



## FY2009 Annual Report

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# Fiscal Year 2009 Highlights

## South Dakota's biggest winner!

On June 5, 2009, 23-year-old Neal Wanless and his parents walked into the Pierre Lottery office and quietly announced they had "a big winner." Soon news of the shy cowboy's win made headlines around the world. Word has it that Neal has fulfilled his dream of buying a bigger ranch so that he and his horse can "go for a longer ride."



## Technology updates

Fiscal year 2009 brought the need for a new **video lottery central system** to maintain communication with existing and newly approved terminals into the future. Scientific Game's Advanced Entertainment Gaming and Information System (AEGIS) was selected because of the need to gain a perpetual proprietary license and the system's ability to operate multiple protocols. Site controllers, installed at establishments, will serve as communication gateways and terminal controllers.

A new **on-line gaming** contract was also in the works in fiscal year 2009. After extensive reviews of pricing and service options offered by vendors, GTECH was awarded the contract.

The contract includes new touch screen terminals, self-service ticket checkers, and LCD advertising screens.

The Lottery's website at [lottery.sd.gov](http://lottery.sd.gov) was also improved this year. The best feature of the new site is the increased ease of searching for past winning lotto numbers as well as enhanced navigability and more information for players and retailers.



## Blockbuster game offers \$250,000 prize

The \$20 Blockbuster game launched in fiscal year 2009 offered players the biggest top prize in Lottery history. The game offered 62,000 winning tickets and \$2.5 million in total prizes.

## Powerball changes

With the addition of Florida to the Powerball game group, changes in the game's matrix were adopted by the Lottery Commission on October 24, 2008. The changes included higher starting jackpots, faster growing jackpots, more winners and higher average jackpots.

The Match 5 Power Play prize increased to \$1 million. Powerball has been South Dakota's most popular lotto game since its inception, with sales reaching over \$217 million since 1992.



# Sales & Revenue

## Instant tickets



The Lottery launched 25 new instant ticket games during fiscal year 2009. At the close of the year, there were 651 licensed instant ticket retailers across the state. Sales were down 2.4 percent from the previous year.

## 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. At the end of the fiscal year, there were 537 licensed lotto retailers. Lotto games reported an overall decrease in sales of 4 percent from fiscal year 2008.



## 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) decreased 1 percent in fiscal year 2009. The average number of active video lottery machines during the year was 9,018, and the average number of licensed establishments was 1,388.

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 2009 Lottery revenue distributed to state funds was nearly \$120 million.

	<b>Sales</b>	<b>Prizes</b>	<b>Retailer Commissions</b>	<b>Revenue Distributed</b>
Instant Tickets	\$20,180,554	\$12,790,933	\$1,134,612	\$4,734,831
Lotto Tickets	\$20,864,968	\$10,527,701	\$1,220,383	\$5,928,086
Video Lottery**	\$652,965,073	\$432,839,841	\$110,062,616	\$109,220,990
			<b>Total:</b>	<b>\$119,883,907</b>

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

## Revenue Distribution

	<b>General Fund</b>	<b>Cap. Construct. Fund</b>	<b>Property Tax Reduction Fund</b>	<b>Dept. of Human Services</b>
Instant Tickets	\$4,734,831			
Lotto Tickets	\$1,400,000	\$4,528,086		
Video Lottery	\$45,000		\$108,961,990	\$214,000
<b>Totals:</b>	<b>\$6,179,831</b>	<b>\$4,528,086</b>	<b>\$108,961,990</b>	<b>\$214,000</b>



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

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 M. Michael Rounds  
Governor of South Dakota

and

South Dakota Lottery Commission  
State of South Dakota

We have audited the financial statements of the South Dakota Lottery Fund of the State of South Dakota as of and for the fiscal years ended June 30, 2007 and 2006 and have issued our report thereon dated January 16, 2008. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Dakota Lottery's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Lottery's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

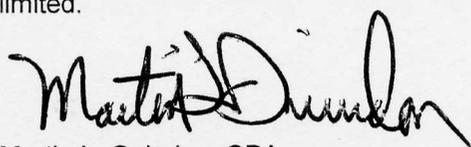
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Lottery Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of the South Dakota Lottery Fund in a separate letter dated January 16, 2008.

This report is intended solely for the information and use of management, members of the South Dakota Legislature, and the citizens of South Dakota and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA  
Auditor General

January 16, 2008



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable M. Michael Rounds  
Governor of South Dakota

and

South Dakota Lottery Commission  
State of South Dakota

We have audited the accompanying financial statements of the South Dakota Lottery Fund, as of and for the fiscal years ended June 30, 2007 and 2006, as listed in the Table of Contents. These financial statements are the responsibility of the South Dakota Lottery Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the South Dakota Lottery Fund are intended to present the financial position, and changes in financial position and cash flows, of the business type activities of the State that is attributable to the transactions of the South Dakota Lottery Fund. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Lottery Fund as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2008, 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 other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Martin L. Guindon, CPA  
Auditor General

January 16, 2008

SOUTH DAKOTA LOTTERY  
STATEMENT OF NET ASSETS  
*June 30, 2009 and 2008*

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current Assets:		
Cash	\$8,680,579	\$7,357,186
Accounts Receivable	5,203,921	5,458,547
Restricted Other Receivable	792,684	937,692
Interest Receivable	118,544	136,862
Certificates of Deposit	387,053	550,489
Securities Lending Collateral		650,796
Total Current Assets	15,182,781	15,091,572
Noncurrent Assets:		
Capital Assets less Accumulated Depreciation	32,157	15,131
<b>Total Assets</b>	<b>15,214,938</b>	<b>15,106,703</b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	237,111	343,035
Prizes Payable	1,175,118	1,266,088
Due to the Property Tax Reduction Fund	4,045,717	4,424,581
Due to the Capital Construction Fund	728,086	695,624
Due to the General Fund	934,831	343,568
Due to Other Funds	89,008	72,693
Due to Other Governments	10,000	
Operator Security Deposits	421,853	565,289
Escrows Payable-Reservation Sales	48,591	43,906
Accrued Liabilities	232,963	214,921
Deferred Revenue	235,348	184,191
Securities Lending Collateral Liability		650,796
Total Current Liabilities	8,158,626	8,804,692
Noncurrent Liabilities:		
Accrued Liabilities	119,444	112,546
<b>Total Liabilities</b>	<b>8,278,070</b>	<b>8,917,238</b>
<b>Net Assets</b>		
Invested in Capital Assets, net of Related Debt	32,157	15,131
Restricted for MUSL Permitted Uses	792,684	937,692
Unrestricted	6,112,027	5,236,642
<b>Total Net Assets</b>	<b>\$6,936,868</b>	<b>\$6,189,465</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, 2009 and 2008

	FY2009	FY2008
<b>Operating Revenues:</b>		
Video Lottery Revenue	\$110,062,616	\$112,330,605
Instant Ticket Sales	20,180,554	20,681,769
On-Line Ticket Sales	20,864,968	21,744,045
Terminal License Fees	1,031,200	1,019,100
Retailer License Fees	318,950	304,350
<b>Total Operating Revenue</b>	<b><u>152,458,288</u></b>	<b><u>156,079,869</u></b>
<b>Direct Game Costs:</b>		
Instant Prizes	12,790,933	12,871,055
On-Line Prizes	10,527,701	11,070,247
Instant Retail Commissions	1,134,612	1,159,190
On-Line Retail Commissions	1,220,383	1,200,450
Instant Ticket Print Costs	508,995	401,143
<b>Total Direct Costs</b>	<b><u>26,182,624</u></b>	<b><u>26,702,085</u></b>
<b>Gross Profit</b>	<b><u>126,275,664</u></b>	<b><u>129,377,784</u></b>
<b>Operating Expenses:</b>		
Personal Services and Benefits	1,471,838	1,400,488
Travel	144,709	138,693
Advertising	653,886	669,128
Contractual Services	4,175,752	4,251,476
Supplies and Materials	66,564	133,145
Depreciation	10,562	14,860
Bad Debt Expense	4,894	
Payments to Reservations	48,591	43,906
<b>Total Operating Expenses</b>	<b><u>6,576,796</u></b>	<b><u>6,651,696</u></b>
<b>Operating Income</b>	<b><u>119,698,868</u></b>	<b><u>122,726,088</u></b>
<b>Non-operating Revenues (Expenses):</b>		
Pooled Investment Income	805,815	869,883
Broker Rebate Expense	(5,141)	(66,194)
Non-operating Revenue from MUSL	101,792	150,653
Miscellaneous Revenue	29,976	9,999
<b>Total Non-operating Revenue (Expenses)</b>	<b><u>932,442</u></b>	<b><u>964,341</u></b>
<b>Income Before Transfers</b>	<b><u>120,631,310</u></b>	<b><u>123,690,429</u></b>
<b>Transfers:</b>		
Transfers to the Property Tax Reduction Fund	108,961,990	111,207,299
Transfers to the General Fund	6,179,831	7,088,568
Transfers to the Capital Construction Fund	4,528,086	4,795,624
Transfers to the Department of Human Services	214,000	214,000
<b>Total Transfers</b>	<b><u>119,883,907</u></b>	<b><u>123,305,491</u></b>
<b>Change in Net Assets</b>	<b><u>747,403</u></b>	<b><u>384,938</u></b>
Total Net Assets - Beginning	<u>6,189,465</u>	<u>5,804,527</u>
<b>Total Net Assets - Ending</b>	<b><u><u>\$6,936,868</u></u></b>	<b><u><u>\$6,189,465</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, 2009 and 2008

	<b>FY2009</b>	<b>FY2008</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers and Users	\$152,711,292	\$155,678,052
Payments for Lottery Prizes	(\$23,374,487)	(23,784,612)
Payments to Suppliers	(7,215,452)	(7,224,850)
Payments for Interfund Services Used	(751,139)	(831,554)
Payments for Employee Services	(1,446,898)	(1,381,963)
Other Receipts (Payments)	247,719	162,492
Net Cash Provided (Used) by Operating Activities	<u>120,171,035</u>	<u>122,617,565</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of Capital Assets	<u>(27,588)</u>	<u>(11,686)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(27,588)</u>	<u>(11,686)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers to Other Funds	<u>(119,639,046)</u>	<u>(123,402,678)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(119,639,046)</u>	<u>(123,402,678)</u>
<b>Cash Flows from Investing Activities</b>		
Pooled Investment Income	824,133	877,572
Security Lending Rebate Fees	<u>(5,141)</u>	<u>(66,194)</u>
Net Cash Provided (Used) by Investing Activities	<u>818,992</u>	<u>811,378</u>
Net Increase (Decrease) in Cash during the Fiscal Year	1,323,393	14,579
Cash at Beginning of Year	<u>7,357,186</u>	<u>7,342,607</u>
Cash at End of Year	<u><u>\$8,680,579</u></u>	<u><u>\$7,357,186</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income	\$119,698,868	\$122,726,088
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	10,562	14,860
Other Revenue	29,976	9,999
Non-operating Revenue from MUSL	101,792	150,653
<b>Decrease/(Increase) in Assets:</b>		
Accounts Receivable	249,732	(386,684)
Restricted Other Receivable	145,008	50,089
Certificates of Deposit	163,436	(119,959)
<b>Increase/(Decrease) in Liabilities:</b>		
Accounts Payable	(105,924)	(114,542)
Prizes Payable	(90,970)	91,766
Due to Other Funds	16,315	7,585
Due to Other Governments	10,000	
Operator Security Deposits	(143,436)	112,059
Escrows Payable	4,685	4,199
Allowance for Doubtful Accounts	4,894	
Accrued Liabilities	24,940	18,525
Deferred Revenue	51,157	52,927
Total Adjustments	<u>472,167</u>	<u>(108,523)</u>
Net Cash Provided by Operating Activities	<u><u>\$120,171,035</u></u>	<u><u>\$122,617,565</u></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, 2009 and 2008

**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 254 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 129 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 86. 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 follows all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. 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>2009</u>	<u>2008</u>
<i>Uncollected instant/on-line ticket revenues</i>	\$ 1,133,159	\$ 986,458
<i>Allowance for doubtful instant/on-line accounts</i>	(17,994)	(13,100)
<i>Uncollected video lottery revenues and fees</i>	4,088,756	4,485,189
	<u>\$5,203,921</u>	<u>\$5,458,547</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, 2009 and 2008, the amount of certificates of deposit being held by the Lottery was \$387,053 and \$550,489, respectively. The amount of \$6,253,100 and \$6,037,500, respectively, was in

SOUTH DAKOTA LOTTERY  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Years Ended June 30, 2009 and 2008

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, 2009 and 2008 were \$6,640,153 and \$6,587,989, 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 the net earnings from lending activities, which is then split on a percentage basis with the lending agent.

The contract with the lending agent requires the agent to indemnify the SDIC if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The program agreement allows all securities loans to 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 in a segregated collateral investment portfolio.

During fiscal year 2009, the SDIC suspended the securities lending program with the lending agent. None of the portfolios had securities on loan at June 30, 2009. As a result, the SDIC had no credit risk exposure to borrowers. At June 30, 2008, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The amount reported as Securities Lending Collateral of \$0 and \$650,796 and Securities Lending Collateral Liability of \$0 and \$650,796 on the Statement of Net Assets represents the Lottery's share of the SDIC total as of June 30, 2009 and 2008, 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 2009 and 2008:

	<u>2009</u>				<u>2008</u>			
	Beginning Balance	Additions	Deletions	Ending Balance	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 951,656	\$ 27,588	\$874,000	\$ 105,244	\$ 959,572	\$ 11,686	\$19,602	\$ 951,656
Less: Accumulated Depreciation	(936,525)	(10,562)	874,000	(73,087)	(941,267)	(14,860)	19,602	(936,525)
<b>Total Capital Assets</b>	<b>\$ 15,131</b>	<b>\$ 17,026</b>	<b>\$ -</b>	<b>\$ 32,157</b>	<b>\$ 18,305</b>	<b>\$ (3,174)</b>	<b>\$ -</b>	<b>\$ 15,131</b>

**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 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, 2009 and 2008 were \$426,211 for on-line prizes and \$464,646 for instant prizes, and \$448,389 for on-line prizes and \$327,477 for instant prizes, respectively.

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**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, 2009 and 2008, there was a liability to the Property Tax Reduction Fund in the amount of \$4,045,717 and \$4,424,581, 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 \$934,831 and \$343,568 and a liability for on-line ticket sales to the Capital Construction Fund in the amount of \$728,086 and \$695,624 as of June 30, 2009 and 2008, 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 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.

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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. Retailers who sell a Sizzler jackpot winning ticket or a \$30,000 winning ticket may receive a bonus of \$10,000 or \$3,000, respectively. 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, 2009 and 2008, a liability existed for accumulated annual leave calculated at the employee's June 30 pay rate in the amount of \$110,562 and \$101,229, 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, 2009 and 2008, a liability existed for accumulated sick leave, calculated at each employee's June 30 pay rate in the amount of \$143,033 and \$135,609, respectively. The following is a schedule of changes in compensated absences at June 30, 2009 and 2008.

	<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 2009</i>	\$ 236,838	\$ 140,115	\$ 123,358	\$ 253,595	\$ 134,151
<i>Fiscal Year 2008</i>	225,671	136,893	125,726	236,838	124,292

**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.

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, 2009, 2008, and 2007 were \$68,000, \$64,194, and \$63,376, respectively, equal to the required contributions each year.

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**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, 2009:

<u>Period Ending June 30:</u>	
2010	\$ 115,895
2011	122,549
2012	112,379
2013	7,521
2014	0
Total Minimum Payments	<u>\$358,344</u>

Total rental expense for all operating leases for the fiscal years ended June 30, 2009 and 2008, was \$120,638 and \$120,037, respectively.

**NOTE 5. VIDEO LOTTERY**

Following is a summary of video lottery revenues for the fiscal years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash In	\$ 652,965,073	\$ 661,838,490
Less Cash Out	<u>432,839,841</u>	<u>437,177,280</u>
Video Lottery Net Machine Income	220,125,232	224,661,210
Less Operator and Establishment Share	<u>110,062,616</u>	<u>112,330,605</u>
Video Lottery Revenue Available to the State	110,062,616	112,330,605
Less Lottery Operating Share	<u>1,100,626</u>	<u>1,123,306</u>
Video Lottery Revenue to the Property Tax Reduction Fund	<u>\$ 108,961,990</u>	<u>\$ 111,207,299</u>

**NOTE 6. TRANSFERS**

Following is a summary of total transfers for the fiscal years ended June 30, 2009 and 2008:

Transfers Out:	<u>2009</u>	<u>2008</u>
General Fund Proceeds from Instant and On-Line	\$ 5,200,000	\$ 6,200,000
Capital Construction Fund Proceeds from On-Line	3,800,000	4,100,000
General Fund Proceeds from Instant and On-line not Yet Transferred	934,831	343,568
Capital Construction Fund Proceeds from On-Line not Yet Transferred	728,086	695,624
Video Lottery Proceeds Transferred to the Property Tax Reduction Fund	104,916,273	106,782,718
Video Lottery Proceeds to Prop. Tax Reduction Fund not Yet Transferred	4,045,717	4,424,581
Video Lottery Proceeds Transferred to the General Fund (One-time)		500,000
Video Lottery Grant to Department of Human Services	214,000	214,000
Video Lottery Fees Transferred to the General Fund	<u>45,000</u>	<u>45,000</u>
Total Transfers Out	<u>\$119,883,907</u>	<u>\$123,305,491</u>

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**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 49.5 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, 1.5 percent for Sizzler, and .5 percent for Power Play 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, 2009 and 2008, the MUSL Powerball prize reserve fund had a balance of \$77,182,537 and \$73,237,975, respectively, of which the South Dakota Lottery's share was \$449,601 and \$412,179, respectively. The set prize reserve fund had a balance of \$27,790,601 and \$25,000,000, respectively, of which the South Dakota Lottery's share was \$148,585 and \$145,700, respectively. The Wild Card 2 prize reserve fund had a balance of \$955,598 and \$925,302, respectively, of which the South Dakota Lottery's share was \$176,486 and \$170,896, respectively. The Hot Lotto prize reserve fund had a balance of \$5,443,110 and \$4,191,108, respectively, of which the South Dakota Lottery's share was \$220,032 and \$172,244, 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 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. The Wild Card 2 jackpot is paid in cash, and will be divided equally 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, 2009 and 2008, 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.

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**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.