

# FISCAL YEAR

# 2018

## ANNUAL REPORT



# SOUTH DAKOTA LOTTERY™

A DIVISION OF THE SOUTH DAKOTA  
DEPARTMENT OF REVENUE

QUEEN OF STACKS OF CASH  
HEARTS 20X 7 11 21  
LUCKY FOR LIFE  
EASY BUCK\$  
HOT LOTTO  
SIZZLER  
APP  
FRANKLIN'S  
FORTUNE  
30TH ANNIVERSARY  
BULLSEYE  
BONUS  
GOOD FUN  
\$50 FRENZY  
MEGA MILLIONS  
\$100 FRENZY  
10X  
PLAY RESPONSIBLY  
LOTTERY.SD.GOV  
MONTHLY MOOLA  
TRIPLE 333  
FREEZIN GREETINGS  
SHINING STAR  
BULLSEYE CASH  
MONEY BAGS  
\$100,000 TAXES PAID  
LOTTERY LINK CASHWORD  
SECRET SYMBOL CASHWORD  
WILD WEST SLINGO  
SLINGO® CHA-CHING  
HOLIDAY CASH  
5X THE CASH

PLAY IT AGAIN  
MEGAPLIER SILVER 7  
300,000 SERIES  
EXTRA PLAY TRUCKS & BUCKS  
HIGH VOLTAGE CASHWORD  
PLAYERS CLUB  
LOTTO AMERICA  
FROGGER  
LUCKY 7'S  
GOOD FUN  
ROCKIN 5'S  
WIN 5X  
IT ALL  
7 WINS  
WINNER  
WINNER  
CHICKEN  
DINNER  
BONUS  
BALL  
BINGO  
JOKER'S WILD  
MONEY SPECTACULAR  
WIN PIGS FLY  
POWERPLAY SHINING STAR  
GOOD FUN WILD WEST SLINGO ACES AND 8'S  
LUCKY CHERRY SLOTS  
\$250,000 SHOW STOPPER  
\$50 OR \$100  
OX THE CASH  
POWERBALL  
SCORE ME 7'S  
WHITE  
HOT GOOD FUN  
BINGO  
LOTERIA  
DAKOTA CASH EZ MATCH



## LOTTERY STAFF

---

**Norm Lingle**

Executive Director, Pierre

**Clark Hepper**

Deputy Executive Director,  
Pierre

**Tom Helland**

Director of Sales, Sioux Falls

**Elizabeth Burdick**

Business Analyst, Pierre

**Angela Bieber**

Information Specialist, Pierre

**Whitney Ellwanger**

Information Officer, Pierre

**Starla Volk**

Sales Supervisor, Rapid City

**Dan Sahr,**

Sales Supervisor, Sioux Falls

**Marla Gruber,**

Sales Supervisor, Pierre

**Matthew Piersall**

Sales Representative, Rapid City

**Jane Aasby**

Sales Representative, Rapid City

**Cynthia Delzer**

Sales Representative, Rapid City

**Lana Okeson**

Sales Representative, Sioux Falls

**Jeffrey Thomas**

Sales Representative, Sioux Falls

**Nancy Bugay**

Sales Representative, Pierre

**Joanne Brandlee**

Sales Representative, Aberdeen

**Pat Boyles**

Sales Representative, Sioux Falls

**Mathew Sommerfeld**

Warehouse Security, Sioux Falls

**Jennifer Van Roekel**

Validation Clerk, Sioux Falls

**Alyssa Sterrett**

Validation Clerk, Pierre

**Brandi Hoerner**

Licensing Manager, Pierre

**Ron Leidholt**

Systems Administrator, Pierre

**Lonnie Moody**

Testing Specialist & Operator, Pierre

**Shawn Castonguay**

Sr. Computer Operator, Pierre

**Sonja Campbell**

Sr. Computer Operator, Pierre

**Liza Sickler**

Sr. Computer Operator, Pierre

**Tonya Johnson**

Accounting Manager, Pierre

**Aric Frost**

Accountant, Pierre

**Julie Pirnat-Schultz**

Accountant, Pierre

**Patricia Kirby**

Accountant, Pierre

## LOTTERY COMMISSION

---

**Jamie Huizenga,** Pierre

**Joe Kafka,** Valley Springs

**Jason Ahrendt,** Sioux Falls

**William Shorma,** Dakota Dunes

**David Wheeler,** Huron



## VALIDATION CENTERS & MAILING ADDRESS

---

**PIERRE**

711 E. Wells Avenue  
Pierre, SD 57501

Phone: 605-773-5770

Fax: 605-773-5786

**SIOUX FALLS**

3605 S. Western Avenue, Suite B  
Sioux Falls, SD 57105

Phone: 605-367-5840

Fax: 605-367-5845

**RAPID CITY**

1000 Cambell Street, Suite 2  
Rapid City, SD 57701

Phone: 605-394-5106

Fax: 605-394-5844

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

# TABLE OF CONTENTS

---

**2** Lottery Staff and Office Locations

**4** Message from the Director

**5** Fiscal Year 2018

*Sales and Revenues*

*Revenue Appropriations*

*Highlights*

**10** Independent Auditor's Report

**12** 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

**14** Financial Statements

*Statement of Net Position*

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

*Statement of Cash Flows*

*Notes to the Financial Statements*



## MISSION STATEMENT

---

To work cooperatively with our partner licensees to promote and ensure the integrity, fairness, security and honesty of lottery games, to maximize revenues for state programs and initiatives, and to ensure the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

# FROM THE EXECUTIVE DIRECTOR

---

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

Fiscal Year 2018 was an exciting one for the South Dakota Lottery staff and Commission, and I'm pleased to share our accomplishments with you in our Annual Report. As a division of the Department of Revenue, we took strides to improve our lotto, instant, and video lottery programs, ensuring that the Lottery remains a viable and sustainable source of revenue and entertainment for the State of South Dakota.

Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$124.7 million to funds that improve the quality of life in South Dakota. \$7.0 million was added to the Capital Construction Fund which is used to pay for rural water systems, community drinking water and wastewater improvement projects, and recycling and waste disposal programs. We also provided \$117.6 million to the General Fund which funds local K-12 schools and state universities and technical institutes. In total, we have distributed an impressive \$2.81 billion to our beneficiaries since our start in 1987.

In Fiscal Year 2018, the Lottery offered our players new options. As noted in the annual report, instant ticket sales soared during Fiscal Year 2018, thanks in part to a wide-variety of new tickets offered. Lotto players also enjoyed new ways to win as we welcomed Lotto America to our lineup.

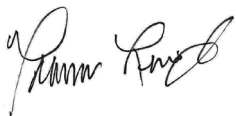
The Lottery has also expanded our players' options in the video lottery industry as newer machines continued to thrive in Fiscal Year 2018. Due to this trend, the Lottery is working in partnership with members of the industry to explore the continued use of these terminals and the phasing out of the older machines. We thank each member of the industry who has provided feedback.

Keeping players engaged through advances in technology was one of our top priorities this fiscal year. A primary resource in doing that debuted this fiscal year in the form of our first mobile application. The app is available on all Android and Apple devices, and it's another method to share the latest news, promotions, games and more with our players. We are excited to continue to improve the app in the near future.

I invite you to take some time to read more about our highlights and improvements from Fiscal Year 2018. As always, the South Dakota Lottery reminds its players to please play responsibly.

We look forward to continuing our service to the State of South Dakota and its residents in fiscal year 2019.

Sincerely,



Norm Lingle

Executive Director

South Dakota Lottery



“ Thanks to our loyal players and retail partners, the South Dakota Lottery provided \$124.7 million to funds that improve the quality of life in South Dakota.”

NORM LINGLE

# SALES & REVENUES

Total fiscal year 2018 Lottery revenue generated for state funds was more than \$124 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$30,181,754	\$19,470,632	\$1,692,953	\$6,399,685
Lotto Tickets	\$27,999,156	\$14,208,961	\$1,421,278	\$8,395,339
Video Lottery*	\$740,599,652	\$519,974,335	\$110,312,659	\$109,951,236
			<b>Total</b>	<b>\$124,746,260</b>

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

## REVENUE APPROPRIATIONS

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

	General Fund	Capital Construction Fund	Department of Social Services*
Instant Tickets	\$6,399,685		
Lotto Tickets	\$1,400,000	\$6,995,339	
Video Lottery	\$109,209,532		\$181,329
HB 1044 Transfer	\$500,000		
Video Lottery License Fees	\$60,375		
<b>Totals</b>	<b>\$117,569,592</b>	<b>\$6,995,339</b>	<b>\$181,329</b>

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



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

The first \$1.4 million in net revenue from lotto tickets is put into the General Fund. Anything beyond that amount is transferred to the Capital Construction Fund which filters money to the following areas:

- Water and Environment Fund - used for a variety of projects from drinking water and wastewater improvement to recycling to natural resource development.
- Ethanol Fuel Fund - provides annual production payments to qualified South Dakota ethanol producers.
- State Highway Fund - used for state highways and bridges.

Revenue generated from video lottery terminals, or Net Machine Income (NMI), is calculated by taking the cash put into the machines minus the prizes paid out. The NMI for each machine is split between the State of South Dakota and the licensed operator who owns the machine, each earning half of the total. Of the state's share, 49.5% is transferred to the General Fund which supports public and higher education, programs like Medicaid and Temporary Assistance to Needy Families, human services facilities, and the corrections and court systems. A small amount (0.5% of NMI) is kept by the Lottery for operation costs.

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

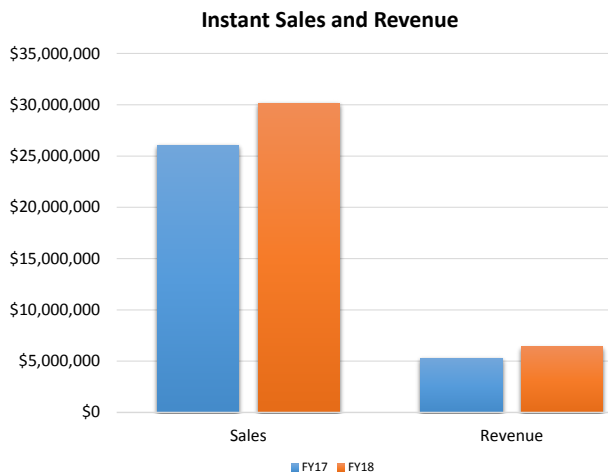


# FISCAL YEAR 2018 HIGHLIGHTS

The South Dakota Lottery markets instant tickets and lotto games, and regulates, maintains and markets video lottery to raise revenue for state programs and projects. Since its inception in 1987, the Lottery has distributed over \$2.81 billion in revenue.

## INSTANT TICKETS

The Lottery launched 28 new instant ticket games during fiscal year 2018. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$500,000, as well as merchandise prizes.



At the close of fiscal year 2018, there were 649 licensed instant ticket retailers across the state. Retailers receive a 5% commission for selling tickets, a 1% commission for cashing winning tickets with prizes up to \$100, and a 1% commission for selling tickets with prizes of more than \$100.

Fiscal year 2018 instant ticket sales were up 15.8% from the previous year and revenues were up 22.2%. Revenue from the sale of instant tickets is distributed to the General Fund.

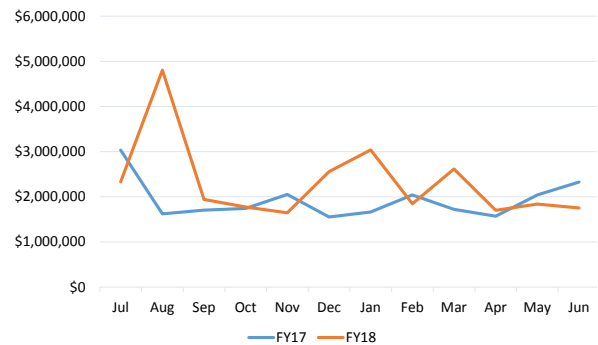
## LOTTO TICKETS

South Dakota currently offers five lotto games. Powerball, Mega Millions, Lotto America and Lucky For Life are multi-state games. Dakota Cash with EZ Match is played only in South Dakota.

At the end of fiscal year 2018, there were 636 licensed lotto retailers. Lotto retailers receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

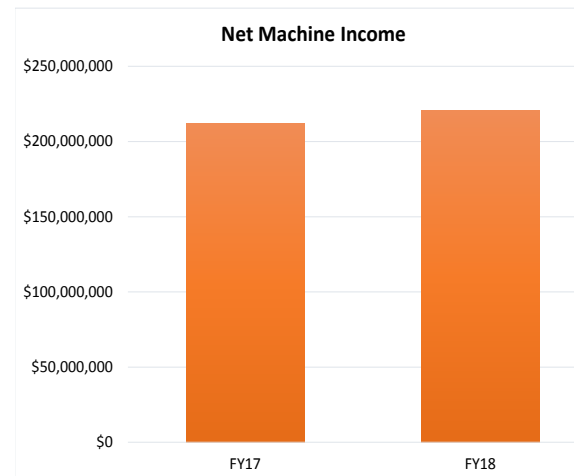
Lotto games reported an overall sales increase of 21.7% and transfers were up 19.2% from fiscal year 2017. The first \$1.4 million of revenue from the sale of lotto tickets is distributed to the General Fund, and the remaining balance is distributed to the Capital Construction Fund.

**FY 18 vs. FY 17 Lotto Sales**



## VIDEO LOTTERY

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



Video lottery sales (cash in) increased by 5.4% in fiscal year 2018. The average number of active video lottery machines during fiscal year 2018 was 9,109, and the average number of licensed establishments was 1,336. The revenue from video lottery is calculated on net machine income, which is cash-in (sales) minus cash-out (prizes). Net machine income is divided between the state and machine operators on a 50/50 split. One-half of one percent (0.5%) of the state's share is retained by the Lottery for administration.

Revenue from video lottery net machine income during fiscal year 2018 was distributed to the General Fund.

The Lottery's website, [lottery.sd.gov](http://lottery.sd.gov), offers winning numbers, prize claim forms, retailer forms, licensing and accounting information, recent winners' stories and other general information about the Lottery. The Lottery also maintains a Facebook page ([facebook.com/sdlottery](https://facebook.com/sdlottery)), a Twitter feed (@sdlottery), and its own YouTube channel.

# FISCAL YEAR 2018 HIGHLIGHTS

## DAKOTA CASH AND LUCKY FOR LIFE FEATURE RECORD-SETTING WINS



The South Dakota Lottery's top Dakota Cash jackpot and first big Lucky For Life prize highlighted Fiscal Year 2018's lotto winners.

Lynda Blesi became the Dakota Cash game's top winner after claiming her \$614,181 jackpot in September. Her \$614,181 prize is the largest in the game's history since its launch in 1994. Blesi, who is retired and lives in Sioux Falls with her husband, Pete, followed her usual routine to win the record-breaking jackpot. She purchased the ticket at the Hy-Vee Gas on Louise Avenue in Sioux Falls—where she purchases Dakota Cash tickets twice a week.

Blesi wasn't South Dakota's only big lotto winner as Fort Pierre resident Bill Rose rang in the new year by becoming South Dakota's first big winner of the Lucky for Life lotto game.

Rose claimed the game's second highest prize of \$390,000—he also had the option of receiving \$25,000 a year for the rest of his life. Rose purchased his big winner at Lynn's Dakotamart in Fort Pierre.

Lucky for Life is a relatively new game in South Dakota, as sales throughout the state began June 4, 2017. The new game caught Rose's attention immediately, and his increased play over time paid off in a big way.



## FY2018 BIG WINNERS



ALEX MEYER  
SIOUX FALLS, SD



DEAN WARKENTINE  
BOX ELDER, SD



JESUS GUISADO-ZAPATA  
CRETE, NE



MARIAH VANDERLAAN  
RAPID CITY, SD



ALLEN REEDE  
SPEARFISH, SD



THOMAS TAYLOR  
SIOUX FALLS, SD



# FISCAL YEAR 2018 HIGHLIGHTS

---

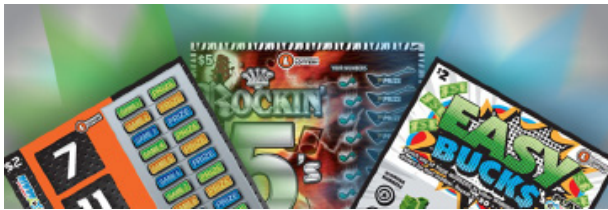
## INSTANT TICKET SALES SOAR IN FY18

FY18 was a record-setting year for the South Dakota Lottery's instant ticket sales, and the new pinnacle reached was no accident.

New games and feedback from Lottery players and retailers were a big reason why FY18 featured more than \$30 million in instant ticket sales.

The year featured the debut of Fresh Fridays, which provided Lottery with exciting, new ways to win. Through the Lottery's Fresh Friday initiative, 28 new instant tickets were introduced during Fiscal Year 2018.

To develop these new tickets, the Lottery used feedback from its players. In partnership with Lawrence & Schiller,



the Lottery surveyed players' perception of instant tickets to determine their interest in new play styles. The Lottery also did quantitative studies on new ticket art, themes, and play styles to provide players with new ways to win.

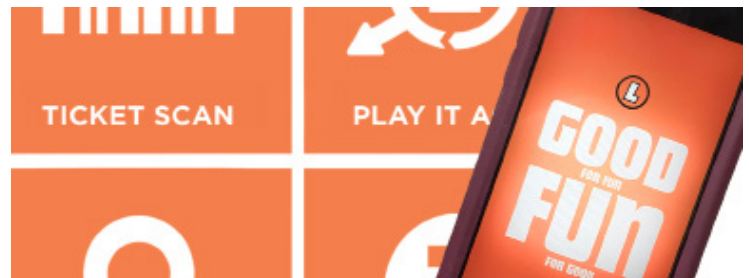
The Lottery will continue to use these resources as it aims to top FY18's pace. Many of the tickets that rose to the top during these studies are slated to join the instant ticket lineup during fall 2018.

## BRING GOOD FUN TO YOUR MOBILE DEVICES

During FY18, the South Dakota Lottery developed a new way to engage with its players through the launch of its first ever mobile application.

The mobile app, allows users to access information about lotto jackpots, promotions, an interactive retailer map, a ticket scanner and more. The app also allows members of the Lottery's Players Club to enter exclusive second chance drawings by simply scanning qualifying non-winning tickets.

The app is available on all Android and Apple devices.



## JACKPOTS REACH NEW HEIGHTS IN 2018



The fiscal year featured no shortage of excitement for South Dakota's lotto players as a pair of jackpots made history.

A pair of lotto games got off to an exciting new year as both the Mega Millions and Powerball jackpots exceeded 400 million in January. This marked the first time that both games' jackpots surpassed the \$400 million mark. The Powerball jackpot reached \$559.7 million, which was the eighth-largest jackpot in U.S. Lottery history.

The Mega Millions jackpot culminated at \$451 million, which was the fifth-largest jackpot in the game's history at the time.

# FISCAL YEAR 2018 HIGHLIGHTS

## CELEBRATING 30 YEARS OF GOOD FUN

The South Dakota Lottery concluded its 30th anniversary celebration at the state fair in Huron.

Lottery staff wasn't alone during Labor Day weekend as the party was also attended by hundreds of our loyal players. Lottery staff welcomed attendees with cupcakes, giveaways, scratch tickets and much more.

The booth at the state fair was the culmination of a summer-long celebration of Good Fun, which featured stops and giveaways throughout the state.



## LOTTERY CONTINUES VIDEO LOTTERY TERMINAL DISCUSSIONS

FY18 was out with the old and in with the new for many South Dakota video lottery players.

The year saw the continued emergence of updated technology in the video lottery industry, as many players and retailers enjoyed the use of new terminals. The new terminals featured updated graphics and a wider array of games, which appealed to players based on the numbers. Despite accounting for just over 40 percent of the state's machines, new terminals produced more cash in (\$418 million to \$325 million) and net machine income (\$119 million to \$102 million).

As industry trends continued to point toward the effectiveness of newer machines, the South Dakota Lottery began open and transparent discussions with members of the industry to not only sustain video lottery's success, but also grow it into the future.

While the discussions didn't result in a change of policy at the conclusion of the fiscal year, the South Dakota Lottery is continuing to meet with video lottery operators to determine the best end date for older terminals.



## FY18 LOTTO GAME CHANGES

The South Dakota Lottery added a new game with a familiar name in November 2018.

Lotto America joined our lotto lineup on November 12, giving South Dakota five games. In 1990, a version of Lotto America was the first lotto game offered in South Dakota, which was later replaced by Powerball.

The latest edition of Lotto America costs \$1 per play and features a starting jackpot of \$2 million. Players get five white ball numbers from a field of 52, along with one star ball from a field of 10. For an additional \$1, the All Star Bonus can be added, which multiplies all prizes but the jackpot by up to five times with a top prize of \$100,000.

While the South Dakota Lottery welcomed Lotto America, the Hot Lotto game was discontinued.

The decision to end the \$1 game was made by the Hot Lotto Game Group, and its final drawing took place on Oct. 28. Hot Lotto was played in South Dakota for nearly 15 years. South Dakota was one of 14 states that participated in the game.





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

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The South Dakota Lottery Commission  
State of South Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of June 30, 2018 and 2017, 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, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Dakota Lottery Fund's basic financial statements. The *Message from the Director, Fiscal Year 2018 Sales and Revenues, Revenue Appropriations, and Highlights* sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Message from the Director, Fiscal Year 2018 Sales and Revenues, Revenue Appropriations, and Highlights* sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018 on our consideration of the South Dakota Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Dakota Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Lottery's internal control over financial reporting and compliance.



Martin L. Guindon, CPA  
Auditor General

October 5, 2018



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

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The South Dakota Lottery Commission  
State of South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the years ended June 30, 2018 and 2017, 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 5, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South Dakota Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Dakota Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of South Dakota Lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Dakota Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA  
Auditor General

October 5, 2018

# FINANCIAL STATEMENTS

South Dakota Lottery  
Statement of Net Position  
June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 8,750,511	\$ 8,990,010
Restricted cash	39,900	19,600
Total cash	8,790,411	9,009,610
Accounts receivable	5,127,712	4,909,657
Restricted other receivables	649,767	641,395
Interest receivable	61,394	50,318
Restricted certificates of deposit	442,444	451,581
Prepaid expenses	11,412	20,000
Total current assets	15,083,140	15,082,561
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization	633,051	599,328
Net pension asset	6,548	-
Total noncurrent assets	639,599	599,328
<b>Total Assets</b>	<b>15,722,739</b>	<b>15,681,889</b>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows of Resources - Pensions	706,284	611,017
<b>Total Deferred Outflows of Resources</b>	<b>706,284</b>	<b>611,017</b>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	150,469	32,230
Prizes payable	2,028,315	2,362,665
Due to the Capital Construction Fund	1,395,339	1,244,532
Due to the General Fund	5,468,269	5,074,117
Due to other funds	90,960	125,636
Operator security deposits	482,344	471,181
Escrows payable - Reservation sales	83,185	71,529
Compensated absences	138,251	163,089
Accrued liabilities	111,193	119,659
Unearned revenues	173,755	313,189
Total current liabilities	10,122,080	9,977,827
Noncurrent Liabilities		
Compensated absences	122,158	143,584
Net pension liability	-	253,434
Total noncurrent liabilities	122,158	397,018
<b>Total Liabilities</b>	<b>10,244,238</b>	<b>10,374,845</b>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows of Resources - Pensions	127,610	4,151
<b>Total Deferred Inflows of Resources</b>	<b>127,610</b>	<b>4,151</b>
<b>Net Position</b>		
Net Investment in Capital Assets	633,051	599,328
Restricted for Pensions	585,222	353,432
Restricted for MUSL Permitted Uses	649,767	641,395
Unrestricted	4,189,135	4,319,755
<b>Total Net Position</b>	<b>\$ 6,057,175</b>	<b>\$ 5,913,910</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 Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating Revenues</b>		
Video lottery revenue, net (Note 6)	\$ 110,312,658	\$ 106,188,098
Instant ticket sales	30,181,754	26,068,946
On-line ticket sales	27,999,156	23,009,677
Terminal license fees	1,094,500	1,097,700
Retailer license fees	438,968	392,850
<b>Total Operating Revenues</b>	<b>170,027,036</b>	<b>156,757,271</b>
<b>Direct Game Costs</b>		
Instant prizes	19,470,632	17,147,116
On-line prizes	14,208,961	11,593,185
Instant retail commissions (Note 1)	1,692,953	1,465,224
On-line retail commissions (Note 1)	1,421,278	1,168,218
Instant ticket print costs	636,466	441,768
<b>Total Direct Game Costs</b>	<b>37,430,290</b>	<b>31,815,511</b>
<b>Operating Revenues, Net of Direct Game Costs</b>	<b>132,596,746</b>	<b>124,941,760</b>
<b>Operating Expenses</b>		
Personal services and benefits	1,558,513	2,014,621
Travel	128,234	130,358
Advertising	1,042,949	946,999
Contractual services	4,652,022	4,415,670
Supplies and materials	91,214	270,971
Depreciation and amortization	245,572	237,851
Bad debt expense	20,743	-
Payments to reservations	83,185	71,529
<b>Total Operating Expenses</b>	<b>7,822,432</b>	<b>8,087,999</b>
<b>Operating Income</b>	<b>124,774,314</b>	<b>116,853,761</b>
<b>Non-Operating Revenues (Expenses)</b>		
Pooled investment income	45,840	147,577
Investment expenses	(3,032)	(3,077)
Non-operating revenue from MUSL	21,676	3,134
Miscellaneous revenue	50,727	53,199
<b>Total Non-Operating Revenue (Expenses)</b>	<b>115,211</b>	<b>200,833</b>
<b>Income Before Transfers</b>	<b>124,889,525</b>	<b>117,054,594</b>
<b>Transfers</b>		
General Fund	(117,569,592)	(112,328,802)
Capital Construction Fund	(6,995,339)	(5,644,532)
Department of Social Services	(181,329)	(162,661)
<b>Total Transfers</b>	<b>(124,746,260)</b>	<b>(118,135,995)</b>
<b>Change in Net Position</b>	<b>143,265</b>	<b>(1,081,401)</b>
Net Position, Beginning of Year	5,913,910	6,995,311
<b>Net Position, End of Year</b>	<b>\$ 6,057,175</b>	<b>\$ 5,913,910</b>

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

South Dakota Lottery  
**Statement of Cash Flows**  
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 169,711,695	\$ 156,520,851
Payments for lottery prizes	(34,013,943)	(27,891,531)
Payments to suppliers	(8,908,395)	(8,310,373)
Payments for interfund services used	(664,381)	(904,178)
Payments for employee services	(1,845,033)	(1,968,034)
Other (payments) receipts	(50,278)	(58,857)
<b>Net Cash Provided by Operating Activities</b>	<b>124,229,665</b>	<b>117,387,878</b>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(279,295)	-
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(279,295)</b>	<b>-</b>
<b>Noncapital Financing Activities</b>		
Transfers to other funds	(124,201,301)	(118,027,627)
<b>Net Cash Used by Noncapital Financing Activities</b>	<b>(124,201,301)</b>	<b>(118,027,627)</b>
<b>Investing Activities</b>		
Pooled investment income	34,764	139,530
Investment expenses	(3,032)	(3,077)
<b>Net Cash Provided by Investing Activities</b>	<b>31,732</b>	<b>136,453</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(219,199)</b>	<b>(503,296)</b>
Cash and Cash Equivalents, Beginning of Year	9,009,610	9,512,906
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 8,790,411</b>	<b>\$ 9,009,610</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 124,774,314	\$ 116,853,761
<b>Adjustments to reconcile operating income</b>		
Depreciation and amortization expense	245,572	237,851
Other revenue	50,727	53,199
Non-operating revenue from MUSL	21,676	3,134
<b>Decrease/(increase) in assets</b>		
Accounts receivable	(218,055)	(329,598)
Restricted other receivable	(8,372)	(8,262)
Restricted certificates of deposit	9,137	-
Prepaid expense	8,588	(4,000)
Net pension asset	(6,548)	319,851
<b>Decrease/(increase) in deferred outflows of resources</b>		
Deferred outflows of resources - pensions	(95,267)	(10,950)
<b>Increase/(decrease) in liabilities</b>		
Accounts payable	118,239	(363,338)
Prizes payable	(334,350)	848,770
Due to other funds	(34,676)	8,918
Due to other governments	-	(17,194)
Operator security deposits	11,163	1,400
Escrows payable	11,656	7,163
Compensated absences	(46,264)	(47,422)
Accrued liabilities	(8,466)	3,608
Unearned revenues	(139,434)	49,487
Net pension liability	(253,434)	253,434
<b>Increase/(decrease) in deferred inflows of resources</b>		
Deferred inflows of resources - pensions	123,459	(471,934)
Total adjustments	(544,649)	534,117
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 124,229,665</b>	<b>\$ 117,387,878</b>

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. Proprietary funds are accounted for using the accrual basis of accounting. The accompanying financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The South Dakota Lottery is considered part of the primary government as reported by the State of South Dakota. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

### **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.



*South Dakota Lottery*  
**Notes to the Financial Statements**  
*June 30, 2018 and 2017*

---

Accounts receivable represents the following at June 30, 2018 and 2017.

	2018	2017
Uncollected instant/on-line ticket revenues	\$ 498,434	\$ 526,990
Allowance for doubtful instant/on-line accounts	(12,233)	(18,072)
Uncollected video lottery revenues and fees	4,641,511	4,400,739
Total accounts receivable	<u>\$ 5,127,712</u>	<u>\$ 4,909,657</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, 2018 and 2017, the amount of cash on deposit with the Lottery was \$39,900 and \$19,600, respectively, and the amount of certificates of deposit being held by the Lottery was \$442,444 and \$451,581, respectively. The amount of \$5,953,400 and \$5,792,000 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, 2018 and 2017, respectively. The total security deposits on June 30, 2018 and 2017 were \$6,435,744 and \$6,263,181, 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, 2018 and 2017 were \$541,184 for on-line prizes and \$637,633 for instant prizes, and \$618,469 for on-line prizes and \$364,961 for instant prizes, respectively.

## **Due to the General Fund**

South Dakota Codified Laws (SDCL) 42-7A-63 sets the State's percentage of net machine income at 50 percent of which all but 0.5 percent is deposited into the General Fund. At June 30, 2018 and 2017, there was a liability to the General Fund of \$4,568,584 and of \$4,333,550, 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 \$899,685 and \$740,567, and a liability for on-line ticket sales to the Capital Construction Fund of \$1,395,339 and \$1,244,532 as of June 30, 2018 and 2017, respectively.

## **Due to Other Funds**

A liability has been created for services provided by other funds of the State but not yet paid as of June 30.

## **Escrows Payable**

The passage of House Bill 1344 by the 1989 Legislature authorized tribal governments to receive up to 50 percent of the State's revenue on lottery products sold on that reservation. Fifty percent of the State's share of revenue on the reservations has been escrowed for payment to the tribes.

## **Accrued Liabilities**

Accrued liabilities that have been incurred but not yet paid as of June 30 include accrued wages, benefits, and retailer bonuses.

## **Unearned Revenues**

A liability has been recorded for on-line tickets sold for future drawings that were collected before June 30. A liability has also been recorded for video lottery distributor and manufacturer renewal fees owed July 1 but collected before June 30.

## **Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

## **Net Position**

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported in three categories:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation/amortization (if applicable) and reduced by the outstanding balances of any bonds, notes, or other debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, and contributors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted – Consists of all other net assets that do not meet the definition of the two preceding categories.

When both restricted and unrestricted funds are eligible for use in payment of expenses, the type of expense to be incurred is analyzed to determine the best funding source based on available funds and plans for future projects.

## **Revenue Recognition**

Sales of instant and on-line tickets are made to the public through licensed retailers. Instant ticket sales for games in progress are recorded as packs of tickets are settled. Adjustments based upon the known relationship of the number of tickets sold to the number of winning tickets redeemed through the end of the accounting period are made as necessary. Instant ticket sales for ended games and on-line ticket sales are reported as the actual ticket sales made to the public through the licensed retailers.

## **Retailer Commissions**

Lottery retailers selling instant and on-line tickets receive a 5 percent commission on each ticket sold or distributed to the public. Instant retailers receive a 1 percent selling commission for selling instant prize winning tickets over \$101 and a 1 percent cashing commission for cashing instant prize winning tickets of \$1 up to \$100.

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

## **Non-Operating Revenues and Expenses**

Revenues and expenses that result from activities not associated with the sale of lottery products are classified as non-operating.

## **Reclassifications**

Expenses were reclassified for the 2017 presentation to properly report Instant and On-line retail commissions. On-line retail commissions were increased \$34,117 and Instant retail commission decreased \$34,117. The reclassifications had no impact on net position.

## **Subsequent Events**

The Lottery has evaluated subsequent events through October 5, 2018, the date which the financial statements were available to be issued.

## New Accounting Pronouncements

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

### To be Implemented for the Fiscal Year Ended June 30, 2019:

- GASB Statement No. 83, *Asset Retirement Obligations*, will require a liability to be recognized if a government is subjected to a law, regulation, court judgment or similar requiring a liability, or funding of a liability. It is unlikely the provisions of the Standard apply to the Lottery.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* redefines the word 'debt' for disclosure purposes and requires recognition of direct borrowings and direct placements. It is unlikely the provisions of the Standard will have a material effect on the Lottery's current disclosure.

### To be Implemented for the Fiscal Years Ended June 30, 2020 and Beyond:

- GASB Statement No. 84, *Fiduciary Activities*, clarifies fiduciary relationships and reporting. The Standard will unlikely apply to the Lottery.
- GASB Statement No. 87, *Leases*, changes reporting of nearly all leasing arrangements for lessors and lessees. The Lottery is analyzing the effect of this Statement.
- GASB Statement No. 89, *Accounting for Interest Cost before the End of a Construction Period* removes the GAAP related to capitalization of interest costs. Unless the Lottery issues debt for construction purposes, the Standard will likely not apply.
- GASB Statement No. 90, *Majority Equity Interests*, clarifies reporting of when a government has a majority equity position in another entity, which may result in the equity method of reporting or a component unit relationship. The Lottery is analyzing the effect of this Statement.

## Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal years 2018 and 2017:

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

	2017			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,972,159	\$ -	\$ 22,069	\$ 1,950,090
Intangible assets - software	2,313,097	-	-	2,313,097
Total capital assets	4,285,256	-	22,069	4,263,187
Less accumulated depreciation and amortization				
Equipment	(1,944,563)	(6,541)	(22,069)	(1,929,035)
Intangible assets - software	(1,503,514)	(231,310)	-	(1,734,824)
Total accumulated depreciation and amortization	(3,448,077)	(237,851)	(22,069)	(3,663,859)
Total capital assets, net	\$ 837,179	\$ (237,851)	\$ -	\$ 599,328

### 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, 2018 and 2017, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$118,340 and \$141,083, 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, 2018 and 2017, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$142,069 and \$165,590, respectively.

The following is a schedule of changes in compensated absences at June 30, 2018 and 2017.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2018	\$ 306,673	\$ 153,886	\$ 200,150	\$ 260,409	\$ 138,251
Fiscal Year 2017	354,095	176,494	223,916	306,673	163,089

### Note 4 - Pension Plan

The South Dakota Lottery participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by contacting the SDRS in writing at South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731. More information regarding the state's share of the plan will be included in the State of South Dakota CAFR (Comprehensive Annual Financial Report).

State law requires employees to contribute 6 percent of their salary to the plan and the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The South Dakota Lottery's contributions to the SDRS for the fiscal years ended June 30, 2018, 2017, and 2016 were \$81,429, \$87,984, and \$85,562, respectively, equal to the required contributions each year.



*South Dakota Lottery*  
**Notes to the Financial Statements**  
*June 30, 2018 and 2017*

At June 30, 2017 and 2016, SDRS was 100.1% and 96.9% funded, respectively, and accordingly had a net pension asset at June 30, 2017, and a net pension liability at June 30, 2016. At June 30, 2018 and 2017, respectively, the South Dakota Lottery reported an asset of \$6,548 and a liability of (\$253,434) for its proportionate share of the restricted net pension asset (liability). For the fiscal years ended June 30, 2018 and 2017, the Lottery recorded pension (revenue) expense of (\$231,790) and \$90,401, 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, 2018</u>		
Difference between expected and actual experience	\$ 104,914	\$ -
Changes in assumptions	508,398	-
Net difference between projected and actual earnings on pension plan investments	-	125,888
Changes in proportionate share	11,543	1,722
Contributions after the measurement date	81,429	-
Total	<u>\$ 706,284</u>	<u>\$ 127,610</u>
<u>As of June 30, 2017</u>		
Difference between expected and actual experience	\$ 88,225	\$ -
Changes in assumptions	151,795	-
Net difference between projected and actual earnings on pension plan investments	281,903	-
Changes in proportionate share	1,110	4,151
Contributions after the measurement date	87,984	-
Total	<u>\$ 611,017</u>	<u>\$ 4,151</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, 2018:

<u>Period ending June 30:</u>	
2019	\$ 130,776
2020	130,776
2021	130,776
2022	130,776
2023	115,126
Thereafter	294,140
Total	<u>\$ 932,370</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2018 and 2017, was \$219,999 and \$231,770, respectively.

## Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
Cash in	\$ 740,599,652	\$ 702,820,214
Less cash out	519,974,335	490,444,018
Video lottery net machine income	220,625,317	212,376,196
Less operator and establishment share	110,312,659	106,188,098
Video lottery revenue available to the State	110,312,658	106,188,098
Less lottery operating share	1,103,126	1,061,881
Video lottery revenue to the General Fund	<u>\$ 109,209,532</u>	<u>\$ 105,126,217</u>

## Note 7 - Transfers

Following is a summary of total transfers out for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
General Fund proceeds from instant and on-line	\$ 6,900,000	\$ 5,900,000
Capital Construction Fund proceeds from on-line	5,600,000	4,400,000
General Fund proceeds from instant and on-line not yet transferred	899,685	740,567
Capital Construction Fund proceeds from on-line not yet transferred	1,395,339	1,244,532
Video lottery proceeds transferred to the General Fund	104,640,948	100,794,685
Video lottery proceeds to General Fund not yet transferred	4,568,584	4,333,550
Video lottery grant to Department of Social Services	181,329	162,661
Video lottery transfer to General Fund per HB 1044 Section 46	500,000	-
Video lottery transfer to General Fund per SB 32 Section 39	-	500,000
Video lottery fees transferred to the General Fund	60,375	60,000
Total transfers	<u>\$ 124,746,260</u>	<u>\$ 118,135,995</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, 2018 and 2017, the prize reserve account balances were:

	2018		2017	
	MUSL Balance	SD Lottery Share	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 81,746,568	\$ 403,649	\$ 77,900,260	\$ 445,778
Powerball set prize reserve account	35,410,219	170,316	39,992,162	201,239
Hot Lotto prize reserve account	-	-	6,070,116	271,720
Mega Millions prize reserve account	58,073,937	214,918	38,041,470	153,335
Lotto America prize reserve account	1,009,868	31,863	-	-
Total MUSL prize reserves	<u>\$ 176,240,592</u>	<u>\$ 820,746</u>	<u>\$ 162,004,008</u>	<u>\$ 1,072,072</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, 2019.

**Video Lottery Vendor** – The South Dakota Lottery has contracted with Scientific Games to operate a video lottery system through December 24, 2019, with possible extension through December 24, 2024.

**On-line Lottery Vendor** – The South Dakota Lottery has contracted with IGT Corporation to operate an on-line lottery gaming system through August 2, 2019.

## Note 10 - Risk Management

The South Dakota Lottery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The South Dakota Lottery participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund; 2) coverage of employee medical claims through the State's health insurance program; 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund; 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund; and, 5) coverage for property loss through the South Dakota Property and Casualty Insurance Company, LLC. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

## Note 11 - Contingencies and Commitments

### Prize Annuities

The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts. The Lottery remains liable for the payment of the guaranteed minimum prizes in the event the insurance companies issuing the annuity contracts default. There are no guaranteed minimum prize payments for which annuity contracts have been purchased as of June 30, 2018 and 2017. There were no specified payments for the years ended June 30, 2018 and 2017, respectively.



# ANNIVERSARY



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

**lottery.sd.gov**