



## FY2008 Annual Report

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# FY08: News of Note

www.sdlottery.org

July 1, 2007 - June 30, 2008



## Lottery revenue nears \$1.7 billion

The total amount of revenue raised by the South Dakota Lottery approached \$1.7 billion at the completion of FY08. The Lottery generated \$123.3 million in revenue for the 2008 fiscal year. The year's total revenue was the largest transferred to the state in a single year.

Scratch ticket sales generated \$5.1 million in revenue for the state general fund in FY08. Half of this fund is used for ongoing state funding of K-12 and higher education. Lotto ticket sales generated nearly \$6.2 million. Revenue raised from lotto ticket sales go to the General Fund and the Capital Construction Fund, which finances ethanol production incentives, water and environment programs and state highway projects. Video lottery generated \$111.2 million for the Property Tax Reduction Fund in FY08, reducing owner-occupied and agricultural property taxes by 30 percent.

## Higher sales generate record retailer bonuses

Lottery retailer commissions topped \$2.3 million in FY08.

Retailers receive a five percent commission on each ticket sold.

Instant retailers also receive a one percent selling commission for selling prize-winning tickets over \$101 and a one percent cashing commission for cashing instant prize-winning tickets of \$1 up to \$100. Retailers selling top lotto prizes earn additional bonuses up to \$50,000.



## Watertown man claims top Dakota Raffle prize

Carl Umlauf of Watertown claimed the \$250,000 grand prize in the Lottery's first-ever Dakota Raffle game, which commemorated the Lottery's 20th anniversary.

Umlauf won the prize in the New Year's Eve drawing for the special raffle-style game. "I got shaky," he said of having the winning ticket. "I couldn't believe it."

A total of 80,120 tickets were sold for the Dakota Raffle drawing. There were 256 winning tickets that shared in \$500,000 in various prizes.

## Sturgis event launches sale of rally themed scratch game

Sturgis Mayor Maury LaRue joined Lottery director Norm Lingle to scratch the first Sturgis Motorcycle Rally ticket. The launch of an instant scratch game to celebrate the annual Sturgis Motorcycle Rally was a first for both the Lottery and the Rally.



# Sales & Revenue

## Instant tickets

The Lottery launched 26 new instant ticket games during fiscal year 2008. At the close of the year, there were 626 licensed instant ticket retailers across the state.

Sales were up 13.5 percent from the previous year, bolstered by the first \$20 ticket, Platinum Payout, and phenomenal holiday ticket sales that were the best in 15 years.

## Lotto tickets

South Dakota currently offers four lotto games. Powerball, Wild Card 2 and Hot Lotto are multi-state games. Dakota Cash is played only in South Dakota. Dakota Raffle was also offered during FY08. At the end of the fiscal year, there were 452 licensed lotto retailers.

Powerball and Dakota Cash performed well in the fiscal year, but Wild Card 2 and Hot Lotto fared poorly due to frequent jackpot wins and subsequent lower jackpots.

Lotto games reported an overall increase in sales of less than 1 percent from fiscal year 2007. Two impressive Powerball jackpot runs and the addition of the Dakota Raffle game helped brighten the sales picture.

## Video Lottery

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

Video lottery sales (cash in) increased 1.4 percent in fiscal year 2008. The average number of active video lottery machines during the year was 8,952 and the average number of licensed establishments was 1,478.

Revenue from video lottery net machine income is distributed to the Property Tax Reduction Fund.

A portion of machine manufacturer license fees is distributed to the General Fund.

## Sales and Revenues

Total fiscal year 2008 Lottery revenue distributed to state funds was more than \$122 million.

	Sales	Prizes	Retailer Commissions	Revenue Distributed
Instant Tickets	\$20,681,769	\$12,871,055	\$1,159,190	\$5,143,568
Lotto Tickets	\$21,744,045	\$11,070,247	\$1,200,450	\$6,195,624
Video Lottery**	\$661,838,490	\$437,177,280	\$112,330,605	\$111,966,299
			<b>Total:</b>	<b>\$123,305,491</b>

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

## Revenue Distribution

	General Fund	Cap. Construct. Fund	Property Tax Reduction Fund	Dept. of Human Services
Instant Tickets	\$5,143,568			
Lotto Tickets	\$1,400,000	\$4,795,624		
Video Lottery	\$545,000		\$111,207,299	\$214,000
<b>Totals:</b>	<b>\$7,088,568</b>	<b>\$4,795,624</b>	<b>\$111,207,299</b>	<b>\$214,000</b>

**SOUTH DAKOTA LOTTERY**  
**STATEMENT OF NET ASSETS**  
*June 30, 2008 and 2007*

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Current Assets:		
Cash	\$7,357,186	\$7,342,607
Accounts Receivable	5,458,547	5,071,863
Restricted Other Receivable	937,692	987,781
Interest Receivable	136,862	144,551
Certificates of Deposit	550,489	430,530
Securities Lending Collateral	650,796	1,277,199
Total Current Assets	15,091,572	15,254,531
Noncurrent Assets:		
Capital Assets less Accumulated Depreciation	15,131	18,305
<b>Total Assets</b>	<b>15,106,703</b>	<b>15,272,836</b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	343,035	457,577
Prizes Payable	1,266,088	1,174,322
Due to the Property Tax Reduction Fund	4,424,581	4,260,627
Due to the Capital Construction Fund	695,624	1,011,689
Due to the General Fund	343,568	288,644
Due to Other Funds	72,693	65,108
Operator Security Deposits	565,289	453,230
Escrows Payable-Reservation Sales	43,906	39,707
Accrued Liabilities	214,921	201,702
Deferred Revenue	184,191	131,264
Securities Lending Collateral Liability	650,796	1,277,199
Total Current Liabilities	8,804,692	9,361,069
Noncurrent Liabilities:		
Accrued Liabilities	112,546	107,240
<b>Total Liabilities</b>	<b>8,917,238</b>	<b>9,468,309</b>
<b>Net Assets</b>		
Invested in Capital Assets, net of Related Debt	15,131	18,305
Restricted for MUSL Permitted Uses	937,692	987,781
Unrestricted	5,236,642	4,798,441
<b>Total Net Assets</b>	<b>\$6,189,465</b>	<b>\$5,804,527</b>

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

**SOUTH DAKOTA LOTTERY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
*For the Fiscal Years Ended June 30, 2008 and 2007*

	<b>FY2008</b>	<b>FY2007</b>
<b>Operating Revenues:</b>		
Video Lottery Revenue	\$112,330,605	\$111,407,852
Instant Ticket Sales	20,681,769	18,218,910
On-Line Ticket Sales	21,744,045	21,590,530
Terminal License Fees	1,019,100	1,006,400
Retailer License Fees	304,350	325,853
<b>Total Operating Revenue</b>	<b><u>156,079,869</u></b>	<b><u>152,549,545</u></b>
<b>Direct Game Costs:</b>		
Instant Prizes	12,871,055	11,381,996
On-Line Prizes	11,070,247	10,940,311
Instant Retail Commissions	1,159,190	1,020,560
On-Line Retail Commissions	1,200,450	1,156,546
Instant Ticket Print Costs	401,143	406,831
<b>Total Direct Costs</b>	<b><u>26,702,085</u></b>	<b><u>24,906,244</u></b>
<b>Gross Profit</b>	<b><u>129,377,784</u></b>	<b><u>127,643,301</u></b>
<b>Operating Expenses:</b>		
Personal Services and Benefits	1,400,488	1,357,310
Travel	138,693	127,376
Advertising	669,128	556,968
Contractual Services	4,251,476	4,141,871
Supplies and Materials	133,145	145,114
Depreciation	14,860	10,964
Payments to Reservations	43,906	39,707
<b>Total Operating Expenses</b>	<b><u>6,651,696</u></b>	<b><u>6,379,310</u></b>
<b>Operating Income</b>	<b><u>122,726,088</u></b>	<b><u>121,263,991</u></b>
<b>Non-operating Revenues (Expenses):</b>		
Pooled Investment Income	869,883	733,337
Broker Rebate Expense	(66,194)	(119,763)
Non-operating Revenue from MUSL	150,653	138,031
Miscellaneous Revenue	9,999	10,421
<b>Total Non-operating Revenue (Expenses)</b>	<b><u>964,341</u></b>	<b><u>762,026</u></b>
<b>Income Before Transfers</b>	<b><u>123,690,429</u></b>	<b><u>122,026,017</u></b>
<b>Transfers:</b>		
Transfers to the Property Tax Reduction Fund	111,207,299	110,293,773
Transfers to the General Fund	7,088,568	5,748,644
Transfers to the Capital Construction Fund	4,795,624	4,811,689
Transfers to the Department of Human Services	214,000	214,000
<b>Total Transfers</b>	<b><u>123,305,491</u></b>	<b><u>121,068,106</u></b>
<b>Change in Net Assets</b>	<b><u>384,938</u></b>	<b><u>957,911</u></b>
Total Net Assets - Beginning	<u>5,804,527</u>	<u>4,846,616</u>
<b>Total Net Assets - Ending</b>	<b><u><u>\$6,189,465</u></u></b>	<b><u><u>\$5,804,527</u></u></b>

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

**SOUTH DAKOTA LOTTERY**  
**STATEMENT OF CASH FLOWS**  
*For the Fiscal Years Ended June 30, 2008 and 2007*

	<b>FY2008</b>	<b>FY2007</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$155,678,052	\$152,567,226
Payments for Lottery Prizes	(23,784,612)	(22,296,018)
Payments to Suppliers	(7,224,850)	(6,731,408)
Payments for Interfund Services Used	(831,554)	(834,846)
Payments for Employee Services	(1,381,963)	(1,354,288)
Other Receipts (Payments)	162,492	84,238
Net Cash Provided (Used) by Operating Activities	<u>122,617,565</u>	<u>121,434,904</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(11,686)	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,686)</u>	<u>0</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers to Other Funds	(123,402,678)	(120,810,417)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(123,402,678)</u>	<u>(120,810,417)</u>
<b>Cash Flows from Investing Activities</b>		
Pooled Investment Income	877,572	689,200
Security Lending Rebate Fees	(66,194)	(119,763)
Net Cash Provided (Used) by Investing Activities	<u>811,378</u>	<u>569,437</u>
Net Increase (Decrease) in Cash during the Fiscal Year	14,579	1,193,924
Cash at Beginning of Year	7,342,607	6,148,683
Cash at End of Year	<u>\$7,357,186</u>	<u>\$7,342,607</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided (Used) by Operating Activities</b>		
Operating Income	\$122,726,088	\$121,263,991
<b>Adjustments to Reconcile Operating Income (Loss)</b>		
<b>to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	14,860	10,964
Other Revenue	9,999	10,421
Non-operating Revenue from MUSL	150,653	138,031
<b>Decrease/(Increase) in Assets:</b>		
Accounts Receivable	(386,684)	151,239
Restricted Other Receivable	50,089	(14,149)
Certificates of Deposit	(119,959)	(53,534)
<b>Increase/(Decrease) in Liabilities:</b>		
Accounts Payable	(114,542)	27
Prizes Payable	91,766	(14,295)
Due to Other Funds	7,585	(23,749)
Operator Security Deposits	112,059	54,434
Escrows Payable	4,199	(10,916)
Accrued Liabilities	18,525	3,022
Deferred Revenue	52,927	(80,582)
Total Adjustments	<u>(108,523)</u>	<u>170,913</u>
Net Cash Provided by Operating Activities	<u>\$122,617,565</u>	<u>\$121,434,904</u>

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

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Fiscal Years Ended June 30, 2008 and 2007*

**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 by the passage of Senate Bill 0254 during the 1987 Legislative Session. The South Dakota Lottery was authorized to market instant games, with sales commencing on September 30, 1987.

Video Lottery was created by the passage of Senate Bill 0129 during the 1989 Legislative Session. The South Dakota Lottery was authorized to license and regulate a video lottery game with play commencing on October 16, 1989.

The 1990 Legislature approved lotto games with the passage of Senate Bill 0086. In April of 1990, South Dakota was accepted as a member of the Multi-State Lottery Association (MUSL) and began selling tickets on November 15, 1990. The current lotto games offered by the Lottery are Powerball, Power Play, Hot Lotto, Sizzler, Wild Card, Dakota Raffle and Dakota Cash.

**Basis of Presentation** The South Dakota Lottery Fund is accounted for as a proprietary type enterprise fund for the State of South Dakota. Proprietary funds are accounted for using the accrual basis of accounting. The South Dakota Lottery fund applies all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The South Dakota Lottery is considered part of the primary government as reported by the State of South Dakota. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The financial statements are prepared in accordance with generally accepted accounting principles for proprietary (enterprise) funds.

**Cash** Cash includes 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 South Dakota Investment Council Audit Report.

**Accounts Receivable** Accounts receivable (net) represents the following at June 30:

	<u>2008</u>	<u>2007</u>
<i>Uncollected instant/on-line ticket revenues</i>	\$ 986,458	\$ 780,742
<i>Allowance for doubtful instant/on-line accounts</i>	(13,100)	(14,933)
<i>Uncollected video lottery revenues and fees</i>	4,485,189	4,306,054
	<u>\$5,458,547</u>	<u>\$5,071,863</u>

**Restricted Other Receivable** The Restricted Other Receivable account represents the South Dakota Lottery's share of funds held by the Multi-State Lottery (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** ARSD 48:02:05:04(18) requires video lottery operators to furnish security to the Lottery by July 1 of each year 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, 2008 and 2007, the amount of certificates of deposit being held by the Lottery was \$550,489 and \$430,530, respectively. The amount of \$6,037,500 and

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Fiscal Years Ended June 30, 2008 and 2007*

\$6,142,800, respectively, was in the form of surety bond, deposit in cash, or irrevocable letter of credit and are not reported on the Statement of Net Assets. The total Security Deposits on June 30, 2008 and 2007 were \$6,587,989 and \$6,573,330, respectively.

**Securities Lending Transactions** State statutes and the South Dakota Investment Council (SDIC) policies permit the use of investments for securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities with the simultaneous agreement to return the collateral for the same securities in the future. The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either the SDIC or the borrower. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short-term investments. The ability to pledge or sell collateral securities can be made without borrower default. In addition, no restrictions on the amount of the loans exist or can be made. The amount reported as Securities Lending Collateral of \$650,796 and \$1,277,199 and Securities Lending Collateral Liability of \$650,796 and \$1,277,199 on the Statement of Net Assets represents the Lottery's share of the SDIC total as of June 30, 2008 and 2007, respectively.

**Capital Assets** Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical cost, if the original cost is unavailable. Equipment is capitalized when the cost of individual items is \$5,000 or more. Depreciation 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 assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal.

Capital Assets consisted of the following for fiscal years 2008 and 2007:

	<u>2008</u>				<u>2007</u>			
	Beginning Balance	Additions	Deletions	Ending Balance	Beginning Balance	Additions	Deletions	Ending Balance
<i>Equipment</i>	\$ 959,572	\$ 11,686	\$ 19,602	\$ 951,656	\$ 959,572	\$ -	\$ -	\$ 959,572
<i>Less:</i>								
<i>Accumulated Depreciation</i>	(941,267)	(14,860)	19,602	(936,525)	(930,303)	(10,964)	-	(941,267)
<i>Total Capital Assets</i>	<u>\$ 18,305</u>	<u>\$ (3,174)</u>	<u>\$ -</u>	<u>\$ 15,131</u>	<u>\$ 29,269</u>	<u>\$(10,964)</u>	<u>\$ -</u>	<u>\$ 18,305</u>

**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.

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Years Ended June 30, 2008 and 2007**

A minimum of fifty percent (50%) of the projected revenue from the sale of lottery tickets, computed on a year-round basis, is allocated for payment of prizes. Prizes may be claimed up to 180 days after the official end of the game. Unclaimed prizes are added to the prize pools of subsequent lottery games. Reverted prizes during the fiscal year ended June 30, 2008 and 2007 were \$448,389 for on-line prizes and \$327,477 for instant prizes, and \$648,335 for on-line prizes and \$603,007 for instant prizes, respectively.

**Due to the Property Tax Reduction Fund** SDCL 42-7A-63 sets the State's percentage of net machine income at fifty percent (50%) of which all but one-half of one percent (0.5%) of net machine income shall be deposited into the Property Tax Reduction Fund. At June 30, 2008 and 2007, there was a liability to the Property Tax Reduction Fund in the amount of \$4,424,581 and \$4,260,627, respectively.

**Due to the General Fund and Due to the Capital Construction Fund** The Lottery shall maximize net proceeds to the state from the sale of instant and on-line tickets. These net proceeds are transferred to the General Fund/Capital Construction Fund on an annual basis on or about July 1. There was a liability for instant ticket sales to the General Fund in the amount of \$343,568 and \$288,644 and a liability for on-line ticket sales to the Capital Construction Fund in the amount of \$695,624 and \$1,011,689 as of June 30, 2008 and 2007, respectively.

**Due to Other Funds** A liability has been created for services provided by other components of state government but not yet paid as of June 30.

**Escrows Payable** During the 1989 Legislative Session, HB 1344 passed which authorizes tribal governments to receive up to fifty percent (50%) of the State's revenue on lottery products sold on that reservation. Fifty percent (50%) of the State's share of revenue on the reservations has been escrowed for payment to them.

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

**Deferred Revenue** 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.

**Net Assets** The difference between assets and liabilities is "Net Assets." Net assets are reported in three categories:

**Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

**Restricted net assets** consist of funds held by the Multi-State Lottery (MUSL) in an unreserved account. The earnings paid to this account are considered to be distributions to the member lotteries, but account funds may be used by a member lottery only for the purposes approved by the MUSL Board.

**Unrestricted net assets** consist of 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 retailers settle (sell) the books of tickets. 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

**SOUTH DAKOTA LOTTERY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
*For the Fiscal Years Ended June 30, 2008 and 2007*

games and on-line ticket sales are reported as the actual ticket sales made to the public through the licensed retailers.

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

On-line retailers selling a jackpot winning Powerball ticket may receive a bonus of \$50,000. Selling bonuses of \$10,000 and \$1,000 may be paid to retailers selling Powerball tickets of \$200,000 and \$10,000, respectively. If a retailer sells a Power Play ticket winning \$200,000 or \$10,000 (each times the multiplier), a bonus of \$20,000 or \$1,000 times the Power Play multiplier, respectively, may be paid. Retailers who sell a Dakota Cash jackpot winning ticket may receive a bonus equal to five percent (5%) of the value of the winning ticket not to exceed \$5,000. Retailers who sell a Wild Card 2 jackpot winning ticket may receive a bonus equal to one percent (1%) of the value of the winning ticket, not to exceed \$10,000, and a retailer selling a \$5,000 winning ticket may receive a bonus of \$500. Retailers who sell a Hot Lotto jackpot winning ticket or a \$10,000 winning ticket may receive a bonus of \$10,000 and \$1,000, respectively. If a retailer sells a Sizzler ticket winning \$30,000, a bonus of \$3,000 may be paid. Retailers who sell a Dakota Raffle ticket winning \$250,000 or \$25,000, may receive a bonus of \$10,000 or \$2,500, respectively.

**Non-Operating Revenues and Expenses** Revenues and expenses that result from activities not associated with the sale of lottery tickets are classified as non-operating.

**NOTE 2. COMPENSATED ABSENCES**

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2008 and 2007, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$101,229 and \$98,162, respectively. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance. This payment is not to exceed the sum of twelve weeks of the employee's annual compensation. At June 30, 2008 and 2007, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate in the amount of \$135,609 and \$127,509, respectively. The following is a schedule of changes in compensated absences at June 30, 2008 and 2007.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Compensated Absences Payable</i>					
<i>Fiscal Year 2008</i>	\$ 225,671	\$ 136,893	\$ 125,726	\$ 236,838	\$ 124,292
<i>Fiscal Year 2007</i>	218,613	90,828	83,770	225,671	118,431

**NOTE 3. RETIREMENT 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 South Dakota Codified Law 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 writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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Employees are required by State statute to contribute 6 percent of their salary to the plan. State statute also requires 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, 2008, 2007, and 2006 were \$64,194, \$63,376, and \$63,762, respectively, equal to the required contributions each year.

**NOTE 4. OPERATING LEASES**

The South Dakota Lottery entered into agreements to lease buildings and certain equipment. Some of the operating leases contain the provision that the South Dakota Lottery may renew the operating leases at the expiration date of the lease on a year-to-year basis. In most cases management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature.

The following schedule is a summary of future minimum rental payments by years required under operating leases with lease terms in excess of one year as of June 30, 2008:

<u>Period Ending June 30:</u>	
2009	\$ 66,434
2010	11,588
2011	5,640
2012	5,640
2013	3,055
Total Minimum Payments	<u>\$ 92,357</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2008 and 2007, was \$120,037 and \$120,037, respectively.

**NOTE 5. VIDEO LOTTERY**

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Cash In	\$ 661,838,490	\$ 652,685,841
Less Cash Out	<u>437,177,280</u>	<u>429,870,139</u>
Video Lottery Net Machine Income	224,661,210	222,815,702
Less Operator and Establishment Share	<u>112,330,605</u>	<u>111,407,851</u>
Video Lottery Revenue Available to the State	112,330,605	111,407,851
Less Lottery Operating Share	<u>1,123,306</u>	<u>1,114,078</u>
Video Lottery Revenue to the Property Tax Reduction Fund	<u>\$ 111,207,299</u>	<u>\$ 110,293,773</u>

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**NOTE 6. TRANSFERS**

Following is a summary of total transfers for the fiscal years ended June 30, 2008 and 2007:

Transfers Out:	<u>2008</u>	<u>2007</u>
General Fund Proceeds from Instant and On-Line	\$ 6,200,000	\$ 5,400,000
Capital Construction Fund Proceeds from On-Line	4,100,000	3,800,000
General Fund Proceeds from Instant and On-line not Yet Transferred	343,568	288,644
Capital Construction Fund Proceeds from On-Line not Yet Transferred	695,624	1,011,689
Video Lottery Proceeds Transferred to the Property Tax Reduction Fund	106,782,718	106,033,146
Video Lottery Proceeds to Prop. Tax Reduction Fund not Yet Transferred	4,424,581	4,260,627
Video Lottery Proceeds Transferred to the General Fund (One-time Tran)	500,000	
Video Lottery Grant to Department of Human Services	214,000	214,000
Video Lottery Fees Transferred to the General Fund	45,000	60,000
Total Transfers Out	<u>\$123,305,491</u>	<u>\$121,068,106</u>

**NOTE 7. PARTICIPATION IN THE MULTI-STATE LOTTERY**

The South Dakota Lottery is a member of the Multi-State Lottery (MUSL), which operates the Powerball/Power Play, Hot Lotto, and Wild Card 2 games. Each MUSL member sells tickets through its licensed retailers and makes weekly wire transfers to the 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 and Hot Lotto consists of 50 percent of each drawing period's sales. The prize pool for Power Play is 49.3 percent of sales and the prize pool for Sizzler is 47.42 percent of sales. The prize pool for Wild Card 2 is 55 percent of each drawing period sales with all cash prizes. Two percent of sales for Powerball and Wild Card 2 and 1.5 percent for Power Play and Sizzler are placed in a prize reserve fund. For Hot Lotto, up to 1 percent of sales is placed in a prize reserve fund after the annuitized jackpot exceeds \$2 million. An additional 2 percent of sales is placed in a prize reserve fund after the annuitized jackpot exceeds \$5 million. The prize reserve fund serves as a contingency reserve to protect the MUSL in cases of unforeseen liabilities. The money in this reserve is to be used at the discretion of the MUSL Board of Directors.

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 leaving must wait one year before receiving their remaining share, if any, of the prize reserve fund. At June 30, 2008 and 2007, the MUSL Powerball prize reserve fund had a balance of \$73,237,975 and \$69,701,252, respectively, of which the South Dakota Lottery's share was \$412,179 and \$401,405, respectively. The set prize reserve fund had a balance of \$25,000,000 and \$24,779,750, respectively, of which the South Dakota Lottery's share was \$145,700 and \$125,825, respectively. The Wild Card 2 prize reserve fund had a balance of \$925,302 and \$1,013,600, respectively, of which the South Dakota Lottery's share was \$170,896 and \$215,714, respectively. The Hot Lotto prize reserve fund had a balance of \$4,191,108 and \$3,543,064, respectively, of which the South Dakota Lottery's share was \$172,244 and \$150,362, respectively. These reserves are held by MUSL and are not included in these financial statements.

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.

Prior to November 5, 1997, the Powerball jackpot was payable to the winner(s) in annual installments over 20 years, with the first payment being made by the member lottery starting at the time of the drawing. Since November 5, 1997, players can choose one lump-sum cash payment or receive the jackpot prize over 25 annual payments. Treasury zero coupon bonds that provide payments corresponding to the member lottery's obligation to these prize winners are purchased by the MUSL in the name of the member lottery. MUSL will hold 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. The Wild Card 2 jackpot is paid in cash, and will be divided equally

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among all jackpot winners for a specific drawing. The Hot Lotto jackpot prize can be taken as cash or annuity and is divided equally among multiple winners.

As of June 30, 2008 and 2007, the MUSL had purchased, for the South Dakota Lottery, zero coupon bonds to fund installment payments aggregating \$12,466,937. The total purchase price of these bonds was \$6,509,238.

**NOTE 8. CONTRACTUAL ARRANGEMENTS**

- A. Instant Tickets - The South Dakota Lottery entered into a contract with Scientific Games to provide instant game tickets through August 30, 2009, with possible extension through August 30, 2010.
- B. On-line and Video Lottery Vendor - The South Dakota Lottery has contracted with Scientific Games to operate an on-line lottery system and a video lottery system through August 2, 2009.

**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 is uninsured for property loss. 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, and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.