



Annual Report

Fiscal Year 2024



table of contents

3

SECRETARY HOUDYSHELL MESSAGE
EXECUTIVE DIRECTOR LINGLE MESSAGE

4

LOTTERY TEAM

5

FISCAL YEAR 2024
SALES AND REVENUES
REVENUE DISTRIBUTIONS
BY THE NUMBERS

6

BENEFICIARIES

7

LOTTERY COMMISSION

8

LOTTERY SPOTLIGHT

9-12

FISCAL YEAR 2024 HIGHLIGHTS

13-17

INDEPENDENT AUDITOR'S REPORT

18-28

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

MESSAGE FROM THE SECRETARY

The Department of Revenue is pleased to report another successful Fiscal Year. This wouldn't have been possible without the hard work of our dedicated staff and stakeholders.

The Department of Revenue continued its mission to proactively provide fair and consistent revenue administration for South Dakota. The Lottery plays a pivotal role in generating that revenue, providing more than \$183 million back to the State of South Dakota. These revenues are important in funding causes such as education, roads, and natural resources.

Throughout the course of the fiscal year, the Department of Revenue has focused on improving the technology we offer our partners and stakeholders. At the forefront, is our new SDCars portal which will enhance motor vehicle transactions for citizens, county treasurers and other stakeholders throughout the state. This has been an exciting process, and we look forward to the new system's launch in January of 2025.

In addition to priorities such as SDCars, the Department of Revenue also played a key role in providing legislators and other stakeholders with valuable information to ensure our laws provide tax fairness throughout the state.

We look forward to another great year in Fiscal Year 2025. Our devoted staff is 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 share that Fiscal Year 2024 was another one for the record books. We are excited to share some of the many factors that led to the largest revenues in our 36-year history.

As a division of the Department of Revenue, it's our mission to remain a viable source of revenue and entertainment for the State of South Dakota. Our strong year was highlighted with a record \$183,691,691 back to the State of South Dakota!

Fiscal Year 2024 marked the fifth consecutive year that the South Dakota Lottery provided a new high in revenue generated. Since the Lottery's inception in 1987, we have provided more than \$3.8 billion to improve the quality of life in South Dakota!

This success wouldn't have been possible without our players, our strong partnerships with retailers and vendors, and our dedicated staff of 31 full time employees.

Our year resulted in more than \$179 million to the state's general fund, which supports local K-12 schools, state universities, and technical institutes. We also provided more than \$3.7 million to the State's Capital Construction Fund which is used to fund rural water systems, community drinking water, wastewater improvement projects, and recycling and waste disposal programs.

Our instant tickets were at the forefront of this success through another record-breaking year in terms of sales. Our team strategically launched 25 new tickets throughout the fiscal year—using research and industry trends to find game styles that appeal to our players.

Our lotto games also had a strong year—thanks in part to five jackpots that eclipsed \$1 billion. These large jackpots not only generated buzz throughout the state, but we were also able to celebrate some big winners.

The video lottery industry also continued its momentum. Our new system through Light & Wonder continues to pay dividends, and we've also seen growth in new manufacturers offering more variety of games for our players.

As always, we reminded our players to play responsibly. Not only did we provide more \$214,000 to the Department of Social Services for problem gambling treatment, but we also now have an award-winning Responsible Gambling marketing campaign. In partnership with Lawrence & Schiller, our "Keep the Fun Good" messaging won NASPL's award for Best Coordinated Responsible Gambling campaign.

We invite you to take some time to learn more about our highlights and improvements during this fiscal year.

Sincerely,



Norm Lingle



Lottery Team

Michael Houdyshell
DOR Secretary

Jason Evans
DOR Deputy Secretary

Norm Lingle
Executive Director

Clark Hepper
Deputy Executive Director

Kirsten Jasper
Chief Legal Counsel

David Dahl
Director of Sales

Wade LaRoche
Director of Advertising & Public
Relations

Trevor Wiebe
Director of Security & Video
Lottery Operations

Nathan Remmich
Business Analyst

Katie Jones
Sales Supervisor

Whitney Ellwanger
Information Officer

Megan Switzer
Information Officer

Matthew Piersall
Sales Supervisor

Cynthia Delzer
Sales Representative

Marcie Buysman
Sales Representative

Jeffrey Thomas
Sales Representative

RJ Nevaes
Sales Representative

Jesika Penn
Sales Representative

Pat Boyles
Sales Representative

Alec Norwick
Sales Representative

Kyle Peterson
Sales Representative

Scott Howard
Sales Representative

Matthew Sommerfeld
Warehouse Security

Jennifer Van Roekel
Validation Clerk

Jeni Schieckoff
Validation Clerk

Lonnie Moody
Systems Administrator

Mason Propst
Licensing Manager

John Waggoner
Video Lottery Specialist I

Jamin McGray
Video Lottery Specialist II

Austin Jundt
Video Lottery Specialist I

Phuvadol Leeraksakiat
Video Lottery Specialist I

Aric Frost
Accounting Manager

Shawna Zebroski
Accountant

Debbie Gordon
Accountant



SALES & REVENUES

Total Fiscal Year 2024 Lottery revenue generated for state funds was more than \$183 million. These revenues come from three main sources, as evidenced in the chart below.

| | Sales | Prizes | Commission | Revenue Distributed |
|-----------------|-----------------|---------------|---------------|----------------------|
| Instant Tickets | \$48,601,340 | \$32,090,117 | \$2,740,350 | \$7,258,958 |
| Lotto Tickets | \$38,078,591 | \$19,438,057 | \$1,987,027 | \$12,531,420 |
| Video Lottery* | \$1,200,596,004 | \$869,914,563 | \$165,340,721 | \$163,901,313 |
| TOTAL | | | | \$183,691,691 |

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

REVENUE DISTRIBUTED

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 | \$7,258,958 | | |
| Lotto Tickets | \$8,771,994 | \$3,759,426 | |
| Video Lottery | \$163,612,313 | | \$214,000 |
| Video Lottery Licensing Fees | \$75,000 | | |
| TOTAL | \$179,718,265 | \$3,759,426 | \$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.

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 \$3.8 billion in revenue.

INSTANT TICKETS

The Lottery launched 25 new instant ticket games during Fiscal Year 2024. Prices for instant tickets ranged from \$1 to \$30, and prizes ranged from \$1 to \$550,000.

Instant ticket sales were up .77 percent from the previous year, and net revenues were up 2.65 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 3.05 percent from the previous year and net revenues were up 8.18 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.

The state's share of NetMachine Income increased .37 percent from last year.

FY24 by THE NUMBERS

644

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.

633

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

10,763

average number of active video lottery terminals during Fiscal Year 2024.

1,372

average number of licensed video lottery establishments during Fiscal Year 2024.

where the money goes

70%

70% of net revenue from lotto tickets goes to the state's General Fund.

30%

30% 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.

Good for South Dakota. Fun for South Dakotans.

49.5% of Video Lottery Net Machine Income 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.

Thirty percent of net revenue from lotto tickets goes to the Capital Construction Fund. The Capital Construction Fund is comprised of two parts:



64% 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.



36% goes to the **State Highway Fund** and is used for state highways and bridges.

Good fun happens every day.

Like **\$501 K** per day back to SD.

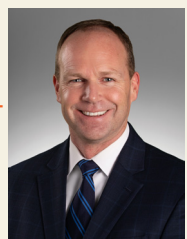


SOUTH DAKOTA LOTTERY.

LOTTERY COMMISSION

Chair

JASON AHRENDT
Sioux Falls



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.

Chair Ahrendt has been employed with State Farm as an insurance agent for more than 23 years and he also is a board member of the Sanford Health Foundation. He previously served as a board member for the Good Samaritan Society.

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

Vice Chair

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.

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 Daugard. He also aided Governor Daugard 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

TIM DONAHUE
Sioux Falls



Commissioner Donahue has served with the Lottery Commission since 2023. He is a lifelong resident of South Dakota who graduated from Augustana University in 1982 with a Bachelor of Arts in Business Administration.

Commissioner Donahue has been employed in the insurance industry since 1987 and employed by Sioux Falls Regional livestock since 2006. He has also served in the Augustana Athletic Booster Board and the O'Gorman High School Alumni Association.

Commissioner Donahue has also volunteered for several organizations in Sioux Falls including the YMCA, EMBE, FCA, MAW, Forward Sioux Falls, Sioux Falls Catholic Schools, Broom Tree, Great LIFE CARES, and United Way.

Commissioner

STEVE HARDING
Pierre



Commissioner Harding has served in the Lottery Commission since 2024. He currently resides in Pierre where he was born and raised.

Commissioner Harding is a graduate of Black Hills State University with a BS in education. He retired as a Colonel after serving 34 years in the South Dakota Army National Guard with numerous awards and commands.

Commissioner Harding had a 22-year career at the Governor's Office of Economic Development before being appointed Deputy Secretary of the South Dakota Department of the Military by Governor Mike Rounds.

He also currently serves as the Mayor of Pierre, and was recently sworn in for an additional 3-year term.

LOTTERY SPOTLIGHT

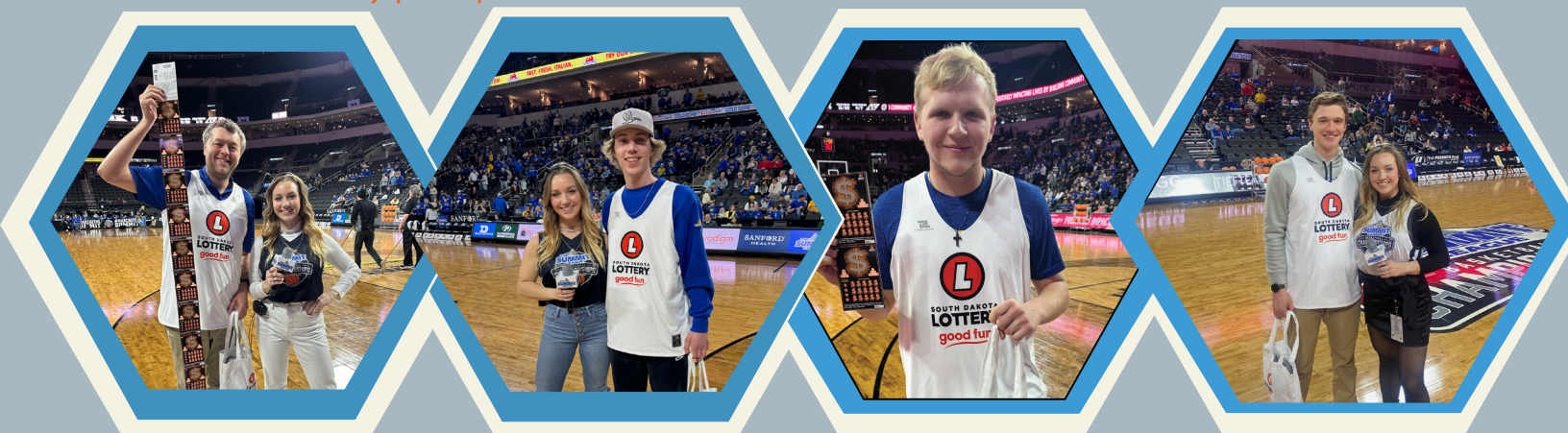


Good Fun on the Go!

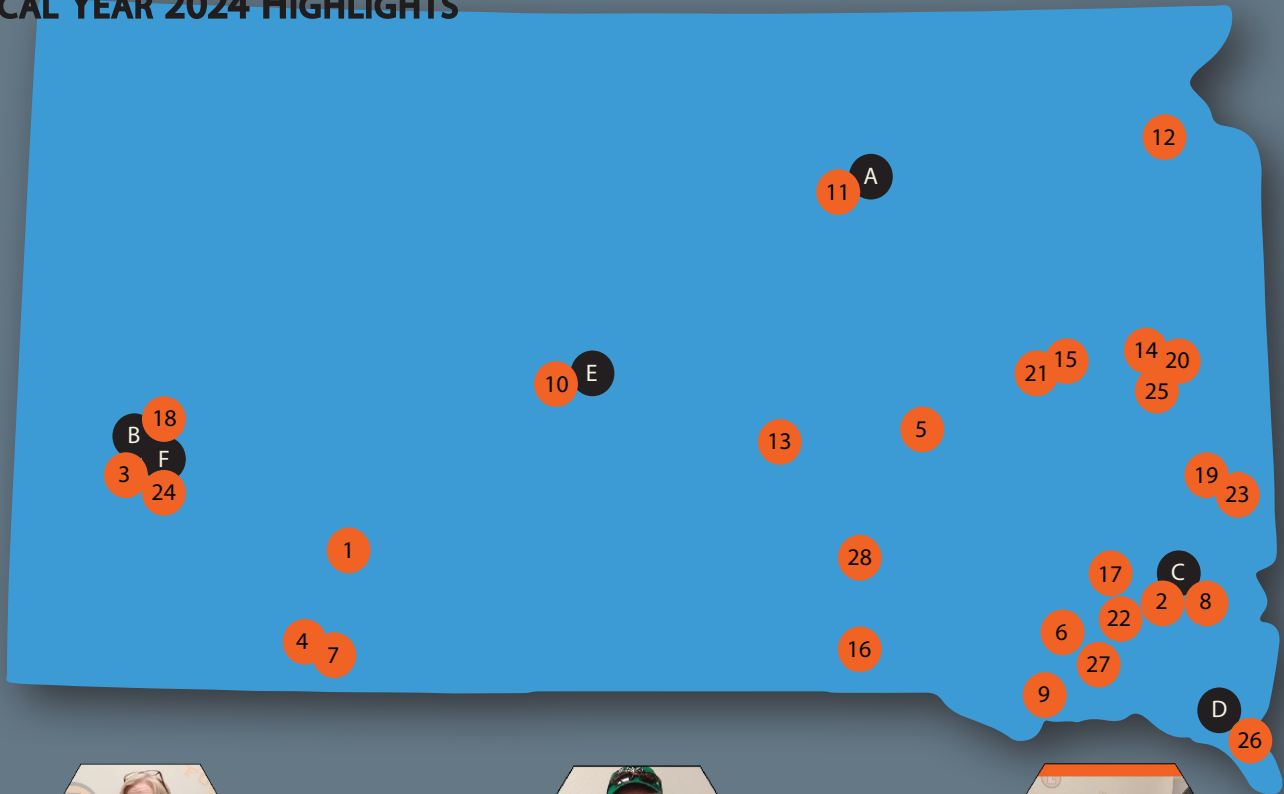
The South Dakota Lottery brought Good Fun beyond its offices and retail locations throughout Fiscal Year 2024.

The Lottery spread the holiday spirit as part of its holiday campaign with its “Good Fun” Santa. The Santa visited local businesses throughout the Sioux Falls area, providing holiday scratch tickets to patrons. The campaign generated buzz and also saw several patrons scan QR codes supplied with their scratch tickets for more information on the South Dakota Lottery.

We also played our part in providing March Madness during the 2024 Men’s and Women’s Summit League tournaments. The Lottery’s sponsorship included signage and promotional segments. These promotional segments stole the show with nine attendees shooting on the floor to win Lottery prize packs.



FISCAL YEAR 2024 HIGHLIGHTS



A. Kathleen Daly
Aberdeen
\$35,000
Power Shot



B. James Ahern
Rapid City
\$5,000
Lucky for Life



C. Glenn Bader
Sioux Falls
\$56,287
Dakota Cash



D. Arlene Shockman
Jefferson
\$5,000
Lucky for Life



E. Tammi Stangohr
Pierre
\$20,000
Wild Bingo



F. Danelle Woods
Rapid City
\$75,000
The Price is Right

- | | |
|--|--|
| <ul style="list-style-type: none"> 1. \$10,000 Kyle - \$ Dollar Sign 2. \$10,000 Sioux Falls - 10X 3. \$137,037 Rapid City - Dakota Cash 4. \$20,000 Pine Ridge - Bonus Game Bingo 5. \$40,000 De Smet- Lucky 75 Cashword 6. \$1,000,000 Lennox - Mega Millions 7. \$55,555 Pine Ridge - Fiery 55 8. \$250,000 Sioux Falls - \$250,000 BONUS 9. \$30,000 Yankton - Cash To Go 10. \$25,000 Fort Pierre - Neon 55 11. \$70,000 Aberdeen - Ultimate VIP Cashword 12. \$20,000 Wilmont - Casino Nights 13. \$25,000 Huron - Block-O 14. \$100,000 Watertown - 50X | <ul style="list-style-type: none"> 15. \$50,000 Clark - Platinum Doubler 16. \$50,012 Parkston - Powerball 17. \$150,000 Sioux Falls - Powerball 18. \$25,000 Rapid City - Wild Cherry Crossword Tripler 19. \$40,000 Dell Rapids - 20X 20. \$15,000 Watertown - Holiday Riches 21. \$300,000 Clark - 100X The Cash 22. \$550,000 Sioux Falls - \$550,000 Jackpot 23. \$25,000 Dell Rapids - Neon 55 24. \$62,410 Rapid City - Dakota Cash 25. \$40,000 Watertown - 20X 26. \$40,000 North Sioux City - Fast Cash 27. \$10,000 Tea - 10X 28. \$5,000 Mitchell - The Price is Right |
|--|--|

Piersall Wins Spirit of Revenue Honor

Rapid City Regional Sales Supervisor Matt Piersall received well-deserved recognition for his dedication when he was named the 2024 Spirit of Revenue recipient.

The Department of Revenue awards the Spirit of Revenue each year to the employee who embodies our values of communication, public service, and professionalism. In Matt’s more than 7 years with the Lottery, Matt has become a dedicated resource for retailers, customers, and fellow employees.

“Matt is a valuable member of our team,” Lottery Sales Director David Dahl said. “He constantly goes above and beyond his day-to-day job duties to ensure that the Lottery can achieve its goals.”

Matt received his honor in May during the Department of Revenue’s annual Statewide meeting. As Matt received the honor, his week was even more memorable because his wife had just given birth.

“I was in disbelief. I was sitting in a hospital room with my wife because she had given birth to our daughter the day before,” Matt said. “David texted me to say congrats on winning the award, and I didn’t believe him until he sent a picture of the slide show with my face on it.”

While Matt didn’t expect the award, it was certainly deserved. Matt has played an integral part in not only lending support to retailers but has also played a vital role in office camaraderie and the Lottery’s technology enhancements.

“Matt has always been approachable for assistance from fellow employees,” Dahl said. “He’s always willing to lend a helping hand, which has been important during some large projects. Matt has also shown great strides in becoming a leader, and we are excited about his future with the Lottery.”

Matt noted that his favorite parts of his career are the relationships he’s built with retailers, coworkers, and players. Congratulations, Matt!



Video Lottery Net Machine Income Reaches New Peak

South Dakota’s video lottery industry continued to see consistent growth in Fiscal Year 2024.

The state’s share of video lottery net machine income reached a record \$163,612,313, which was a .4 percent increase compared to Fiscal Year 2023. The new benchmark continued themes since the Lottery partnered with Light & Wonder on a new system in 2023 with industry-leading communication mechanisms keeping machines active.

The system migration has led to a sharp decline in non-reporting terminals and allows for Lottery staff to quickly troubleshoot an issue with machines. The site controllers implemented with the new system also allows establishments to validate payout vouchers to combat fraud.

Fiscal Year 2024 also continued trends of the continued use of line machines. Line machines, which feature improved graphics and more game styles, outnumbered legacy machines 7,375 to 3,590. The new machines also proved to be more profitable with an average of \$96.26 to \$60.66 net machine income per day per machine.

The video lottery industry continues to evolve with Fiscal Year 2024 featuring the implementation of Ticket In, Ticket Out functionality to machines and the addition of machine manufacturers.



Jackpot History Repeats Itself

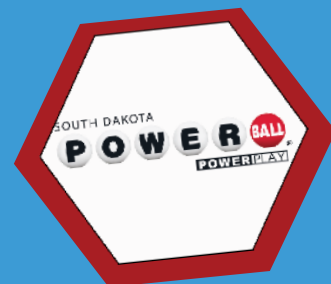
Fiscal Year 2024 proved to be a monumental one in terms of lotto jackpots—with both Powerball and Mega Millions prizes reaching new heights.

The Mega Millions game wasted little time generating excitement with a record \$1.602 billion jackpot for the Aug. 8, 2023, drawing. This wasn't the only jackpot run to heat up during the summer months as Powerball climbed to \$1.08 billion on July 19, 2023.

For the first time in Powerball's 32 year history, the jackpot surpassed \$1 billion twice in the same calendar year. The Oct. 11, 2023, jackpot was \$1.765 billion, which was the second largest in the game's history.

The Powerball jackpot also reached \$1.326 billion prior to the April 6, 2024, drawing. In total, Mega Millions and Powerball combined for five jackpots above \$1 billion throughout Fiscal Year 2024.

These jackpots created plenty of buzz in South Dakota, leading to a 3.05 percent increase in lotto sales. Powerball sales increased year over year by 15.34 percent.



Instant Ticket Sales Reach New Heights

The South Dakota Lottery celebrated another record-breaking year in instant ticket sales.

The South Dakota Lottery completed Fiscal Year 2024 with \$48,601,340 in instant ticket sales, topping 2023's tally of \$48,231,110.

A variety of factors led to the year-over-year growth including strategic ticket launches, play styles, ticket designs and more.

At the forefront of these factors was the Lottery's first full year with a \$30 ticket in the market. The \$550,000 Jackpot ticket that was launched May 1, 2023, performed well throughout the fiscal year with \$6.9 million in sales.

The Lottery was also able to leverage some household brands in partnership with Scientific Games. The Lottery launched its The Price is Right instant ticket Oct. 30, 2023. This \$10 ticket saw strong sales, ranking 3rd among all instant tickets in Fiscal Year 2024.

The Lottery also saw its holiday tickets and families of games play a significant role in setting a new instant ticket sales benchmark. The Lottery will continue to use research and industry trends to continue Fiscal Year 2024's positive trajectory.





FISCAL YEAR 2024 HIGHLIGHTS

NASCAR Powerball Playoff features South Dakota Finalist

In the first year of the NASCAR Powerball playoff, one South Dakotan made it all the way to the finish line.

Barbara Wipf of Sioux Falls was one of four finalists in the inaugural NASCAR Powerball Playoff. Wipf and finalists from Mississippi, New Mexico and Indiana won a VIP trip for two to NASCAR Championship Weekend™ and entry into a drawing for \$1 million.

While Wipf ultimately didn't win the \$1 million, she and her husband did have a once in a lifetime experience and a \$10,000 prize.

"We love watching NASCAR," Wipf said. "I entered the non-winning tickets because it was a chance for something we both enjoy. I can't put it into words. It's a once in a lifetime experience."

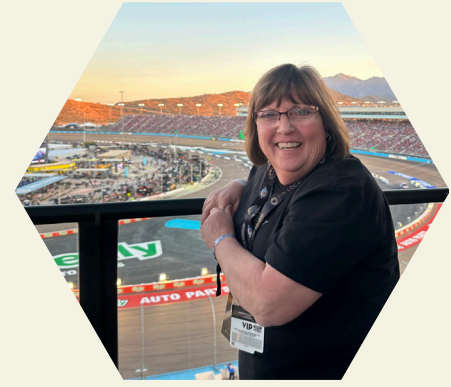
Wipf's journey began when she entered a non-winning ticket into the NASCAR Powerball Playoff. Wipf and nine other winners from the South Dakota Lottery's Players Club were entered into a nationwide drawing to determine 16 semi-finalists.

The 16 semi-finalists were randomly selected from the national pool to compete in a series of elimination drawings that mirror the elimination rounds of the NASCAR Playoffs. After the South Dakota Lottery alerted her that she was a finalist, she couldn't wait to share the news.

"I kind of screamed and then I realized 'Oh my gosh I'm in the house by myself. This is not good. I have to tell somebody this!'" Wipf said. "My husband was out mowing the yard, and he heard me screaming in the yard."

As someone whose non-winning ticket proved to be an ultimate winner, Wipf left a piece of advice for her fellow players.

"Keep playing, take the time to enter your tickets," Wipf said. "We don't say losers. Your non-winning tickets, enter them. Because it only takes one."



Lottery wins two NASPL Advertising Awards

South Dakota Lottery players weren't the only winners this fiscal year after the Lottery received recognition for its advertising efforts.

South Dakota earned honors at the 2023 North American State and Provincial Lotteries' (NASPL) annual conference. The South Dakota Lottery won awards in the Responsible Gambling Communications Coordinated Campaign and Television Advertising Lotto and Daily Numbers Games categories.

South Dakota was also a finalist in eight other categories, which included:

- Radio Advertising Lotto and Daily Numbers Games
- Radio Advertising Corporate/ Beneficiary
- Radio Advertising Coordinated Campaign
- Digital Media Corporate/Beneficiary
- Digital Media Coordinated Campaign
- Responsible Gambling Communications Digital Media

The Lottery partners with Lawrence & Schiller on these campaigns and more throughout the fiscal year.





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

RUSSELL A. OLSON
AUDITOR GENERAL

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

The Honorable Kristi Noem
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

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



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

RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

Report on the 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, 2024

| Assets | |
|---|----------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 17,769,997 |
| Restricted cash | 37,678 |
| Total cash | <u>17,807,675</u> |
| Accounts receivable | 7,077,770 |
| Restricted other receivables | 727,493 |
| Interest receivable | 135,313 |
| Restricted certificates of deposit | 337,460 |
| Total current assets | <u>26,085,711</u> |
| Noncurrent Assets | |
| Capital assets less accumulated depreciation and amortization | 392,919 |
| Net pension asset | 6,350 |
| Total noncurrent assets | <u>399,269</u> |
| Total Assets | <u>26,484,980</u> |
| Deferred Outflows of Resources | |
| Deferred Outflows of Resources - Pensions | 553,378 |
| Total Deferred Outflows of Resources | <u>553,378</u> |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | \$ 191,405 |
| Prizes payable | 3,128,086 |
| Due to the Capital Construction Fund | 1,509,426 |
| Due to the General Fund | 12,769,772 |
| Due to other funds | 81,357 |
| Operator security deposits | 375,138 |
| Escrows payable - special jurisdiction area sales | 145,841 |
| Compensated absences | 160,791 |
| Accrued interest | 1,024 |
| Accrued liabilities | 147,664 |
| Unearned revenues | 218,424 |
| Lease liability | 7,257 |
| Total current liabilities | <u>18,736,185</u> |
| Noncurrent Liabilities | |
| Compensated absences | 134,781 |
| Lease liability | 334,786 |
| Total noncurrent liabilities | <u>469,567</u> |
| Total Liabilities | <u>19,205,752</u> |
| Deferred Inflows of Resources | |
| Deferred Inflows of Resources - Pensions | 318,009 |
| Total Deferred Inflows of Resources | <u>318,009</u> |
| Net Position | |
| Net Investment in Capital Assets | 50,876 |
| Restricted for Pensions | 241,719 |
| Restricted for MUSL Permitted Uses | 727,493 |
| Unrestricted | 6,494,509 |
| Total Net Position | <u>\$ 7,514,597</u> |

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

South Dakota Lottery
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2024

| | |
|---|-----------------------------|
| Operating Revenues | |
| Video lottery revenue, net (Note 6) | \$ 165,340,720 |
| Instant ticket sales | 48,601,340 |
| On-line ticket sales | 38,078,591 |
| Terminal license fees | 1,249,500 |
| Retailer license fees | 363,432 |
| Other revenue | 9,103 |
| Total Operating Revenues | <u>253,642,686</u> |
| Direct Game Costs | |
| Instant prizes | 32,090,117 |
| On-line prizes | 19,438,057 |
| Instant retail commissions (Note 1) | 2,740,350 |
| On-line retail commissions (Note 1) | 1,987,027 |
| Instant ticket print costs | 821,259 |
| Total Direct Game Costs | <u>57,076,810</u> |
| Operating Revenues, Net of Direct Game Costs | <u>196,565,876</u> |
| Operating Expenses | |
| Personal services and benefits | 2,499,115 |
| Travel | 183,721 |
| Advertising | 1,284,821 |
| Contractual services | 8,658,004 |
| Supplies and materials | 120,941 |
| Depreciation and amortization | 94,987 |
| Bad debt expense | (419) |
| Payments to special jurisdiction areas | 145,841 |
| Total Operating Expenses | <u>12,987,011</u> |
| Operating Income | <u>183,578,865</u> |
| Non-Operating Revenues (Expenses) | |
| Investment income | 1,153,156 |
| Investment expenses | (4,518) |
| Interest expense | (16,853) |
| Gain on disposal of assets | 7,570 |
| Non-operating revenue from MUSL | 19,147 |
| Total Non-Operating Revenue (Expenses) | <u>1,158,502</u> |
| Income Before Transfers | <u>184,737,367</u> |
| Transfers | |
| General Fund | (179,718,265) |
| Capital Construction Fund | (3,759,426) |
| Department of Social Services | (214,000) |
| Total Transfers | <u>(183,691,691)</u> |
| Change in Net Position | 1,045,676 |
| Net Position, Beginning of Year | <u>6,468,921</u> |
| Net Position, End of Year | <u>\$ 7,514,597</u> |

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, 2024

| | |
|--|-----------------------|
| Operating Activities | |
| Receipts from customers and users | \$ 254,060,598 |
| Payments for lottery prizes | (52,297,173) |
| Payments to suppliers | (14,916,467) |
| Payments for interfund services used | (872,510) |
| Payments for employee services | (2,514,548) |
| Other (payments) receipts | (218,140) |
| Net Cash Provided by Operating Activities | 183,241,760 |
| Capital and Related Financing Activities | |
| Payments for lease liabilities - principal | (77,247) |
| Payments for lease liabilities - interest | (17,689) |
| Net Cash Used by Capital and Related Financing Activities | (94,936) |
| Noncapital Financing Activities | |
| Transfers to other funds | (183,392,921) |
| Net Cash Used by Noncapital Financing Activities | (183,392,921) |
| Investing Activities | |
| Investment income | 1,158,509 |
| Investment expenses | (4,518) |
| Net Cash Provided by Investing Activities | 1,153,991 |
| Net Change in Cash and Cash Equivalents | 907,894 |
| Cash and Cash Equivalents, Beginning of Year | 16,899,781 |
| Cash and Cash Equivalents, End of Year | \$ 17,807,675 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income | \$ 183,578,865 |
| Adjustments to reconcile operating income | |
| Depreciation and amortization expense | 94,987 |
| Non-operating revenue from MUSL | 19,147 |
| Decrease/(increase) in assets | |
| Accounts receivable | 433,918 |
| Restricted other receivable | (15,899) |
| Restricted certificates of deposit | 4,677 |
| Net pension asset | (166) |
| Decrease/(increase) in deferred outflows of resources | |
| Deferred outflows of resources - pensions | 58,746 |
| Increase/(decrease) in liabilities | |
| Accounts payable | 8,999 |
| Prizes payable | (768,999) |
| Due to other funds | (1,846) |
| Due to other governments | (7) |
| Operator security deposits | (1,399) |
| Escrows payable | (36,384) |
| Compensated absences | (19,336) |
| Accrued liabilities | (12,428) |
| Unearned revenues | (58,866) |
| Increase/(decrease) in deferred inflows of resources | |
| Deferred inflows of resources - pensions | (42,249) |
| Total adjustments | (337,105) |
| Net Cash Provided by Operating Activities | \$ 183,241,760 |
| Noncash Investing, Capital and Financing Activities | |
| Gain on disposal of capital assets | \$ 7,570 |

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, 2024.

| | |
|---|--------------------------------|
| Uncollected instant/on-line ticket revenues | \$ 523,768 |
| Allowance for doubtful instant/on-line accounts | (6,082) |
| Uncollected video lottery revenues and fees | <u>6,560,084</u> |
| Total accounts receivable | <u><u>\$ 7,077,770</u></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, 2024, the amount of cash on deposit with the Lottery was \$37,678 and the amount of certificates of deposit being held by the Lottery was \$337,460. The total operator security deposits liability was \$375,138 as of June 30, 2024. The Lottery held \$8,706,371 of security deposits in the form of surety bonds or irrevocable letters of credit that are not reported on the Statement of Net Position as of June 30, 2024. The total security deposits on June 30, 2024 were \$9,081,509.

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, 2024 were \$762,577 for on-line prizes and \$1,736,028 for instant prizes.

Due to the General Fund and the Capital Construction 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.

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.

At June 30, 2024, there was a liability for on-line ticket sales to the Capital Construction Fund of \$1,509,426, a liability for instant ticket sales to the General Fund of \$6,280,952, and a liability for net video lottery machine income to the General Fund of \$6,488,820, resulting in a total liability to the General Fund of \$12,769,772.

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.

Leases

The Lottery routinely engages in lease agreements to meet operational needs. Lease contracts generally relate to buildings and equipment. The Lottery uses an estimated incremental borrowing rate as the discount rate for leases unless the rate the lessor charges is known. The Lottery's estimated incremental borrowing rate is based on known lessor charged rates adjusted every six months using a 12-month average of the State and Local Government Series (SLGS) securities rates. If amendments or other certain circumstances occur that are expected to significantly affect the terms of the lease contract, the present value is re-measured and corresponding adjustments are made. Some lease contracts include increases to lease payments related to the consumer price index (CPI) or similar indices, and the available index increase is included in the present value at the commencement of the lease or upon remeasurement.

For short-term lease contracts, the Lottery recognizes periodic expense based on the provisions of the lease contracts. For all lease contracts that meet the financial reporting requirements of GASB lease standards where the Lottery is the lessee, the Lottery recognizes a lease liability and an intangible right-to-use lease asset based on the present value of future lease payments over the noncancellable period of the lease contract. Lease right-to-use assets are reported with capital assets, and lease liabilities are reported as current and noncurrent liabilities in the statement of net position. The right-to-use lease assets are amortized using straight-line basis over the term of the lease or the useful life, if different from the lease term. The lease liability is reduced by the principal portion of the lease payments made. More information regarding lessee lease information can be found in Note 2 – Capital Assets and Note 5 – Leases in the Notes to the Financial Statements.

Subscription Based Information Technology Arrangements (SBITAs)

The Lottery routinely engages in software agreements to meet operational needs. These contracts generally relate to the Lottery using another entities (lessor's) software and paying periodic payments for this use.

The Lottery uses an estimated incremental borrowing rate as the discount rate unless the rate the lessor charges is known. The Lottery's estimated incremental borrowing rate is based on known lessor charged rates adjusted every six months using a 12-month average of the State and Local Government Series (SLGS) securities rates. If amendments or other certain circumstances occur that are expected to significantly affect the terms of the software contract, the present value is re-measured and corresponding adjustments are made. Some software contracts include increases to payments related to the consumer price index (CPI) or similar indices, and the available index increase is included in the present value at the commencement of the contract or upon remeasurement.

Payments based on future performance are not included in the measurement of the SBITA liability but are recognized as an expense in the period performed.

For short term software contracts, the Lottery recognizes periodic expense based on the provisions of the contract. For all software contracts that meet the financial reporting requirements of GASB Statement No. 96, *Subscription Based Information Technology Arrangements* standards where the Lottery is the lessee, the Lottery recognizes a subscription intangible right-to-use software asset and an IT liability based on the present value of future payments over the noncancellable period of the contract. Software right-to-use assets are reported with capital assets, and software liabilities are reported as current and noncurrent liabilities in the statement of net position. The right-to-use software assets are amortized using straight-line basis over the term of the contract or the useful life, whichever is shorter. The liability is reduced by the principal portion of the payments made. More information regarding SBITA information can be found in Note 9 – Contractual and Subscription Based Information Technology Arrangements in the Notes to the Financial Statements.

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 **REPORT DATE**, the date which the financial statements were available to be issued.

Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal year 2024:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|--------------------|-------------------|--------------------|
| Equipment | \$ 1,426,160 | \$ - | \$ - | \$ 1,426,160 |
| Right-to-use leased buildings | 979,390 | - | 623,640 | 355,750 |
| Total capital assets | 2,405,550 | - | 623,640 | 1,781,910 |
| Less accumulated depreciation and amortization | | | | |
| Equipment | (1,354,290) | (12,778) | - | (1,367,068) |
| Right-to-use leased buildings | (224,412) | (82,209) | (284,698) | (21,923) |
| Total accumulated depreciation and amortization | (1,578,702) | (94,987) | (284,698) | (1,388,991) |
| Total capital assets, net | \$ 826,848 | \$ (94,987) | \$ 338,942 | \$ 392,919 |

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, 2024, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$167,035. 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, 2024, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$128,537.

The following is a schedule of changes in compensated absences at June 30, 2024.

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------|------------|-------------------|------------------------|
| Compensated Absences Payable Fiscal Year 2024 | \$ 314,908 | \$ 207,804 | \$ 227,140 | \$ 295,572 | \$ 160,791 |

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, 2024, 2023, and 2022 were \$113,948, \$100,652, and \$93,740, respectively, equal to the required contributions each year.

At June 30, 2023, SDRS was 100.1% funded and accordingly had a net pension asset at June 30, 2024. At June 30, 2024, the South Dakota Lottery reported an asset of \$6,350 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2024, the Lottery recorded an increase of pension expense of \$16,331. Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources as of June 30, 2024:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 180,002 | \$ - |
| Changes in assumptions | 217,108 | 317,363 |
| Net difference between projected and actual earnings on pension plan investments | 42,278 | - |
| Changes in proportionate share | 42 | 646 |
| Contributions after the measurement date | 113,948 | - |
| Total | <u>\$ 553,378</u> | <u>\$ 318,009</u> |

Note 5 - Leases

The South Dakota Lottery has entered into agreements to lease buildings and certain equipment. As of June 30, 2024, the value of the lease liability was \$342,043. The Lottery is required to make monthly principal and interest payments of \$1,618. The leases have interest rates of 3.59%. The value of the right-to-use assets as of the end of the current fiscal year was \$355,750 and had accumulated amortization of \$21,923.

The future principal and interest lease payments as of June 30, 2024 were as follows:

| Period ending June 30: | Principal | Interest | Total |
|------------------------|-------------------|-------------------|-------------------|
| 2025 | \$ 7,257 | \$ 12,161 | \$ 19,418 |
| 2026 | 7,522 | 11,896 | 19,418 |
| 2027 | 7,796 | 11,622 | 19,418 |
| 2028 | 8,081 | 11,337 | 19,418 |
| 2029 | 8,376 | 11,042 | 19,418 |
| 2030-2034 | 46,693 | 50,395 | 97,088 |
| 2035-2039 | 55,859 | 41,229 | 97,088 |
| 2040-2044 | 66,824 | 30,264 | 97,088 |
| 2045-2049 | 79,941 | 17,147 | 97,088 |
| 2050-2052 | 53,694 | 2,940 | 56,634 |
| | \$ 342,043 | \$ 200,033 | \$ 542,076 |
| Total | | | |

Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal year ended June 30, 2024:

| | |
|--|-----------------------|
| Cash in | \$ 1,200,596,004 |
| Less cash out | 869,914,563 |
| Video lottery net machine income | 330,681,441 |
| Less operator share | 165,340,721 |
| Video lottery revenue available to the State | 165,340,720 |
| Less lottery operating share | 1,653,407 |
| Video lottery revenue to the General Fund | \$ 163,687,313 |

Note 7 - Transfers

Following is a summary of total transfers out for the fiscal year ended June 30, 2024:

| | |
|---|-----------------------|
| General Fund proceeds from instant and on-line | \$ 9,750,000 |
| Capital Construction Fund proceeds from on-line | 2,250,000 |
| General Fund proceeds from instant and on-line not yet transferred | 6,280,952 |
| Capital Construction Fund proceeds from on-line not yet transferred | 1,509,426 |
| Video lottery proceeds transferred to the General Fund | 157,198,493 |
| Video lottery proceeds to General Fund not yet transferred | 6,488,820 |
| Video lottery grant to Department of Social Services | 214,000 |
| | \$ 183,691,691 |
| Total transfers | |

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, 2024, the prize reserve account balances were:

| | MUSL Balance | SD Lottery Share |
|-------------------------------------|-----------------------|---------------------|
| Powerball prize reserve account | \$ 87,045,674 | \$ 331,759 |
| Powerball set prize reserve account | 40,000,000 | 144,243 |
| Mega Millions prize reserve account | 101,455,867 | 299,722 |
| Lotto America prize reserve account | 8,854,039 | 249,341 |
| | <u>\$ 237,355,580</u> | <u>\$ 1,025,065</u> |
| Total MUSL prize reserves | | |

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 and Subscription Based Information Technology Arrangements

Instant Tickets – The South Dakota Lottery entered into contracts with Scientific Games to provide instant game tickets through August 29, 2028.

Video Lottery Vendor – The South Dakota Lottery entered into a contract with Light & Wonder for a central monitoring and control system of video lottery terminals through October 31, 2027. The Lottery has the option to extend the contract for up to eight one-year terms. Payments for the system in the initial term are variable in nature based on 0.28% of net machine income on all video lottery terminals. Since there is no minimum payment, this arrangement was not included in subscription IT assets or liabilities. For the fiscal year ended June 30, 2024, payments made for the use and support of the system were \$925,990.

Instant and On-line Lottery Vendor –The South Dakota Lottery entered into a contract with IGT to operate an instant and on-line lottery gaming system through November 4, 2031. Payments for the system in the initial term are variable in nature based on 7.227% of instant and on-line sales. Since there is no minimum payment, this arrangement was not included in subscription IT assets or liabilities. For the fiscal year ended June 30, 2024, payments made for the use and support of the system were \$6,265,901.

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, 2024, the guaranteed minimum future payments are \$5,110,000.

During the fiscal year ended June 30, 2020, the Lottery purchased an annuity from Lincoln Financial in the amount of \$527,000 for a Lucky for Life 2nd tier grand prize winner. The annuity is guaranteed for 20 years or the life of the prize winner, whichever is longer. The grand prize winner received the first annual payment when the prize was claimed, which left 19 guaranteed, annual payments. At June 30, 2024, the guaranteed minimum future payments are \$375,000.



Validation Centers & Mailing Address

PIERRE

711 E. Wells Avenue
Pierre, SD 57501
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

lottery.sd.gov



/sdlottery



@sdlottery



@sdlottery



/sdlottery

