SOUTH DAKOTA LOTTERY

2026



ANNUAL REPORT

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MESSAGE FROM THE SECRETARY



I am pleased to report that the Department of Revenue had another successful year in our mission to serve South Dakota by providing fair, efficient, and reliable revenue administration. We wouldn't be able to achieve this without the hard work from our dedicated employees and key partnerships with stakeholders.

An important piece in our revenue administration efforts comes from the Lottery. Revenues from instant tickets, draw games, and video lottery play a pivotal role in the state's budget. Fiscal Year 2026 was no different with Lottery revenues providing more than $187 million that helps fund K-12 education, state universities, rural water systems, and more.

In addition to revenue collection, our team has made improvements to ensure that our customers and stakeholders have modern resources for interactions with us. We are now in the second year of the new 605Drive motor vehicle system that has provided a user-friendly experience for citizens, county partners, and businesses. Our online resources have also never been more robust in order to provide continuous education and outreach efforts.

Our team also plays a key role in providing legislators and other stakeholders with accurate and timely information to ensure that our laws best serve our citizens. An example of this is Governor Rhoden's recent legislation that provided the largest property tax cut in South Dakota history.

We look forward to another great year in Fiscal Year 2027. Our devoted staff is just a phone call or office visit away if you need assistance.

MESSAGE FROM THE EXECUTIVE DIRECTOR



I am pleased to share highlights from another successful year for the South Dakota Lottery. As a division of the Department of Revenue, the South Dakota Lottery strives to remain a viable source of funding and entertainment for the State of South Dakota. Thanks to our players, staff, and partnerships with retailers, we were able to accumulate more than $187 million in revenues for the State of South Dakota. Thanks in part to our strong year, the South Dakota Lottery has now contributed more than $4 billion since our inception in 1987.

The state's general fund received more than $184 million of these Fiscal Year 2026 revenues. We take pride in providing this important funding to support local K-12 schools, state universities, and technical schools. We also contributed $3.2 million to the state's capitol construction fund. This is used to fund rural water systems, community drinking water, wastewater improvement projects, and waste disposal programs.

Fiscal Year 2026 was another strong year for the video lottery industry. Our partners in the video lottery industry continue to give our players cutting edge machines that offer modern graphics and a variety of playing styles. The modern technology combined with efficiencies created by our Light & Wonder central system has paid dividends.

Our draw games also had a stellar year thanks in part to two Powerball jackpots that eclipsed $1 billion and a Mega Millions jackpot that fell just short of that. There was plenty of winning to go around too, with South Dakota being home to a $4.01 million Lotto America jackpot winner, a $2 million Powerball winner, and a pair of Lucky for Life second prize winners!

Our draw games may provide even more exciting wins in the future thanks to the introduction of the new Millionaire for Life game. The game, which replaced Lucky for Life, offers a unique grand prize of $1 million per year for life. After its February launch, the game has resonated with South Dakotans.

Our instant ticket portfolio also had some exciting additions that played a part in our success. Players were able to get a little nostalgia through our Jurassic Park scratch ticket, which also included a second chance opportunity! We also celebrated some of the unique sites and scenes that South Dakota has to offer through our Hidden Gems tickets.

These are just a few of the highlights throughout the Lottery's fiscal year. We invite you to take some time to learn more throughout this annual report.

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

Ali Schaefbauer
Attorney II

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

Marcie Buysman
Sales Representative

Jeffrey Thomas
Sales Representative

Jesika Penn
Sales Representative

Pat Boyles
Sales Representative

Morgan Puepke
Sales Representative

Tony Jockheck
Sales Representative

Scott Howard
Sales Representative

Adam Hagemann
Sales Representative

Matthew Sommerfeld
Warehouse Manager

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 Specalist I

Phuvadol Leeraksakiat
Video Lottery Specialist I

Aric Frost
Accounting Manager

Shawna Zebroski
Accountant

Debbie Gordon
Accountant

FY26 BY THE NUMBERS

638

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.

627

LICENSED LOTTO RETAILERS, LOTTO RETAILERS RECEIVE A 5% COMMISSION FOR SELLING TICKETS, PLUS VARYING BONUSES FOR SELLING LARGER WINNING TICKETS.

11,293

AVERAGE NUMBER OF ACTIVE VIDEO LOTTERY TERMINALS DURING FISCAL YEAR 2026

1,339

AVERAGE NUMBER OF LICENSED VIDEO LOTTERY ESTABLISHMENTS DURING FISCAL YEAR 2026

FY 2026 Sales & Revenue

Total Fiscal Year 2026 Lottery revenue generated for state funds was more than $187 million. These revenues come from three main sources, as evidenced in the chart below.

	Sales	Prizes	Commission	Revenue Distributed
Instant Tickets	$46,705,526	$31,207,119	$2,620,921	$6,363,630
Lotto Tickets	$34,416,788	$17,819,393	$1,768,826	$10,868,875
Video Lottery*	$1,288,853,796	$945,145,582	$171,854,107	$170,312,526
TOTAL	$1,369,976,110	$994,172,094	$176,243,854	$187,545,031

Video lottery sales are cash in; prizes share 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	$6,363,630		
Lotto Tickets	$7,608,213	$3,260,663	
Video Lottery*	$170,135,565		$116,961
Video Lottery Licensing Fee	$60,000		
TOTAL	$184,167,407	$3,260,663	$116,961

*The SD Lottery annually provides the Department of Social Services with funding for the 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 $4 billion in revenue.

INSTANT TICKETS

The Lottery launched 26 new instant ticket games during Fiscal Year 2026. Prices for instant tickets ranged from $1 to $30, and prizes ranged from $1 to $600,000. Instant ticket sales were down 1.57 percent from the previous year, and net revenues were up 5.20 percent.

LOTTO TICKETS

South Dakota currently offers five lotto games. Powerball, Mega Millions, Lotto America, and Millionaire For Life are multi-state games. Dakota Cash with EZ Match is played only in South Dakota. Lotto ticket sales were up 37.01 percent from the previous year and net revenues were up 44.46 percent.

Video lottery

The Lottery regulates and oversees video lottery game activities through licensing procedures for the machines, 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 3.15 percent from last year.

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.

$116,961 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.



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 THE NET REVENUE FROM 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 CASHOUT (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.

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 is a retired full 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.



Vice Chair
Tona Rozum
Mitchell

Commissioner Rozum has served in the Lottery Commission since 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
Tim Donahue
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 at Williams Insurance agency since 1987. 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
Roy Lindsay
Madison

Commissioner Lindsay has served in the Lottery Commission since 2026. He currently resides in Madison where he has lived since 1978.

Commissioner Lindsay is a graduate from the University of South Dakota with a BS in Education. He also has a Master of Vocational Technical Teacher in Education from the University of South Dakota and a Master of Industrial Technical Education from Northern State University.

Commissioner Lindsay is also a graduate of the 1966 United States Army Ordnance Center and School where he taught vehicle maintenance and repair. He served in Vietnam from 1968-69.

Commissioner Lindsay taught industrial arts at Ayrshire Public Schools in Ayrshire, Iowa from 1974-78 before moving to Madison and teaching Vocational and Driver Education classes at Madison High School for 33 years.



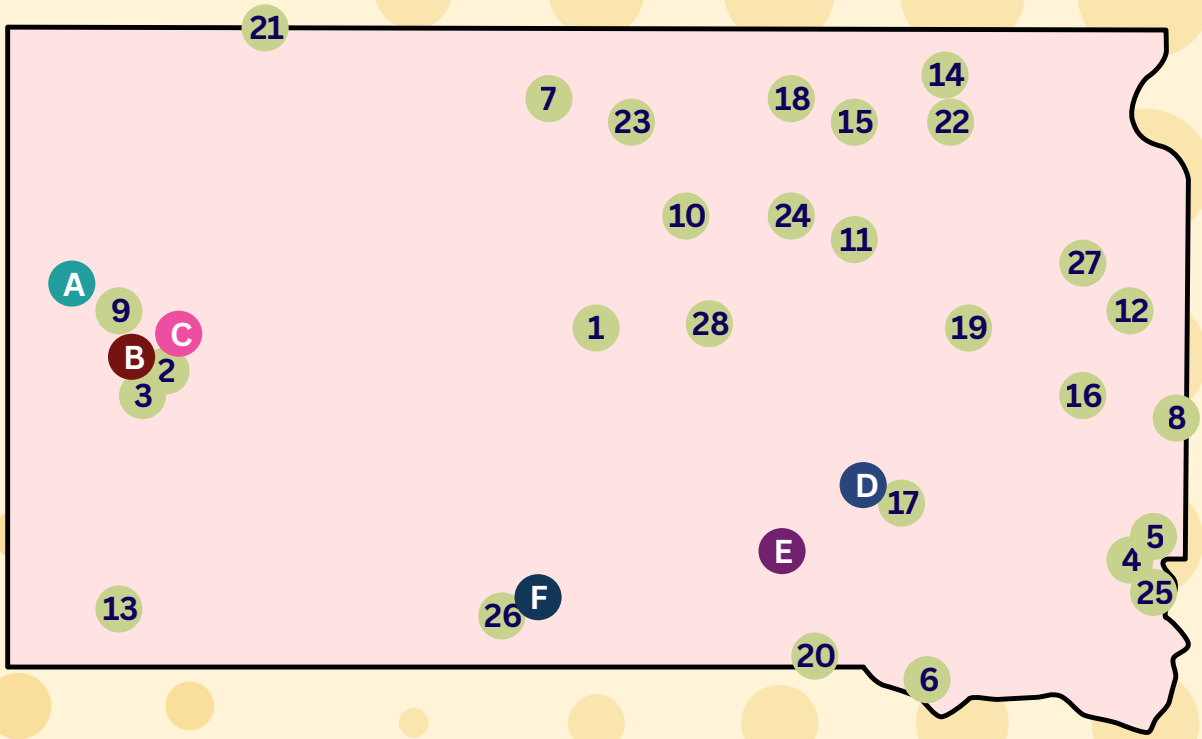
Commissioner
Jamie Huizenga
Pierre

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.

FISCAL YEAR 2026 SPOTLIGHT





A. Ronald Levi
Sturgis
$100,000
50X The Cash



B. Angelia Espinoza
Rapid City
$10,000
Merry & Bright



C. Jamie Newborg
Rapid City
$25,000
Money Cashword



D. Cubby's Mitchell West
Mitchell
$600,000
$600,000 Cash Spectacular



E. Casey's General Store #2394
Winner
$5,000
Money Maker



F. Benjamin Jensen
Mission
$1,000
$25,000 Gold Rush

1. $5,000 Pierre - Lucky for Life
2. $40,000 Rapid City - Crossword X
3. $50,000 Rapid City - Game of Thrones
4. $390,000 Sioux Falls - Lucky for Life
5. $1,000 Brandon - $1,000 Gold Rush
6. $25,000 Pickstown - Max Money
7. $2,000 Mobridge - Platinum Payout
8. $30,000 Dell Rapids - Joker's Wild
9. $1,500 Newell - $600,000 Cash Spectacular
10. $1,000 Gettysburg - $200,000 Winning 7s
11. $70,000 Redfield - $70,000 Gold Rush
12. $5,000 Brookings - Jurassic Park
13. $7,000 Hot Springs - Cashword Gold
14. $1,000 Britton - Mega Millions
15. $1,000 Aberdeen - Joker's Wild
16. $1,000 Madison - WIN WIN WIN
17. $300,000 Mitchell - 100X The Cash
18. $25,000 Leola - Max Money
19. $1,000 Huron - 20X Extreme Cash!
20. $137,628 Springfield - Dakota Cash
21. $5,000 Lemmon - Lucky for Life
22. $4,000 Webster - Lotto America
23. $1,500 Selby - Mega Millions
24. $1,000 Faulkton - 100X Extreme Cash!
25. $20,000 Sioux Falls - Multiplier Bingo
26. $25,000 Mission - Vaults of Cash
27. $10,000 Watertown - 10X Extreme Cash!
28. $1,000 Highmore - Lotto America

FISCAL YEAR 2026 HIGHLIGHTS



$1,500
Gerald Long
Rapid City, SD



$20,000
Rabecca Jumping Eagle
Pine Ridge, SD



$500
Shannan Long
Pierre, SD



$500
Philip Walker
Spearfish



$500
Alva Billie
Mission



$150
Anna Reed
Hot Springs



$40,000
Russell Magar
Huron



$1,000
Charles Henirs
Rapid City



$1,000
Ranae Hoffman
Pierre

Hidden Gems Top Prize Claimed



Michael Bauth found a Hidden Gem worth $25,000 during a trip to South Dakota.

The Milwaukee, Wisconsin resident claimed a $25,000 top prize for the Hidden Gems scratch ticket. Michael purchased his winning ticket at Yesway in Kadoka.

Michael and his wife were visiting Mount Rushmore for the Fourth of July and purchased a pair of Hidden Gems tickets. Their road trip quickly became even more eventful when they checked the tickets on the Lottery's app and revealed a top prize winner!

Lotto America jackpot winner purchased in Vermillion



A South Dakota Lottery player hit the jackpot as a result of the Aug. 6 Lotto America drawing.

The winner became South Dakota's first multi-state jackpot winner since 2018. The player chose the cash option of the $4,010,000 jackpot, which resulted in a one-time payment of $1,822,001.

The winning ticket was purchased at Freedom Valu Center in Vermillion. The retailer will receive a $10,000 incentive for selling the winning ticket.

The jackpot win marks South Dakota's first under Lotto America's current format, which was launched in 2017.

Jurassic Park Instant Ticket Launches

Adventure awaited South Dakota Lottery players with the launch of the Jurassic Park scratch ticket.

This $10 ticket launched on August 4, giving players the chance to win prizes up to $50,000. The excitement didn't end with the key number match style gameplay, as players could enter their non-winning tickets into a second chance drawing for a chance to win a trip to Hawaii and participate in the $1,000,000 JACKPOT CHALLENGE.



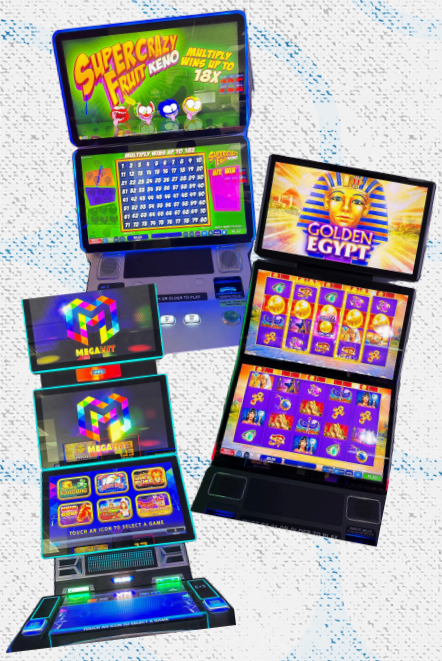
Jurassic Park's familiar brand certainly resonated with players. Through Fiscal Year 2026, the ticket accumulated $2,015,700 in sales. This outpaced the average $10 ticket by 39.2 percent.

The second chance promotion also drew interest with 19,937 non-winning Jurassic Park tickets entered. Pierre's Katey Lukkes was the winner of the drawing, and she indicated that her Jurassic Park fandom led to her purchase and second chance entry.

"My daughter and I love the Jurassic Park movies," Katey said. "We have four of the cardboard dinosaur stand-up movie posters in our basement and have had two Jurassic Park-themed birthday parties."

Katey noted that her husband will accompany her to Hawaii in November of 2026 and that visiting the site where the first Jurassic Park movie was filmed will be a highlight of the trip.

VIDEO LOTTERY INDUSTRY HAS STRONG YEAR



The video lottery industry enjoyed another strong year as new technology, game variety, and a robust central system continue to thrive.

The state's share of net machine income reached new heights with a final tally of $170,312,565 in Fiscal Year 2026. This eclipsed Fiscal Year 2025's total of $165,111,844.

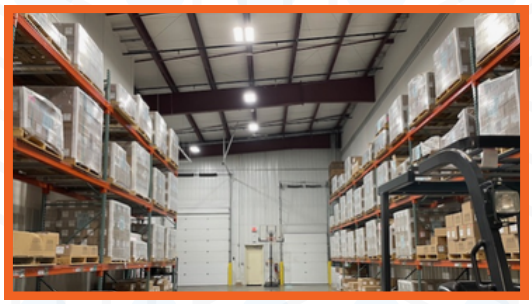
Fiscal Year 2026 saw the continued trend of line machines proving to be more appealing to players than legacy machines. Players continued to enjoy the line machines that feature a wide range of play styles, bonus games, and modern graphics.

At the conclusion of the fiscal year, line machines outpaced legacy video lottery terminals 8,024 to 3,395. In addition, line machines averaged $94.49 of net machine income per machine per day compared to $57.85 for legacy machines.

Most of these machines also remained active throughout the fiscal year thanks to the Lottery's central system provided by Light & Wonder. Since the transition to the new system in Fiscal Year 2023, the Lottery and video lottery partners have enjoyed a sharp decline in non-reporting terminals. Improved communications functionality also allows Lottery staff to get non-reporting terminals active in short time.

The video lottery industry's continued evolution and enhancements helped provide more than $170 million to the state's general fund!

Spee Dee Delivery Selected as Next Shipping Partner



The South Dakota Lottery set the table for significant cost savings through its new instant ticket shipping partnership with Spee Dee Delivery.

The contract, which was approved by the Lottery Commission at its June meeting, will take effect July of 2026. In order to provide retailers with instant tickets in a timely manner, the Lottery ships thousands of packages each month.

Shipping costs in Fiscal Year 2025 were $435,000 with the Lottery's previous shipping vendor. Using pricing from the new agreement, the Lottery will save more than $260,000 through Spee Dee Delivery!

In addition to cost savings, the Lottery will also enjoy improved customer service through Spee Dee Delivery. This includes tracking on undelivered packages, reimbursement for lost packages and next-day delivery statewide.

Millionaire for Life Launches

South Dakota Lottery players now have a chance to win the prize of a lifetime though the new Millionaire for Life game.

Millionaire for Life offers a unique grand prize of $1 million a year for life and a second prize of $100,000 a year for life. Sales for the new game began Sunday, Feb. 22, 2026.

Millionaire for Life costs $5 per play and drawings are held every night. With the introduction of Millionaire for Life, Lucky for Life sales ended after the Saturday, Feb. 21 draw.

The Millionaire for Life game got off to a fast start in South Dakota. Millionaire for Life sales through Fiscal Year 2026 were $87,300 per week which was an 8.9 percent increase over Lucky for Life averages.

In addition to a marketing campaign, the Lottery also boosted the new game through a special draw game promotion. On Mondays in April, players could purchase a Millionaire for Life quick pick and receive Dakota Cash quick picks for the upcoming Wednesday and Saturday draws ($2 value).

The four weeks led to a combined $66,127 increase in Millionaire for Life and Dakota Cash sales.

Along with South Dakota, Millionaire for Life launched in 28 other jurisdictions.

Good Fun Squad Makes Debut

The Lottery had some new faces this fiscal year with the debut of the Good Fun Squad marketing campaign.

In partnership with Lawrence & Schiller, the Good Fun Squad was created for use in marketing campaigns to highlight the products the Lottery offers and increase brand awareness. The Good Fun Squad is a humorous look at the Lottery's operations featuring marketing, sales and validation efforts.

The campaign, which used three central characters, kicked off in 2026 with brand awareness, winner awareness, and responsible gambling television spots. The Good Fun Squad also hit the airwaves through numerous radio spots that introduced new characters. These efforts also extended to digital media through Youtube Shorts and Facebook/Instagram Reels.

The Good Fun Squad continues the strategy of using re-occurring characters throughout multiple advertising campaigns.

The Lottery received strong reviews from on the initial roll out of the Good Fun Squad and looks forward to the next evolution of the group.





60 Days of WINter Earns Industry Honor

The South Dakota Lottery's advertising efforts received recognition at the 2025 NASPL Annual Conference. The awards ceremony recognizes the best marketing and advertising content from the past year throughout the Lottery industry.

The Lottery earned a Hickey Award for Best Player Program Promotion for its 60 Days of WINter campaign. The campaign, which ran from January to March 2025, featured a series of weekly prizes such as concert tickets, gift cards and more.

The goal of the campaign was to acquire new Players Club members while also helping existing players escape the winter doldrums through fun giveaways. The campaign resulted in nearly 22,000 entries and 1,673 Players Club signups.

The Lottery was also a finalist for the best TV spot under $25,000 for its Good Fun Value Menu campaign.

SouthDakota HIDDEN GEMS

The Fiscal Year 2026 instant ticket launch schedule featured an opportunity for players to not only win big but celebrate some of South Dakota's unique attractions.

The $5 Hidden Gems scratch ticket features scenes from around the state, including the World's Largest Pheasant in Huron, Devil's Gulch in Garretson, and the Hugh Glass Sculpture in Lemmon. All three scenes were available as part of the game, giving players a chance to collect them all and win up to $25,000!



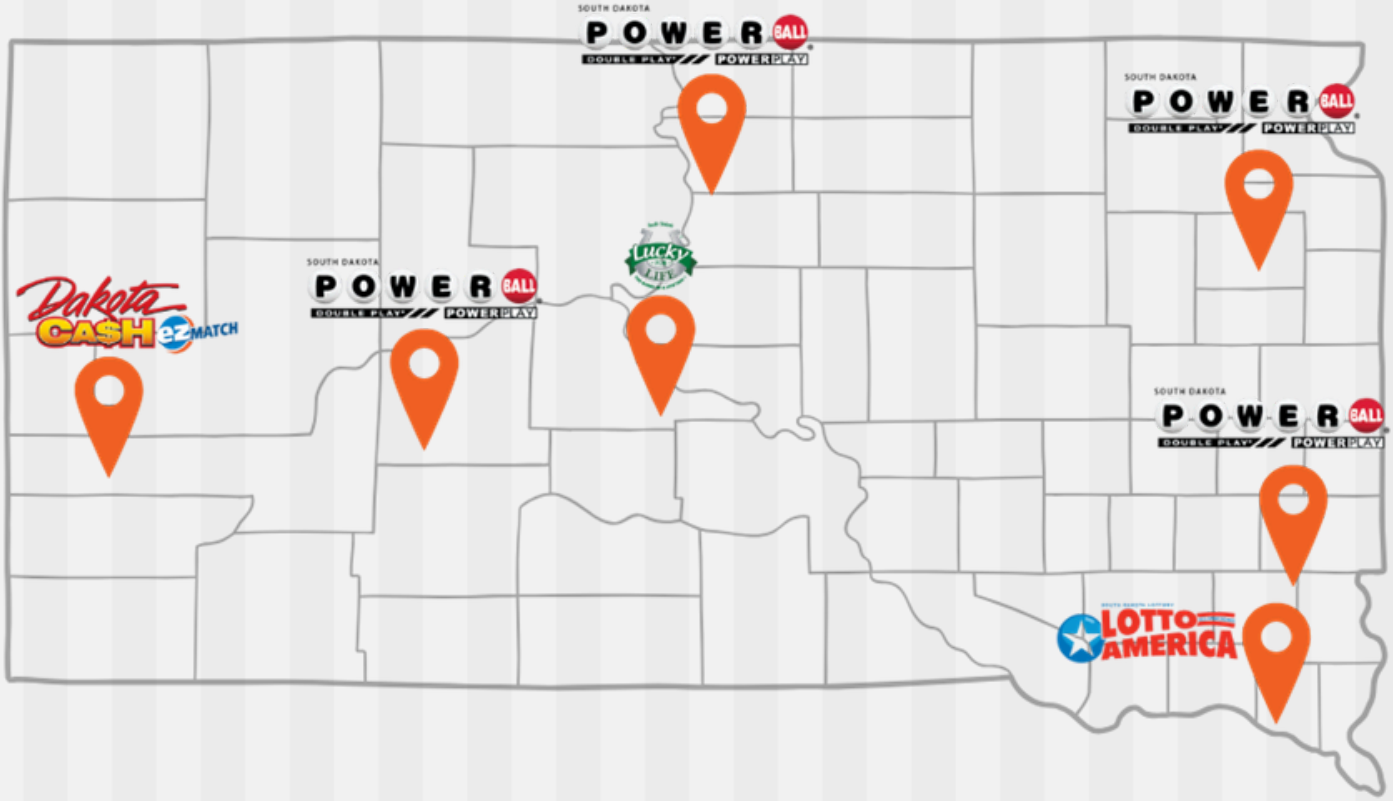
The ticket proved to be a winner after its May launch. Through the end of the fiscal year, it outperformed the average $5 tickets by 23.5 percent. In less than two months, the ticket sales accumulated $311,300.

These unique scenes weren't the only way this ticket celebrates South Dakota. Players could enter their non-winning tickets into a pair of second chance drawings.

The winner of the first second chance drawing receives a 2-night stay in the Hilton Canopy in Sioux Falls, a $750 gift card to shop at downtown Sioux Falls businesses and a $200 gift card! The winner of the second drawing will receive a 2-night stay at the Bungalow in Spearfish, which includes all on-site amenities.

Throughout the summer months, South Dakotans could also visit lottery.sd.gov to describe their favorite landmarks throughout the state. These submissions were entered into a series of weekly drawings for prizes such as gift cards, concert tickets, park passes and more.

South Dakota Celebrates Big Wins in August



The summer months heated up in more ways than one for South Dakota Lottery players thanks to a plethora of big winners.

The fireworks began on Aug. 6 when the Lotto America drawing resulted in South Dakota's first multi-state jackpot winner since 2018. The $4.01 million Lotto America jackpot winning ticket was purchased at Freedom Valu Center in Vermillion.

The August drawings created another millionaire in South Dakota after a $2 million Powerball ticket was purchased at Gas N More in Mobridge, which received a $25,000 retailer bonus. The winning ticket was the result of Aug. 23 drawing, which also featured a $50,000 Doubleplay winner in Watertown.

Powerball's Doubleplay add on also produced a big winner less than a week later. The Aug. 27 drawing resulted in a $500,000 winner. The winning ticket was purchased at Hy Vee Gas in Sioux Falls.

August also concluded with a $200,000 Powerball prize purchased in Philip and a $390,000 Lucky for Life prize that was purchased in Fort Pierre.

August concluded with seven draw game winners of $50,000 or more throughout South Dakota!

427 SOUTH CHAPELLE
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PIERRE, SD 57501-5070
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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 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, 2026, and the related notes to the financial statements, which collectively comprise the South Dakota Lottery Fund's basic financial statements and have issued our report thereon dated October 14, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Russell A. Olson, Auditor General
Pierre, South Dakota

October 14, 2026

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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, 2026, 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, 2026, 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 Fund, 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, 2026, 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.

As discussed in Note 1 to the financial statements, the South Dakota Lottery has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements, for the year ended June 30, 2026. Accordingly, revenues and expenses have been reclassified

within the statement of revenues, expenses, and changes in fund net position to comply with the new reporting model. 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 16 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 14, 2026, 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 14, 2026

South Dakota Lottery

Statement of Net Position

June 30, 2026

Assets		
Current Assets		
Cash and cash equivalents	$	17,864,645
Restricted cash		39,874
Total cash and cash equivalents		17,904,519
Accounts receivable		7,757,970
Restricted other receivables		1,581,935
Interest receivable		125,973
Restricted certificates of deposit		407,038
Total current assets		27,777,435
Noncurrent Assets		
Capital assets less accumulated depreciation and amortization		323,211
Net pension asset		5,713
Total noncurrent assets		328,924
Total Assets		**28,106,359**
Deferred Outflows of Resources		
Deferred Outflows of Resources - Pensions		596,511
Total Deferred Outflows of Resources		**596,511**
Liabilities		
Current Liabilities		
Accounts payable		190,990
Prizes payable		3,519,185
Due to the Capital Construction Fund		860,663
Due to the General Fund		11,772,294
Due to other funds		93,688
Operator security deposits		446,912
Escrows payable - special jurisdiction area sales		161,361
Compensated absences		249,720
Accrued interest		915
Accrued liabilities		168,302
Unearned revenues		194,142
Lease liability		7,283
Total current liabilities		17,665,455
Noncurrent Liabilities		
Compensated absences		389,604
Lease liability		298,447
Total noncurrent liabilities		688,051
Total Liabilities		**18,353,506**
Deferred Inflows of Resources		
Deferred Inflows of Resources - Pensions		306,548
Total Deferred Inflows of Resources		**306,548**
Net Position		
Net Investment in Capital Assets		17,481
Restricted for Pensions		295,676
Restricted for MUSL Permitted Uses		1,581,935
Unrestricted		8,147,724
Total Net Position	**$**	**10,042,816**

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

South Dakota Lottery

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Fiscal Year Ended June 30, 2026

Operating Revenues	
Video lottery revenue, net (Note 6)	$ 171,854,107
Instant ticket sales	46,705,526
On-line ticket sales	34,416,788
Terminal license fees	1,276,700
Retailer license fees	444,323
Other revenue	35,288
Total Operating Revenues	**254,732,732**
Direct Game Costs	
Instant prizes	31,207,119
On-line prizes	17,819,393
Instant retail commissions (Note 1)	2,620,921
On-line retail commissions (Note 1)	1,768,826
Instant ticket print costs	839,720
Total Direct Game Costs	**54,255,979**
Operating Revenues, Net of Direct Game Costs	**200,476,753**
Operating Expenses	
Personal services and benefits	2,640,603
Travel	192,959
Advertising	1,406,245
Contractual services	8,370,322
Supplies and materials	115,001
Depreciation and amortization	23,399
Bad debt expense	6,092
Payments to special jurisdiction areas	161,361
Total Operating Expenses	**12,915,982**
Operating Income	**187,560,771**
Noncapital Subsidies	
Transfers to General Fund	(184,167,407)
Transfers to Capital Construction Fund	(3,260,663)
Transfers to Department of Social Services	(116,961)
Total Noncapital Subsidies	**(187,545,031)**
Operating Income and Noncapital Subsidies	**15,740**
Other Non-Operating Revenues (Expenses)	
Investment income	1,717,296
Investment expenses	(5,406)
Interest expense	(11,092)
Total Other Non-Operating Revenue (Expenses)	**1,700,798**
Change in Fund Net Position	**1,716,538**
Fund Net Position, Beginning of Year	8,326,278
Fund Net Position, End of Year	**$ 10,042,816**

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, 2026

Operating Activities		
Receipts from customers and users	$	254,197,051
Payments for lottery prizes		(48,116,564)
Payments to suppliers		(14,457,354)
Payments for interfund services used		(885,584)
Payments for employee services		(2,704,431)
Other (payments) receipts		(969,168)
Net Cash Provided by Operating Activities		**187,063,950**
Capital and Related Financing Activities		
Payments for lease liabilities - principal		(29,056)
Payments for lease liabilities - interest		(11,179)
Net Cash Used for Capital and Related Financing Activities		**(40,235)**
Noncapital Financing Activities		
Transfers to other funds		(188,496,496)
Net Cash Used for Noncapital Financing Activities		**(188,496,496)**
Investing Activities		
Investment income		1,718,147
Investment expenses		(5,406)
Net Cash Provided by Investing Activities		**1,712,741**
Net Change in Cash and Cash Equivalents		**239,960**
Cash and Cash Equivalents, Beginning of Year		17,664,559
Cash and Cash Equivalents, End of Year	**$**	**17,904,519**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$	187,560,771
Adjustments to reconcile operating income		
Depreciation and amortization expense		23,399
Other		22,090
Decrease/(increase) in assets		
Accounts receivable		(574,511)
Restricted other receivable		(781,750)
Restricted certificates of deposit		(57,335)
Net pension asset		(2,973)
Decrease/(increase) in deferred outflows of resources		
Deferred outflows of resources - pensions		(74,490)
Increase/(decrease) in liabilities		
Accounts payable		(63,326)
Prizes payable		909,948
Due to other funds		12,292
Operator security deposits		65,692
Escrows payable		8,422
Compensated absences		48,157
Accrued liabilities		8,177
Unearned revenues		2,086
Increase/(decrease) in deferred inflows of resources		
Deferred inflows of resources - pensions		(42,699)
Total adjustments		(496,821)
Net Cash Provided by Operating Activities	**$**	**187,063,950**

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, Millionaire 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, 2026.

Uncollected instant/on-line ticket revenues	$	798,829
Allowance for doubtful instant/on-line accounts		(15,693)
Uncollected video lottery revenues and fees		6,974,834
Total accounts receivable	$	7,757,970

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, 2026, the amount of cash on deposit with the Lottery was $39,874 and the amount of certificates of deposit being held by the Lottery was $407,038. The total operator security deposits liability was $446,912 as of June 30, 2026. The Lottery held $9,400,550 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, 2026. The total security deposits on June 30, 2026 were $9,847,462.

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, 2026 were $1,159,504 for on-line prizes and $1,360,385 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, 2026, there was a liability for on-line ticket sales to the Capital Construction Fund of $860,663, a liability for instant ticket and on-line sales to the General Fund of $4,871,842, and a liability for net video lottery machine income to the General Fund of $6,900,452, resulting in a total liability to the General Fund of $11,772,294.

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.

For the fiscal year ended June 30, 2026, the Lottery implemented GASB Statement No. 103, *Financial Reporting Model Improvements*. This GASB standard establishes uniform guidelines for distinguishing operating versus non-operating categories and introduces a distinct subtotal and section for 'noncapital subsidies' presented on the Statement of Revenues, Expenses, and Changes in Fund Net Position. In accordance with the standard, transfers from the Lottery have been classified as Noncapital Subsidies.

Subsequent Events

The Lottery has evaluated subsequent events through October 14, 2026, the date which the financial statements were available to be issued.

Note 2 - Capital Assets

Capital Assets consisted of the following for fiscal year 2026:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 1,426,160	$ -	$ -	$ 1,426,160
Right-to-use leased buildings	355,750	-	22,090	333,660
Total capital assets	1,781,910	-	22,090	1,759,820
Less accumulated depreciation and amortization				
Equipment	(1,379,330)	(12,262)	-	(1,391,592)
Right-to-use leased buildings	(33,880)	(11,137)	-	(45,017)
Total accumulated depreciation and amortization	(1,413,210)	(23,399)	-	(1,436,609)
Total capital assets, net	$ 368,700	$ (23,399)	$ 22,090	$ 323,211

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, 2026, 2025, and 2024 were $122,372, $119,930, and $113,948, respectively, equal to the required contributions each year.

At June 30, 2025, SDRS was 100.06% funded and accordingly had a net pension asset. At June 30, 2026, the South Dakota Lottery reported an asset of $5,713 for its proportionate share of the restricted net pension asset. For the fiscal year ended June 30, 2026, the Lottery recorded a decrease of pension expense of $120,162. Deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources as of June 30, 2026:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 195,600	$ -
Changes in assumptions	-	303,258
Net difference between projected and actual earnings on pension plan investments	278,359	-
Changes in proportionate share	181	3,290
Contributions after the measurement date	122,371	-
Total	$ 596,511	$ 306,548

Note 4 - Noncurrent Liabilities

Noncurrent obligations at June 30, 2026, and changes to noncurrent liabilities during the fiscal year then ended are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences*	$ 591,167	$ 48,157	$ -	$ 639,324	$ 249,720
Lease liability	334,786	-	29,056	305,730	7,283
	$ 925,953	$ 48,157	$ 29,056	$ 945,054	$ 257,003

* 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, 2026, the value of the lease liability was $305,730. The Lottery is required to make monthly principal and interest payments of $1,512 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 $333,660 and had accumulated amortization of $45,017.

The future principal and interest lease payments as of June 30, 2026 were as follows:

Period ending June 30:	Principal	Interest	Total
2027	$ 7,283	$ 10,857	$ 18,140
2028	7,549	10,591	18,140
2029	7,825	10,315	18,140
2030	8,110	10,030	18,140
2031	8,406	9,734	18,140
2032-2036	46,863	43,837	90,700
2037-2041	56,062	34,638	90,700
2042-2046	67,067	23,633	90,700
2047-2051	80,232	10,468	90,700
2052	16,333	293	16,626
Total	$ 305,730	$ 164,396	$ 470,126

Note 6 - Video Lottery

Following is a summary of video lottery revenues for the fiscal year ended June 30, 2026:

Cash in	$ 1,288,853,796
Less cash out	945,145,582
Video lottery net machine income	343,708,214
Less operator share	171,854,107
Video lottery revenue available to the State	171,854,107
Less lottery operating share	1,718,542
Video lottery revenue to the General Fund	$ 170,135,565

Note 7 - Noncapital Subsidies

Following is a summary of noncapital subsidies for the fiscal year ended June 30, 2026:

Instant and on-line proceeds transferred to the General Fund	$ 9,100,000
On-line proceeds transferred to the Capital Construction Fund	2,400,000
Instant and on-line proceeds to the General Fund (not yet transferred)	4,871,842
On-line proceeds to the Capital Construction Fund (not yet transferred)	860,663
Video lottery proceeds transferred to the General Fund	163,235,113
Video lottery proceeds to the General Fund (not yet transferred)	6,900,452
Video lottery proceeds transferred to the Department of Social Services	116,961
Video lottery fees transferred to the General Fund	60,000
Total noncapital subsidies	$ 187,545,031

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, Mega Millions/Megaplier, Millionaire for Life, and Lotto America 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 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. The prize pool for Millionaire for Life is 55 percent of sales with no 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.

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, 2026, the prize reserve account balances were:

	MUSL Balance	SD Lottery Share
Powerball prize reserve account	$ 87,793,729	$ 327,245
Powerball set prize reserve account	20,580,145	79,204
Mega Millions prize reserve account	93,490,417	286,031
Lotto America prize reserve account	11,763,402	300,457
Total MUSL prize reserves	$ 213,627,693	$ 992,937

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, 2026, the guaranteed minimum future payments are $4,380,000.

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, 2026, the guaranteed minimum future payments are $325,000.

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, 2026, payments made for the use and support of the system were $962,787.

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, 2026, payments made for the use and support of the system were $5,865,961.

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