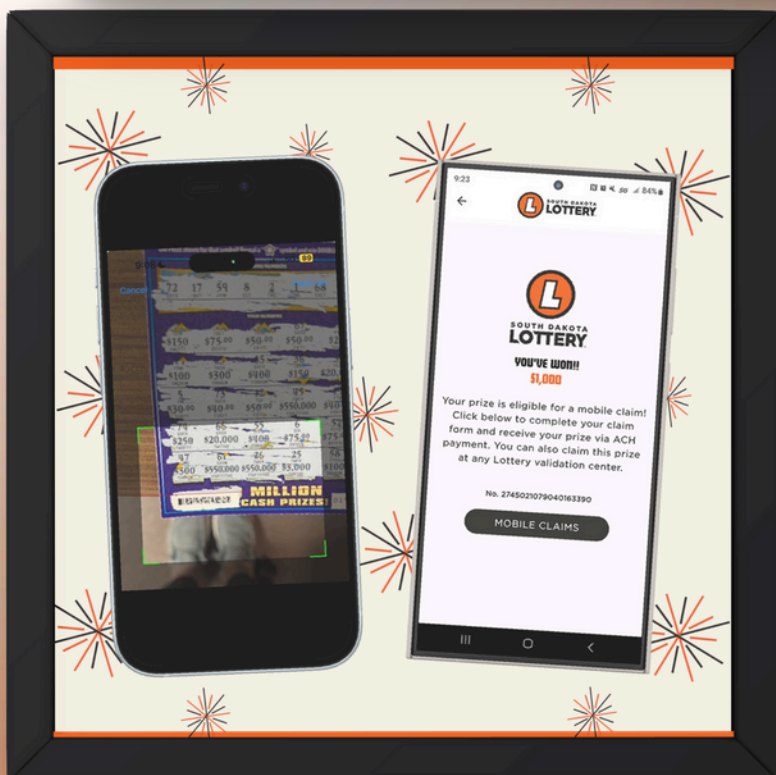
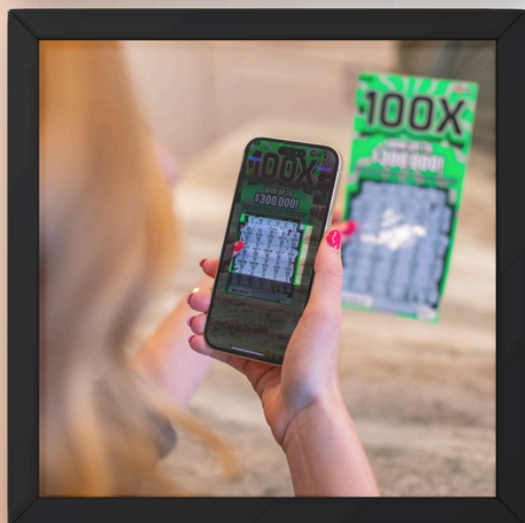




SOUTH DAKOTA  
**LOTTERY**

# ANNUAL REPORT

## Fiscal Year 2025



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## MESSAGE FROM THE SECRETARY

The Department of Revenue is pleased to report another successful Fiscal Year. We wouldn't have achieved our mission of proactively providing fair and consistent revenue administration without the hard work of our dedicated employees and stakeholders!

A key component of our revenue administration comes in the form of Lottery. In Fiscal Year 2025, the Lottery lived up to its moniker of "Good Fun" to the tune of \$178 million that helps fund k-12 education, state universities, rural water systems, roads and more.

A highlight of the fiscal year was the launch of the new motor vehicle system, 605 Drive. This improved technology has created efficiencies and improved convenience for vehicle owners, county treasurers, and motor vehicle dealers.

The Department of Revenue also plays 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 2026. Our devoted staff is just a phone call or office visit away if you need assistance.

Sincerely,



Michael Houdyshell



## MESSAGE FROM THE EXECUTIVE DIRECTOR

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. Thanks to our players, our retail partners, and staff, our fiscal year culminated in more than \$178 million in revenues for the State of South Dakota.

Since the Lottery's inception in 1987, we have provided nearly \$4 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 \$176 million to the state's general fund, which supports local K-12 schools, state universities, and technical institutes. We also provided more than \$2.2 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.

The fiscal year was highlighted by another strong year in the video lottery industry. As we approach our fourth year with the Light & Wonder central system, our team and members of the industry continue to utilize the system's many efficiencies. Video Lottery manufacturers have also given players and operators a wide selection of games to choose from.

While this year didn't match Fiscal Year 2024's five lotto jackpots that eclipsed \$1 billion, we are excited about the future of these products. This includes the new and improved Mega Millions game that launched April 5. The new game features no break-even prizes, better odds, and a built-in multiplier that has already paid dividends for our players.

In order to sustain our success, we were also excited to unveil a pair of initiatives that grew both our retail and digital footprints. In partnership with Brightstar, the Lottery launched mobile cashing functionality. This allows players to scan scratch and lotto tickets from their phones and claim prizes ranging from \$101 to \$5,000. Our players are already utilizing this functionality, as we want nothing more for them to enjoy their wins rather than worrying about the logistics of claiming their prize at one of our three validation centers.

We also partnered with Schaefer Systems to give select retail locations an updated look. The Lottery took part in a pilot study with Halo displays in southeastern South Dakota. These displays not only had an eye-catching look, but they also provided strong results in terms of sales.

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 Nevarez**  
Sales Representative

**Jesika Penn**  
Sales Representative

**Pat Boyles**  
Sales Representative

**Morgan Puepke**  
Sales Representative

**Tony Jockheck**  
Sales Representative

**Scott Howard**  
Sales Representative

**Matthew Sommerfeld**  
Warehouse Security

**Jennifer Van Roekel**  
Validation Clerk

**Jeni Schieckoff**  
Validation Clerk

**Lonnie Moody**  
Systems Administrator

**Alec Norwick**  
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

# FY25 by THE NUMBERS

641

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.

630

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

11,120

Average number of active video lottery terminals during Fiscal Year 2025.

1,397

Average number of licensed video lottery establishments during Fiscal Year 2025.

## FY 2025 SALES & REVENUES

Total Fiscal Year 2025 Lottery revenue generated for state funds was more than \$178 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	\$47,452,214	\$32,146,618	\$2,684,340	\$6,046,273
Lotto Tickets	\$25,119,921	\$12,991,028	\$1,273,190	\$7,526,986
Video Lottery*	\$1,233,403,160	\$900,309,036	\$166,547,062	\$165,111,844
<b>TOTAL</b>	<b>\$1,305,975,295</b>	<b>\$945,446,682</b>	<b>\$170,504,592</b>	<b>\$178,685,103</b>

\*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	\$6,046,273		
Lotto Tickets	\$5,268,890	\$2,258,096	
Video Lottery	\$164,881,591		\$170,253
Video Lottery Licensing Fees	\$60,000		
<b>TOTAL</b>	<b>\$176,256,754</b>	<b>\$2,258,096</b>	<b>\$170,253</b>

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

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 nearly \$4 billion in revenue.

## INSTANT TICKETS

The Lottery launched 30 new instant ticket games during Fiscal Year 2025. Prices for instant tickets ranged from \$1 to \$30, and prizes ranged from \$1 to \$600,000.

Instant ticket sales were down 2.36 percent from the previous year, and net revenues were down 16.71 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 down 34.03 percent from the previous year and net revenues were down 39.94 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 Net Machine Income increased .74 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% of Video Lottery Net Machine Income goes to the General Fund, which supports local K-12 schools, state universities, and technical institutes.**

**\$170,253**  
was provided 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 \$498K per day back to SD.**



**SOUTH DAKOTA LOTTERY.**



# LOTTERY COMMISSION

Chair

**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.

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**

*Sioux Falls*



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

**TIM DONOHUE**

*Sioux Falls*



Commissioner Donohue 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 Donohue 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 Donohue 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

**JAMIE HUIZENGA**

*Pierre*



Commissioner Huizenga has served with the Lottery Commission since 2025. He has been a resident of Pierre for nearly 25 years where he also serves on the 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.



The South Dakota Lottery now gives players the ability to claim qualifying prizes through its mobile app.

South Dakota Lottery players can now claim instant and lotto prizes from \$101 to \$5,000 through mobile cashing. After a mobile claim has been processed, players will receive their prize via ACH transaction.

Prior to the implementation of mobile cashing, players were required to claim all prizes of \$100 or more by visiting a South Dakota Lottery validation center or by mail. The South Dakota Lottery's validation centers are located in Pierre, Rapid City and Sioux Falls.

Players can initiate a mobile claim with a few simple steps. First, players should open the South Dakota Lottery official mobile app, which is available for download in the Apple App Store and Google Play Store. Players can scan a scratch or lotto ticket with a qualifying prize then complete a digital claim form to complete the claim.

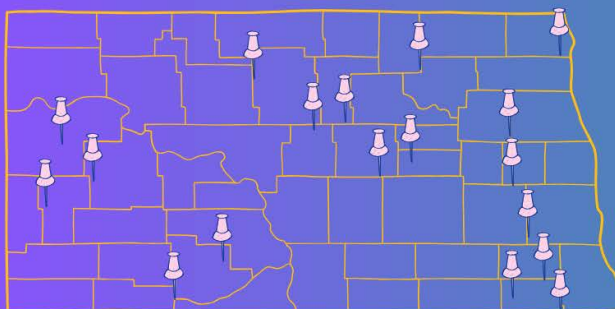
Mobile claims should be completed within four business days. A player's first mobile prize claim may take up to eight business days due to the bank account verification process.

Players will have the ability to check the status of existing and previous claims through the My Claims page on the mobile app. The Lottery advises players with a pending mobile claim to sign the back of their winning ticket and keep it until the claim has been completed.

Throughout the mobile claims process, the Lottery will perform its regular debt setoff procedures as required by state law. Applicable tax documents and other information will be emailed to the player when necessary.

At the end of Fiscal Year 2025, the Mobile Cashing option had already been used 390 times since its February launch. To coincide with the functionality, the Lottery also launched its \$50, \$150, or \$250 scratch ticket, which featured a large number of mobile claims eligible prizes.

## Mobile Claims Overview (As of June 30, 2025)



### Top Cities

1. Sioux Falls (37)
2. Huron (22)
3. Aberdeen (22)
4. Watertown (18)
5. Rapid City (15)
6. Brookings (16)
7. Chamberlain (15)



**418 Claims  
submitted by 267  
Different People**

### Top Games

1. \$50, \$150 or \$250 (159)
2. \$600,000 Cash Spectacular (99)
3. 100X The Cash (51)
4. Lucky for Life (33)
5. Big Money (16)



**Under 30**

**33**



**30-50**

**252**



**50-60**

**80**




**Over 60**


**53**



FISCAL YEAR 2025 HIGHLIGHTS - BIG WINNERS




A. Joshua Donner  
Fort Thompson  
\$25,000  
Cash Wheel




B. Robert Nelson  
Rapid City  
\$1,000  
Crossword X



C. Big D Oil #54  
Rapid City  
\$30,000  
Joker's Wild



D. Cowboy  
Country Store #9  
Miller  
\$600,000  
\$600,000 Cash  
Spectacular



E. Diane Jensen  
Pierre  
\$50,000  
Platinum Doubler



F. Jared Schrupp  
Sturgis  
\$1,000  
WIN WIN WIN

- 1. \$9,000 **Sioux Falls** - Money Jar
- 2. \$15,000 **Watertown** - Merry Money
- 3. \$20,000 **Oacoma** - Lady Luck
- 4. \$5,000 **Garretson** - \$5,000 Mad Money
- 5. \$100,000 **Lennox** - 50X
- 6. \$203,020 **Murdo** - Dakota Cash
- 7. \$9,000 **Belle Fourche** - Money Jar
- 8. \$20,000 **Rapid City** - Platinum Payout
- 9. \$5,000 **Fort Pierre** - Lucky for Life
- 10. \$2,000 **Huron** - Peppermint Red
- 11. \$3,000 **Castlewood** - \$600,000 Cash Spectacular
- 12. \$1,500 **Gregory** - Mega Millions
- 13. \$2,500 **Whitewood** - \$50,000 Mad Money
- 14. \$5,000 **Miller** - 50X The Cash

- 15. \$1,500 **Pierre** - \$600,00 Cash Spectacular
- 16. \$100,000 **Sioux Falls** - 50X The Cash
- 17. \$10,000 **Brookings** - Big Money
- 18. \$3,000 **Salem** - \$600,000 Cash Spectacular
- 19. \$25,000 **Watertown** - Extreme Green
- 20. \$2,000 **Parkston** - Platinum Payout
- 21. \$2,000 **Pierre** - Cash Wheel
- 22. \$40,000 **Flandreau** - 20X The Cash
- 23. \$10,000 **Newell** - 10X The Cash
- 24. \$7,000 **Sioux Falls** - Cashword Gold
- 25. \$25,000 **Murdo** - Wild Cherry Crossword Tripler
- 26. \$1,000 **Harrisburg** - WIN WIN WIN
- 27. \$5,022 **Belle Fourche** - Lucky for Life
- 28. \$5,000 **Kadoka** - 100X The Cash



South Dakota Lottery players experienced an even bigger version of the Mega Millions game.

Beginning April 5, players were able to purchase tickets for the new version of Mega Millions. The game features bigger prizes at every non-jackpot prize tier, better odds to win the jackpot, better odds overall, larger starting jackpots.

**Improved overall odds** – Overall odds to win any prize improved to 1:23 from 1:24 due to the removal of one Mega Ball number from the game.

**Improved odds to win the jackpot** – Odds to win the jackpot improved to 1:290,472,336 from 1:302,575,350 due to the removal of one Mega Ball number from the game. The new game features 24 Mega Balls instead of the 25 in the previous game.

**Larger starting jackpots** – Following a jackpot win, the starting jackpot resets to \$50 million instead of the previous \$20 million.

**Faster-growing jackpots and bigger jackpots more frequently** – Jackpots are expected to grow faster and get to higher dollar amounts more frequently in the new game. Mega Millions estimates that the average jackpot win in the new game will be more than \$800 million vs. approximately \$450 million in the previous game.

**2X-10X prize increase with built-in random multiplier** – Every non-jackpot win multiplies its base prize by 2X, 3X, 4X, 5X or 10X automatically. Prizes in the new game range from \$10 to \$10 million vs. the \$2 to \$1 million in the previous game.

**Win more than the cost to play** – With a minimum prize of \$10 on a winning ticket in the new game, every winning ticket pays out at least double the \$5 cost for each play. In the previous game, the minimum prize on a winning ticket and cost to play are the same: \$2.

The new Mega Millions game increased to \$5 per play due to higher-value prizes embedded throughout every tier of the game. This was only the game's second price adjustment since the first ticket was sold more than 20 years ago and the first change since the current game matrix was adopted in 2017.

The State's General Fund receives 70 percent of net revenue from Mega Millions and the South Dakota Lottery's other lotto games. The remaining 30 percent is distributed to the State's Capital Construction Fund.

## Mega Millions By the Numbers! (As of June 30, 2025)

**\$285,478 IN  
PRIZES WON  
SINCE THE GAME  
CHANGE**

**AVERAGE  
MULTIPLIER  
IS 2.89**

**\$186,768 IN  
PRIZES ADDED  
THROUGH THE  
BUILT-IN  
MULTIPLIER**



## Giving Back

Jolly Good Fun extended beyond our holiday scratch tickets this year! Our staff participated in a local Angel Tree fundraiser. Through the fundraiser, our team provided various gifts to children in the Pierre/Fort Pierre Area!



## GOOD FUN BUNDLE



To celebrate National Lottery Day, we offered players our Good Fun Bundle!

July 17th only, players were able to purchase the Good Fun Bundle for just \$5. The Good Fun Bundle lives up to its name with Powerball, Lotto America, Lucky for Life and Dakota Cash quick picks all included! The bundle was purchased 4,119 times!

## 60 Days of WINTER

While the temperatures were low, the Lottery saw high engagement from its 60 Days of WINTER campaign.

South Dakota Lottery players had a helping hand defeating the winter doldrums last year thanks to the campaign. Throughout the course of the 60 Days of WINTER, the Lottery conducted a series of give-a-way drawings. These weekly drawings featured prizes such as scratch tickets, Lottery branded merchandise, gift cards and concert tickets.

The campaign culminated in 21,975 total entries and led to 1,673 new players club members. The campaign also received acclaim from the Lottery industry. At the 2025 annual NASPL Conference, the Lottery received a Hickey award for Best Player Program Promotion.





## Lottery Conducts Halo Display Pilot Project

The South Dakota Lottery's scratch tickets took center stage at select retailer locations thanks to a Halo display pilot project.

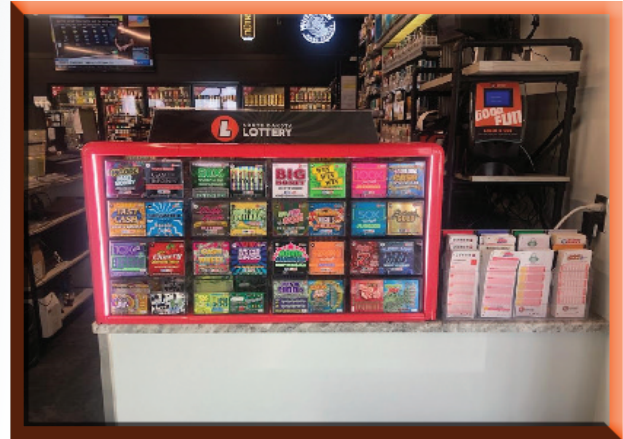
Throughout the second half of fiscal year 2025, the Lottery partnered with Schaefer Systems to incorporate Halo display units at 11 retailers. These display units increased the Lottery's footprint at retail locations through improved placement and an optimized display for each of our instant tickets.

Most importantly, the locations that took part in the halo pilot project had an average growth in instant ticket sales of 20 percent.

Before



After



## Video Lottery Establishment Policy

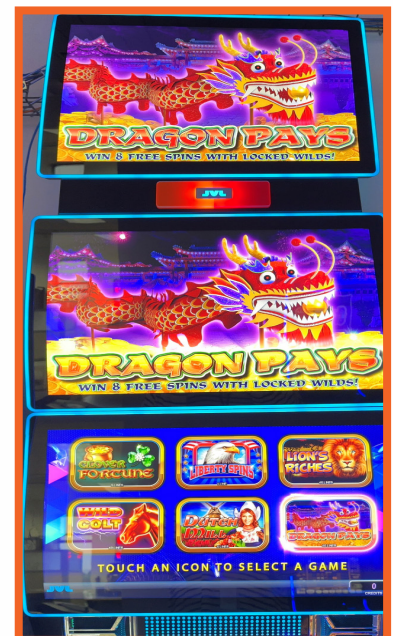
In order to maintain consistency and clarity for video lottery locations throughout the state, the Lottery Commission approved a new video lottery establishment policy.

The Lottery partnered with members of the industry to develop the policy before bringing it to the commission for approval. The policy focuses on the following topics.

- Bar/Lounge Requirements
- Monitoring Protocols
- Clear Separation of Establishments
- Signage.

At the end of Fiscal Year 2025, the Lottery provided establishments with signage that indicates alcoholic beverages may not be carried beyond a certain point. The policy primarily focuses on locations with multiple establishments under one roof.

The Lottery thanks members of the video lottery industry for their assistance.





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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 Larry Rhoden  
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, 2025, 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 8, 2025.

**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 8, 2025





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 Larry Rhoden  
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, 2025, 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, 2025, 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, 2025, 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 is contained on pages 3 through 12 of the annual report and includes information from management on team members, sales and promotional activities, and other highlights during the fiscal year but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does 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 8, 2025, 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.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive, flowing style.

Russell A. Olson, Auditor General  
Pierre, South Dakota

October 8, 2025



South Dakota Lottery  
**Statement of Net Position**  
June 30, 2025

**Assets**

Current Assets

Cash and cash equivalents	\$ 17,633,042
Restricted cash	31,517
Total cash and cash equivalents	17,664,559
Accounts receivable	7,183,459
Restricted other receivables	800,185
Interest receivable	126,824
Restricted certificates of deposit	349,703
Total current assets	26,124,730

Noncurrent Assets

Capital assets less accumulated depreciation and amortization	368,700
Net pension asset	2,740
Total noncurrent assets	371,440

<b>Total Assets</b>	<b>26,496,170</b>
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**Deferred Outflows of Resources**

Deferred Outflows of Resources - Pensions	522,021
<b>Total Deferred Outflows of Resources</b>	<b>522,021</b>

**Liabilities**

Current Liabilities

Accounts payable	254,316
Prizes payable	2,609,237
Due to the Capital Construction Fund	1,208,096
Due to the General Fund	12,376,326
Due to other funds	81,396
Operator security deposits	381,220
Escrows payable - special jurisdiction area sales	152,939
Compensated absences	239,422
Accrued interest	1,002
Accrued liabilities	160,125
Unearned revenues	192,056
Lease liability	7,522
Total current liabilities	17,663,657

Noncurrent Liabilities

Compensated absences	351,745
Lease liability	327,264
Total noncurrent liabilities	679,009

<b>Total Liabilities</b>	<b>18,342,666</b>
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**Deferred Inflows of Resources**

Deferred Inflows of Resources - Pensions	349,247
<b>Total Deferred Inflows of Resources</b>	<b>349,247</b>

**Net Position**

Net Investment in Capital Assets	33,914
Restricted for Pensions	175,514
Restricted for MUSL Permitted Uses	800,185
Unrestricted	7,316,665
<b>Total Net Position</b>	<b>\$ 8,326,278</b>

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

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

For the Fiscal Year Ended June 30, 2025

<b>Operating Revenues</b>	
Video lottery revenue, net (Note 6)	\$ 166,547,062
Instant ticket sales	47,452,214
On-line ticket sales	25,119,921
Terminal license fees	1,260,700
Retailer license fees	447,323
Other revenue	24,287
<b>Total Operating Revenues</b>	<b>240,851,507</b>
<b>Direct Game Costs</b>	
Instant prizes	32,146,618
On-line prizes	12,991,028
Instant retail commissions (Note 1)	2,684,340
On-line retail commissions (Note 1)	1,273,190
Instant ticket print costs	872,078
<b>Total Direct Game Costs</b>	<b>49,967,254</b>
<b>Operating Revenues, Net of Direct Game Costs</b>	<b>190,884,253</b>
<b>Operating Expenses</b>	
Personal services and benefits	2,783,216
Travel	203,174
Advertising	1,399,311
Contractual services	7,698,869
Supplies and materials	145,254
Depreciation and amortization	24,219
Bad debt expense	3,518
Payments to special jurisdiction areas	152,939
<b>Total Operating Expenses</b>	<b>12,410,500</b>
<b>Operating Income</b>	<b>178,473,753</b>
<b>Non-Operating Revenues (Expenses)</b>	
Investment income	1,155,340
Investment expenses	(4,208)
Interest expense	(12,139)
Non-operating revenue from MUSL	108,997
<b>Total Non-Operating Revenue (Expenses)</b>	<b>1,247,990</b>
<b>Income Before Transfers</b>	<b>179,721,743</b>
<b>Transfers</b>	
General Fund	(176,256,754)
Capital Construction Fund	(2,258,096)
Department of Social Services	(170,253)
<b>Total Transfers</b>	<b>(178,685,103)</b>
<b>Change in Net Position</b>	<b>1,036,640</b>
Net Position, Beginning of Year, as Previously Reported	7,514,597
Adjustment, Change in Accounting Principle (Note 11)	(224,959)
Net Position, Beginning of Year, as Restated	7,289,638
<b>Net Position, End of Year</b>	<b>\$ 8,326,278</b>

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

South Dakota Lottery  
**Statement of Cash Flows**  
For the Fiscal Year Ended June 30, 2025

<b>Operating Activities</b>	
Receipts from customers and users	\$ 240,760,984
Payments for lottery prizes	(45,656,495)
Payments to suppliers	(13,297,393)
Payments for interfund services used	(915,873)
Payments for employee services	(2,633,914)
Other (payments) receipts	(160,749)
<b>Net Cash Provided by Operating Activities</b>	<b>178,096,560</b>
<b>Capital and Related Financing Activities</b>	
Payments for lease liabilities - principal	(7,257)
Payments for lease liabilities - interest	(12,161)
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b>(19,418)</b>
<b>Noncapital Financing Activities</b>	
Transfers to other funds	(179,379,879)
<b>Net Cash Used for Noncapital Financing Activities</b>	<b>(179,379,879)</b>
<b>Investing Activities</b>	
Investment income	1,163,829
Investment expenses	(4,208)
<b>Net Cash Provided by Investing Activities</b>	<b>1,159,621</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(143,116)</b>
Cash and Cash Equivalents, Beginning of Year	17,807,675
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 17,664,559</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 178,473,753
<b>Adjustments to reconcile operating income</b>	
Depreciation and amortization expense	24,219
Non-operating revenue from MUSL	108,997
<b>Decrease/(increase) in assets</b>	
Accounts receivable	(105,689)
Restricted other receivable	(72,692)
Restricted certificates of deposit	(12,243)
Net pension asset	3,610
<b>Decrease/(increase) in deferred outflows of resources</b>	
Deferred outflows of resources - pensions	31,357
<b>Increase/(decrease) in liabilities</b>	
Accounts payable	62,911
Prizes payable	(518,849)
Due to other funds	39
Operator security deposits	6,082
Escrows payable	7,098
Compensated absences	70,636
Accrued liabilities	12,461
Unearned revenues	(26,368)
<b>Increase/(decrease) in deferred inflows of resources</b>	
Deferred inflows of resources - pensions	31,238
Total adjustments	(377,193)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 178,096,560</b>

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



## **Note 1 - Summary of Significant Accounting Policies**

### **Organization**

The South Dakota Lottery markets instant tickets and lotto games, and regulates video lottery to raise revenue for State programs and projects.

The South Dakota Lottery was created during the 1987 Legislative Session by the passage of Senate Bill 254. The legislation authorized the Lottery to market instant games, with sales commencing on September 30, 1987.

Video Lottery was created by the passage of Senate Bill 129 during the 1989 Legislative Session. It gave the Lottery authority to license and regulate a video lottery game with play commencing on October 16, 1989.

Lotto games were approved by the 1990 Legislature through the passage of Senate Bill 86. South Dakota was accepted as a member of the Multi-State Lottery Association (MUSL) in April of 1990 and began selling tickets on November 15, 1990. The current lotto games offered by the Lottery are Powerball, Mega Millions, Dakota Cash, Lucky for Life, and Lotto America.

### **Basis of Presentation**

The South Dakota Lottery Fund is accounted for as a proprietary type enterprise fund for the State of South Dakota 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, 2025.

Uncollected instant/on-line ticket revenues	\$ 614,657
Allowance for doubtful instant/on-line accounts	(9,600)
Uncollected video lottery revenues and fees	<u>6,578,402</u>
Total accounts receivable	<u>\$ 7,183,459</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.

## 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, 2025, the amount of cash on deposit with the Lottery was \$31,517 and the amount of certificates of deposit being held by the Lottery was \$349,703. The total operator security deposits liability was \$381,220 as of June 30, 2025. The Lottery held \$9,011,495 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, 2025. The total security deposits on June 30, 2025 were \$9,392,715.

## 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 records are not available. Equipment is capitalized when the cost of individual items is \$5,000 or more. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. 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. 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 for instant games may be claimed up to 180 days after the official end of the game. Prizes for on-line games may be claimed up to 180 days from the draw date listed on the ticket. Unclaimed prizes are added to the prize pools of subsequent lottery games. Reverted prizes during the fiscal year ended June 30, 2025 were \$531,989 for on-line prizes and \$1,392,844 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, 2025, there was a liability for on-line ticket sales to the Capital Construction Fund of \$1,208,096, a liability for instant ticket and on-line sales to the General Fund of \$5,865,163, and a liability for net video lottery machine income to the General Fund of \$6,511,163, resulting in a total liability to the General Fund of \$12,376,326.

## **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. 50 percent of the State's share of revenue on the reservations has been escrowed for payment to the tribes.

## **Compensated Absences**

All full-time and permanent part-time employees earn vacation leave and sick leave. Employees earn fifteen days of vacation leave per year that can be accumulated to thirty days, except for employees with more than fifteen years of employment, who earn twenty days of vacation leave per year that can be accumulated to forty days. Upon termination, employees receive payment for their accumulated vacation leave. Employees earn fourteen days of sick leave per year. Unless dismissed for cause, employees who terminate after seven years of continuous employment receive payment for one-fourth of their accumulated sick leave balance, not to exceed four hundred eighty hours. A liability has been recorded for compensated absences in accordance with GASB statements.

## **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.

## 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, leases, 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.

## Adoption of New Accounting Standard

As of July 1, 2024, the Lottery adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provide guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 11.

## Subsequent Events

The Lottery has evaluated subsequent events through October 8, 2025, the date which the financial statements were available to be issued.

## Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal year 2025:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 1,426,160	\$ -	\$ -	\$ 1,426,160
Right-to-use leased buildings	355,750	-	-	355,750
Total capital assets	1,781,910	-	-	1,781,910
Less accumulated depreciation and amortization				
Equipment	(1,367,068)	(12,262)	-	(1,379,330)
Right-to-use leased buildings	(21,923)	(11,957)	-	(33,880)
Total accumulated depreciation and amortization	(1,388,991)	(24,219)	-	(1,413,210)
Total capital assets, net	\$ 392,919	\$ (24,219)	\$ -	\$ 368,700

### Note 3 - 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's Annual Comprehensive Financial Report.

State law requires employees to contribute 6 percent of their salary to the plan and the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The South Dakota Lottery's contributions to the SDRS for the fiscal years ended June 30, 2025, 2024, and 2023 were \$119,930, \$113,948, and \$100,652, respectively, equal to the required contributions each year.

At June 30, 2024, SDRS was 100.03% funded and accordingly had a net pension asset. At June 30, 2025, the South Dakota Lottery reported an asset of \$2,740 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2025, the Lottery recorded an increase of pension expense of \$66,205. Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources as of June 30, 2025:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 253,714	\$ -
Changes in assumptions	45,173	344,330
Net difference between projected and actual earnings on pension plan investments	103,204	-
Changes in proportionate share	-	4,917
Contributions after the measurement date	119,930	-
Total	<u>\$ 522,021</u>	<u>\$ 349,247</u>

### Note 4 - Noncurrent Liabilities

Noncurrent obligations at June 30, 2025, and changes to noncurrent liabilities during the fiscal year then ended are as follows:

	(Restated) Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences*	\$ 520,531	\$ 70,636	\$ -	\$ 591,167	\$ 239,422
Lease liability	342,043	-	7,257	334,786	7,522
	<u>\$ 862,574</u>	<u>\$ 70,636</u>	<u>\$ 7,257</u>	<u>\$ 925,953</u>	<u>\$ 246,944</u>

\* The change in the compensated absences liability is presented as a net change.

## Note 5 - Leases

The South Dakota Lottery has entered into agreements to lease buildings and certain equipment. As of June 30, 2025, the value of the lease liability was \$334,786. The Lottery is required to make monthly principal and interest payments of \$1,618 through May 2052. 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 \$33,880.

The future principal and interest lease payments as of June 30, 2025 were as follows:

Period ending June 30:	Principal	Interest	Total
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	8,682	10,736	19,418
2031-2035	48,397	48,691	97,088
2036-2040	57,897	39,191	97,088
2041-2045	69,263	27,825	97,088
2046-2050	82,859	14,229	97,088
2051-2052	35,913	1,301	37,214
Total	<u>\$ 334,786</u>	<u>\$ 187,870</u>	<u>\$ 522,656</u>

## Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal year ended June 30, 2025:

Cash in	\$ 1,233,403,160
Less cash out	900,309,036
Video lottery net machine income	333,094,124
Less operator share	166,547,062
Video lottery revenue available to the State	166,547,062
Less lottery operating share	1,665,471
Video lottery revenue to the General Fund	<u>\$ 164,881,591</u>

## Note 7 - Transfers

Following is a summary of total transfers out for the fiscal year ended June 30, 2025:

Instant and on-line proceeds transferred to the General Fund	\$ 5,450,000
On-line proceeds transferred to the Capital Construction Fund	1,050,000
Instant and on-line proceeds to the General Fund (not yet transferred)	5,865,163
On-line proceeds to the Capital Construction Fund (not yet transferred)	1,208,096
Video lottery proceeds transferred to the General Fund	158,370,428
Video lottery proceeds to the General Fund (not yet transferred)	6,511,163
Video lottery proceeds transferred to the Department of Social Services	170,253
Video lottery fees transferred to the General Fund	60,000
Total transfers	<u>\$ 178,685,103</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, 2025, the prize reserve account balances were:

	MUSL Balance	SD Lottery Share
Powerball prize reserve account	\$ 90,715,422	\$ 335,404
Powerball set prize reserve account	39,998,614	140,598
Mega Millions prize reserve account	98,329,212	280,627
Lotto America prize reserve account	11,257,662	301,118
Total MUSL prize reserves	<u>\$ 240,300,910</u>	<u>\$ 1,057,747</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 - 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 10 - 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, 2025, the guaranteed minimum future payments are \$4,745,000.

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 2<sup>nd</sup> tier grand prize winner. The annuity is guaranteed for 20 years or the life of the prize winner, whichever is longer. The grand prize winner received the first annual payment when the prize was claimed, which left 19 guaranteed, annual payments. At June 30, 2025, the guaranteed minimum future payments are \$350,000.

### Contractual 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, 2025, payments made for the use and support of the system were \$932,676.

**Instant and On-line Lottery Vendor** –The South Dakota Lottery entered into a contract with Brightstar Lottery 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, 2025, payments made for the use and support of the system were \$5,241,817.

## Note 11 - Adoption of New Accounting Standard

### Change in Accounting Principle

As of July 1, 2024, the Lottery adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provide guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, the compensated absences liability was increased by \$224,959 as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	June 30, 2024, As Previously Reported	Change in Accounting Principle	July 1, 2024, As Restated
Net Position, Beginning of Year	\$ 7,514,597	\$ (224,959)	\$ 7,289,638

# Validation Centers & Mailing Address

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## Rapid City

221 Mall Drive, Suite 103  
Rapid City, SD 57701  
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