KENTUCKY HORSE RACING AND GAMING CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2025

And Reports of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

KENTUCKY HORSE RACING AND GAMING CORPORATION
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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

To the Board of Directors
Kentucky Horse Racing and Gaming Corporation
Lexington, Kentucky

Report on Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Kentucky Horse Racing and Gaming Corporation (the "Corporation"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Corporation 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 Corporation's ability to continue as a going concern for twelve 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 Corporation'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 Corporation'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 audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the pension and other postemployment benefit schedules, as listed in the table of contents, 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 23, 2025 on our consideration of the Corporation'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 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 Corporation'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 Corporation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Lexington, Kentucky
September 23, 2025

As management of the Kentucky Horse Racing and Gaming Corporation (Corporation), a discretely presented component unit of the Commonwealth of Kentucky (Commonwealth), we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial performance of the Corporation for the fiscal year ended June 30, 2025. We encourage readers to read it in conjunction with the Corporation's financial statements and the accompanying notes thereto.

Effective July 1, 2024, the Corporation assumed all responsibilities of the Kentucky Horse Racing Commission, which was abolished, and all personnel, equipment, and funding was transferred to the Corporation. As the transfer of operations resulted in the formation of a new government entity, the Corporation recognized the carrying values of the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the operations of the transferor government as of the effective date of the transfer. The transferor government, the Commonwealth, maintained the operations on a cash basis. As the Corporation was established on July 1, 2024 and follows the accrual basis of accounting, comparative information is not available for the first fiscal year.

Overview of the Financial Statements

This financial report consists of three parts: Management's Discussion and Analysis (this section), the financial statements, and the accompanying notes to the financial statements. The Kentucky Horse Racing and Gaming Corporation is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The enterprise fund statements offer short and long-term financial information about the activities and operations of the Corporation. Such statements are presented in a manner similar to those of a private business.

The statement of net position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Corporation during the fiscal year. The statement of cash flows should help users assess the Corporation's ability to generate future net cash flows, meet future obligations/commitments as they become due, the Corporation's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and noncash investing, capital, non-capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11-29.

Financial Analysis of the Corporation

Condensed Financial Information
Statement of Net Position
Year Ended June 30:

	2025
Current assets	$ 147,284,681
Noncurrent assets	353,546
Total Assets	147,638,227
Deferred outflows of resources	4,853,565
Current liabilities	34,050,911
Noncurrent liabilities	25,712,848
Total Liabilities	59,763,759
Deferred inflows of resources	2,055,294
Net investment in capital assets	353,546
Restricted	104,147,754
Unrestricted	(13,828,561)
Total Net Position	$ 90,672,739

Total assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, unrestricted investments, restricted investments, accounts receivable, and capital assets. The Corporation is responsible for administering various cash programs as authorized by the General Assembly and outlined in the Kentucky Revised Statutes causing the funds to be restricted for program awards/uses. An overview of the programs can be found in Note 1 to the financial statements. During 2025, the Corporation participated in a cash and investment pool maintained by the Commonwealth where the funds are held in the Commonwealth's general depository or depositories designated by the State Treasurer, and the investments are carried at fair value. Additionally, the Corporation maintained funds in checking accounts with financial institutions. The investment in capital assets includes vehicles and equipment net of accumulated depreciation.

Total liabilities generally consist of accounts payable and other liabilities attributable to general operating expenses, accrued payroll expenses, incentives accrual, compensated absences (classified between current and noncurrent portions), the pension liability (a noncurrent liability) and the other postemployment benefits liability (a noncurrent liability). The incentives accrual includes earned, but unpaid, awards in the purse supplement, breeders' incentive and other programs administered by the Corporation, as well as funds due to the Commonwealth for an overpayment of pari-mutuel tax assessments. Information on compensated absences, the pension liability and the other postemployment benefits liability can be found in Notes 6, 7, and 8 to the financial statements. Deferred outflows and/or inflows of resources relate entirely to the pension and other postemployment benefits liabilities.

Total net position of $90,672,739 million included the Corporation's net investment in capital assets of $353,546, $104,147,754 million in restricted net position and $(13,828,561) million in unrestricted net position. The negative unrestricted net position balance resulted from the net pension and other postemployment benefits liabilities that are expected to decrease over future years and not be realized. Information on the restricted net position can be found in Note 9 to the financial statements.

Financial Analysis of the Corporation (continued)

Condensed Financial Information
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30:

		2025
Operating Revenues:		
License, assessments, registration fees, and unclaimed tickets	$	16,392,904
Sports and gaming revenue		40,755,408
Pari-mutuel revenue		98,952,544
Total Operating Revenues		156,100,856
Operating Expenses:		
Personnel costs		7,536,430
Operating expenses		5,560,308
Development and incentive funds		101,006,766
Capital outlay		920
Total Operating Expenses		114,104,424
Income from Operations		41,996,432
Nonoperating revenues, net		48,676,307
Change in net position		90,672,739
Net position, beginning of year		-
Net position, end of year	$	90,672,739

Operating revenues generated during fiscal year ended June 30, 2025 consisted of the following: a) licensing, assessments, registration fees, and unclaimed tickets; b) excise taxes and licensing fees associated with sports wagering and gaming; and c) pari-mutuel taxes on horse racing. The licensing, assessments, and registration fees are charged by the Corporation as authorized in the Kentucky Revised Statutes and Kentucky Administrative Regulations for horse racing in Kentucky and available to fund operations at the Corporation. The excise taxes associated with sports wagering and gaming are received from the Kentucky Department of Revenue, and a large portion are transferred to the Kentucky problem gambling assistance fund and Kentucky permanent pension fund as required by the Kentucky Revised Statutes. The pari-mutuel taxes for horse racing are received from the Kentucky Department of Revenue and used to fund the various cash programs outlined in Note 1 to the financial statements.

Operating expenses incurred during fiscal year ending June 30, 2025 consist of personnel costs, operating costs and development and incentive fund awards. Personnel and operating costs are incurred by the Corporation to fulfill its responsibilities of regulating the conduct of live horse racing, pari-mutuel wagering, sports wagering, and breed integrity and development. The development and incentive fund awards are the result of the Corporation's responsibility for administering various cash incentive programs to promote Kentucky racing and breeding. Further information on the cash incentive programs is included in Note 1 of the financial statements.

Financial Analysis of the Corporation (continued)

Nonoperating revenues generated during fiscal year ended June 30, 2025 include interest income, payments from the Commonwealth, and the net position assumed by the Corporation partially offset by payments to the Commonwealth. The Corporation received funding throughout the fiscal year from the Commonwealth related to a general fund appropriation and transfers from the sports wagering administration fund as required by the Kentucky Revised Statutes. The Corporation assumed the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Kentucky Horse Racing Commission effective July 1, 2024 which is included as a Special Item on the Statement of Revenues, Expenses, and Changes in Net Position and further explained in Note 1 to the financial statements. Payments to the Commonwealth are funds distributed to accounts and other agencies of the Commonwealth as required by the Kentucky Revised Statutes, the majority of which pertain to the required transfers mentioned above for the sports wagering and gaming revenue received.

Condensed Financial Information
Statement of Cash Flows
Year Ended June 30:

	2025
Cash flows from:	
Operating activities	$ 47,199,711
Noncapital financing activities	(28,572,484)
Capital and financing activities	(33,429)
Investing activities	63,120,542
Net change in cash and cash equivalents and restricted cash	81,714,340
Cash and cash equivalents and restricted cash, beginning of year	36,372,554
Cash and cash equivalents and restricted cash, end of year	$ 118,086,894

Currently Known Facts, Decisions, or Conditions

As required by Kentucky Revised Statutes, the regulation of all forms of charitable gaming will become the responsibility of the Corporation effective July 1, 2025. The Department of Charitable Gaming is an agency within the Public Protection Cabinet as of June 30, 2025. As of July 1, 2025, the Corporation will assume the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Department of Charitable Gaming, and all personnel, equipment, and funding will be transferred to the Corporation.

Effective July 1, 2025, the Corporation is no longer offering compensatory leave. All accrued balances of compensatory leave will be paid out to the employees during the first quarter of fiscal year ending June 30, 2026.

The Kentucky Finance and Administration Cabinet began overseeing the revenue receipts from the sports wagering excise taxes and distribution of the funds to the Corporation, Kentucky problem gambling assistance fund and Kentucky permanent pension fund as required by the Kentucky Revised Statutes during July 2025. Thus, sports and gaming revenue and payments to the Commonwealth will decrease significantly during fiscal year ending June 30, 2026.

Contacting the Corporation'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 Corporation's activities, and to show the Corporation's accountability for the revenue that it generates. If you have any questions about this report or need additional financial information, contact the Kentucky Horse Racing and Gaming Corporation, 4047 Iron Works Parkway, Lexington, KY 40511 or by telephone at (859) 246-2040.

KENTUCKY HORSE RACING AND GAMING CORPORATION
STATEMENT OF NET POSITION

JUNE 30, 2025

ASSETS		
Current Assets:		
Cash and cash equivalents	$	4,272,806
Restricted cash and equivalents		113,814,088
Unrestricted investments		2,113,373
Restricted investments		24,760,113
Accounts receivable		1,431,424
Other receivables		892,877
Total Current Assets		147,284,681
Noncurrent Assets:		
Capital assets		353,546
Total Noncurrent Assets		353,546
Total Assets		147,638,227
Deferred Outflows of Resources		4,853,565
LIABILITIES		
Current Liabilities:		
Accounts payable		565
Other liabilities		12,087,971
Accrued payroll and related taxes		386,680
Incentives accrual		20,913,506
Compensated absences		662,189
Total Current Liabilities		34,050,911
Noncurrent Liabilities:		
Compensated absences		620,129
Net pension liability		23,695,549
Net other postemployment benefit liability		1,397,170
Total Noncurrent Liabilities		25,712,848
Total Liabilities		59,763,759
Deferred Inflows of Resources		2,055,294
NET POSITION		
Net investment in capital assets		353,546
Restricted		104,147,754
Unrestricted		(13,828,561)
Total Net Position	$	90,672,739

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

KENTUCKY HORSE RACING AND GAMING CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2025

Operating Revenues:	
License, assessments, registration fees, and unclaimed tickets	$ 16,392,904
Sports and gaming revenue	40,755,408
Pari-mutuel revenue	98,952,544
Total Operating Revenues	156,100,856
Operating Expenses:	
Personnel costs	7,536,430
Operating expenses	5,560,308
Development and incentive funds	101,006,766
Capital outlay	920
Total Operating Expenses	114,104,424
Income from Operations	41,996,432
Nonoperating Revenues and Expenses:	
Interest income	2,798,342
Payments from the Commonwealth	4,233,240
Payments to the Commonwealth	(40,910,006)
Other income	10,282
Special item (see Note 12)	82,544,449
Total Nonoperating Revenues	48,676,307
Change in net position	90,672,739
Net position, beginning of year	-
Net position, end of year	$ 90,672,739

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

KENTUCKY HORSE RACING AND GAMING CORPORATION
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2025

Cash flows from operating activities:		
Cash receipts for license, assessments, registration fees, and unclaimed tickets	$	15,704,459
Cash receipts for sports and gaming revenue		44,516,271
Cash receipts for pari-mutuel revenue		98,062,365
Cash payments for personnel expenses		(8,465,808)
Cash payments for goods and services		(5,173,238)
Cash payments for development and incentive awards		(97,444,338)
Net cash flows from operating activities		47,199,711
Cash flows from noncapital financing activities:		
Cash receipts from other revenues		10,282
Payments to the Commonwealth		(40,910,006)
Payments from the Commonwealth		12,327,240
Net cash flows from noncapital financing activities		(28,572,484)
Cash flows from capital and financing activities:		
Purchase of capital assets		(33,429)
Net cash flows from capital and financing activities		(33,429)
Cash flows from investing activities:		
Proceeds from sales of investments		60,322,200
Income from investments		2,798,342
Net cash flows from investing activities		63,120,542
Net change in cash and cash equivalents and restricted cash		81,714,340
Cash and cash equivalents and restricted cash, beginning of year		36,372,554
Cash and cash equivalents and restricted cash, end of year	$	118,086,894
Cash and cash equivalents, unrestricted	$	4,272,806
Cash and cash equivalents, restricted		113,814,088
	$	118,086,894

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

KENTUCKY HORSE RACING AND GAMING CORPORATION
STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2025

Reconciliation of income from operations to net cash flows from operating activities:		
Income from operations	$	41,996,432
Depreciation		179,713
Increase (decrease) due to changes in:		
Accounts receivable		(688,445)
Other receivables		(892,878)
Deferred outflows		(1,424,048)
Accounts payable		565
Other liabilities		3,993,971
Accrued payroll		57,253
Incentives accrual		3,562,428
Compensated absences		169,098
Net pension liability		2,344,485
Net other postemployment benefit liability		95,125
Deferred inflows of resources		(2,193,988)
Net cash flows from operating activities	$	47,199,711

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

Note 1—Nature of operations

The Kentucky Horse Racing and Gaming Corporation (“Corporation”) was established in 2024 by the General Assembly of the Commonwealth of Kentucky (“Commonwealth”) as an independent, de jure municipal corporation and political subdivision of the Commonwealth charged with regulating horse racing, pari-mutuel wagering, sports wagering, breed integrity and development, and on and after July 1, 2025, charitable gaming. The Corporation is committed to protecting the health, safety, and welfare of the wagering public and all participants in activities under its jurisdiction. Effective July 1, 2024, the Corporation assumed all responsibilities of the Kentucky Horse Racing Commission, which was abolished, and all personnel, equipment, and funding was transferred to the Corporation.

The Corporation is administered by a board of directors to regulate the conduct of live horse racing, pari-mutuel wagering, sports wagering, breed integrity and development, charitable gaming on and after July 1, 2025, and related activities within the Commonwealth.

The Corporation is responsible for administering the following cash incentive programs to promote Kentucky racing and breeding by providing or supplementing purses for eligible horses that were bred in Kentucky. These programs are funded through an excise tax imposed on all tracks conducting pari-mutuel wagering under the jurisdiction of the Corporation:

- Kentucky Thoroughbred Development Fund (KTDF)
- Kentucky Standardbred Development Fund (KSDF)
- Kentucky Quarter Horse, Paint, Appaloosa and Arabian Development Fund through March 27, 2025
- Kentucky Quarter Horse Development Fund beginning March 28, 2025
- Kentucky Paint, Appaloosa and Arabian Development Fund beginning March 28, 2025

The Corporation is responsible for administering the following cash incentive programs to provide rewards for breeders of horses bred and foaled in Kentucky. These programs are funded by the sales and use tax on the fees paid for breeding a mare to a stallion in Kentucky:

- Kentucky Thoroughbred Breeders’ Incentive Fund (KTBIF or KBIF)
- Kentucky Standardbred Breeders’ Incentive Fund (KSBIF)
- Kentucky Horse Breeders’ Incentive Fund (KHBIF or Non-Race)

The following additional cash programs are administered by the Corporation:

Program	Purpose	Funding Source
Kentucky Racing Health and Welfare Fund	Provides benefits for off-the-job injuries and illnesses that are not covered by union health and welfare plans, workers’ compensation, social security, public welfare, military benefits, veterans’ benefits or any other type of health, medical, dental or accident insurance	Un-cashed pari-mutuel tickets from thoroughbred races at Kentucky racetracks that are over one year old
Kentucky County Fair Purse Fund	Provides purses for the Kentucky County Fair races	Combination of un-cashed pari-mutuel tickets from standardbred races at Kentucky racetracks that are over one year old and an allocation from KSDF

Note 1—Nature of operations (continued)

Kentucky Equine Drug Research Fund	Provides financing for drug research, testing research, equine medical research, equine health research issues, and any regulatory or administrative activity of the Corporation that is related to the research and issues described above	Excise tax imposed on all Kentucky racetracks conducting pari-mutuel wagering under the jurisdiction of the Corporation
Kentucky Backside Improvement Fund	Provides funding for the improvement of backsides of thoroughbred racing associations averaging $1,200,000 or less pari-mutuel handle per racing day on live racing	Each thoroughbred racing association pays a percentage of its on-track pari-mutuel wagers
Kentucky Equine Aftercare Program	Funds awarded to aftercare facilities based in Kentucky only after the facilities have achieved and maintained levels of service and operation that resulted in national accreditation	Excise tax imposed on all Kentucky racetracks conducting pari-mutuel wagering on historical horse racing under the jurisdiction of the Corporation
Kentucky Equine Management Internship Program	Funding provided for equine management training	Excise tax imposed on all Kentucky racetracks conducting pari-mutuel wagering on historical horse racing under the jurisdiction of the Corporation

Note 2—Summary of significant accounting policies

Basis of Presentation and Accounting – The Corporation is a discretely presented component unit of the Commonwealth of Kentucky. The Corporation's financial statements are included in the Commonwealth's Annual Comprehensive Financial Report ("ACFR") as a discretely presented component unit.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Corporation is a special purpose government engaged only in business-type activities and, therefore presents only the financial statements required for the enterprise fund. In accordance with GASB Statement No. 34 requirements for enterprise fund, activity is recorded using the accrual basis of accounting and the measurement focus is on the flow of economic resources. Accordingly, revenues are recognized when they are earned and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents – For financial statement purposes, the Corporation considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and equivalents are reported at cost.

Investments – Investments are reported at fair value. The equity position of the Corporation in the Commonwealth's cash and investment pool is reported as assets of the Corporation. Unrealized gains and losses are included in the statement of revenues, expenses and changes in net position.

Note 2—Summary of significant accounting policies (continued)

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable consists of outstanding invoices for licensing, historical horse racing assessments and backside improvement assessments. The Corporation uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables. Management believes all accounts receivable as of June 30, 2025, were collectible and no allowance was considered necessary.

Capital Assets – All capital assets are recorded at cost less accumulated depreciation. All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold of $5,000. The cost of vehicles and equipment is depreciated over the estimated useful lives of the related assets on a basis using the straight-line method. Depreciation on assets have been expensed in the Statement of Revenues, Expenses, and Changes in Net Position. The useful life for purposes of computing depreciation are as follows:

Vehicles and equipment	5-10 years

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net assets by the Corporation that is applicable to a future reporting period. At June 30, 2025, deferred outflows of resources related to the following:

Pension liability (see Note 7)	$	4,053,045
Other postemployment benefits liability (see Note 8)		800,520
Total deferred outflows of resources	$	4,853,565

Compensated Absences – In June 2022, GASB issued Statement No. 101. *Compensated Absences*. The provisions of the statement are effective for fiscal years beginning after December 15, 2023. 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. The Corporation adopted this statement effective July 1, 2024 with no impact on net position.

A compensated absence liability is recognized in accordance with GASB 101, *Compensated Absences*, and includes 1) leave that is attributable to services already rendered, 2) leave that accumulates, and 3) leave that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

Incentives Accrual – Incentive accrual consists of earned, but unpaid awards in the purse supplement, breeders' incentive and other programs administered by the Corporation, as well as due to the Commonwealth for an overpayment of pari-mutuel tax assessments.

Pension Liability – For purposes of measuring the Corporation's estimated proportionate share of the collective net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense information regarding the Corporation's participation in the Kentucky Employees Retirement System has been determined on the same basis as reported by the Kentucky Public Pensions Authority. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other Postemployment Benefits ("OPEB") Liability – For purposes of measuring the Corporation's estimated proportionate share of the collective net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense information regarding the Corporation's participation in the Kentucky Employees Retirement System (the Insurance Fund) has been determined on the same basis as reported by the Kentucky Public Pensions Authority. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Note 2—Summary of significant accounting policies (continued)

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net assets by the Corporation that is applicable to a future reporting period. At June 30, 2025, deferred inflows of resources relate to the following:

Pension liability (see Note 7)	$	455,633
Other postemployment benefits liability (see Note 8)		1,599,661
Total deferred inflows of resources	$	2,055,294

Net Position – Net position is displayed in three components:

- *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted Net Position* – Consists of net position with constraints placed on the use thereof 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.

The Corporation has not otherwise adopted a formal policy which would govern (if and when applicable) the order of priority relative to the use of net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses – Operating revenues and expenses consist of revenues earned and expenses incurred as a result of the principal operations of the Corporation. Operating revenue results from exchange transactions associated with license, assessments, registration fees, and unclaimed tickets, sports and gaming revenue, and pari-mutuel revenue that are directly related to the Corporation's mission. Operating expenses consist of all expenses incurred to provide the operating services listed above.

Nonoperating Revenues and Expenses – Nonoperating revenue includes interest revenue, payments from the Commonwealth, and other revenues not meeting the definition of operating. Payments from the Commonwealth total $4,233,240 for the year ended June 30, 2025, and include the General Fund appropriation made to the Corporation and the transfers from the sports wagering administration fund as required by the Kentucky Revised Statutes. The Corporation assumed the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Kentucky Horse Racing Commission effective July 1, 2024 which is included as a Special Item nonoperating revenue in the amount of $82,544,449 for the year ended June 30, 2025. Nonoperating expenses include payments to the Commonwealth for distribution of funds to accounts and other agencies of the Commonwealth as required by the Kentucky Revised Statutes, the majority of which pertain to the required transfers for the sports wagering and gaming revenue to the Kentucky problem gambling assistance fund and the Kentucky permanent pension fund.

Note 3—Cash and cash equivalents

The Corporation maintains checking accounts in financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per bank. The Corporation maintains cash balances in excess of FDIC limits with the excess funds covered by collateral of the pledging institution's trust department in the Corporation's name for the main operating account. The Corporation maintains accounts at an additional bank that exceed FDIC limits by approximately $1,900,000 and are uncollateralized. In addition, the Corporation is allowed to participate in a cash and investment pool maintained by the Commonwealth of Kentucky.

As of June 30, 2025, cash and cash equivalents consist of the following:

Checking accounts	$	102,449,621
Commonwealth pooled cash		15,637,273
Total cash and cash equivalents and investments	$	118,086,894

Note 4—Investments

State cash and investment pool funds are held in the Commonwealth's general depository or depositories designated by the State Treasurer, which has statutory responsibility and authority to safeguard the funds.

Investments are valued based on the fair value measurements below:

The fair value measurements framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as described below:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical or similar assets or liabilities in markets that are not active or unobservable inputs that are derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs that are based on the Corporation's own assumptions as to how knowledgeable parties would price assets or liabilities that are not corroborated by market data.

Valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Corporation believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

Level 1	$	2,887,491
Level 2		23,985,995
	$	26,873,486

Note 4—Investments (continued)

Credit Risk – Under Commonwealth statutes, the Corporation, subject to certain limitations, is permitted to invest in the following:

- Obligations backed by the full faith and credit of the United States or a United States government agency
- Obligations of any corporation of the United States government or government sponsored enterprise
- Securities issued by a state or local government, or any instrumentality or agency thereof
- Collateralized or uncollateralized certificates of deposit or other interest-bearing accounts
- Bankers' acceptances
- Commercial paper
- Mutual funds
- Asset-backed securities
- United States dominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers, including sovereign and supranational governments
- State and local delinquent property tax claims, which upon purchase, shall become certificates of delinquency secured by interests in real property

Concentration of Credit Risk – With the exception of certain limitations under Commonwealth statutes, there is no limit on the amount the Corporation may invest in any one issuer. The Corporation may consult with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

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, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of another party. As indicated above, as of June 30, 2025, the Corporation's investments do not consist of any investments held outside of the Commonwealth cash and investment pool.

Interest Rate Risk – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As previously indicated (see Concentration of Credit Risk), the Corporation may consult with the Office of Financial Management (within the Kentucky Finance and Administration Cabinet) to determine suitable investments.

Foreign Currency Risk – As indicated above, as of June 30, 2025, the Corporation's investments do not consist of any investments held outside of the Commonwealth cash and investment pool. Accordingly, the Corporation's investments are not otherwise believed to be subject to foreign currency risk.

Note 5—Capital assets

A summary of the changes in capital assets for the year ended June 30, 2025 is as follows:

	Balance 7/1/2024	Additions	Disposals	Balance 06/30/25
Vehicles and equipment	$ 706,424	$ 33,429	$ -	$ 739,853
Total capital assets	706,424	33,429	-	739,853
Accumulated depreciation	(206,594)	(179,713)	-	(386,307)
Net capital assets	$ 499,830	$ (146,284)	$ -	$ 353,546

Capital assets transferred from the Commonwealth of Kentucky are included in Special Items in the Statement of Revenue, Expenses, and Changes in Net Position.

Note 6—Compensated absences

Employees may accumulate earned but unused annual leave, compensatory leave, and sick pay benefits.

Annual and Compensatory Leave – Annual leave is accumulated at amounts ranging from 12 to 24 days per year, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. At June 30, 2025, the Corporation's estimated liability for accrued annual leave totals $520,162.

Compensatory leave is granted to authorized employees for any hours pre-approved for and physically worked beyond the prescribed hours of duty, Sunday through Saturday, in accordance with the Fair Labor Standards Act (FLSA) guidelines up to a maximum of 240 or 480 hours depending on if the position is deemed policy-making. The rate and manner of earnings is based on a 37.5 hour work week and the employee's FLSA status. A maximum of 240 hours is eligible for payment at termination, less applicable deductions. At June 30, 2025, the Corporation's estimated liability for compensatory leave totals $362,103.

Sick Leave – Sick pay is accumulated at the rate of one working day per month with no maximum if the employee meets specific work hour requirements for eligibility. After the completion of both 120 months of service and 240 months of service, an additional 10 days of sick leave is automatically credited to the employee's sick leave balance. In accordance with the employee's retirement tier, the employee may receive credit for unused sick leave upon retirement. At June 30, 2025, the liability for accumulated sick leave is $400,053 which excludes the unused sick leave eligible for credit upon retirement.

The activity relative to the liability for compensated absences for the year ended June 30, 2025 is as follows:

Balance, beginning of the year	$	1,113,220
Additions		169,098
Reductions		-
Balance, end of the year	$	1,282,318

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

At June 30, 2025 the estimated amount of annual, compensatory and sick leave due within one year totals $662,189.

Note 7—Retirement plans

General Information

Plan Description

All employees who average 100 or more hours per month over a calendar or fiscal year participate in the Kentucky Employees Retirement System ("KERS") of the Commonwealth of Kentucky, which is a cost-sharing, multiple employer defined benefit pension plan. Under the provisions of Kentucky Revised Statutes 61.645, the Kentucky Public Pensions Authority ("KPPA") Board of Trustees administers the KERS.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the KERS' Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2024. Such report may be obtained by writing to the Kentucky Public Pensions Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. KPPA can also be reached by telephone at 502.696.8800 or by email at kppa.mail@kyret.ky.gov. The Commonwealth's ACFR should also be referred to for additional disclosures related to the KERS.

In addition to the KERS, the Corporation'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. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Kentucky Public Employees' Deferred Compensation Authority (KPEDCA) issues a publicly available report that includes financial statements and other required supplementary information relative to the deferred compensation plans. Such report may be obtained by writing to the Kentucky Public Employees' Deferred Compensation Authority, 501 High Street, 2nd Floor, Frankfort, Kentucky 40601. The KPEDCA can also be reached by telephone at 502.573.7925 or by email at kydcp@nationwide.com. The Commonwealth's ACFR should also be referred to for additional disclosures related to the two deferred compensation plans.

Benefits Provided

The KERS provides retirement, as well as health care, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. Benefits are established by State statute. The below information summarizes the significant benefits related provisions of the KERS non-hazardous plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

Note 7—Retirement plans (continued)

	Tier 1 employees Participation prior to September 1, 2008	**Tier 2 employees** Participation from September 1, 2008 to December 31, 2013	**Tier 3 employees** Participation on or after January 1, 2014
Covered employees	Substantially all regular, full-time members employed in non-hazardous duty positions of any State department, board, or any agency directed by Executive Order to participate in the KERS		
Benefit formula	Final compensation X benefit factor X years of service		Cash Balance Plan - hybrid plan with characteristics of both a defined benefit plan and a defined contribution plan
Final compensation	Average of the highest 5 fiscal years (must contain at least 48 months); includes lump-sum compensation payments (before and at retirement)	5 complete fiscal years immediately preceding retirement; each year must contain 12 months; lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation	No final compensation
Benefit factor	1.97% - if you do not have 12 months credit for January 1, 1998 - January 1, 1999 2.00% - if you have 13 months credit for January 1, 1998 - January 1, 1999	10 years or less - 1.10% Greater than 10 years, but no more than 20 years - 1.30% Greater than 20 years, but no more than 26 years - 1.50% Greater than 26 years, but no more than 30 years - 1.75% Additional years above 30 years - 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor; a life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KPPA Board of Trustees based on the member's accumulated account balance
Cost of living adjustment	No cost of living adjustment unless authorized by the legislature with specific criteria; if authorized, the cost of living adjustment is limited to 1.50%		
Unreduced retirement benefits	Any age with 27 years of service Age 65 with 48 months of service Money purchase for age 65 with less than 48 months based on contributions and interest	Member must be at least 57 and age plus earned service must equal 87 years at retirement to retire under the Rule of 87 Provision Age 65 with 5 years of earned service; no money purchase calculations	
Reduced retirement benefits	Any age with 25 years of service Age 55 with 5 years of service	Age 60 with 10 years of service (excludes purchased service with certain exceptions)	No reduced retirement benefits

Contributions

Contribution rates are established by State statute. Pursuant to the provisions of Kentucky Revised Statutes 61.645, contribution requirements of active employees and participating employers are established and may be amended by the KPPA Board of Trustees.

Note 7—Retirement plans (continued)

During the 2021 Regular Session, the General Assembly passed House Bill 8 which changed how employer contributions are allocated and collected from the participating employers in the non-hazardous plan. The proportionate share of the collective pension amount for employers that participate in the non-hazardous plan is based upon the employer's allocation of the amortization cost, as specified under State statutes, plus the employer's allocation of the normal cost portion of the required contribution based on the employer's payroll. The total proportionate share of the collective pension amount, which represents an employer's share of the long-term contribution effort, assumes the amortization cost portion is approximately 90% of the aggregate required employer contribution.

The Corporation, for the year ended June 30, 2025 was required to contribute a total of 48.75% of the covered employees' salaries between the pension plan and the KPPA Insurance Fund (see Note 8). The actuarially determined employer contribution represents the amount, that when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, the costs of administration, and an amortized portion of any unfunded liability. The below information summarizes the significant employee contributions related provisions of the KERS non-hazardous plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

Tier 1 employees	Contributions equal 5.00% of all creditable compensation
Tier 2 employees	Contributions equal 6.00%, with 5.00% being credited to the member's account and 1% to fund the KPPA Insurance Fund (see Note 8) Interest is paid each June 30th on members' accounts at a rate of 2.50% The member is entitled to a full refund of contributions and interest if employment is terminated, however, the 1.00% contribution to the KPPA Insurance Fund is non-refundable
Tier 3 employees	Contributions equal 6.00%, with 5.00% being credited to the member's account and 1% to fund the KPPA Insurance Fund (see Note 8) Employee accounts are also credited with a 4.00% employer pay credit At the end of each fiscal year, interest is paid into each employee's account The account is guaranteed the 4.00% interest credit on the employee's account balance as of June 30 of the previous fiscal year-end The employee's account may be credited with additional interest if the five-year average investment return exceeds 4.00% If an employee terminates his/her employment, the employee, if fully vested (fully vested upon reaching 5 years of service), is eligible to either take a refund of his/her accumulated account balance or, if the employee is eligible for retirement benefits, he/she may annuitize the account balance If an employee terminates his/her employment prior to being fully vested and requests a refund, the employee is only eligible to receive his/her contributions plus the interest thereon, forfeiting the employer pay credit and the associated interest The 1.00% contribution to the KPPA Insurance Fund is non-refundable

Retired employees receive certain health care benefits depending on length of service. In accordance with State statutes, such benefits are provided and advanced-funded on an actuarially determined basis through the KERS.

The Corporation's contributions (specific to the pension portion) for the year ended June 30, 2025 total $1,937,056.

Note 7—Retirement plans (continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2025, the Corporation's liability with respect to its estimated proportionate share of the collective net pension liability is $23,695,549. The June 30, 2025 net pension liability has been measured as of June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's estimated proportionate share of the collective net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to the projected contributions of all employer participants and assumes the amortization cost is approximately 87% of the requirement contribution for the plans, as actuarially determined. At June 30, 2025, the Corporation's estimated proportionate share (as rounded) is .20%.

The Corporation's estimate of pension expense with respect to the year ended June 30, 2025 totals $1,493,323.

At June 30, 2025, deferred outflows and inflows of resources related to pensions consist of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total pension liability	$ 449,320	$ -
Net difference between projected and actual earnings on pension plan investments	255,705	455,633
Changes in the proportionate share and differences between the corporation's contributions and its proportionate share of the contributions	1,410,964	-
Subsequent to measurement date contributions	1,937,056	-
	$ 4,053,045	$ 455,633

The $1,937,056 of deferred outflows of resources as of June 30, 2025 (per the above table) attributable to the subsequent to measurement date contributions will be recognized as a reduction of the net pension liability in the year ending June 30, 2025.

The other amounts reflected as net deferred outflows and inflows of resources related to pensions as of June 30, 2025 will be recognized within pension expense as follows:

Years Ending June 30,	
2025	$ 1,754,337
2026	47,418
2027	(80,435)
2028	(60,964)
	$ 1,660,356

Note 7—Retirement plans (continued)

Actuarial Assumptions

The total pension liability per the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate – 2.50%
Payroll growth rate – 0.00%
Projected salary increases – 3.30% to 15.30%; varies by service
Investment rate of return – 5.25%
Mortality rates – Pub-2010 General Mortality table, projected with the ultimate rates from the MP-2020 mortality improvement scale using a base year of 2010

The actuarial assumptions used in the June 30, 2024 actuarial valuation were based on the results of an actuarial experience study performed with respect to the period ending June 30, 2023.

The long-term expected rate of return on pension plan assets is determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage.

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity:		
Public	40.00%	4.15%
Private	8.00%	9.10%
Fixed Income:		
Specialty credit	25.00%	3.82%
Core fixed income	10.00%	2.85%
Cash	2.00%	1.70%
Inflation Protected:		
Real estate	7.00%	4.90%
Real return	8.00%	5.35%
	100.00%	

Note 7—Retirement plans (continued)

The long-term expected rate of return on pension plan assets, which is established by the KPPA Board of Trustees, was 5.25% with respect to the June 30, 2024 actuarial valuation.

Discount Rate

The discount rate used to measure the total pension liability per the June 30, 2024 actuarial valuation was 5.25%. The projection of cash flows used to determine the discount rate assumed the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute, as amended by House Bill 8, passed during the 2021 legislative session, over the remaining 27 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the Corporation's Estimated Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Corporation's estimated proportionate share of the collective net pension liability as of June 30, 2025 calculated using the discount rate of 5.25%, as well as what the Corporation's estimated proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) than the current discount rate.

	1.00% Decrease (4.25%)	Current Discount Rate (5.25%)	1.00% Increase (6.25%)
Corporation's estimated proportionate share of the collective net pension liability	$ 27,429,217	$ 23,695,549	$ 20,602,350

Note 8—Other postemployment benefits

General Information

Plan Description

All eligible employees receiving benefits under the KERS are provided hospital and medical insurance through the KPPA Insurance Fund, a cost-sharing multiple employer defined benefit other postemployment benefits ("OPEB") plan. Under the provisions of Kentucky Revised Statutes 61.645, the KPPA Board of Trustees administers the KERS, including the Insurance Fund. The KPPA is the successor to Kentucky Retirement Systems.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due (as well as financial statements and other required supplementary information) is presented in the KERS' Annual Financial Report (which is a matter of public record). The most recent actuarial valuation is as of June 30, 2024. Such report may be obtained by writing to the Kentucky Public Pensions Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601. KPPA can also be reached by telephone at 502.696.8800 or by email at kppa.mail@kyret.ky.gov. The Commonwealth's ACFR should also be referred to for additional disclosures related to the KERS and the Insurance Fund.

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for eligible employees. The Insurance Fund provides health insurance benefits to

Note 8—Other postemployment benefits (continued)

employees and certain beneficiaries under prescribed circumstances. As a result of 2004 Regular Session House Bill 290, medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. The below information summarizes the significant benefits related provisions of the OPEB plan. The below is not intended to be, nor should it be interpreted as, a complete account of all such provisions.

Participation prior to July 2003		Participation between July 2003 and August 2008		Participation on or after September 2008	
Months of service	Percent of premium	Months of service	Percent of premium	Months of service	Percent of premium
< 48 48 to 119 inclusive 120 to 179 inclusive 180 to 239 inclusive 240 or more	0% 25% 50% 75% 100%	Greater than or equal to 120 months	$10 per month for each year of service without regard to a maximum dollar adjusted by 1.5% annually	Greater than or equal to 180 months	$10 per month for each year of service without regard to a maximum dollar adjusted by 1.5% annually

This benefit is not protected under the inviolable contract provisions of State statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

Pursuant to the provisions of Kentucky Revised Statutes 61.645, contribution requirements of participating employers are established and may be amended by the KPPA Board of Trustees. The Corporation, for the year ended June 30, 2025 was required to contribute a total of 48.75% of the covered employees' salaries between the KERS pension plan (see Note 7) and the Insurance Fund. Covered employees hired prior to September 1, 2008 are not required to contribute to the Insurance Fund. Covered employees hired after September 1, 2008 are required by State statute to contribute an additional 1.00% of their salary to fund the Insurance Fund. Such contributions are deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E).

The Corporation's contributions to the Insurance Fund for the year ended June 30, 2025 total $249,623.

Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2025, the Corporation's liability with respect to its estimated proportionate share of the collective net OPEB liability is $1,397,170. The June 30, 2025 net OPEB liability has been measured as of June 30, 2024 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Corporation's estimated proportionate share of the collective net OPEB liability was based on a projection of the Corporation's long-term share of contributions to the OPEB plan relative to the projected contributions of all employer participants, and assumes the amortization cost is approximately 87% of the requirement contribution for the plans, as actuarially determined. At June 30, 2025, the Corporation's estimated proportionate share (as rounded) is .19%.

The Corporation's estimate of OPEB expense (benefit) with respect to the year ended June 30, 2025 totals $(629,825).

Note 8—Other postemployment benefits (continued)

At June 30, 2025, deferred outflows and inflows of resources related to OPEB consist of the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the total OPEB liability	$ 109,743	$ 1,155,125
Changes to the assumptions	85,300	51,139
Net difference between projected and actual earnings on OPEB plan investments	138,182	241,921
Changes in the proportionate share and differences between the corporation's contributions and its proportionate share of the contributions	349,882	151,476
Subsequent to measurement date contributions and implicit subsidy	117,413	-
	$ 800,520	$ 1,599,661

The $117,413 of deferred outflows of resources as of June 30, 2025 attributable to the subsequent to measurement date contributions and implicit subsidy will be recognized as a reduction of the collective net OPEB liability in the year ended June 30, 2025.

The other amounts reflected as net deferred outflows and inflows of resources related to OPEB as of June 30, 2025 will be recognized within OPEB expense as follows:

Years Ending June 30,	
2025	$ (798,721)
2026	(127,097)
2027	36,907
2028	(27,643)
	$ (916,554)

Actuarial Assumptions

The total OPEB liability per the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate – 2.50%
Payroll growth rate – 0.00%
Projected salary increases – 3.30% to 15.30%; varies by service
Investment rate of return – 6.50%
Health care cost trend rates –

- Pre-65 - Initial trend starting at 7.10% at January 1, 2026 and gradually decreasing to an ultimate trend rate of 4.25% over a period of 14 years
- Post-65 - Initial trend starting at 8.00% in 2026, and gradually decreasing to an ultimate trend rate of 4.25% over a period of 10 years

Note 8—Other postemployment benefits (continued)

Mortality –

- Pre-retirement - Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2020 Mortality Improvement Scale using a base year of 2010
- Post-retirement (nondisabled) - System-specific mortality table based on mortality experience from 2013-2022 projected with the ultimate rates from the MP-2020 Mortality Improvement Scale using a base year of 2023
- Post-retirement (disabled) - Pub-2010 Disabled Mortality Table, with rates multiplied by 150% for both male and female rates, projected with the ultimate rates from the MP-2020 Mortality Improvement Scale using a base year of 2010

The actuarial assumptions used in the June 30, 2024 actuarial valuation were based on the results of an actuarial experience study performed with respect to the period ending June 30, 2023. The total OPEB liability was rolled forward from the valuation date to the measurement date of June 30, 2024.

The long-term expected rate of return on OPEB plan assets is determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage.

The target asset allocations and best estimates of the arithmetic long-term expected real rate of return for each major asset class are as follows (with respect to the June 30, 2024 actuarial valuation):

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equity:		
Public	30.00%	4.15%
Private	6.00%	9.10%
Fixed Income:		
Core fixed income	27.00%	2.85%
Specialty credit	20.00%	3.82%
Cash	2.00%	1.70%
Inflation Protected:		
Real estate	5.00%	4.90%
Real return	10.00%	5.35%
	100.00%	

The long-term expected rate of return on OPEB plan assets, which is established by the KPPA Board of Trustees, was 6.50% with respect to the June 30, 2024 actuarial valuation.

Note 8—Other postemployment benefits (continued)

Discount Rate

The discount rate used to measure the total OPEB liability per the June 30, 2024 actuarial valuation was 6.00%. The discount rate increased from 5.94% to 6.0% and the new rates were used to measure the total OPEB liability as of the measurement date of June 30, 2024. The discount rate is based on the long-term expected rate of return on OPEB plan investments of 6.50% and a long-term municipal bond rate of 3.97% fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2024.

Sensitivity of the Corporation's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Corporation's estimated proportionate share of the collective net OPEB liability as of June 30, 2025 calculated using the discount rate of 6.00%, as well as what the Corporation's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current discount rate.

	1.00% Decrease (5.00%)	Current Discount Rate (6.00%)	1.00% Increase (7.00%)
Corporation's estimated proportionate share of the collective net pension liability	$ 1,930,467	$ 1,397,170	$ 946,351

Sensitivity of the Corporation's Estimated Proportionate Share of the Collective Net OPEB Liability to Changes In the Health Care Cost Trend Rates

The following table presents the Corporation's estimated proportionate share of the collective net OPEB liability as of June 30, 2025 calculated using the discount rate of 6.00%, as well as what the Corporation's estimated proportionate share of the collective net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the current health care cost trend rate.

	1.00% Decrease	Current Health Care Cost Trend Rate	1.00% Increase
Corporation's estimated proportionate share of the collective net pension liability	$ 1,036,336	$ 1,397,170	$ 1,815,069

Note 9—Restricted net position

As outlined in Note 1, the Corporation is responsible for administering various programs as authorized by the General Assembly and outlined in the Kentucky Revised Statutes. As of June 30, 2025, the net position of the Corporation restricted to these cash programs consists of the following:

Kentucky Thoroughbred Development Fund	$	31,582,436	
Consolidated Standardbred		36,682,654	*
Kentucky Quarter Horse Development Fund		7,101,814	
Kentucky Paint, Appaloosa, Arabian Development Fund		185	
Kentucky Thoroughbred Breeders' Incentive Fund		23,565,877	
Kentucky Horse Breeders' Incentive Fund		2,202,534	
Kentucky Racing Health and Welfare Fund		23,057	
Kentucky Equine Drug Research Fund		1,151,271	
Kentucky Backside Improvement Fund		1,837,926	
Total restricted net position	$	104,147,754	

* Consolidated Standardbred consists of the Kentucky Standardbred Development Fund, Kentucky Standardbred Horsemens Fees, Kentucky Standardbred Breeders' Incentive Fund and the Kentucky County Fair Purse Funds as the funds within these programs are used interchangeably.

Note 10—Risk management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; data breach; and natural disasters. The Corporation has purchased commercial insurance to cover these risks except for workers' compensation, automobile, and damage to buildings and personal property for which the Corporation utilizes the Commonwealth of Kentucky's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth's ACFR should be referred to for additional disclosures related to the Risk Management Fund.

Note 11—Payments to the Commonwealth

The Sports Wagering Administrative Fund was previously created by the General Assembly to collect licensing fees and the excise tax associated with sports wagering in Kentucky and was under the authority of the Corporation during the fiscal year. The amounts deposited in the fund were available for distribution and the following uses: 1) Corporation for administration and operation purposes, 2) Kentucky problem gambling assistance account, and 3) Kentucky permanent pension fund. Beginning March 28, 2025, amounts deposited in the fund were used as follows:

- 10% of receipts distributed to the Corporation for administration and operation purposes
- 2.5% of receipts deposited in the Kentucky problem gambling assistance account
- Funds remaining deposited in the Kentucky permanent pension fund

Additionally, the development fund programs outlined in Note 1 have requirements for an initial amount of funds to be provided to the Kentucky problem gambling assistance account.

Note 11—Payments to the Commonwealth (continued)

Payments to the Commonwealth for fiscal year ending June 30, 2025, consist of the following:

Transfer to Kentucky problem gambling assistance account:		
Sports Wagering Administration Fund	$	1,030,472
Kentucky Thoroughbred Development Fund		100,000
Kentucky Standardbred Development Fund		75,000
Kentucky Quarter Horse, Paint, Appaloosa and Arabian Development Fund		25,000
		1,230,472
Transfer to the Corporation for administration and expenses		566,740
Transfer to the Department of Revenue		1,223,757
Transfer to Kentucky permanent pension fund		37,889,037
Total payments to the Commonwealth	$	40,910,006

Note 12—Special items

Effective July 1, 2024, the Corporation assumed all responsibilities of the Kentucky Horse Racing Commission, which was abolished, and all personnel, equipment, and funding was transferred to the Corporation. As the transfer of operations resulted in the formation of a new government entity, the Corporation recognized the carrying values of the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the operations of the transferor government as of the effective date of the transfer. The transferor government, the Commonwealth of Kentucky, maintained the operations on a cash basis. The Corporation adjusted the assets, deferred outflows of resources, liabilities and deferred inflows of resources to bring them into conformity with the accrual basis of accounting utilized by the Corporation as an enterprise fund by recording accounts receivable, capital assets, accrued liabilities, and pension and OPEB liabilities. The net position assumed by the Corporation is reported as a special item in the statement of revenues, expenses and changes in net position. The balance reported as a special item is comprised of the following:

Current assets	$	124,311,219
Capital assets		499,829
Deferred outflow of resources		3,429,517
Current liabilities		(17,934,892)
Noncurrent liabilities		(23,511,942)
Deferred inflow of resources		(4,249,282)
Net beginning balance	$	82,544,449

Note 13—Subsequent events

As required by Kentucky Revised Statutes, the regulation of all forms of charitable gaming will become part of the Corporation effective July 1, 2025. The Department of Charitable Gaming is an agency within the Public Protection Cabinet as of June 30, 2025. As of July 1, 2025, the Corporation will assume the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Department of Charitable Gaming, and all personnel, equipment and funding will be transferred to the Corporation.

SUPPLEMENTARY INFORMATION

KENTUCKY HORSE RACING AND GAMING CORPORATION
SCHEDULES OF THE CORPORATION'S ESTIMATED PROPORTIONATE SHARE
OF THE COLLECTIVE NET PENSION LIABILITY AND RELATED RATIOS
BASED ON THE CORPORATION'S PARTICIPATION IN THE KERS

YEAR ENDED JUNE 30, 2025

	2024	2023
Total collective net pension liability for the Kentucky Employees Retirement System (KERS) non-hazardous employees	$ 12,049,666,000	$ 12,318,726,000
Corporation's estimated portion (percentage) of the total collective net pension liability	0.196649%	0.173322%
Corporation's estimated portion (amount) of the total collective net pension liability	$ 23,695,549	$ 21,351,064
Corporation's estimated portion of the covered employees payroll	$ 4,102,869	$ 2,607,247
Corporation's estimated proportionate share of the total collective net pension liability as a percentage of the Corporation's estimated portion of the covered employees payroll	578%	819%
KERS' non-hazardous employees total fiduciary net position	$ 4,223,936,000	$ 3,539,443,000
KERS' non-hazardous employees total pension liability	$ 16,273,602,000	$ 15,858,669,000
KERS' non-hazardous employees total fiduciary net position as a percentage of the total pension liability	26%	22%

Note - This schedule is intended to present 10 years of information. The schedule is presented for the Corporation as a stand alone entity and future years will be presented as they become available.

Note - this schedule presents the plans' fiscal years

See the accompanying report of the independent auditor and note to the required supplementary information.

KENTUCKY HORSE RACING AND GAMING CORPORATION
SCHEDULES OF THE CORPORATION’S PENSION CONTRIBUTIONS BASED
ON THE CORPORATION’S PARTICIPATION IN THE KERS

YEAR ENDED JUNE 30, 2025

	2025	2024
Actuarially determined contribution amount	$ 1,937,056	$ 2,058,070
Contribution amount in relation to the actuarially determined contribtion amount	1,937,056	2,058,070
Excess (deficiency)	$ -	$ -
Corporation's estimated portion of the covered employees payroll	$ 4,102,869	$ 2,607,247
Contribution amount as a percentage of the Corporation's estimated portion of the covered employees payroll	47%	79%

Note - This schedule is intended to present 10 years of information.

The actuarial methods and assumptions used to calculate the actuarially determined pension contribution rate are as follows:

Actuarial valuation date	June 30, 2021
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	30 years; closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation rate	2.30%
Payroll growth rate	0.00%
Projected salary increases	3.30% to 15.30%; varies by service
Investment rate of return	5.25%

KENTUCKY HORSE RACING AND GAMING CORPORATION
SCHEDULES OF THE CORPORATION'S ESTIMATED PROPORTIONATE SHARE OF THE COLLECTIVE NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY AND RELATED RATIOS BASED ON THE CORPORATION'S PARTICIPATION IN THE KERS

YEAR ENDED JUNE 30, 2025

	2024	2023
Total collective net other postemployment benefits (OPEB) liability for the Kentucky Employees Retirement System (KERS) nonhazardous employees	$ 723,049,000	$ 784,592,000
Corporation's estimated portion (percentage) of the total collective net OPEB liability	0.193233%	0.165952%
Corporation's estimated portion (amount) of the total collective net OPEB liability	$ 1,397,000	$ 1,302,000
Corporation's estimated portion of the covered employees payroll	$ 4,102,869	$ 3,519,005
Corporation's estimated proportionate share of the total collective net OPEB liability as a percentage of the Corporation's estimated portion of the covered employees payroll	34%	37%
KERS' non-hazardous employees total fiduciary net position	$ 1,765,729,000	$ 1,532,752,000
KERS' non-hazardous employees total OPEB liability	$ 2,488,778,000	$ 2,317,344,000
KERS' non-hazardous employees total fiduciary net position as a percentage of the total OPEB liability	71%	66%

Note - This schedule is intended to present 10 years of information. The schedule is presented for the Corporation as a stand alone entity and future years will be presented as they become available.

Note - this schedule presents the plans' fiscal years

KENTUCKY HORSE RACING AND GAMING CORPORATION
SCHEDULES OF THE CORPORATION'S OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS BASED ON THE CORPORATION'S PARTICIPATION IN THE KERS

YEAR ENDED JUNE 30, 2025

	2025	2024
Actuarially determined contribution amount	$ 63,594	$ 249,623
Contribution amount in relation to the actuarially determined contribution amount	63,594	249,623
Excess (deficiency)	$ -	$ -
Corporation's estimated portion of the covered employees payroll	$ 4,102,869	$ 3,519,005
Contribution amount as a percentage of the Corporation's estimated portion of the covered employees payroll	2%	7%

Note - This schedule is intended to present 10 years of information. Additional years of information will be presented as such information becomes available for subsequent years.

The actuarial methods and assumptions used to calculate the actuarially determined other postemployment benefits contribution rate are as follows:

Actuarial valuation date	June 30, 2021
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	30 years; closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation rate	2.30%
Payroll growth rate	0.00%
Projected salary increases	3.30% to 15.30%; varies by service
Investment rate of return	6.25%
Health care cost trend rates (pre-65)	Initial trend starting at 6.30% at January 1, 2023, decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Health care cost trend rates (post-65)	Initial trend starting at 6.30% starting at January 1 decreasing to an ultimate trend rate of 4.05% over a period of 13 years

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 Board of Directors
Kentucky Horse Racing and Gaming Corporation
Lexington, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Kentucky Horse Racing and Gaming Corporation (the "Corporation") as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 23, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion of the effectiveness of the Corporation'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 Corporation's financial statements are free of 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 result of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Lexington, Kentucky
September 23, 2025