



ANNUAL REPORT

Fiscal Year 2023





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MESSAGE FROM THE SECRETARY

I am pleased to share that the Department of Revenue had another successful year. This wouldn't have been possible without the hard work of our dedicated staff and stakeholders.



The Department of Revenue continued its mission in providing fair, efficient, and reliable revenue administration. The Lottery plays a key role in that mission, providing more than \$181 million to the State of South Dakota.

As always, the Department of Revenue is highly involved in legislative session. Our team plays a pivotal role in providing legislators and other stakeholders with valuable information to ensure our laws provide tax fairness throughout the state.

Our work doesn't end there, as our team administers changes in law, including the state sales tax rate reduction that went into effect July 1, 2023.

We look forward to another great year in Fiscal Year 2024. Our devoted staff is just a phone call or office visit away if you need assistance.

Sincerely,

A stylized, handwritten signature in black ink.

Michael Houdyshell

MESSAGE FROM THE EXECUTIVE DIRECTOR

The South Dakota Lottery is pleased to report that Fiscal Year 2023 was another successful one. I am happy to share some of the factors that led to another record-breaking year in terms of revenue distributed, as well as some priorities that will help us continue that trend.

As a division within the Department of Revenue, the Lottery's mission is to remain a viable source of revenue and entertainment for the State of South Dakota. Through the hard work of our staff and our strong partnerships with retailers and vendors, we celebrated our 35th anniversary by doing just that.

Thanks to our players and the dedication of our staff and stakeholders, the South Dakota Lottery provided \$181.9 million to funds that improve the quality of life in South Dakota! Fiscal Year 2023 marked the fourth consecutive year we set a new benchmark in terms of largest contribution, edging out last year's total of \$179.2 million.

Our strong year equated to more than \$178 million to the State's General Fund, which supports local K-12 schools, state universities, and technical institutes. We also provided more than \$3.47 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.

In our 35-year history, we have provided more than \$3.6 billion back to the State of South Dakota!

Our Fiscal Year 2023 was an exciting one beyond the numbers. In May, we were pleased to offer players a new \$30 instant ticket. We introduced this new price point to our players after extensive research showed our players wanted it. This was one of 30 new instant tickets that were launched throughout the course of the fiscal year.

Our video lottery industry continued its growth, as our improved technology in recent years paid dividends. We had a record year in terms of net machine income, and the resources our new video lottery system has provided us give us a positive outlook for the future.

We invite you to take some time to learn more about our highlights and improvements during this fiscal year. As always, we remind our players to please play responsibly.

Sincerely,

A stylized, handwritten signature in black ink.

Norm Lingle



LOTTERY TEAM

Michael Houdyshell
DOR SECRETARY

David Wiest
DOR DEPUTY SECRETARY

Norm Lingle
EXECUTIVE DIRECTOR

Clark Hepper
DEPUTY EXECUTIVE DIRECTOR

Kirsten Jasper
CHIEF LEGAL COUNSEL

Marla Gruber
DIRECTOR OF SALES

Wade LaRoche
DIRECTOR OF ADVERTISING
& PUBLIC RELATIONS

Trevor Wiebe
DIRECTOR OF SECURITY & VIDEO LOTTERY OPERATIONS

Nathan Remmich
BUSINESS ANALYST

David Dahl
SALES SUPERVISOR

Dan Sahr
SALES SUPERVISOR

Whitney Ellwanger
INFORMATION OFFICER

Megan Switzer
INFORMATION OFFICER

Matthew Piersall
SALES REPRESENTATIVE

Jane Aasby
SALES REPRESENTATIVE

Cynthia Delzer
SALES REPRESENTATIVE

Marcie Buysman
SALES REPRESENTATIVE

Jeffrey Thomas
SALES REPRESENTATIVE

Pat Boyles
SALES REPRESENTATIVE

Alec Norwick
SALES REPRESENTATIVE

Kyle Petersen
SALES REPRESENTATIVE

Scott Howard
SALES REPRESENTATIVE

Mathew 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



fy23 by THE NUMBERS

636

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.

626

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

10,231

average number of active video lottery terminals during Fiscal Year 2023.

1,326

average number of licensed video lottery establishments during Fiscal Year 2023.

SALES & REVENUES

Total Fiscal Year 2023 Lottery revenue generated for state funds was more than \$181 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$48,231,110	\$32,323,438	\$2,713,288	\$7,071,548
Lotto Tickets	\$36,952,388	\$19,180,294	\$1,953,966	\$11,583,822
Video Lottery*	\$1,174,101,482	\$844,649,689	\$164,725,897	\$163,293,012
TOTAL				\$181,948,382

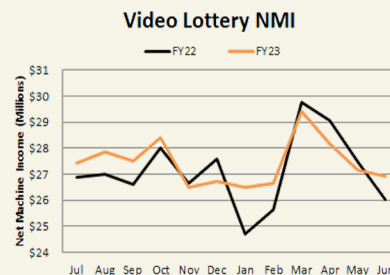
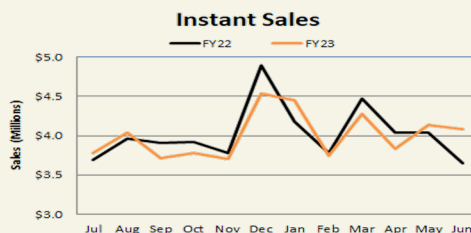
*Video lottery sales are cash in; prizes are cash out; private share of net machine income is retailer commission.

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	\$7,071,548		
Lotto Tickets	\$8,108,675	\$3,475,147	
Video Lottery	\$163,003,637		\$214,000
Video Lottery Licensing Fees	\$75,375		
TOTAL	\$178,259,235	\$3,475,147	\$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 \$3.42 billion in revenue.

INSTANT TICKETS

The Lottery launched 33 new instant ticket games during Fiscal Year 2023. Prices for instant tickets ranged from \$1 to \$30, and prizes ranged from \$1 to \$550,000.

Instant ticket sales were down 0.1 percent from the previous year, and net revenues were down 31.7 percent.

LOTTO TICKETS

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

Lotto ticket sales were up 37.3 percent from the previous year and net revenues were up 52.6 percent.

VIDEO LOTTERY

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

The state's share of NetMachine Income increased 1.2 percent from last year.

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

\$214,000

is provided annually to the
**Department of
Social Services**
for problem gambling treatment services.

The Capitol 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 \$480 K
per day
back to SD.**



**SOUTH DAKOTA
LOTTERY.**



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 is also 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

JAMIE HUIZENGA

Pierre

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

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

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



Commissioner

JOE KAFKA

Valley Springs

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

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

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



Commissioner

TONA ROZUM

Mitchell

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

Commissioner Rozum is a graduate of Dakota Wesleyan University.

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

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



Sales Representative Jane Aasby presents the team at Corner Pantry in Rapid City with a \$25,000 bonus check. The store was the site of the \$4 million winning ticket purchase.



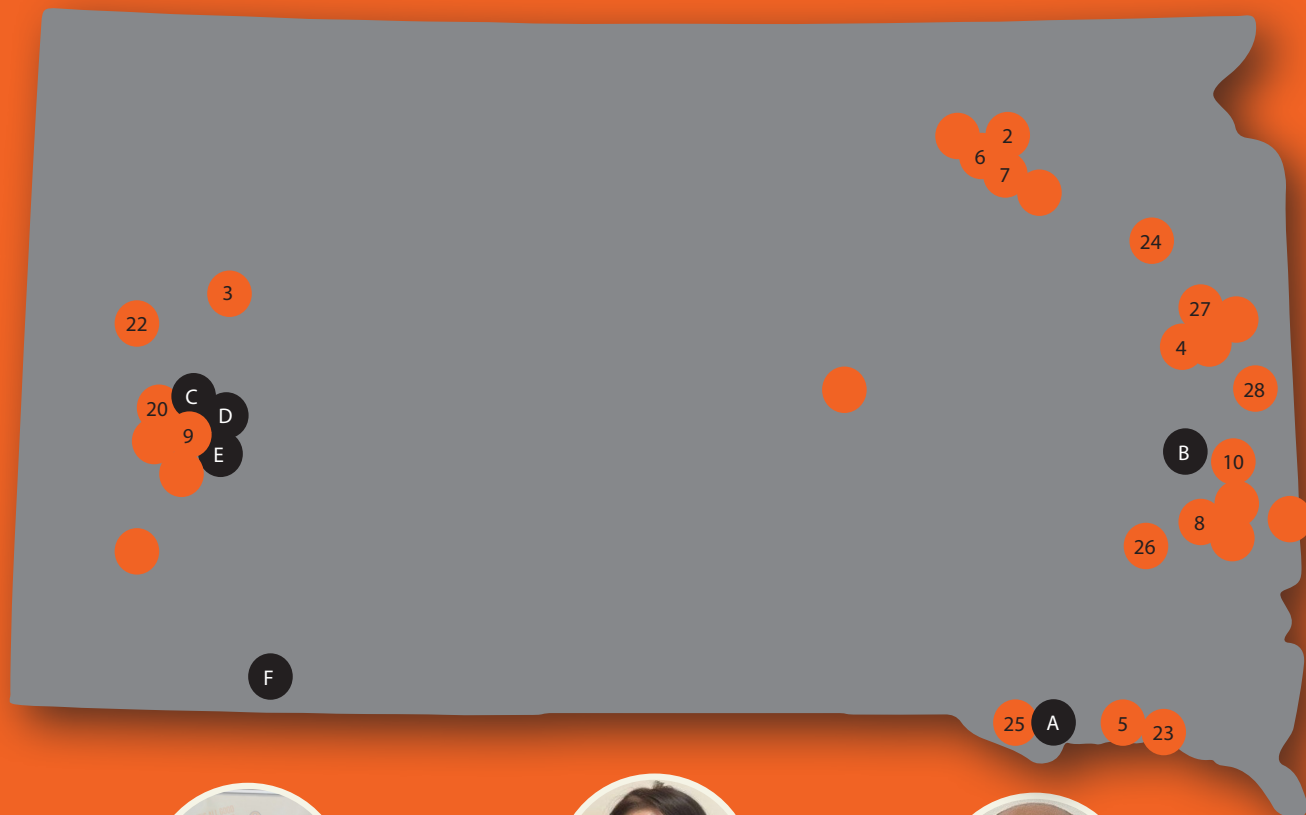
Kessler's Food & Liquor assistant store directors Kathy Aman and Zach Perrigo accepting their bonus check



At the 2023 DOR Annual Award Presentation, Debbie Gordon and Aric Frost won the Customer Heroes Award. This award goes to DOR employees who place customers first. Both Debbie and Aric assisted a Lottery player who was experiencing a medical issue. The two stayed with the player and made sure the player remained conscious while they waited for the ambulance. The player was safe and taken to the hospital by the proper authorities. Good job and congratulations, Debbie and Aric!



DJ's Travel Center Staff in Huron accepted a \$500 retailer bonus check.



A. Zachary McComas
Yankton
\$10,000
Casino Nights



B. Thomasena Givens
Sioux Falls
\$20,000
Dimond Bingo



C. Jerry McMath
Rapid City
\$77,000
Blazing Hot 7's



D. Larry Reeves
Rapid City
\$100,000
Powerball Double Play



E. Melissa Johnson
Rapid City
\$75,000
Cashword Double



F. Bryon and Louise Desera
Desera
Pine Ridge
\$300,000
100X THE CASH

1. \$1,000,000 **Aberdeen** - Powerball, Anonymous
2. \$25,000 **Aberdeen** - Cash Wheel, Jonielle Smalley
3. \$77,000 **Bell Fourche** - Blazing Hot 7s, Anonymous
4. \$65,000 **Brookings** - Fastest Wallet, Anonymous
5. \$95,081 **Bonesteel** - Dakota Cash, Anonymous
6. \$1,000,000 **Aberdeen** - Powerball, Anonymous
7. \$25,000 **Aberdeen** - Daily Crossword, Kayla Moss
8. \$20,000 **Sioux Falls** - Dimond Bingo, Samantha Blacksmith
9. \$10,000 **Rapid City** - \$250,000 Bonus, Linda Newman
10. \$1,000,000 **Sioux Falls** - Mega Millions, Anonymous
11. \$10,000 **Aberdeen** - Mega Millions, Ky Tran
12. \$390,000 **Hotsprings** - Lucky for Life, Anonymous
13. \$50,000 **Huron** - Powerball, Lazars 4
14. \$153,778 **Sioux Falls** - Dakota Cash, Anonymous
15. \$63,228 **Rapid City** - Dakota Cash, Joel Nielson
16. \$40,000 **Rapid City** - Black Pearls, Roger Kuck
17. \$300,000 **Sioux Falls** - 100X The Cash, Matt Anderson
18. \$70,000 **Rowena** - Black & Gold, Anonymous
19. \$65,000 **Brookings** - Fattest Wallet, Anonymous
20. \$35,000 **Rapid City** - Power Shots, Anonymous
21. \$27,777 **Brookings** - Red White and Blue 7s, Anonymous
22. \$200,000 **Piedmont** - Powerball, Anonymous
23. \$95,031 **Bonesteel** - Dakota Cash, Anonymous
24. \$50,000 **Watertown** - Mega 7, Anonymous
25. \$275,657 **Springfield** - Dakota Cash, Anonymous
26. \$30,000 **Tea** - Mega Millions, Anonymous
27. \$252,392 **Brookings** - Dakota Cash, Damian Mullaney
28. \$50,000 **Baltic** - Powerball, Anonymous

Jackpot runs Catapult Sales

South Dakota Lottery players had a lot to win this year, thanks in part to some monumental jackpot amounts.

Fiscal Year 2023 featured three of the top-10 largest jackpots in U.S. Lottery history! This equated to plenty of buzz among our staff, players and retailers. The fiscal year began with July fireworks as the Mega Millions jackpot reached \$1.337 billion before being won in Illinois. The July jackpot run was just the beginning though, as the Mega Millions prize reached \$1.348 before being won in Maine in January.

While the pair of Mega Millions jackpot runs were significant, Powerball featured the largest prize in U.S. Lottery history. The November 7, 2023 drawing had a \$2.040 billion jackpot that was won in California. The trio of jackpot runs played a large role in South Dakota's 27 percent increase in lotto sales.

The Mount Rushmore State was also home to several big winners during the jackpot runs. A pair of million-dollar prizes highlighted our winners. The Nov. 5 Powerball drawing had a \$1 million winner purchased in Sioux Falls, while the January 2, 2023 Mega Millions drawing had a \$4 million winner purchased in Rapid City. As always, the South Dakota Lottery reminded players to play responsibly during these jackpot runs and that it only takes one ticket to win.



Lottery Introduces \$30 Ticket

The South Dakota Lottery introduced its new \$30 price point to instant ticket players, which included the chance to win South Dakota largest scratch ticket prize.

The \$550,000 Jackpot ticket launched May 1, 2023. This instant ticket not only features a top prize of \$550,000, but it also has more than \$9 million in prizes! The key number match style instant ticket also has a Bonus section that gives players a chance to instantly win \$100, \$250 and \$500.

While players could find the ticket at retailer locations in May, the ticket's launch didn't happen overnight. Prior to introducing the new price point, the Lottery surveyed Players Club members to gauge interest in the new price point.

Our research indicated that 58 percent of respondents were interested in the higher price point, with 21 percent indicating that they were very interested. Sixty-one percent of respondents indicated the \$30 price point was their preference.

The ticket received a positive response after the launch. The ticket not only had strong sales to round out the fiscal year, but retailers have shown excitement over the additional price point.



\$550,000 JACKPOT

Video Lottery Continues Growth

Fiscal Year 2023 was another one for the record books in the video lottery industry.

The year resulted in a 1.22 percent increase in video lottery funds distributed, which equated to more than \$163 million to the State's General Fund. This was a record in terms of the State's Share of Net Machine Income, edging Fiscal Year 2022's total of \$161,310,594.

A factor that led to the Lottery's sustained success was the continued use of line machines. The line machines, which feature improved graphics, more game styles and bonuses, outpaced legacy machines 6,786 to 3,738 at the conclusion of the fiscal year.

The line machines featured quantity and quality, with a \$103.10 to \$62.78 advantage in terms of Net Machine Income per day.

Fiscal Year 2023 was also the second full year of the Lottery's new central video lottery system. In partnership with Light & Wonder, the central system has improved communications that have ensured terminals stay up and running.

The innovations will continue for the Lottery moving forward. Throughout Fiscal Year 2023, the Lottery team partnered with stakeholders in preparation for Ticket In, Ticket Out (TITO) technology. TITO, which launched in July 2023, allows players to insert video lottery vouchers from one machine into another supported machine to redeem credits.



SD Lottery Reminds Players to Keep the Fun Good

While the South Dakota Lottery likes to promote fun, we also remind our players and retailers to keep the fun good.

This means providing information on and promoting responsible play. The South Dakota Lottery reminds players to set a budget, play only for fun and to seek help if they or someone they know has a gambling problem.

In the past, the South Dakota Lottery has worked on and created a variety of material to provide this information. We've printed Responsible Gambling pamphlets for retailers, created social media posts about playing responsibly, created a video series talking about responsible gaming and myths in the lottery industry, and participated in Problem Gambling Awareness month and responsible gifting programs around the holidays.

The Lottery's partnerships with industry leaders play a vital role in enhancing this messaging, which is why we recently received Responsible Gambling verification through the NCPG and North American Association of State and Provincial Lotteries' (NASPL) program.

The program requires lotteries to meet industry standards in responsible gambling categories such as product oversight, retailer

training, employee training, advertising, and public education. South Dakota's plan was evaluated by three assessors, which noted our plan met or exceeded standards.

After receiving the verification, the Lottery team will now have two years to put its plan in action. The Lottery's goal is to continue to develop and execute the plan in order to reach the program's implementation level.

The South Dakota Lottery looks forward to its continued participation in this program, ensuring that our responsible gambling program continues to have sustained success.



A Rockin Start to 2023

A pair of South Dakotans and their guests had a “rockin” start to 2023 thanks to a South Dakota Lottery second chance drawing.

Gabriella Anane and Connie Duvall each got to ring the new year in New York City thanks to the 2023’s First Powerball Millionaire drawing. The South Dakotans not only won an all-expenses paid trip to New York City, but they also got to experience ABC’s iconic New Year’s Rockin Eve firsthand.

“It was wonderful to experience it,” Duvall said, “We had a wonderful view from our hotel room. We could see the stage for the Dick Clark’s Rocking New Year’s Eve with Ryan Seacrest. We could see and listen to the bands warm up and practice for the evening performance.”

Connie and her husband, Gary, also made some new friends along the way. Connie noted that one of her favorite aspects of the trip were the fellow winners from across the nation.

“Gary and I are people persons. We like to visit with people. We met up with (North Dakota’s winners),” Duvall said. “They were great, except Les had this idea that NDSU was going to beat SDSU in the Championship. We also met Norman and Eloise from Omaha Nebraska. We exchanged phone numbers with them. When we drive through Omaha, we will call and get together at the Cheesecake Factory for dinner.”

While New Years Eve was very memorable, Duvall shared that the group of winners from around the country experienced much more than seeing the ball drop. She noted that they took in a lot of what the Big Apple had to offer, including the Lion King Broadway show, meeting the Rockettes and so much more.

“We also really loved going around Central Park,” Connie said. We had planned to do a carriage ride but decided to do the Pedi-cab. Our driver was wonderful! He made lots of stops to give us history of the area, let us take pictures and took some pictures of us. We were able to see so many beautiful and iconic buildings. And took so many beautiful pictures. We walked to Rockefeller Center and took a picture of the Christmas tree.”

Duvall and Anane won their trips to New York City through the South Dakota Lottery’s New Year’s Rockin Eve promotion. Players Club members could enter non-winning Powerball tickets for a chance to win an all-expenses paid trip to New York.



SD Launches New Digital Properties

South Dakota Lottery players now have more good fun for their thumbs thanks to our new website and mobile app.

In November the South Dakota Lottery updated our website, bringing a new design to the site along with new features. The purpose to this update was to create a site that was more accessible to our players while also giving the Lottery access to more tools to enhance it.

The new website features easily accessible past winning numbers, where players can choose specific dates and games they would like to view past numbers for. The Players Club was also revamped, allowing an easier entry method for 2nd Chance Drawings.

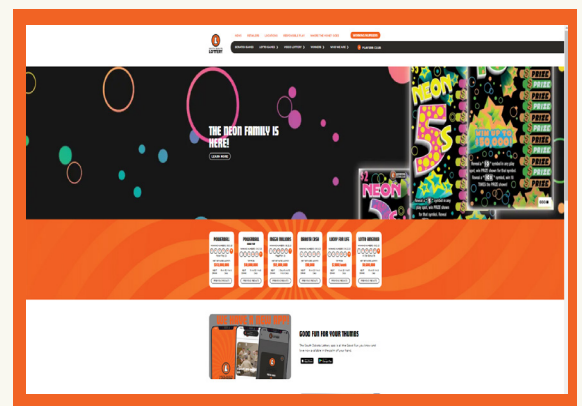
The following January, the South Dakota Lottery also released a new mobile app. The app not only featured faster load times and improved performance, but also a new and improved ticket scanner.

When scanning an instant or lotto ticket, the scanner will not only tell you if you have a winner, but it will also display the amount won. App users can also enjoy features such as winning numbers, the ability to enter non-winning tickets into Play It Again drawings and more.

The app is available on most Apple and Android devices.

In addition to the new app and website, the South Dakota Lottery’s new customer relationship management system (CRM) has opened up a variety of new content delivered via email or push notification.

The new system gives players more control over their correspondence. Players may now choose what types of emails and push notifications they receive, including winning number emails after each lotto draw.





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RUSSELL A. OLSON
AUDITOR GENERAL

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

The Honorable Kristi Noem
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2023, 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 13, 2023.

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 13, 2023



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RUSSELL A. OLSON
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Kristi Noem
Governor of South Dakota

and

The South Dakota Lottery Commission
State of South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the South Dakota Lottery Fund, an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2023, 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, 2023, 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, 2023, 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 2023 Sales and Revenues*, *Fiscal Year 2023 Revenue Appropriations*, *Fiscal Year 2023 By the Numbers*, *Beneficiaries*, *Lottery Commission*, and *Fiscal Year 2023 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 13, 2023 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 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 13, 2023

South Dakota Lottery
Statement of Net Position
June 30, 2023

Assets

Current Assets	
Cash and cash equivalents	\$ 16,865,381
Restricted cash	34,400
Total cash	16,899,781
Accounts receivable	7,511,688
Restricted other receivables	711,594
Interest receivable	140,666
Restricted certificates of deposit	342,137
Total current assets	25,605,866
Noncurrent Assets	
Capital assets less accumulated depreciation and amortization	826,848
Net pension asset	6,184
Total noncurrent assets	833,032
Total Assets	26,438,898

Deferred Outflows of Resources

Deferred Outflows of Resources - Pensions	612,124
Total Deferred Outflows of Resources	612,124

Liabilities

Current Liabilities	
Accounts payable	\$ 182,406
Prizes payable	3,897,085
Due to the Capital Construction Fund	1,675,147
Due to the General Fund	12,305,281
Due to other funds	83,203
Due to other governments	7
Operator security deposits	376,537
Escrows payable - special jurisdiction area sales	182,225
Compensated absences	171,642
Accrued interest	1,860
Accrued liabilities	160,092
Unearned revenues	277,290
Lease liability	116,009
Total current liabilities	19,428,784
Noncurrent Liabilities	
Compensated absences	143,266
Lease liability	649,793
Total noncurrent liabilities	793,059
Total Liabilities	20,221,843

Deferred Inflows of Resources

Deferred Inflows of Resources - Pensions	360,258
Total Deferred Inflows of Resources	360,258

Net Position

Net Investment in Capital Assets	59,186
Restricted for Pensions	258,050
Restricted for MUSL Permitted Uses	711,594
Unrestricted	5,440,091
Total Net Position	\$ 6,468,921

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

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Fiscal Year Ended June 30, 2023

Operating Revenues

Video lottery revenue, net (Note 6)	\$ 164,725,896
Instant ticket sales	48,231,110
On-line ticket sales	36,952,388
Terminal license fees	1,217,500
Retailer license fees	372,839
Other revenue	22,813
Total Operating Revenues	251,522,546

Direct Game Costs

Instant prizes	32,323,438
On-line prizes	19,180,294
Instant retail commissions (Note 1)	2,713,288
On-line retail commissions (Note 1)	1,953,966
Instant ticket print costs	459,517
Total Direct Game Costs	56,630,503

Operating Revenues, Net of Direct Game Costs**194,892,043****Operating Expenses**

Personal services and benefits	2,097,777
Travel	165,280
Advertising	1,321,874
Contractual services	8,489,274
Supplies and materials	144,194
Depreciation and amortization	172,162
Bad debt expense	3,746
Payments to special jurisdiction areas	182,225
Total Operating Expenses	12,576,532

Operating Income**182,315,511****Non-Operating Revenues (Expenses)**

Pooled investment income	602,639
Interest income	3,815
Investment expenses	(3,235)
Interest expense	(21,265)
Loss on disposal of assets	(96,008)
Non-operating revenue from MUSL	17,430
Total Non-Operating Revenue (Expenses)	503,376

Income Before Transfers**182,818,887****Transfers**

General Fund	(178,259,235)
Capital Construction Fund	(3,475,147)
Department of Social Services	(214,000)
Total Transfers	(181,948,382)

Change in Net Position**870,505**

Net Position, Beginning of Year

5,598,416

Net Position, End of Year**\$ 6,468,921**

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, 2023

Operating Activities	
Receipts from customers and users	\$ 250,856,422
Payments for lottery prizes	(50,058,582)
Payments to suppliers	(14,343,260)
Payments for interfund services used	(835,086)
Payments for employee services	(2,210,047)
Other (payments) receipts	(413,855)
Net Cash Provided by Operating Activities	182,995,592
Capital and Related Financing Activities	
Payments for lease liabilities - principal	(115,586)
Payments for lease liabilities - interest	(20,288)
Net Cash Used by Capital and Related Financing Activities	(135,874)
Noncapital Financing Activities	
Transfers to other funds	(179,398,290)
Net Cash Used by Noncapital Financing Activities	(179,398,290)
Investing Activities	
Pooled investment income	510,958
Investment expenses	(3,235)
Net Cash Provided by Investing Activities	507,723
Net Change in Cash and Cash Equivalents	3,969,151
Cash and Cash Equivalents, Beginning of Year	12,930,630
Cash and Cash Equivalents, End of Year	\$ 16,899,781
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 182,315,511
Adjustments to reconcile operating income	
Depreciation and amortization expense	172,162
Other revenue	3,815
Non-operating revenue from MUSL	17,430
Decrease/(increase) in assets	
Accounts receivable	(740,824)
Restricted other receivable	2,058
Restricted certificates of deposit	(75,160)
Net pension asset	502,507
Decrease/(increase) in deferred outflows of resources	
Deferred outflows of resources - pensions	86,739
Increase/(decrease) in liabilities	
Accounts payable	67,693
Prizes payable	1,445,150
Due to other funds	1,347
Due to other governments	7
Operator security deposits	(105,840)
Escrows payable	(34,125)
Compensated absences	29,221
Accrued liabilities	23,332
Unearned revenues	38,638
Increase/(decrease) in deferred inflows of resources	
Deferred inflows of resources - pensions	(754,069)
Total adjustments	680,081
Net Cash Provided by Operating Activities	\$ 182,995,592
Noncash Investing, Capital and Financing Activities	
Gain (loss) on disposal of capital assets	\$ (96,008)
Lease liabilities for the acquisition of right to use leased assets	487,634

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, 2023.

Uncollected instant/on-line ticket revenues	\$ 620,419
Allowance for doubtful instant/on-line accounts	(8,071)
Uncollected video lottery revenues and fees	<u>6,899,340</u>
Total accounts receivable	<u>\$ 7,511,688</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, 2023, the amount of cash on deposit with the Lottery was \$34,400 and the amount of certificates of deposit being held by the Lottery was \$342,137. The amount of \$8,706,100 was in the form of surety bond or irrevocable letter of credit and are not reported on the Statement of Net Position as of June 30, 2023. The total security deposits on June 30, 2023 were \$9,082,637.

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, 2023 were \$735,827 for on-line prizes and \$760,063 for instant prizes.

Due to the General Fund

South Dakota Codified Laws (SDCL) 42-7A-63 sets the State's percentage of net video lottery machine income at 50 percent of which all but 0.5 percent is deposited into the General Fund. At June 30, 2023, there was a liability to the General Fund of \$6,825,058.

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 and on-line ticket sales to the General Fund of \$5,480,223 and a liability for on-line ticket sales to the Capital Construction Fund of \$1,675,147 as of June 30, 2023.

Due to Other Funds

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

Escrows Payable

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

Accrued Liabilities

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

Unearned Revenues

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

Net Position

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

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

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

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

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

Revenue Recognition

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

Retailer Commissions

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

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

Non-Operating Revenues and Expenses

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

Subsequent Events

The Lottery has evaluated subsequent events through October 13, 2023, the date which the financial statements were available to be issued.

Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal year 2023:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,433,215	\$ -	\$ 7,055	\$ 1,426,160
Intangible assets - software	279,295	-	279,295	-
Right-to-use leased buildings	513,352	487,634	21,596	979,390
Total capital assets	2,225,862	487,634	307,946	2,405,550
Less accumulated depreciation and amortization				
Equipment	(1,346,216)	(15,129)	(7,055)	(1,354,290)
Intangible assets - software	(148,376)	(34,912)	(183,288)	-
Right-to-use leased buildings	(123,886)	(122,121)	(21,595)	(224,412)
Total accumulated depreciation and amortization	(1,618,478)	(172,162)	(211,938)	(1,578,702)
Total capital assets, net	\$ 607,384	\$ 315,472	\$ 96,008	\$ 826,848

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, 2023, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$165,347. 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, 2023, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate, in the amount of \$149,561.

The following is a schedule of changes in compensated absences at June 30, 2023.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences Payable					
Fiscal Year 2023	\$ 285,687	\$ 205,789	\$ 176,568	\$ 314,908	\$ 171,642

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, 2023, 2022, and 2021 were \$100,652, \$93,740, and \$90,429, respectively, equal to the required contributions each year.

At June 30, 2022, SDRS was 100.1% funded and accordingly had a net pension asset at June 30, 2023. At June 30, 2023, the South Dakota Lottery reported an asset of \$6,184 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2023, the Lottery recorded a reduction of pension expense of \$(164,823). Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources as of June 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 117,728	\$ 401
Changes in assumptions	393,071	344,475
Net difference between projected and actual earnings on pension plan investments	-	14,819
Changes in proportionate share	673	563
Contributions after the measurement date	100,652	-
Total	<u>\$ 612,124</u>	<u>\$ 360,258</u>

Note 5 - Leases

The South Dakota Lottery has entered into agreements to lease buildings and certain equipment. An initial lease liability was recorded in the amount of \$487,634 during the current fiscal year. As of June 30, 2023, the value of the lease liability was \$765,802. The Lottery is required to make monthly principal and interest payments of \$11,407. The leases have interest rates ranging from 2.69% to 3.05%. The value of the right-to-use assets as of the end of the current fiscal year was \$979,390 and had accumulated amortization of \$224,412.

The future principal and interest lease payments as of June 30, 2023 were as follows:

Period ending June 30:	Principal	Interest	Total
2024	\$ 116,009	\$ 20,880	\$ 136,889
2025	119,207	17,682	136,889
2026	85,036	14,521	99,557
2027	11,463	13,430	24,893
2028	11,818	13,075	24,893
2029-2033	64,802	59,663	124,465
2034-2038	75,463	49,002	124,465
2039-2043	87,878	36,587	124,465
2044-2048	102,336	22,129	124,465
2049-2052	91,790	5,708	97,498
Total	<u>\$ 765,802</u>	<u>\$ 252,677</u>	<u>\$ 1,018,479</u>

Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal year ended June 30, 2023:

Cash in	\$ 1,174,101,482
Less cash out	<u>844,649,689</u>
Video lottery net machine income	329,451,793
Less operator share	<u>164,725,897</u>
Video lottery revenue available to the State	164,725,896
Less lottery operating share	<u>1,647,259</u>
Video lottery revenue to the General Fund	<u>\$ 163,078,637</u>

Note 7 - Transfers

Following is a summary of total transfers out for the fiscal year ended June 30, 2023:

General Fund proceeds from instant and on-line	\$ 9,700,000
Capital Construction Fund proceeds from on-line	1,800,000
General Fund proceeds from instant and on-line not yet transferred	5,480,223
Capital Construction Fund proceeds from on-line not yet transferred	1,675,147
Video lottery proceeds transferred to the General Fund	156,253,579
Video lottery proceeds to General Fund not yet transferred	6,825,058
Video lottery grant to Department of Social Services	214,000
Video lottery fees transferred to the General Fund	375
	<u> </u>
Total transfers	<u><u>\$ 181,948,382</u></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, 2023, the prize reserve account balances were:

	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 85,362,392	\$ 345,782
Powerball set prize reserve account	40,000,000	151,815
Mega Millions prize reserve account	97,061,601	306,855
Lotto America prize reserve account	8,472,454	249,341
	<u> </u>	<u> </u>
Total MUSL prize reserves	<u><u>\$ 230,896,447</u></u>	<u><u>\$ 1,053,793</u></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 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 Scientific Games, now Light & Wonder (effective January 3, 2023), for a central monitoring and control system of video lottery terminals. The initial term of the contract began on November 1, 2020 and continues 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 based on 0.28% of net machine income on all video lottery terminals. For the fiscal year ended June 30, 2023, payments made for the use and support of the system were \$921,782.

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. The initial term of the contract began on November 5, 2019 and continues through November 2, 2026. 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 based on 7.227% of instant and on-line sales. For the fiscal year ended June 30, 2023, payments made for the use and support of the system were \$6,203,915.

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, 2023, the guaranteed minimum future payments are \$5,475,000.

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, 2023, the guaranteed minimum future payments are \$400,000.

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