

# **REPORT OF THE AUDIT OF THE KENTUCKY LOTTERY CORPORATION**

**For The Years Ended  
June 30, 2025 and 2024**



**ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS  
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ALLISON BALL  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Andy Beshear, Governor

Honorable Robert Stivers, President, Kentucky Senate

Honorable David Osborne, Speaker of the House, Kentucky House of Representatives

Board of Directors, Kentucky Lottery Corporation

The enclosed report prepared by Cherry Bekaert, LLP presents the financial and compliance audit of the books and records of the Kentucky Lottery Corporation for the years ended June 30, 2025 and 2024, as required by KRS 154A.130.

We engaged Cherry Bekaert, LLP to perform the audit in accordance with auditing standards generally accepted in the United States of America. We worked closely with the firm during our report review process.

Respectfully Submitted

A handwritten signature in cursive script that reads "Allison Ball".

Allison Ball

Auditor of Public Accounts

Frankfort, KY

Enclosure

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***Financial Report***

***June 30, 2025 and 2024***

KENTUCKY LOTTERY CORPORATION

ANNUAL FINANCIAL REPORT

June 30, 2025 and 2024

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## **Report of Independent Auditor**

To the Auditor of Public Accounts,  
the Commonwealth of Kentucky, and  
the Board of Directors of the Kentucky Lottery Corporation  
Louisville, Kentucky

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the Kentucky Lottery Corporation (the “KLC”), a component unit of the Commonwealth of Kentucky, as of and for the fiscal years ended June 30, 2025 and 2024, and the related notes to financial statements, which collectively comprise the KLC’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KLC as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 KLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the KLC’s ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor’s Responsibilities 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 generally accepted auditing standards 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 generally accepted auditing standards 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 KLC'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the KLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2025, on our consideration of the KLC'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 KLC'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 the KLC's internal control over financial reporting and compliance.

*Cherry Bekaert LLP*

Lexington, Kentucky  
September 26, 2025

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

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Our discussion of the Kentucky Lottery Corporation's ("KLC") financial performance provides an overview of the KLC's financial activities for the fiscal years ended June 30, 2025 and 2024. Please read it in conjunction with the financial statements, which follow.

**Financial Highlights for Fiscal Year 2025**

- Record operating revenues of \$2.156 billion were achieved in 2025, an increase of \$58.4 million or 2.8 percent over last year's previous sales record of \$2.098 billion. Fiscal year 2025 represents the fourteenth consecutive year of record sales for the KLC.
- Sales at retail totaled \$1.328 billion and accounted for 61.6 percent of total sales. iLottery sales totaled \$828.5 million and made up the remaining 38.4 percent of sales for the year.
- Instant sales totaled \$914.2 million, which is a \$26.6 million decrease from last year. A total of 53 new games were launched in 2025. The decline in sales can be attributed to lower retail foot traffic, economic instability, and increased competition.
- Draw sales decreased \$79.0 million to \$443.2 million. Mega Millions and Powerball games accounted for most of the decrease in sales, collectively decreasing \$61.3 million over last year. The decrease in Mega Millions and Powerball sales can be attributed to fewer large jackpots during the year compared to a record number in the previous year. In fiscal year 2025, there was one Mega Millions jackpot over \$1 billion and no Powerball jackpots at this level. By comparison, there were five jackpots that exceeded \$1 billion for these games the previous year.
- iLottery instant play sales hit a record \$798.9 million. This was a \$164.0 million or 25.8 percent increase over last year.
- Prize payments to players hit a record \$1.6 billion.
- Operating expenses totalled \$39.3 million which accounted for a record low 1.8 percent of sales.
- Dividend transfers to the state totaled \$382.5 million, a decrease of \$22.9 million or 5.7 percent over last year. The decline in draw sales, which have lower prize payouts than other products, impacted profitability for the year.

The KLC is accounted for as an enterprise fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting much like a private business activity. As such, this annual financial report consists of a series of financial statements, along with explanatory notes to financial statements.

To assess the KLC's financial position and financial health, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth on the Statements of Net Position, and in changes in operating revenues and expenses as set forth in the Statements of Revenues, Expenses, and Changes in Net Position.

**Total Assets**

Total assets consist primarily of cash and equivalents, investments, accounts receivable, right-to-use lease assets, owned capital assets and deposits. As shown in Table 1, the KLC's total assets decreased \$9.9 million to \$138.2 million in 2025. Total assets increased \$12.6 million to \$148.1 million in 2024 from \$135.5 million in 2023. Investments consist of U.S. Treasury zero-coupon bonds and other U.S. Government backed securities carried at fair value. Accounts receivable represent revenue to be collected primarily from the sale of draw and instant game tickets. Accounts receivable decreased \$5.2 million to \$77.9 million in 2025. Accounts receivable increased \$13.9 million to \$83.1 million in 2024. Additional information on accounts receivable can be found in footnote 5 in the financial statements.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Capital Assets**

The KLC's investment in capital assets, net of accumulated depreciation and right-to-use amortization in 2025 and 2024, was \$6.2 and \$8.9 million, respectively. The investment in capital assets includes buildings, game equipment, data processing equipment and software, automobiles, furniture and fixtures, and right-to-use lease assets. The total decrease in the KLC's investment in capital assets for 2025 was \$2.7 million or 30.3 percent compared to a decrease of \$2.2 million or 19.8 percent in 2024. Additional information on the KLC's investment in capital assets can be found in Note 6 to the financial statements. Right-to-use lease assets represent equipment leases. Additional information on the KLC's lease can be found in Note 10 to the financial statements.

**TABLE 1**  
**NET POSITION**  
**(In millions)**

|                                                              | <b>2025</b>    | <b>Increase<br/>(Decrease)</b> | <b>2024</b>    | <b>Increase<br/>(Decrease)</b> | <b>2023</b>    |
|--------------------------------------------------------------|----------------|--------------------------------|----------------|--------------------------------|----------------|
| Current and other assets                                     | \$ 121.0       | \$ (6.3)                       | \$ 127.3       | \$ 16.4                        | \$ 110.9       |
| Investments (noncurrent)                                     | 6.4            | (0.8)                          | 7.2            | (1.3)                          | 8.5            |
| Capital assets                                               |                |                                |                |                                |                |
| Owned assets                                                 | 4.5            | (0.3)                          | 4.8            | 0.4                            | 4.4            |
| Right-of-use lease Assets                                    | <u>1.7</u>     | <u>(2.4)</u>                   | <u>4.1</u>     | <u>(2.6)</u>                   | <u>6.7</u>     |
| Capital assets, net                                          | 6.2            | (2.7)                          | 8.9            | (2.2)                          | 11.1           |
| Deposits with Multi State Lottery Association                | <u>4.6</u>     | <u>(0.1)</u>                   | <u>4.7</u>     | <u>(0.3)</u>                   | <u>5.0</u>     |
| Total assets                                                 | <u>138.2</u>   | <u>(9.9)</u>                   | <u>148.1</u>   | <u>12.6</u>                    | <u>135.5</u>   |
| Current liabilities                                          | 114.2          | (8.1)                          | 122.3          | 16.5                           | 105.8          |
| Noncurrent liabilities                                       | <u>7.4</u>     | <u>(1.9)</u>                   | <u>9.3</u>     | <u>(3.5)</u>                   | <u>12.8</u>    |
| Total liabilities                                            | <u>121.6</u>   | <u>(10.0)</u>                  | <u>131.6</u>   | <u>13.0</u>                    | <u>118.6</u>   |
| Net position components                                      |                |                                |                |                                |                |
| Net investment in capital assets                             | 4.5            | (0.3)                          | 4.8            | 0.4                            | 4.4            |
| Unrestricted - accumulated<br>unrealized loss on investments | (0.6)          | 0.0                            | (0.6)          | (0.4)                          | (0.2)          |
| Unrestricted                                                 | <u>12.6</u>    | <u>0.3</u>                     | <u>12.3</u>    | <u>(0.4)</u>                   | <u>12.7</u>    |
| Net position                                                 | <u>\$ 16.5</u> | <u>\$ 0.0</u>                  | <u>\$ 16.5</u> | <u>\$ (0.4)</u>                | <u>\$ 16.9</u> |

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Liabilities**

**TABLE 2**  
**LIABILITIES**  
**(In millions)**

|                                        | Current                |                        |                        | Noncurrent           |                      |                       |
|----------------------------------------|------------------------|------------------------|------------------------|----------------------|----------------------|-----------------------|
|                                        | 2025                   | 2024                   | 2023                   | 2025                 | 2024                 | 2023                  |
| Accounts payable and other liabilities | \$ 12.5                | \$ 12.5                | \$ 11.4                | \$ 0.5               | \$ 0.5               | \$ 0.6                |
| Prize liabilities                      | 87.1                   | 92.2                   | 77.6                   | 7.0                  | 7.9                  | 8.8                   |
| Due to Commonwealth                    | 12.9                   | 14.4                   | 13.5                   | 0.0                  | 0.0                  | 0.0                   |
| Lease Liabilities                      | <u>1.7</u>             | <u>3.2</u>             | <u>3.3</u>             | <u>0.0</u>           | <u>0.9</u>           | <u>3.4</u>            |
| <b>Total liabilities</b>               | <b><u>\$ 114.2</u></b> | <b><u>\$ 122.3</u></b> | <b><u>\$ 105.8</u></b> | <b><u>\$ 7.5</u></b> | <b><u>\$ 9.3</u></b> | <b><u>\$ 12.8</u></b> |

Total current liabilities decreased \$8.1 million or 6.6 percent in 2025 and \$16.5 million or 15.6 percent in 2024. The account titled "Due to Commonwealth" decreased \$1.5 million in 2025 and increased \$900,000 in 2024. This represents payments due to the General Fund, Trust and Agency, and the Kentucky Educational Excellence Scholarship Reserve Account after the fiscal year-end.

Noncurrent liabilities decreased \$1.8 million or 19.4 percent in 2025 and decreased \$3.5 million or 27.3 percent in 2024. Noncurrent liabilities consist principally of prize liabilities for prizes paid in installments over several years and the noncurrent portion of accrued compensated absences. More detailed information can be obtained in Note 8 to the financial statements. Lease liabilities represent the present value of future payments related to equipment leases. Additional information on the KLC's lease can be found in Note 10 to the financial statements.

**Net Position**

As shown in Table 1 on page 4, the KLC's net position in 2025 remained unchanged from the previous year. Total net position of \$16.5 million included the KLC's net investment in capital assets of \$4.5 million and \$12.0 million in unrestricted net position. Unrestricted net position was comprised of \$600,000 in accumulated unrealized loss on investments and \$12.6 million in working capital and cash flow that is utilized in the KLC's day-to-day operations. In 2024, the KLC's net position decreased \$0.4 million to \$16.5 million due to the increase in current prize liabilities.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Net Position (Continued)**

**TABLE 3**  
**CHANGES IN NET POSITION**  
**(In millions)**

|                                              | <b><u>2025</u></b> | <b><u>Increase<br/>(Decrease)</u></b> | <b><u>2024</u></b> | <b><u>Increase<br/>(Decrease)</u></b> | <b><u>2023</u></b> |
|----------------------------------------------|--------------------|---------------------------------------|--------------------|---------------------------------------|--------------------|
| Operating revenues                           |                    |                                       |                    |                                       |                    |
| Instant games                                | \$ 914.2           | \$ (26.6)                             | \$ 940.8           | \$ (2.7)                              | \$ 943.5           |
| Draw games                                   | 443.2              | (79.0)                                | 522.2              | 18.7                                  | 503.5              |
| iLottery instant play games                  | 798.9              | 164.0                                 | 634.9              | 240.9                                 | 394.0              |
| Total operating revenues                     | \$ 2,156.3         | \$ 58.4                               | \$ 2,097.9         | \$ 256.9                              | \$ 1,841.0         |
| Direct costs and operating expenses:         |                    |                                       |                    |                                       |                    |
| Direct costs                                 |                    |                                       |                    |                                       |                    |
| Prize expense                                | 1,600.4            | 83.6                                  | 1,516.8            | 224.7                                 | 1,292.1            |
| Other direct costs                           | 136.2              | (2.3)                                 | 138.5              | 8.2                                   | 130.3              |
| Total direct costs                           | 1,736.6            | 81.3                                  | 1,655.3            | 232.9                                 | 1,422.4            |
| Operating expenses                           | 39.3               | (1.1)                                 | 40.4               | 3.9                                   | 36.5               |
| Total direct costs and<br>operating expenses | 1,775.9            | 80.2                                  | 1,695.7            | 236.8                                 | 1,458.9            |
| Non-operating expense (revenue)              | (2.1)              | 0.6                                   | (2.7)              | (1.1)                                 | (1.6)              |
| Payments to the Commonwealth<br>of Kentucky  | 382.5              | (22.9)                                | 405.4              | 21.2                                  | 384.2              |
| Total expenses                               | 2,156.3            | 57.9                                  | 2,098.4            | 256.9                                 | 1,841.5            |
| Changes in net position                      | -                  | 0.5                                   | (0.5)              | -                                     | (0.5)              |
| Net position at beginning of year            | 16.5               | (0.5)                                 | 17.0               | (0.5)                                 | 17.5               |
| Net position at end of year                  | \$ 16.5            | \$ (0.0)                              | \$ 16.5            | \$ (0.5)                              | \$ 17.0            |

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

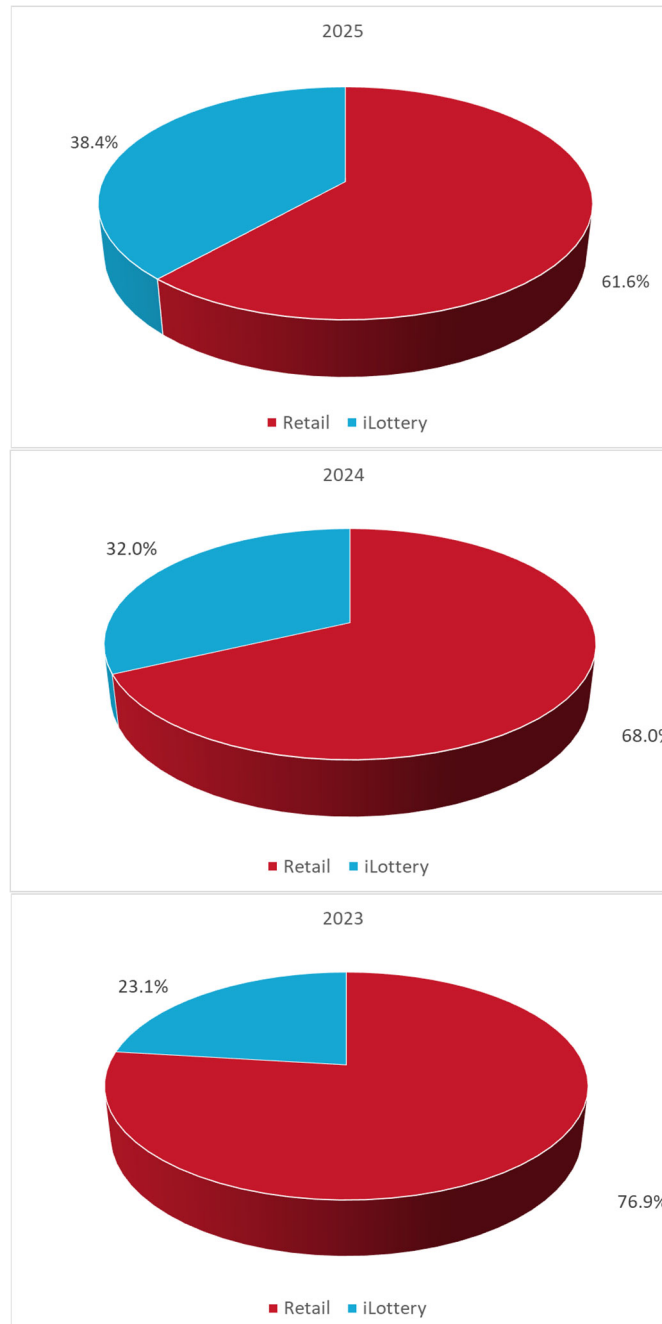
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**Operating Revenues and Prize Expense**

**Operating Revenues**

In 2025, operating revenues consisted of ticket sales from two channels, retail and iLottery, and three product categories, instant, draw, and iLottery instant play. In 2025, the KLC generated record ticket sales of \$2.156 billion, an increase of \$58.4 million or 2.8 percent when compared to 2024. In 2024, the KLC generated ticket sales of \$2.098 billion, an increase of \$256.9 million or 14 percent when compared to 2023.

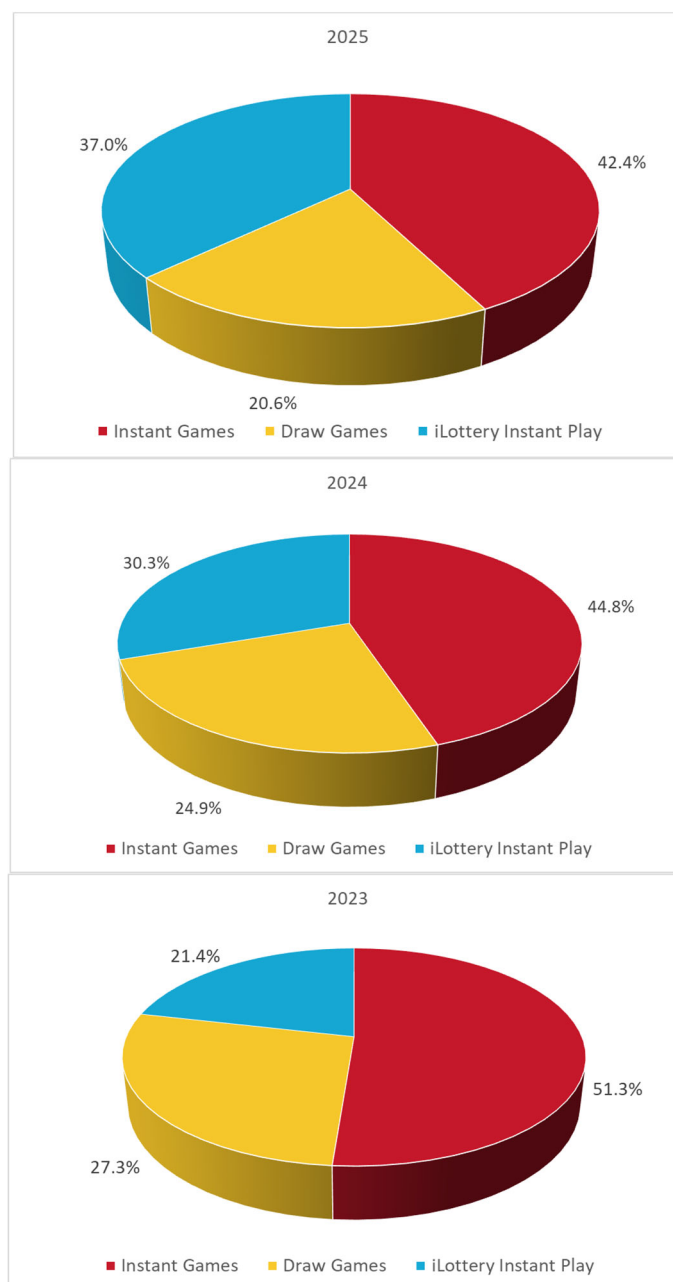
**SALES BY CHANNEL AS A PERCENT OF SALES**



KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

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**SALES BY PRODUCT CATEGORY AS A PERCENT OF SALES**

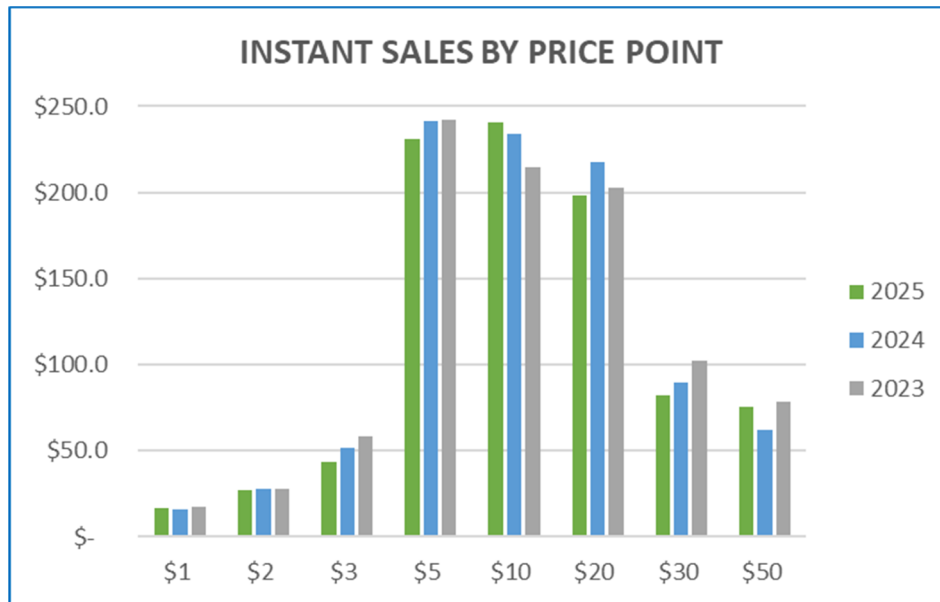


KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Instant Games**

Table 4 and the accompanying chart compares sales for each instant game price point for 2025, 2024, and 2023.

| Price Point | 2025     |            |                     | 2024     |            |                     | 2023     |            |
|-------------|----------|------------|---------------------|----------|------------|---------------------|----------|------------|
|             | Sales    | % of Total | Increase (Decrease) | Sales    | % of Total | Increase (Decrease) | Sales    | % of Total |
| \$1         | \$ 16.8  | 1.8%       | \$ 0.7              | \$ 16.1  | 1.7%       | \$ (1.0)            | \$ 17.1  | 1.8%       |
| \$2         | 26.9     | 2.9%       | (1.3)               | 28.2     | 3.0%       | 0.3                 | 27.9     | 3.0%       |
| \$3         | 43.1     | 4.7%       | (8.8)               | 51.9     | 5.5%       | (6.1)               | 58.0     | 6.1%       |
| \$5         | 231.1    | 25.3%      | (10.4)              | 241.5    | 25.7%      | (0.7)               | 242.2    | 25.7%      |
| \$10        | 240.5    | 26.3%      | 6.7                 | 233.8    | 24.8%      | 19.1                | 214.7    | 22.7%      |
| \$20        | 198.0    | 21.7%      | (19.6)              | 217.6    | 23.1%      | 14.9                | 202.7    | 21.5%      |
| \$30        | 82.2     | 9.0%       | (7.7)               | 89.9     | 9.6%       | (12.7)              | 102.6    | 10.9%      |
| \$50        | 75.6     | 8.3%       | 13.8                | 61.8     | 6.6%       | (16.5)              | 78.3     | 8.3%       |
| Totals      | \$ 914.2 | 100.0%     | \$ (26.6)           | \$ 940.8 | 100.0%     | \$ (2.7)            | \$ 943.5 | 100.0%     |



KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

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**Instant Games (Continued)**

KLC instant ticket sales of \$914.2 million were achieved in 2025 and accounted for 42.4 percent of all KLC sales, a decrease of \$26.6 million or 2.8 percent from 2024. Instant ticket sales of \$940.8 million were achieved in 2024 and accounted for 44.8 percent of all KLC sales, a decrease of \$2.7 million or 0.3 percent from 2023.

Sales decreased in 2025 within the instant product category at all but three price points. Like other consumer products, lottery sales, specifically scratch-off sales, were impacted by the economy and an increase competition for the consumers disposable income. See Table 4 for all price point sales and changes from prior year.

Sales also decreased in 2024 within the instant product category at all but three price points, for the same reasons noted above. See Table 4 for all price point sales and changes from prior year.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Draw Games**

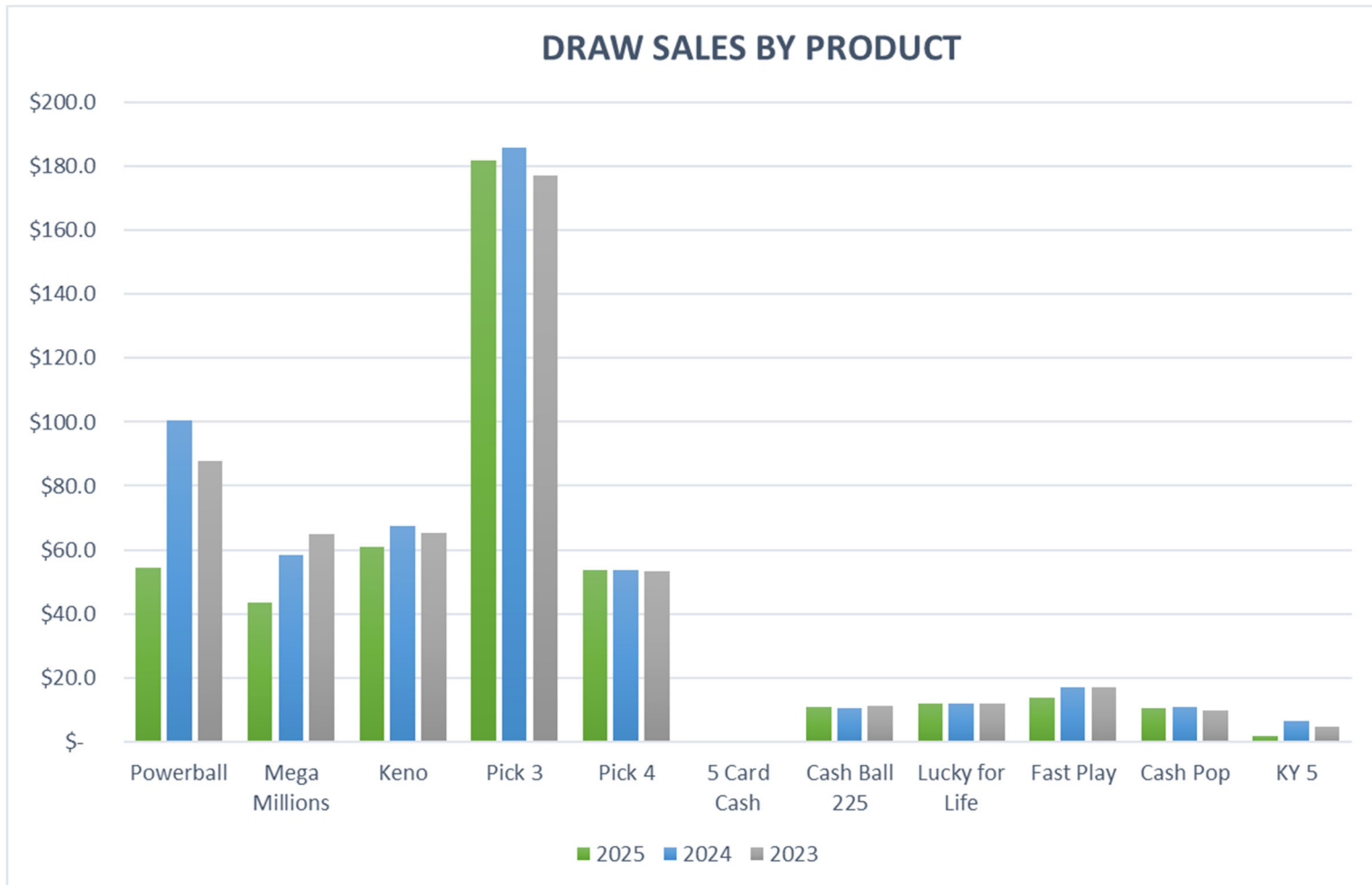
Table 5 and the accompanying chart compares draw sales by product for 2025, 2024, 2023.

**TABLE 5**  
**DRAW SALES BY PRODUCT**  
**(In millions)**

| <b>Product</b> | <b>2025</b>     |                   |                            | <b>2024</b>     |                   |                            | <b>2023</b>     |                   |  |
|----------------|-----------------|-------------------|----------------------------|-----------------|-------------------|----------------------------|-----------------|-------------------|--|
|                | <b>Sales</b>    | <b>% of Total</b> | <b>Increase (Decrease)</b> | <b>Sales</b>    | <b>% of Total</b> | <b>Increase (Decrease)</b> | <b>Sales</b>    | <b>% of Total</b> |  |
| Powerball      | \$ 54.3         | 12.2%             | \$ (46.3)                  | \$ 100.6        | 19.3%             | \$ 12.7                    | \$ 87.9         | 17.5%             |  |
| Mega Millions  | 43.4            | 9.8%              | (15.0)                     | 58.4            | 11.2%             | (6.6)                      | 65.0            | 12.9%             |  |
| Keno           | 61.0            | 13.8%             | (6.4)                      | 67.4            | 12.9%             | 2.0                        | 65.4            | 13.0%             |  |
| Pick 3         | 181.8           | 41.1%             | (3.8)                      | 185.6           | 35.6%             | 8.4                        | 177.2           | 35.2%             |  |
| Pick 4         | 53.8            | 12.1%             | 0.3                        | 53.5            | 10.2%             | 0.2                        | 53.3            | 10.6%             |  |
| Cash Ball 225  | 10.7            | 2.4%              | 0.1                        | 10.6            | 2.0%              | (0.7)                      | 11.3            | 2.2%              |  |
| Lucky for Life | 12.0            | 2.7%              | 0.2                        | 11.8            | 2.3%              | (0.1)                      | 11.9            | 2.4%              |  |
| Fast Play      | 13.8            | 3.1%              | (3.1)                      | 16.9            | 3.2%              | (0.2)                      | 17.1            | 3.4%              |  |
| Cash Pop       | 10.6            | 2.4%              | (0.4)                      | 11.0            | 2.1%              | 1.2                        | 9.8             | 1.9%              |  |
| KY 5           | 1.8             | 0.4%              | (4.6)                      | 6.4             | 1.2%              | 1.8                        | 4.6             | 0.9%              |  |
| <b>Totals</b>  | <b>\$ 443.2</b> | <b>100.0%</b>     | <b>\$ (79.0)</b>           | <b>\$ 522.2</b> | <b>100.1%</b>     | <b>\$ 18.7</b>             | <b>\$ 503.5</b> | <b>100.0%</b>     |  |

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Draw Games (Continued)**



Draw sales were \$443.2 million in 2025, a decrease of \$79 million or 15.1 percent when compared to 2024. Draw games sales accounted for 20.6 percent of all of 2025 sales, and consisted of Powerball, Mega Millions, Keno, Pick 3, Pick 4, Cash Ball 225, Lucky for Life, Fast Play, Cash Pop, and Kentucky 5.

Draw sales were \$522.2 million in 2024, an increase of \$18.7 million or 3.7 percent when compared to 2023. Draw games sales accounted for 24.9 percent of all of 2024 sales, and consisted of Powerball, Mega Millions, Keno, Pick 3, Pick 4, Cash Ball 225, Lucky for Life, Fast Play, Cash Pop, and Kentucky 5.

Sales increases were recognized in Pick 4, Cash Ball 225, and Lucky for Life when compared to 2024.

Sales decreases were recognized in all Powerball, Mega Millions, Keno, Pick 3, Fast Play, and Cash Pop. The Kentucky 5 game ended in November 2024.

**iLottery Instant Play Games**

iLottery instant play 2025 sales were \$798.9 million, an increase of \$164 million when compared to the \$634.9 million achieved in 2024. iLottery instant play sales accounted for 37 percent of all 2025 sales and 30.3 percent of all 2024 sales. Instant play games consist of a variety of play styles, categories, and price points, ranging from \$0.10 to \$50.00.

KENTUCKY LOTTERY CORPORATION  
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**Prize Expense**

In general, prize expense by game should increase or decrease from year-to-year in proportion to the increase or decrease in sales for a particular game. However, except for the instant game product category, prize expense is also impacted by the luck of the draw. Prize expense for the instant game product category is controllable, to a large degree, by printing a predetermined number and value of winning tickets in the production of each instant game. Payouts range from 62 percent to 80 percent, depending on the game price point. Prize expense for draw games is not predetermined. While each of the draw games is designed to yield a certain ratio of prizes to sales revenue over a large number of drawings, actual prize payout is determined by lottery players' luck in matching the particular set of numbers randomly selected in each drawing for each game. Prize expense for iLottery instant play games is designed to yield a certain percent of prizes to sales revenue. The actual prize payout is determined at the time these games are played and the outcome is revealed. Actual prize payout may vary from the designed payout.

The following is a discussion of prize expense within certain product categories. With that background, Table 6 compares the actual gross payout percentages for 2025, 2024, and 2023.

**TABLE 6**  
**GROSS PRIZE PAYOUT PERCENTAGES**  
**ALL PRODUCTS**

|                                     | <b>ACTUAL<br/>2025</b> | <b>ACTUAL<br/>2024</b> | <b>ACTUAL<br/>2023</b> |
|-------------------------------------|------------------------|------------------------|------------------------|
| Instant Games                       | 72.1%                  | 71.7%                  | 71.9%                  |
| Draw Games:                         |                        |                        |                        |
| Powerball                           | 50.4%                  | 49.8%                  | 50.1%                  |
| Mega Millions                       | 50.7%                  | 49.7%                  | 50.1%                  |
| Keno                                | 66.3%                  | 65.7%                  | 65.1%                  |
| Pick 3                              | 59.4%                  | 61.8%                  | 58.1%                  |
| Pick 4                              | 51.2%                  | 48.7%                  | 46.7%                  |
| Cash Ball 225                       | 52.1%                  | 64.8%                  | 59.8%                  |
| Lucky for Life                      | 59.9%                  | 59.8%                  | 63.5%                  |
| Fast Play                           | 69.3%                  | 69.5%                  | 70.6%                  |
| Cash Pop                            | 67.6%                  | 67.7%                  | 66.4%                  |
| Kentucky 5                          | 57.8%                  | 52.8%                  | 53.6%                  |
| Draw Games                          | 57.7%                  | 57.6%                  | 56.2%                  |
| iLottery Instant Play               | 87.3%                  | 87.2%                  | 86.6%                  |
| Total Gross Prize Payout Percentage | 74.7%                  | 72.9%                  | 70.8%                  |
| Less: Unclaimed Prizes              | -0.5%                  | -0.6%                  | -0.6%                  |
| Total Prize Payout Percentage       | 74.2%                  | 72.3%                  | 70.2%                  |

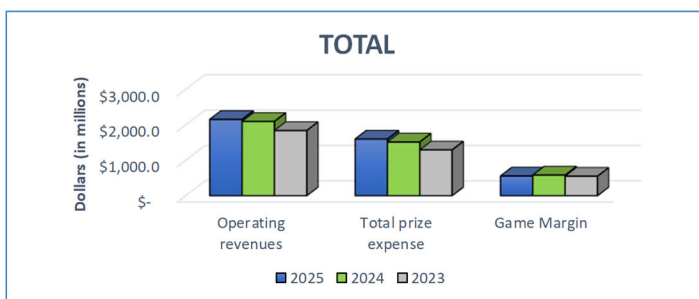
KENTUCKY LOTTERY CORPORATION  
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**Game Margin for Total Products**

Table 7 and the accompanying chart compares game margin for total products for 2025, 2024, and 2023. Game margin is operating revenues less total prize expense.

TABLE 7  
GAME MARGIN FOR TOTAL PRODUCTS  
(In millions)

| Total Products         |            |            |            |  |
|------------------------|------------|------------|------------|--|
|                        | 2025       | 2024       | 2023       |  |
| Operating revenues     | \$ 2,156.3 | \$ 2,097.9 | \$ 1,841.0 |  |
| Gross prize expense    | 1,612.0    | 1,529.2    | 1,302.8    |  |
| Less: unclaimed prizes | (11.6)     | (12.4)     | (10.7)     |  |
| Total prize expense    | 1,600.4    | 1,516.8    | 1,292.1    |  |
| Game margin            | \$ 555.9   | \$ 581.1   | \$ 548.9   |  |



For 2025, gross prize expense (excluding unclaimed prizes) of \$1.612 billion, reflects a \$82.8 million or 5.4 percent increase from 2024 of \$1.529 billion.

Total prize expense in 2025 was \$1.600 billion or 74.2 percent of total operating revenues compared to \$1.517 billion or 72.3 percent in 2024.

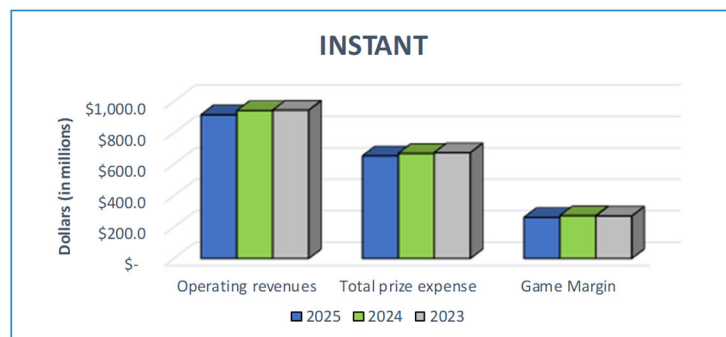
Total game margin in 2025 decreased to \$555.9 or 25.8 percent of total operating revenues compared to \$581.1 million or 27.7 percent of total operating revenues in 2024. The decrease in total game margin is \$25.2 million or 4.3 percent less than in 2024.

**Game Margin for Instant Games**

Table 8 and the accompanying chart compares game margin for instant games 2025, 2024, and 2023.

TABLE 8  
GAME MARGIN FOR INSTANT GAMES  
(In millions)

| Instant Games          |          |          |          |  |
|------------------------|----------|----------|----------|--|
|                        | 2025     | 2024     | 2023     |  |
| Operating revenues     | \$ 914.2 | \$ 940.8 | \$ 943.5 |  |
| Gross prize expense    | 658.8    | 674.8    | 678.6    |  |
| Less: unclaimed prizes | (6.0)    | (6.2)    | (5.4)    |  |
| Total prize expense    | 652.8    | 668.6    | 673.2    |  |
| Game margin            | \$ 261.4 | \$ 272.2 | \$ 270.3 |  |



In 2025, gross prize expense for instant games decreased to \$658.8 million or 72.1 percent of total instant game operating revenues compared to 71.7 percent in 2024.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2025 and 2024

**Game Margin for Instant Games (Continued)**

Total prize expense for instant games decreased to \$652.8 million or 71.4 percent of total instant game operating revenues compared to \$668.6 million or 71.1 percent in 2024.

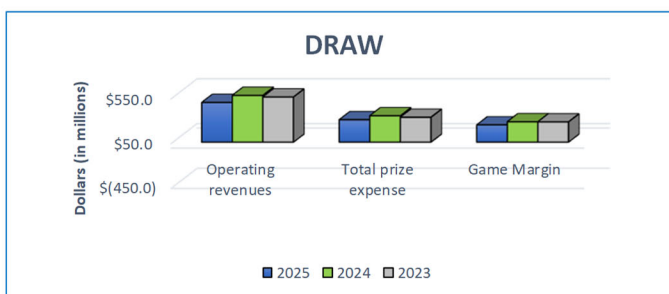
Game margin for instant games decreased to \$261.4 million or 28.6 percent of operating revenues for instant games compared to \$272.2 million or 28.9 percent in 2024. This decrease in game margin is \$10.8 million or 4 percent less than 2024.

**Game Margin for Draw Games**

Table 9 and the accompanying chart compares game margin for draw games for 2025, 2024, and 2023.

TABLE 9  
GAME MARGIN FOR DRAW GAMES  
(In millions)

| Draw Games             |          |          |          |
|------------------------|----------|----------|----------|
|                        | 2025     | 2024     | 2023     |
| Operating revenues     | \$ 443.2 | \$ 522.2 | \$ 503.5 |
| Gross prize expense    | 255.8    | 300.7    | 283.0    |
| Less: unclaimed prizes | (5.5)    | (6.2)    | (5.3)    |
| Total prize expense    | 250.3    | 294.5    | 277.7    |
| Game margin            | \$ 192.9 | \$ 227.7 | \$ 225.8 |



In 2025, gross prize expense for draw games was \$255.8 million or 57.7 percent of operating revenues for draw games compared to \$300.7 million or 57.6 percent in 2024.

Total prize expense for draw games decreased to \$250.3 million or 56.5 percent of operating revenues for draw games in 2025 compared to \$294.5 million or 56.4 percent in 2024.

Game margin decreased to \$192.9 million or 43.5 percent of operating revenues for draw games in 2025 compared to \$227.7 million or 43.6 percent in 2024. This decrease in game margin is a \$34.8 million or 15.3 percent decrease from 2024.

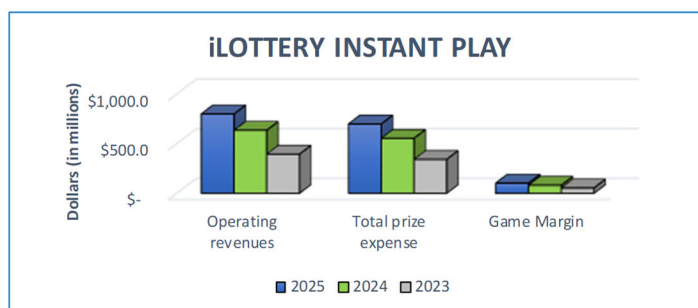
KENTUCKY LOTTERY CORPORATION  
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June 30, 2025 and 2024

**Game Margin for iLottery Instant Play Games**

Table 10 and the accompanying chart compares operating revenues, prize expense, and game margin for iLottery instant play games for 2025, 2024, and 2023.

**TABLE 10**  
**GAME MARGIN FOR ILOTTERY INSTANT PLAY GAMES**  
(In millions)

| iLottery Instant Play Games |          |          |          |  |
|-----------------------------|----------|----------|----------|--|
|                             | 2025     | 2024     | 2023     |  |
| Operating revenues          | \$ 798.9 | \$ 634.9 | \$ 394.0 |  |
| Gross prize expense         | 697.4    | 553.7    | 341.2    |  |
| Less: unclaimed prizes      | (0.1)    | 0.0      | 0.0      |  |
| Total prize expense         | 697.3    | 553.7    | 341.2    |  |
| Game margin                 | \$ 101.6 | \$ 81.2  | \$ 52.8  |  |



In 2025, net prize expense for iLottery instant play games was \$697.4 million or 87.3 percent of operating revenues for iLottery instant play games compared to \$553.7 million or 87.2 percent in 2024.

Game margin for iLottery instant play games increased to \$101.6 million or 12.7 percent of operating revenues for iLottery instant play games in 2025 compared to \$81.2 million or 12.8 percent 2024. This increase in game margin is \$20.4 million or 25.1 percent more than 2024.

**Other Expenses**

**TABLE 11**  
**OTHER DIRECT COSTS, OPERATING, AND NON-OPERATING (REVENUE) EXPENSE**  
(In millions)

|                                        | 2025    | Increase<br>(Decrease) | 2024    | Increase<br>(Decrease) | 2023    |
|----------------------------------------|---------|------------------------|---------|------------------------|---------|
| Payments to retailers                  | \$ 82.0 | \$ (5.4)               | \$ 87.4 | \$ 3.0                 | \$ 84.4 |
| Draw games and iLottery vendor expense | 39.6    | 3.4                    | 36.2    | 5.3                    | 30.9    |
| Instant ticket costs                   | 14.6    | (0.3)                  | 14.9    | (0.1)                  | 15.0    |
| Total other direct costs               | 136.2   | (2.3)                  | 138.5   | 8.2                    | 130.3   |
| Operating expenses                     | 39.3    | (1.1)                  | 40.4    | 3.9                    | 36.5    |
| Non-operating (revenue) expense        | (2.1)   | 0.7                    | (2.8)   | (1.2)                  | (1.6)   |

Payments to retailers cover base selling and cashing commissions as well as a retailer incentive plan based on the sale of instant tickets. Payments to retailers for 2025 and 2024 were 3.8 and 4.2 percent of total operating revenues. Payments to retailers as a percent of retail operating revenue were 6.2 percent and 6.1 percent, respectively. Draw games and iLottery vendor expenses for 2025 and 2024 were 1.8 percent and 1.7 percent of total operating revenues, respectively. Instant ticket costs include the cost to acquire and ship instant tickets to retailers and were 0.7 percent and 0.7 percent of total operating revenues in 2025 and 2024, respectively. Operating expenses were 1.8 percent and 1.9 percent of total operating revenues for 2025 and 2024, respectively.

### **Other Expenses (Continued)**

Non-operating (revenue) expense, which includes investment income, accretion of investments, and other income, increased \$0.7 million in 2025 and increased \$1.2 million in 2024.

### **Investment Income (Loss)**

**TABLE 12**  
**INVESTMENT INCOME (LOSS)**  
**(In millions)**

|                                                |               | Increase        |               | Increase      |               |
|------------------------------------------------|---------------|-----------------|---------------|---------------|---------------|
|                                                | 2025          | (Decrease)      | 2024          | (Decrease)    | 2023          |
| Unrealized change in fair value of investments | \$ -          | \$ 0.4          | \$ (0.4)      | \$ 0.1        | \$ (0.5)      |
| Accretion of investments                       | 0.4           | (0.1)           | 0.5           | \$ 0.2        | 0.3           |
| Interest income                                | <u>1.9</u>    | <u>(1.0)</u>    | <u>2.9</u>    | \$ 1.1        | <u>1.8</u>    |
| Total investment income (loss)                 | <u>\$ 2.3</u> | <u>\$ (0.7)</u> | <u>\$ 3.0</u> | <u>\$ 1.4</u> | <u>\$ 1.6</u> |

Unrealized change in fair value of investments represents the impact on income of recording investments at their fair value compared to the historical cost method. Accretion of investments reflects the net increase in the accreted cost of the investment.

Unrealized change in fair value of investments represents the impact on income of recording investments at their fair value compared to the historical cost method. Accretion of investments reflects the net increase in the accreted cost of the investment.

### **Payments to the Commonwealth of Kentucky**

In 2025 and 2024, payments to the Commonwealth of Kentucky represent transfers and an accrual of funds from the KLC to the Commonwealth's general fund, Trust and Agency account, and to the Kentucky Educational Excellence Scholarship ("KEES") Reserve Account. Payments to the general fund and Trust and Agency Account, which are approved by the Board of Directors and remitted to the Commonwealth on a monthly basis, are predominantly used by the General Assembly to pay for college scholarships, grants, and education programs. Payments to the KEES Reserve Account represent prizes that expired (went unclaimed) during the fiscal year. Payments to the Commonwealth of Kentucky in 2025 were \$382.5 million which consisted of \$371.0 million or a decrease of \$22.0 million to the Commonwealth's general fund and Trust and Agency account and \$13.0 million or an increase of \$600 thousand to the KEES Reserve Account. Payments in 2024 were \$384.3 million, which consisted of \$393 million to the Commonwealth's general fund and \$12.4 million the KEES Reserve Account.

### **Currently Known Facts, Decisions, or Conditions**

The Kentucky Lottery Corporation's mission is to produce the maximum net revenues for the Commonwealth by offering the best lottery games to its citizens, games of the highest quality and integrity, which are consistent with good public policy and social responsibility, and to operate within the framework of public accountability. The lottery faces challenges with increased gaming competition and inflation. To achieve KLC's mission and overcome these obstacles, the KLC will continue to introduce new and/or enhanced scratch-off, draw, and iLottery instant play product offerings to further increase sales in fiscal year 2025.

Budgeted sales for fiscal year 2026 total \$2.240 billion. Retail sales total \$1.330 billion and iLottery sales total \$910.4 million.

Instant sales are budgeted to produce sales of \$919.3 million during fiscal year 2026, an increase of \$5.1 million or 0.6 percent.

- The KLC will introduce a new scratch-off game concept which offers an extended digital experience at retail to win cash prizes.
- Another local partnership will be established to provide content for a creative for new omni-channel game.
- Digital menu boards and lighted scratch-off bins will be rolled out in retail stores, providing better visibility to games and the lottery in general.

Draw game sales are budgeted to produce sales of \$441.0 million during fiscal year 2026, a decrease of \$2.2 million or 0.5 percent.

- The KLC will have a full year of the Mega Millions game change but does not anticipate jackpot levels at \$1 billion and above for this game or Powerball. Therefore, combined sales for these two games are expected to remain relatively flat.
- The KLC will introduce new messaging on tickets, which will allow for timely promotion of winner awareness, high jackpots, cross-play, promotions, or any other messaging with the added visibility of images and/or QR codes.

iLottery instant play sales are budgeted to produce sales of \$880 million during fiscal year 2026, an increase of \$81.1 million or 10.2 percent.

- The KLC will have a full year on a new platform, providing greater stability and enhanced promotional features.
- The KLC will launch a popular licensed property multi-state progressive jackpot game, building upon the success of the first multi-state progressive jackpot game launched early in fiscal year 2025.
- Five new game types will be launched, supported partially by onboarding an additional instant play game vendor.

Additional initiatives include the replacement of all retail equipment with new and enhanced functionality and the launch of a new central gaming system, including connected Play which bridges retail and iLottery channels.

### **Contacting the KLC's Financial Management**

This financial report is designed to provide the public and other interested parties with an overview of the financial results of the KLC's activities, and to show the KLC's accountability for the revenue that it generates. If you have any questions about this report or need additional financial information, contact the KLC's Public Relations Department at the Kentucky Lottery Corporation, 1011 West Main Street, Louisville, Kentucky 40202.

# ***KENTUCKY LOTTERY CORPORATION***

## **STATEMENTS OF NET POSITION**

June 30, 2025 and 2024

(dollars in thousands)

|                                                                               | 2025      | 2024      |
|-------------------------------------------------------------------------------|-----------|-----------|
| <b>ASSETS</b>                                                                 |           |           |
| Current Assets                                                                |           |           |
| Cash and equivalents                                                          | \$ 40,710 | \$ 41,589 |
| Investments at fair value, current portion                                    | 1,256     | 1,346     |
| Accounts receivable, net                                                      | 77,885    | 83,090    |
| Other assets                                                                  | 1,162     | 1,233     |
| Total current assets                                                          | 121,013   | 127,258   |
| Noncurrent Assets                                                             |           |           |
| Investments at fair value, less current portion                               | 6,353     | 7,233     |
| Capital assets                                                                |           |           |
| Depreciable assets                                                            | 4,536     | 4,839     |
| Right-to-use lease assets                                                     | 1,712     | 4,095     |
| Capital assets, net                                                           | 6,248     | 8,934     |
| Deposits with Multi-State Lottery Association                                 | 4,583     | 4,706     |
| Total noncurrent assets                                                       | 17,184    | 20,873    |
| Total assets                                                                  | 138,197   | 148,131   |
| <b>LIABILITIES</b>                                                            |           |           |
| Current Liabilities                                                           |           |           |
| Accounts payable, accrued expenses, and compensated absences, current portion | 12,492    | 12,512    |
| Due to the Commonwealth of Kentucky                                           | 12,873    | 14,435    |
| Estimated prize liability, current portion                                    | 87,086    | 92,191    |
| Lease liability, current Portion                                              | 1,712     | 3,168     |
| Total current liabilities                                                     | 114,163   | 122,306   |
| Noncurrent Liabilities                                                        |           |           |
| Accrued compensated absences, less current portion                            | 482       | 456       |
| Estimated prize liability, less current portion                               | 6,986     | 7,895     |
| Lease liability, noncurrent portion                                           | 0         | 927       |
| Total noncurrent liabilities                                                  | 7,468     | 9,278     |
| Total liabilities                                                             | 121,631   | 131,584   |
| <b>NET POSITION</b>                                                           |           |           |
| Net investment in capital assets                                              | 4,536     | 4,839     |
| Unrestricted                                                                  | 12,030    | 11,708    |
| Net position                                                                  | \$ 16,566 | \$ 16,547 |

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

# ***KENTUCKY LOTTERY CORPORATION***

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended June 30, 2025 and 2024 (dollars in thousands)

|                                               | 2025             | 2024             |
|-----------------------------------------------|------------------|------------------|
| <b>Operating revenues</b>                     |                  |                  |
| Instant games                                 | \$ 914,185       | \$ 940,844       |
| Draw games                                    | 443,195          | 522,186          |
| iLottery instant play games                   | 798,884          | 634,861          |
| Total operating revenues                      | <u>2,156,264</u> | <u>2,097,891</u> |
| <b>Direct costs</b>                           |                  |                  |
| Prizes expense                                |                  |                  |
| Instant games                                 | 652,814          | 668,659          |
| Draw games                                    | 250,268          | 294,387          |
| iLottery instant play games                   | 697,352          | 553,748          |
| Total prize expense                           | <u>1,600,434</u> | <u>1,516,794</u> |
| Payments to retailers                         | 82,010           | 87,384           |
| Draw games and iLottery vendor expense        | 37,134           | 33,576           |
| Instant ticket costs                          | 14,638           | 14,912           |
| Total direct costs                            | <u>1,734,216</u> | <u>1,652,666</u> |
| <b>Operating revenues net of direct costs</b> | <u>422,048</u>   | <u>445,225</u>   |
| <b>Operating expenses</b>                     |                  |                  |
| Advertising and promotion                     | 12,627           | 13,444           |
| Salaries, wages, and benefits                 | 21,165           | 20,673           |
| Contracted and professional services          | 2,615            | 2,928            |
| Depreciation and amortization                 | 3,791            | 3,927            |
| Other general and administrative              | 1,488            | 1,980            |
| Total operating expenses                      | <u>41,686</u>    | <u>42,952</u>    |
| <b>Operating income</b>                       | <u>380,362</u>   | <u>402,273</u>   |
| <b>Non-operating (expense) revenue</b>        |                  |                  |
| Payments to the Commonwealth of Kentucky      | (382,476)        | (405,415)        |
| Investment income/(loss)                      | 2,283            | 2,958            |
| Accretion of investments                      | (396)            | (463)            |
| Other income                                  | 246              | 258              |
| Total non-operating expense                   | <u>(380,343)</u> | <u>(402,662)</u> |
| <b>Change in net position</b>                 | <u>19</u>        | <u>(389)</u>     |
| Net position at beginning of year             | <u>16,547</u>    | <u>16,936</u>    |
| <b>Net position at end of year</b>            | <u>\$ 16,566</u> | <u>\$ 16,547</u> |

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

# **KENTUCKY LOTTERY CORPORATION**

## STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2025 and 2024 (dollars in thousands)

|                                                                                            | 2025              | 2024              |
|--------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Cash Flows from Operating Activities</b>                                                |                   |                   |
| Cash received from customers                                                               | \$ 2,161,469      | \$ 2,084,010      |
| Cash receipts for deposits at the Multi-State Lottery Association                          | 123               | 284               |
| Cash payments to prize winners                                                             | (1,606,448)       | (1,503,106)       |
| Cash payments to suppliers                                                                 | (158,539)         | (153,135)         |
| Cash payments to employees for services                                                    | (13,450)          | (21,140)          |
| Net cash provided by operating activities                                                  | <u>383,155</u>    | <u>406,913</u>    |
| <b>Cash Flows from Noncapital Financing Activities</b>                                     |                   |                   |
| Payments to the Commonwealth of Kentucky                                                   | <u>(384,038)</u>  | <u>(404,441)</u>  |
| <b>Cash Flows from Capital and Related Financing Activities</b>                            |                   |                   |
| Payments of leases                                                                         | (2,383)           | (2,585)           |
| Purchases of capital assets                                                                | (1,116)           | (1,776)           |
| Net cash provided by capital and related activities                                        | <u>(3,499)</u>    | <u>(4,361)</u>    |
| <b>Cash Flows from Investing Activities</b>                                                |                   |                   |
| Proceeds from sale of investments                                                          | 1,384             | 1,384             |
| Investment income                                                                          | 2,119             | 3,163             |
| Net cash provided by investing activities                                                  | <u>3,503</u>      | <u>4,547</u>      |
| <b>Increase in cash and equivalents</b>                                                    | <u>(879)</u>      | <u>2,658</u>      |
| Cash and equivalents at beginning of year                                                  | <u>41,589</u>     | <u>38,931</u>     |
| <b>Cash and equivalents at end of year</b>                                                 | <u>\$ 40,710</u>  | <u>\$ 41,589</u>  |
| <b>Reconciliation of Operating Income to Net Cash<br/>Provided by Operating Activities</b> |                   |                   |
| Operating income                                                                           | \$ 380,362        | \$ 402,273        |
| Adjustments to reconcile operating income to net cash provided by operating activities     |                   |                   |
| Depreciation and amortization                                                              | 3,791             | 3,927             |
| Provision for losses on accounts receivable                                                | (31)              | 0                 |
| Increase (decrease) in cash due to changes in:                                             |                   |                   |
| Accounts receivable, net                                                                   | 5,236             | (13,881)          |
| Other assets                                                                               | 71                | 152               |
| Deposits with Multi-State Lottery Association                                              | 123               | 284               |
| Accounts payable, accrued expenses, and compensated absences                               | 13                | 933               |
| Estimated prize liability                                                                  | (6,410)           | 13,225            |
| Total adjustments                                                                          | <u>2,793</u>      | <u>4,640</u>      |
| Net cash provided by operating activities                                                  | <u>\$ 383,155</u> | <u>\$ 406,913</u> |

**Noncash capital and investing activities:**

The accretion of interest on investments held to fund grand prizes, which increased prize liability for the years ended June 30, 2025 and 2024 totaled \$396 and \$463, respectively.

The unrealized fair value of investments increased for the year ended June 30, 2025 by \$19 and decreased

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

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 1 - Organization***

The Kentucky Lottery Corporation ("KLC") was created with the enactment of House Bill No. 1 in December 1988 as an independent de jure municipal corporation and political subdivision of the Commonwealth of Kentucky ("Commonwealth"). The KLC is to be managed in such a manner that enables the people of the Commonwealth to benefit from its profits and to enjoy the best possible lottery games. The operations of the KLC are separate and distinct from other operations of the Commonwealth.

The KLC commenced operations on April 4, 1989 with the sale of instant game tickets. Sales of draw games began October 16, 1989. In January 1991, the KLC joined the Multi-State Lottery Association ("MUSL"), a group of states that combine lottery sales for draw games.

### ***Note 2 - Summary of Significant Accounting Policies***

#### **Reporting Entity**

The KLC has adopted the provisions of Government Accounting Standards Board ("GASB") Section 2100: *Defining the Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the KLC is financially accountable. Financial accountability is defined as (1) the appointment of a voting majority of the potential component unit's Board, and either (a) the KLC's ability to impose its will over the potential component unit, or (b) the possibility that the potential component unit will provide a financial benefit to or impose a financial burden on the KLC, or (2) the potential component unit is fiscally dependent on the KLC, and will provide a financial benefit to or impose a financial burden on the KLC.

The KLC has determined that no outside agency meets the above criteria; therefore, no other agency has been included as a component unit in the KLC's financial statements. In addition, since the KLC provides a financial benefit for the Commonwealth, the KLC is part of the reporting entity of the Commonwealth and is, therefore, included in the Commonwealth's Annual Comprehensive Financial Report as a discretely presented component unit. The accompanying financial statements are not intended to present the financial position or the results of operations and cash flows of the Commonwealth or its proprietary funds.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### **Basis of Presentation**

The KLC is accounted for as an enterprise fund. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements are reported using the economic resources measurement focus. The financial statements include the accounts of KLC and have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

As an enterprise fund, the KLC distinguishes *operating* revenues and expenses and direct costs from *non-operating* items. Operating revenues and expenses and direct costs generally result from providing services and delivering goods in connection with the KLC's principal ongoing operations. The principal operating revenues of the KLC are sales of lottery products. Direct expenses include the cost of sales and services and operating expenses include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Revenue and Accounts Receivable Recognition**

Revenue and accounts receivable for draw games are recognized when tickets are sold to the public.

Revenue and accounts receivable for instant games are recognized at the time packs of tickets are marked due or upon activation, whichever is sooner.

Revenue and accounts receivable for iLottery instant play games are recognized when games are sold to players on the iLottery portal. These games are played and results are revealed immediately after purchase.

#### **Allowance for Doubtful Accounts**

The KLC uses the allowance method to account for uncollectible accounts receivable. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received. KLC wrote off approximately \$66 and \$128 for the years ended June 30, 2025 and 2024, respectively. A trade receivable is considered uncollectible based on pertinent facts and circumstances.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### **Prizes**

Prize expense for instant ticket games is recorded as an estimate at the time the related revenue is recognized based on the predetermined prize structure for each game; after the last date to claim has passed, the prize expense is adjusted, if necessary, to reflect amounts actually won. Prize expense for draw games is recorded after each draw and is based on actual draw results. Prize expense for iLottery instant play games is recorded at the time of the purchase, when the outcome is determined.

#### **Estimated Prize Liability**

A liability for grand prize winners electing annual installments is recorded based on the cost of U.S. Treasury zero-coupon bonds and other U.S. Government agency securities purchased to fund the liability, adjusted for the accretion of interest based upon the purchased yield and maturity date. The estimated prize liability is presented in the statement of net position, net of this imputed interest. Imputed interest is amortized to accretion of investments over the life of the annuity utilizing the effective interest method. Grand prizes with annual installment options are awarded related to the Win for Life, Lucky for Life, Powerball, Mega Millions, and certain scratch-off games.

Win for Life draw grand prizes are paid in quarterly installments for the life of a winner. Initial prize liability for grand prize winners was based on an actuarial study. The KLC reviews those statistics to actual results for any changes that needed to be made based on the age of the winner. The KLC ended participation in the Win for Life draw game in January 2011 but continues to have financial obligations to eight past winners.

Lucky for Life grand prizes and second tier prizes are paid in annual installments for the life of a winner, or a minimum of 20 years. A single lump-sum cash payment is also available. As of June 30, 2024, the KLC did not have any grand prize or second tier prize winners elect the grand prize annuity option.

Powerball grand prizes are paid in 30 annual installments or in a single lump-sum payment equal to the estimated present cash value of 30 annual payments. The KLC has one grand prize winner that elected the annuity option and continues to be paid annually.

Mega Millions grand prizes are paid in 30 annual installments or in a single lump-sum payment equal to the estimated present cash value of 30 annual payments. The KLC does not have any grand prize winners currently being paid.

Various instant games have grand prizes with annuity options, paid quarterly or annually for varying amounts and time periods, including installments for the life of a winner. The KLC has seven grand prize winners that elected the annuity option and continue to be paid quarterly or annually.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

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### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### Cash and Equivalents

For financial statement purposes, the KLC considers all highly liquid investments with an original maturity of less than 90 days to be cash and equivalents. Cash and equivalents are reported at cost.

#### Investments

Investments consist of U.S. Treasury zero-coupon bonds and other U.S. Government agency securities carried at fair value in accordance with GASB. Fair value of investments is based on quoted market prices or matrix pricing. Investments are in U.S. Treasury zero-coupon bonds and other U.S. Government backed securities and are purchased to meet future installment payments to grand prize winners. There are generally no realized gains or losses on investments, as it is the KLC's policy to hold the investments to maturity.

#### Capital Assets

Buildings, game equipment, data processing and software, automobiles, furniture and fixtures, and right-to-use lease assets are capitalized and depreciated/amortized on a straight-line basis over their estimated useful lives and are valued at historical or amortized cost. The KLC defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capitalization threshold for right-to-use assets, which consists of leases, is the value equal to or greater than \$50,000 of the cost. The estimated useful lives by general classification are as follows:

|                                        |             |
|----------------------------------------|-------------|
| Buildings                              | 30 years    |
| Game equipment                         | 5 years     |
| Data processing equipment and software | 3 - 5 years |
| Automobiles, furniture, and fixtures   | 3 - 5 years |
| Computer software                      | 7 years     |
| Right-to-use assets, equipment         | 7 years     |

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### **Deposits with MUSL**

Deposits are carried at cost. MUSL is a non-profit, government-benefit association created for the purpose of administering joint lottery games, such as Powerball. As a member of MUSL, the KLC is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities.

All prize reserve funds remitted, and the related interest earnings, will be returned to the KLC upon leaving MUSL, less any portion of unanticipated prize claims which may have been paid from the fund.

#### **Net Position**

Net position of the KLC is classified and displayed as three components:

- Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - All other net position that does not meet the definition of "net investment in capital assets" or "restricted".

As of June 30, 2025 and 2024, the KLC had no restricted net position.

# **KENTUCKY LOTTERY CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024  
(dollars in thousands)

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### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

#### **Recently Adopted Accounting Pronouncements**

In June 2022, the GASB issued Statement No. 101 – Compensated Absences. The provisions of the statement are effective for fiscal years beginning after December 15, 2023. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means when certain defined circumstances exist. The implementation of this statement did not have a material impact on the KLC's financial position or results of operations.

In December 2023, GASB issued Statement No. 102 – Certain Risk Disclosures. The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The Statement defines both concentration and constraint and requires governments to assess whether a concentration or constraint makes the government reporting unit vulnerable to the risk of substantial impact. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024. The implementation of this statement did not have a material impact on the KLC's financial position or results of operations.

#### **Pending Accounting Pronouncements Not Yet Adopted**

The GASB has issued the following statement not yet implemented by the KLC:

In April 2024, GASB issued Statement No. 103 – Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

In September 2024, the GASB issued Statement No. 104 - Disclosure of Certain Capital Assets. The objective of this Statement is to enhance transparency and comparability in financial reporting. The Statement requires governments to provide more detailed disclosures about certain capital assets in their financial statements, specifically those related to leases, SBITAs, and assets held for sale and are effective for fiscal years beginning after June 15, 2025.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### Note 3 - Cash and Equivalents

The components of cash and equivalents for the years ended June 30, 2025 and 2024 consisted of the following:

|                                       | <u>2025</u>      | <u>2024</u>      |
|---------------------------------------|------------------|------------------|
| Cash on deposit in banks              | \$ 41,737        | \$ 42,616        |
| Checks issued against cash on deposit | <u>(1,027)</u>   | <u>(1,027)</u>   |
|                                       | <u>\$ 40,710</u> | <u>\$ 41,589</u> |

All of the KLC's deposits are either insured or collateralized. All deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the KLC's agents in the KLC's name. The KLC's policy regarding custodial credit risk for cash on deposit in banks is to be fully collateralized by U.S. Government securities held by the KLC or by the KLC's agent in the KLC's name.

### Note 4 - Investments

The KLC categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The KLC's investments in U.S. Treasury Strips are valued using quoted market prices (Level 1 inputs) and U.S. Government backed investments are valued using similar assets using matrix pricing (Level 2 inputs).

At June 30, 2025, the KLC's investment balances were as follows:

#### At June 30, 2025

| <u>Investment Type</u>       | <u>Fair Value</u> | <u>Level 1</u>  | <u>Level 2</u> | <u>Maturity</u>                         |
|------------------------------|-------------------|-----------------|----------------|-----------------------------------------|
| U.S. Treasury Strips         | \$ 7,067          | \$ 7,067        | \$ 0           | Weighted average maturity of 7.77 years |
| Other U.S. Government backed | <u>542</u>        | <u></u>         | <u>542</u>     | Weighted average maturity of 0.79 years |
| Total                        | <u>\$ 7,609</u>   | <u>\$ 7,067</u> | <u>\$ 542</u>  |                                         |

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### Note 4 - Investments (Continued)

At June 30, 2024, the KLC's investment balances were as follows:

#### At June 30, 2024

| <u>Investment Type</u>       | <u>Fair Value</u> | <u>Level 1</u>  | <u>Level 2</u>  | <u>Maturity</u>                         |
|------------------------------|-------------------|-----------------|-----------------|-----------------------------------------|
| U.S. Treasury Strips         | \$ 7,529          | \$ 7,529        | \$ 0            | Weighted average maturity of 7.56 years |
| Other U.S. Government backed | <u>1,050</u>      | <u>0</u>        | <u>1,050</u>    | Weighted average maturity of 1.28 years |
| Total                        | <u>\$ 8,579</u>   | <u>\$ 7,529</u> | <u>\$ 1,050</u> |                                         |

*Credit Rating* - U.S. Treasury obligations which are backed by the full faith and credit of the U.S. Government are not rated. For 2025, \$542 of the other U.S. Government backed investments are not rated. For 2024, \$1,050 of the other U.S. Government backed investments are not rated.

*Interest Rate Risk* - The KLC has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the policy of the KLC to hold investments to maturity.

*Credit Risk* - This is the risk that a counter party will fail to fulfil its obligation. The KLC mitigates this risk through its investment policy, which limits the purchase of investments to U.S. Treasury Strips or other debt securities backed by the U.S. Government.

*Concentration of Credit Risk* - The KLC's general investment policy is to take a very conservative approach when investing KLC money. The policy requires 100 percent of KLC's investments must be in U.S. Treasuries or other debt securities backed by the U.S. Government. For 2025 and 2024, approximately 7 and 12 percent of total investments were in Resolution Funding Corporation Strips, respectively, all of which are U.S. Government backed. The remaining 93 and 88 percent were in U.S. Treasuries for 2025 and 2024, respectively.

*Custodial Credit Risk* - The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. A trust agreement documenting the custody arrangement is executed between the custodian and the KLC. Such agreement provides, among other stipulations, that the securities are not assets of the custodian subject to disposition in the event of the insolvency of the custodian.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### *Note 4 - Investments (Continued)*

The net change in the fair value of investments includes all changes in fair value that occurred during the year. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods. The components of investment income for the years ended June 30, 2025 and 2024 consisted of the following:

|                                                | <u>2025</u>     | <u>2024</u>     |
|------------------------------------------------|-----------------|-----------------|
| Unrealized change in fair value of investments | \$ 19           | \$ (389)        |
| Accretion of investments                       | 396             | 463             |
| Interest income                                | <u>1,868</u>    | <u>2,884</u>    |
| Total investment income/(loss)                 | <u>\$ 2,283</u> | <u>\$ 2,958</u> |

When compared to the historical cost method, recording investments at fair value results in an increase in 2025 and decrease in 2024 income of approximately \$19 and \$389 in 2025 and 2024, respectively.

Unrestricted net position at June 30, 2025 and 2024 is as follows:

|                                                                     | <u>2025</u>      | <u>2024</u>      |
|---------------------------------------------------------------------|------------------|------------------|
| Unrestricted net position excluding unrealized gains on investments | \$ 12,604        | \$ 12,301        |
| Accumulated unrealized (loss)/gain on investments                   | <u>(574)</u>     | <u>(593)</u>     |
| Total unrestricted net position                                     | <u>\$ 12,030</u> | <u>\$ 11,708</u> |

The KLC is authorized by state statutes and investment policies approved by the Board of Directors to lend its investment securities. At June 30, 2025 and June 30, 2024 the KLC had no loaned investments.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 5 - Accounts Receivable***

Accounts receivable at June 30, 2025 and 2024 consisted of the following:

|                                 | <u>2025</u>      | <u>2024</u>      |
|---------------------------------|------------------|------------------|
| Accounts receivable             | \$ 78,160        | \$ 83,462        |
| Allowance for doubtful accounts | <u>(275)</u>     | <u>(372)</u>     |
| Accounts receivable, net        | <u>\$ 77,885</u> | <u>\$ 83,090</u> |

Balances due from retailers for the sales of lottery tickets make up 94 and 83 percent of the accounts receivable balances above for 2025 and 2024, respectively. Over 12 percent of the account receivable balance for 2024 relates to a Powerball prize won in Kentucky. Funds for that prize were received from MUSL in August 2024 after the prize is claimed.

# **KENTUCKY LOTTERY CORPORATION**

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### ***Note 6 - Capital Assets***

Capital asset activity for the year ended June 30, 2025 was as follows:

|                                                | Beginning<br>Balance | Additions  | Disposals | Ending<br>Balance |
|------------------------------------------------|----------------------|------------|-----------|-------------------|
| Capital assets not being depreciated           |                      |            |           |                   |
| Land                                           | \$ 423               | \$ 0       | \$ 0      | \$ 423            |
| Net capital assets, non-depreciable            | 423                  | 0          | 0         | 423               |
| Capital assets being depreciated, amortized    |                      |            |           |                   |
| Buildings                                      | 9,192                | 208        | (6)       | 9,394             |
| Game equipment                                 | 568                  |            | (134)     | 434               |
| Data processing equipment and software         | 7,732                | 564        | 0         | 8,296             |
| Right-to-use, equipment                        | 19,619               | 0          | 0         | 19,619            |
| Automobiles, furniture, and fixtures           | 2,806                | 344        | (239)     | 2,911             |
| Total other capital assets at cost             | 39,917               | 1,116      | (379)     | 40,654            |
| Less accumulated depreciation/amortization for |                      |            |           |                   |
| Buildings                                      | (6,756)              | (328)      | 6         | (7,078)           |
| Game equipment                                 | (548)                | (14)       | 134       | (428)             |
| Data processing equipment and software         | (6,303)              | (631)      | 0         | (6,934)           |
| Right-to-use, equipment                        | (15,524)             | (2,383)    | 0         | (17,907)          |
| Automobiles, furniture, and fixtures           | (2,275)              | (435)      | 228       | (2,482)           |
| Total accumulated depreciation/amortization    | (31,406)             | (3,791)    | 368       | (34,829)          |
| Net capital assets, depreciable/amortization   | 8,511                | (2,675)    | (11)      | 5,825             |
| Total capital assets, net                      | \$ 8,934             | \$ (2,675) | \$ (11)   | \$ 6,248          |

# **KENTUCKY LOTTERY CORPORATION**

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### ***Note 6 - Capital Assets (Continued)***

Capital asset activity for the year ended June 30, 2024 was as follows:

|                                                | Beginning<br>Balance | Additions  | Disposals | Ending<br>Balance |
|------------------------------------------------|----------------------|------------|-----------|-------------------|
| Capital assets not being depreciated           |                      |            |           |                   |
| Land                                           | \$ 423               | \$ 0       | \$ 0      | \$ 423            |
| Net capital assets, non-depreciable            | 423                  | 0          | 0         | 423               |
| Capital assets being depreciated, amortized    |                      |            |           |                   |
| Buildings                                      | 8,812                | 380        | 0         | 9,192             |
| Game equipment                                 | 568                  | 0          | 0         | 568               |
| Data processing equipment and software         | 6,636                | 1,096      | 0         | 7,732             |
| Right-to-use, equipment                        | 19,619               | 0          | 0         | 19,619            |
| Automobiles, furniture, and fixtures           | 2,713                | 300        | (207)     | 2,806             |
| Total other capital assets at cost             | 38,348               | 1,776      | (207)     | 39,917            |
| Less accumulated depreciation/amortization for |                      |            |           |                   |
| Buildings                                      | (6,437)              | (319)      | 0         | (6,756)           |
| Game equipment                                 | (526)                | (22)       | 0         | (548)             |
| Data processing equipment and software         | (5,783)              | (520)      | 0         | (6,303)           |
| Right-to-use, equipment                        | (12,939)             | (2,585)    | 0         | (15,524)          |
| Automobiles, furniture, and fixtures           | (2,001)              | (481)      | 207       | (2,275)           |
| Total accumulated depreciation/amortization    | (27,686)             | (3,927)    | 207       | (31,406)          |
| Net capital assets, depreciable/amortization   | 10,662               | (2,151)    | 0         | 8,511             |
| Total capital assets, net                      | \$ 11,085            | \$ (2,151) | \$ 0      | \$ 8,934          |

# ***KENTUCKY LOTTERY CORPORATION***

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### ***Note 7 - Compensated Absences***

It is the KLC's policy to permit employees to accumulate earned but unused paid time off benefits. Employees can accrue no more than 696 hours of paid time off. Accrued paid time off at June 30, 2025 and 2024, included in accrued compensated absences in the accompanying Statements of Net Position, consisted of the following:

|                                            | <u>2025</u>            | <u>2024</u>            |
|--------------------------------------------|------------------------|------------------------|
| Current                                    | \$ 1,695               | \$ 1,675               |
| Compensated absences, less current portion | <u>482</u>             | <u>456</u>             |
| Total compensated absences                 | <u><u>\$ 2,177</u></u> | <u><u>\$ 2,131</u></u> |

| <u>Years Ended June 30,</u> | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-----------------------------|------------------------------|------------------|------------------|---------------------------|
| 2025                        | \$ 2,131                     | \$ 1,677         | \$ (1,631)       | \$ 2,177                  |
| 2024                        | \$ 2,010                     | \$ 1,713         | \$ (1,592)       | \$ 2,131                  |

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 8 - Estimated Prize Liability***

Estimated prize liability at June 30, 2025 and 2024 consisted of the following:

|                       | <u>2025</u>      | <u>2024</u>       |
|-----------------------|------------------|-------------------|
| Current:              |                  |                   |
| Grand prizes          | \$ 1,255         | \$ 1,305          |
| Other prizes          | <u>85,831</u>    | <u>90,886</u>     |
| Total current portion | <u>87,086</u>    | <u>92,191</u>     |
| Long-term:            |                  |                   |
| Grand prizes          | <u>6,986</u>     | <u>7,895</u>      |
| Total prize liability | <u>\$ 94,072</u> | <u>\$ 100,086</u> |

# **KENTUCKY LOTTERY CORPORATION**

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### ***Note 8 - Estimated Prize Liability (Continued)***

Liability activity of grand prize awards payable was as follows:

| <u>Years Ended June 30,</u> | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-----------------------------|------------------------------|------------------|------------------|---------------------------|
| 2025                        | \$ 9,200                     | \$ 396           | \$ (1,355)       | \$ 8,241                  |
| 2024                        | \$ 10,105                    | \$ 463           | \$ (1,368)       | \$ 9,200                  |

Liabilities for future payments of grand prize liabilities are summarized as follows:

| <u>Years Ending June 30,</u>             |                 |
|------------------------------------------|-----------------|
| 2026                                     | \$ 1,255        |
| 2027                                     | 645             |
| 2028                                     | 595             |
| 2029                                     | 595             |
| 2030                                     | 595             |
| 2031 through 2035                        | 2,715           |
| 2036 through 2040                        | 2,020           |
| 2041 through 2045                        | 1,404           |
| 2046 through 2050                        | 988             |
| 2051 through 2055                        | 520             |
| 2055 through 2056                        | <u>52</u>       |
| Total                                    | 11,384          |
| Less unamortized discount                | <u>(3,143)</u>  |
| Total at present value                   | 8,241           |
| Less current portion                     | <u>(1,255)</u>  |
| Total long-term portion at present value | <u>\$ 6,986</u> |

Estimated prize liability for grand prizes is based on the cost of U.S. Treasury zero-coupon bonds and other U.S. Government agency securities purchased to fund the liability, adjusted for the accretion of interest based upon the purchased yield and maturity date. This adjustment of approximately \$396 and \$463 in 2025 and 2024, respectively, is included in accretion of investments.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 9 - Retirement Plan***

Kentucky Revised Statute ("KRS") 154A.080 states, "The Corporation shall provide a retirement plan for its employees." The KLC Board of Directors has the authority to establish contribution requirements and amend any of the plan's provisions. The KLC has a money-purchase retirement plan ("Plan") covering eligible employees that is a Defined Contribution plan. The Plan is currently administered by Fidelity Investments.

Prior to April 1, 2007, under the terms of the Plan, the KLC and employees each contribute 6.2 percent (Mandatory and Supplemental Contributions) of the employee's compensation for the calendar year, not to exceed the Taxable Wage Base as defined by the Plan. Employees become eligible for participation and are fully vested at the date of employment for this portion of the Plan. On and after April 1, 2007, a participant, as defined by the Plan, who makes and for whom the employer makes payments into the Social Security System under the Federal Insurance Contributions Act, shall not be eligible for the Mandatory and Supplemental Contributions.

The KLC also makes a contribution (Basic Contribution) equal to eight percent of the employee's earned annual base salary. Employees become eligible one year after the date of employment and are fully vested after five years of service, or at normal retirement age defined in the Plan, providing participation requirements are met.

During 2025 and 2024, the KLC's contributions were calculated using the eligible compensation amount for eligible employees of \$3,731 and \$3,978, respectively, for the 6.2 percent employer contribution (Mandatory and Supplemental Contributions), and \$14,286 and \$12,392, respectively, for the 8 percent employer contribution (Basic Contributions). Employer contributions actually made to the Plan were approximately \$1,374 and \$1,238 in 2025 and 2024, respectively. Employee contributions to the Plan were approximately \$231 and \$247 in 2025 and 2024, respectively. At June 30, 2025 and 2024, the KLC had an outstanding liability of approximately \$58 and \$47, respectively, owed to the Plan, as part of the accrued salaries balance.

During 2025 and 2024, forfeitures of \$0 and \$66, respectively, were reflected as a reduction to retirement plan expense.

In addition to the Plan, the KLC's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. The Commonwealth's Annual Comprehensive Financial Reports should be referred to for further disclosures related to the deferred compensation plans. The KLC provides no matching of contributed funds to the deferred compensation plans.

# **KENTUCKY LOTTERY CORPORATION**

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### ***Note 10 - Leases***

The KLC has entered into leases for the rental of lottery vending machines as part of the lottery gaming system contract with International Game Technologies ("IGT"). The terms of the leases are up to seven years.

The KLC reports right-of-use assets and liabilities for equipment leases. As of June 30, 2025, and June 30, 2024, these amounts were as follows:

|                                           | <u>2025</u>     | <u>2024</u>     |
|-------------------------------------------|-----------------|-----------------|
| Right-to-use lease assets                 | \$ 1,712        | \$ 4,095        |
| Current portion of lease liability        | 1,712           | 3,168           |
| Lease liabilities, net of current portion | -               | 927             |
| Total lease liabilities                   | <u>\$ 1,712</u> | <u>\$ 4,095</u> |

Liabilities for future equipment lease liabilities are summarized as follows:

| <u>Years Ending June 30,</u> | <u>Principal<br/>Payments</u> | <u>Interest<br/>Payments</u> | <u>Total</u> |
|------------------------------|-------------------------------|------------------------------|--------------|
| 2026                         | \$ 1,712                      | \$ 45                        | \$ 1,757     |
| Total                        | <u>1,712</u>                  | <u>45</u>                    | <u>1,757</u> |

Total expense for 2025 and 2024 was approximately \$1,769 and \$3,168 respectively.

Activity of lease liabilities was as follows:

| <u>Years Ended June 30,</u> | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-----------------------------|------------------------------|------------------|------------------|---------------------------|
| 2025                        | \$ 4,095                     |                  | \$ (2,383)       | \$ 1,712                  |
| 2024                        | \$ 6,680                     | \$ -             | \$ (2,585)       | \$ 4,095                  |

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2025 and 2024

(dollars in thousands)

### *Note 10 - Leases (Continued)*

Other information related to equipment leases was as follows:

|                                               | <u>2025</u> | <u>2024</u> |
|-----------------------------------------------|-------------|-------------|
| Weighted-average remaining lease term (years) | 1.06        | 1.61        |
| Weighted-average discount rate                | 4.37%       | 4.37%       |

### *Note 11 - Payments to the Commonwealth*

Payments to the Commonwealth represent transfers of funds from the KLC to the Commonwealth's General Fund, Trust and Agency account, and the Kentucky Educational Excellence Scholarship ("KEES") Reserve Account. The payments to the General Fund and Trust and Agency account, which are approved by the Board of Directors and remitted to the Commonwealth on a monthly basis, are used to pay for college scholarships, grants, and education programs. The payments to the KEES Reserve Account are used to cover any funding shortfalls to the merit-based KEES program, which provides college or technical school scholarships to Kentucky high school students. The amounts payable to the KEES Reserve Account result from unclaimed prizes on instant and draw games. Prizes not claimed within 180 days of the drawing date for draw games or game ending date for instant tickets are forfeited and considered unclaimed. During the years ended June 30, 2025 and 2024, all unclaimed prize money was transferred to the KEES Reserve Account as required by HB 6 of the 2024 Regular Session. Payments are made after the end of each quarter.

Payments, including amounts accrued, to the Commonwealth for the years ended June 30, 2025 and 2024 included payments to the following funds:

|                                           | <u>2025</u>       | <u>2024</u>       |
|-------------------------------------------|-------------------|-------------------|
| General Fund and Trust and Agency Account | \$ 370,886        | \$ 392,972        |
| KEES Scholarship Reserve Fund             | <u>11,590</u>     | <u>12,443</u>     |
|                                           | <u>\$ 382,476</u> | <u>\$ 405,415</u> |

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2025 and 2024

(dollars in thousands)

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### ***Note 12 - Risk Management***

The KLC is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; data breach; and natural disasters. The KLC has purchased commercial insurance to cover these risks except for workers' compensation and damage to buildings and personal property for which the KLC utilizes the Commonwealth's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth's Annual Comprehensive Financial Reports should be referred to for additional disclosures related to the Risk Management Fund. The amount of commercial coverage has not decreased, nor has the amount of settlements exceeded coverage.

### ***Note 13 - Commitments and Contingencies***

The Lottery has contracted with IGT to provide for the operation of the gaming system, with a contract term that extends through July 9, 2036. The commission paid to IGT for draw game lottery sales is 1.4625 percent of gross draw sales. The commission paid to IGT for scratch-off lottery sales is 0.416 percent of net scratch-off sales. In addition, and in consideration of the additional products and services provided under the contract, KLC pays IGT a fixed fee of \$250,000 per month, which began August 12, 2020 and will continue through June 2026. IGT receives compensation of \$56.37 per retail location, per month, for retail communications network and management. IGT receives additional compensation of \$30.00 per retail location, per month, for cashless equipment communication.

The Lottery has also contracted with IGT to provide an iLottery system, game content, and related services, with a contract term that extends through July 9, 2036. KLC pays commission to IGT for these services equal to 16.99 percent of net iLottery sales, defined as gross instant play and draw game sales, minus the statistical payout for each game.

The Lottery contracted with Scientific Games, LLC (SG) to provide ticket production and cooperative services, including ticket ordering and distribution functions, with a contract term that extends through July 9, 2036. The rate paid on ticket production services is 0.8617 percent of net scratch-off sales of SG games. The rate paid on cooperative services is 0.43 percent of net scratch-off sales of all games.

The KLC is a party to various litigation and other claims in the ordinary course of business. KLC management is of the opinion, based upon the advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the financial statements of the KLC.

**Report of Independent Auditor 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***

To the Auditor of Public Accounts,  
the Commonwealth of Kentucky, and  
the Board of Directors of the Kentucky Lottery Corporation  
Louisville, Kentucky

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 Kentucky Lottery Corporation (the "KLC") as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the KLC's basic financial statements, and have issued our report thereon dated September 25, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the KLC'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 KLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the KLC'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 were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the KLC'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 KLC'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 KLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cherry Bekaert LLP*

Louisville, Kentucky  
September 26, 2025