RFP

With instant ticket sales continuing to climb, the South Dakota Lottery looked to continue its momentum through a Request for Proposal (RFP).

The main objective of the Instant Tickets and Related Services RFP was to establish a primary instant ticket print vendor. The RFP was issued Jan. 7, 2022, and the SD Lottery received proposals from the industry's leading vendors.

After proposals and presentations from three vendors, the Lottery graded each on criteria such as game design, prize structure, security, packaging, ticket appearance, vendor experience, and more. The RFP also included requirements such as quarterly presentations to enhance sales, an annual review of territories, and licensed instant ticket properties.

Through an extensive scoring process, the Lottery awarded the RFP to Scientific Games. The Lottery and Scientific Games agreed upon a 6-year base contract with four 1-year extensions that may be exercised by the Lottery.

The agreement continues the SD Lottery's partnership with Scientific Games, who has been an instant ticket vendor for more than 30 years. Scientific Games has not only been a valuable contributor to

## SD Lottery Ads Feature a Familiar Face

The South Dakota Lottery's advertising efforts now have a familiar face.

In partnership with the Lottery's advertising partner, Lawrence & Schiller, we took a new approach in Fiscal Year 2022. Throughout three new television commercials produced in Fiscal Year 2022, South Dakotans see a reoccurring character.

Brandon the delivery driver not only gives South Dakotans a comedic touch to market the South Dakota Lottery's products, but he also increases brand recognition through his continued appearances. The character's debut coincided with Lucky for Life's move to a daily draw in an ad that was also utilized by other states such as Montana and Iowa.

Since his debut, Brandon has also been used for instant ticket and lotto spots. The Lottery will continue the series with new holiday, responsible gambling, winner awareness and beneficiary awareness spots.

record instant ticket sales, but its innovation and expertise should be valuable for years to come.

The new agreement began August 2022.



X THE CASH FAMILY

## Instant Ticket Sales

The South Dakota Lottery's instant ticket sales once again reached new heights.

For the fifth consecutive year, the Lottery enjoyed a record-setting year in instant ticket sales. Fiscal Year 2022's total of \$48.3 million surpassed Fiscal Year 2021's \$47.5 million. While lotteries throughout the country struggled to maintain instant ticket marks that took place with less entertainment options available, South Dakota was able to achieve a 1.7 percent increase.

The South Dakota Lottery's feat was no fluke, as our staff implemented several strategies that aided in the new record.

At the top of that list was the implementation of lit menu boards at several prominent retail locations. The menu boards helped draw attention on the Lottery's scratch tickets, showcasing them in an eye-catching manner.

As always, the Lottery team and our partners also made data-driven decisions. Analysis on prize structures, ticket art, and play styles ensured that Lottery players were getting their preferred options.

The Lottery is looking forward to continuing its momentum in Fiscal Year 2023 by utilizing new strategies in addition to the ones that helped drive recent success.



## Play Responsibly

While the Lottery enjoyed a record-breaking fiscal year in video lottery net machine income and instant ticket sales, we always remind our players to keep the fun good.

Throughout the year, the Lottery ensures that responsible gambling messaging is at the forefront for all players. This includes messaging on all instant tickets, lotto tickets and video lottery terminals.

Our responsible gambling messaging extends beyond our products. Each year, the Lottery conducts a paid advertising campaign in conjunction with the National Council on Problem Gambling's "March Problem Gambling Awareness Month."

The advertising campaign, which features paid elements such as television and radio ads, reminds players to play only for fun, set a budget and resources are available if they develop a problem.

The Lottery also conducts an annual campaign during the holidays related to responsible gambling. In partnership with the National Council on Problem Gambling, the Lottery reminds players that scratch tickets are not suitable gifts for children. The campaign also warns players of the risks associated with gambling at an early age.

The Lottery maintains a webpage dedicated to problem gambling resources as we ask all players to play responsibly.





## Video Lottery Industry Continues Evolution

South Dakota's video lottery industry continued to thrive in Fiscal Year 2022 with another record-breaking year.

FY22 concluded with video lottery tallying \$161,021,594 in the state's share net machine income. The new record is a 10.7 percent increase compared to FY21's total of \$148,848,388.

While net machine income has been trending up for nearly a half decade, several factors contributed to the record. Improved communication resources and new technology proved to be a winning equation for the industry.

Fiscal Year 2022 marked the first full year of the Lottery's new central video lottery system through Light & Wonder. The improved technology paid dividends throughout the fiscal year as the system's communications helped terminals stay up and running.

While the average number of establishments and machines saw a slight increase from FY21, another factor in the record year was the continued purchase of new video lottery terminals. The terminals, which feature improved graphics, a wide variety of games and bonuses, continued to outpace old machines in the field.

At the end of Fiscal Year 2022, there were 6,099 new terminals compared to 3,864 old terminals in the field. The newer technology proved to be a strong investment for members of the industry with new machines outpacing old \$111 to \$65.36 in terms of net machine income per day.

With the new system implemented as well as new technology that appeals to players, the video lottery industry is hoping to continue its momentum into the future.





## Digital Properties!

South Dakota Lottery players will soon have improved digital properties when interacting with or inquiring about our products.

In Fiscal Year 2022, the Lottery partnered with Lawrence & Schiller to modernize its digital properties that include its website and mobile app. The goal of the project is to provide players with improved functionality and new features on both properties.

The Lottery anticipates both the mobile app and website will be launched in the first half of Fiscal Year 2023.



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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 year ended June 30, 2022, 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 14, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the South Dakota Lottery's internal control over financial reporting (internal control) 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 the 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 or significant deficiencies may exist that have not been identified.

### Report on 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  
Pierre, South Dakota

October 14, 2022





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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 Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the South Dakota Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As discussed in Note 1, the financial statements present only the South Dakota Lottery, an enterprise fund of the State of South Dakota, and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2022, 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.

## ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 South Dakota Lottery's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the *Secretary Houdyshell Message*, *Executive Director Lingle Message*, *Lottery Team*, *Fiscal Year 2022 Sales and Revenues*, *Fiscal Year 2022 Revenue Appropriations*, *Fiscal Year 2022 By the Numbers*, *Beneficiaries*, *Lottery Commission*, and *Fiscal Year 2022 Highlights* but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2022 on our consideration of the South Dakota Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The

## AUDITOR'S REPORT

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  
Pierre, South Dakota

October 14, 2022



South Dakota Lottery  
**Statement of Net Position**  
June 30, 2022

**Assets**

<b>Current Assets</b>	
Cash and cash equivalents	\$ 12,715,230
Restricted cash	215,400
Total cash	12,930,630
Accounts receivable	6,770,864
Restricted other receivables	713,652
Interest receivable	48,985
Restricted certificates of deposit	266,977
Total current assets	20,731,108
<b>Noncurrent Assets</b>	
Capital assets less accumulated depreciation and amortization	607,384
Net pension asset	508,691
Total noncurrent assets	1,116,075
<b>Total Assets</b>	<b>21,847,183</b>

**Deferred Outflows of Resources**

Deferred Outflows of Resources - Pensions	698,863
<b>Total Deferred Outflows of Resources</b>	<b>698,863</b>

**Liabilities**

<b>Current Liabilities</b>	
Accounts payable	\$ 114,713
Prizes payable	2,451,935
Due to the Capital Construction Fund	795,522
Due to the General Fund	10,634,814
Due to other funds	81,856
Operator security deposits	482,377
Escrows payable - special jurisdiction area sales	216,350
Compensated absences	152,757
Accrued interest	883
Accrued liabilities	136,760
Unearned revenues	238,652
Lease liability	105,869
Total current liabilities	15,412,488
<b>Noncurrent Liabilities</b>	
Compensated absences	132,930
Lease liability	287,885
Total noncurrent liabilities	420,815
<b>Total Liabilities</b>	<b>15,833,303</b>

**Deferred Inflows of Resources**

Deferred Inflows of Resources - Pensions	1,114,327
<b>Total Deferred Inflows of Resources</b>	<b>1,114,327</b>

**Net Position**

Net Investment in Capital Assets	213,630
Restricted for Pensions	93,227
Restricted for MUSL Permitted Uses	713,652
Unrestricted	4,577,907
<b>Total Net Position</b>	<b>\$ 5,598,416</b>

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

**Statement of Revenues, Expenses and Changes in Fund Net Position**

For The Fiscal Year Ended June 30, 2022

<b>Operating Revenues</b>	
Video lottery revenue, net (Note 6)	\$ 162,723,832
Instant ticket sales	48,287,378
On-line ticket sales	26,913,825
Terminal license fees	1,172,850
Retailer license fees	362,016
Other revenue	4,568
<b>Total Operating Revenues</b>	<b>239,464,469</b>
<b>Direct Game Costs</b>	
Instant prizes	28,528,972
On-line prizes	14,405,524
Instant retail commissions (Note 1)	2,719,732
On-line retail commissions (Note 1)	1,396,518
Instant ticket print costs	1,051,378
<b>Total Direct Game Costs</b>	<b>48,102,124</b>
<b>Operating Revenues, Net of Direct Game Costs</b>	<b>191,362,345</b>
<b>Operating Expenses</b>	
Personal services and benefits	2,064,426
Travel	174,392
Advertising	1,325,712
Contractual services	7,564,188
Supplies and materials	100,912
Depreciation and amortization	165,609
Bad debt expense	1,756
Payments to special jurisdiction areas	216,350
<b>Total Operating Expenses</b>	<b>11,613,345</b>
<b>Operating Income</b>	<b>179,749,000</b>
<b>Non-Operating Revenues (Expenses)</b>	
Pooled investment income	(462,937)
Interest income	2,229
Investment expenses	(3,341)
Interest expense	(12,059)
Non-operating revenue from MUSL	135,261
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(340,847)</b>
<b>Income Before Transfers</b>	<b>179,408,153</b>
<b>Transfers</b>	
General Fund	(175,240,605)
Capital Construction Fund	(3,795,522)
Department of Social Services	(214,000)
<b>Total Transfers</b>	<b>(179,250,127)</b>
<b>Change in Net Position</b>	<b>158,026</b>
Net Position, Beginning of Year	5,440,390
<b>Net Position, End of Year</b>	<b>\$ 5,598,416</b>

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

South Dakota Lottery  
**Statement of Cash Flows**  
For The Fiscal Year Ended June 30, 2022

**Operating Activities**

Receipts from customers and users	\$ 239,345,670
Payments for lottery prizes	(46,124,869)
Payments to suppliers	(13,471,479)
Payments for interfund services used	(825,283)
Payments for employee services	(2,064,199)
Other (payments) receipts	97,458

**Net Cash Provided by Operating Activities**

**176,957,298**

**Capital and Related Financing Activities**

Purchase of capital assets	(218,333)
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**Net Cash Used by Capital and Related Financing Activities**

**(218,333)**

**Noncapital Financing Activities**

Transfers to other funds	(176,028,771)
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**Net Cash Used by Noncapital Financing Activities**

**(176,028,771)**

**Investing Activities**

Pooled investment income	(474,232)
Investment expenses	(3,341)

**Net Cash Used by Investing Activities**

**(477,573)**

**Net Change in Cash and Cash Equivalents**

**232,621**

Cash and Cash Equivalents, Beginning of Year

12,698,009

**Cash and Cash Equivalents, End of Year**

**\$ 12,930,630**

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities**

Operating income	\$ 179,749,000
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**Adjustments to reconcile operating income**

Depreciation and amortization expense	165,609
Other revenue	2,229
Non-operating revenue from MUSL	135,261

**Decrease/(increase) in assets**

Accounts receivable	(183,019)
Restricted other receivable	(3,092)
Restricted certificates of deposit	(31,196)
Net pension asset	(505,836)

**Decrease/(increase) in deferred outflows of resources**

Deferred outflows of resources - pensions	(232,590)
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**Increase/(decrease) in liabilities**

Accounts payable	45,781
Prizes payable	(3,190,373)
Due to other funds	(4,200)
Due to other governments	(6,337)
Operator security deposits	221,996
Escrows payable	25,389
Compensated absences	(14,422)
Accrued liabilities	11,930
Unearned revenues	30,023

**Increase/(decrease) in deferred inflows of resources**

Deferred inflows of resources - pensions	741,145
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Total adjustments	(2,791,702)
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**Net Cash Provided by Operating Activities**

**\$ 176,957,298**

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 year 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, 2022.

Uncollected instant/on-line ticket revenues	\$ 397,179
Allowance for doubtful instant/on-line accounts	(13,319)
Uncollected video lottery revenues and fees	<u>6,387,004</u>
Total accounts receivable	<u>\$ 6,770,864</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, 2022, the amount of cash on deposit with the Lottery was \$215,400 and the amount of certificates of deposit being held by the Lottery was \$266,977. The amount of \$8,865,100 was in the form of surety bond or irrevocable letter of credit and are not reported on the Statement of Net Position as of June 30, 2022. The total security deposits on June 30, 2022 were \$9,347,477.

## 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 8 years for intangible assets. Right-to-use leased assets are amortized over the term of the lease. 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 year ended June 30, 2022 were \$614,841 for on-line prizes and \$1,740,895 for instant prizes.

## **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, 2022, there was a liability to the General Fund of \$6,314,690.

## **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 \$4,320,124 and a liability for on-line ticket sales to the Capital Construction Fund of \$795,522 as of June 30, 2022.

## **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 October 14, 2022, the date which the financial statements were available to be issued.

## Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal year 2022:

	2022			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,363,187	\$ 87,559	\$ 17,531	\$ 1,433,215
Intangible assets - software	279,295	-	-	279,295
Right-to-use leased buildings	-	513,352	-	513,352
<b>Total capital assets</b>	<b>1,642,482</b>	<b>600,911</b>	<b>17,531</b>	<b>2,225,862</b>
Less accumulated depreciation and amortization				
Equipment	(1,356,936)	(6,811)	(17,531)	(1,346,216)
Intangible assets - software	(113,464)	(34,912)	-	(148,376)
Right-to-use leased buildings	-	(123,886)	-	(123,886)
<b>Total accumulated depreciation and amortization</b>	<b>(1,470,400)</b>	<b>(165,609)</b>	<b>(17,531)</b>	<b>(1,618,478)</b>
<b>Total capital assets, net</b>	<b>\$ 172,082</b>	<b>\$ 435,302</b>	<b>\$ -</b>	<b>\$ 607,384</b>

## 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, 2022, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$150,189. 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, 2022, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$135,498.

The following is a schedule of changes in compensated absences at June 30, 2022.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2022	\$ 300,109	\$ 183,839	\$ 198,261	\$ 285,687	\$ 152,757

## 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, 2022, 2021, and 2020 were \$93,740, \$90,429, and \$86,607, respectively, equal to the required contributions each year.

At June 30, 2021, SDRS was 105.52% funded and accordingly had a net pension asset at June 30, 2022. At June 30, 2022, the South Dakota Lottery reported an asset of \$508,691 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2022, the Lottery recorded pension expense of \$2,719. 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, 2022</u>		
Difference between expected and actual experience	\$ 18,263	\$ 1,334
Changes in assumptions	584,990	254,746
Net difference between projected and actual earnings on pension plan investments	-	726,676
Changes in proportionate share	1,870	131,571
Contributions after the measurement date	93,740	-
Total	<u>\$ 698,863</u>	<u>\$ 1,114,327</u>

## Note 5 - Leases

The South Dakota Lottery entered into agreements to lease buildings and certain equipment. An initial lease liability was recorded in the amount of \$513,352 during the current fiscal year. As of June 30, 2022, the value of the lease liability was \$393,754. The Lottery is required to make monthly principal and interest payments of \$10,898. The leases have interest rates of 2.69%. The value of the right-to-use assets as of the end of the current fiscal year was \$513,352 and had accumulated amortization of \$123,886.

The future principal and interest lease payments as of June 30, 2022 were as follows:

<u>Period ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 105,869	\$ 9,257	\$ 115,126
2024	105,547	6,449	111,996
2025	108,421	3,574	111,995
2026	73,917	748	74,665
Total	<u>\$ 393,754</u>	<u>\$ 20,028</u>	<u>\$ 413,782</u>

## Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal year ended June 30, 2022:

Cash in	\$ 1,144,778,435
Less cash out	819,330,770
Video lottery net machine income	325,447,665
Less operator share	162,723,833
Video lottery revenue available to the State	162,723,832
Less lottery operating share	1,627,238
Video lottery revenue to the General Fund	<u>\$ 161,096,594</u>



## Note 7 - Transfers

Following is a summary of total transfers out for the fiscal year ended June 30, 2022:

General Fund proceeds from instant and on-line	\$ 9,823,887
Capital Construction Fund proceeds from on-line	3,000,000
General Fund proceeds from instant and on-line not yet transferred	4,320,124
Capital Construction Fund proceeds from on-line not yet transferred	795,522
Video lottery proceeds transferred to the General Fund	154,781,904
Video lottery proceeds to General Fund not yet transferred	6,314,690
Video lottery grant to Department of Social Services	214,000
Total transfers	<u>\$ 179,250,127</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, 2022, the prize reserve account balances were:

	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 81,441,316	\$ 358,958
Powerball set prize reserve account	40,019,809	156,069
Mega Millions prize reserve account	88,624,381	288,660
Lotto America prize reserve account	5,974,726	185,842
Total MUSL prize reserves	<u>\$ 216,060,232</u>	<u>\$ 989,529</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 entered into a 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 entered into a 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, 2022, the guaranteed minimum future payments are \$5.84 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 2<sup>nd</sup> 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, 2022, the guaranteed minimum future payments are \$425,000.



## Validation Centers & Mailing Address

### PIERRE

711 E. Wells Avenue  
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Phone: 605-773-5770

### SIOUX FALLS

3605 S. Western Avenue,  
Suite B  
Sioux Falls, SD 57105  
Phone: 605-367-5840

### RAPID CITY

221 Mall Drive,  
Suite 103  
Rapid City, SD 57701  
Phone: 605-394-5106

South Dakota Lottery, 711 E. Wells Ave., Pierre, SD 57501

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