

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

**For The Years Ended  
June 30, 2021 and 2020**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST CLAIR STREET  
FRANKFORT, KY 40601-1817  
(502) 564-5841**





**MIKE HARMON**  
**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 MCM CPAs and Advisors, LLP presents the financial and compliance audit of the books and records of the Kentucky Lottery Corporation for the years ended June 30, 2021 and 2020, as required by KRS 154A.130.

We engaged MCM CPAs and Advisors, 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

Farrah Petter, CPA  
Assistant Auditor of Public Accounts

Enclosure





***Fueling Imagination.  
Funding Education.***

*Financial Report*

*June 30, 2021 and 2020*

KENTUCKY LOTTERY CORPORATION

ANNUAL FINANCIAL REPORT

June 30, 2021 and 2020

***CONTENTS***

INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS:	
STATEMENTS OF NET POSITION .....	17
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION....	18
STATEMENTS OF CASH FLOWS .....	19
NOTES TO FINANCIAL STATEMENTS .....	20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	39
SCHEDULE OF FINDINGS .....	41
SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTIONS .....	42



## **Independent Auditor's Report**

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 Financial Statements**

We have audited the accompanying financial statements of the Kentucky Lottery Corporation, a component unit of the Commonwealth of Kentucky as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Kentucky Lottery Corporation's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

The Kentucky Lottery Corporation's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MCM CPAs & Advisors LLP

P 502.749.1900  
F 502.749.1930  
2600 Meidinger Tower  
462 South Fourth Street  
Louisville, KY 40202  
www.mcmcpa.com  
888.587.1719

A Member of PrimeGlobal - An Association  
of Independent Accounting Firms

**Kentucky**  
**Indiana**  
**Ohio**

## **Independent Auditor's Report (Continued)**

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Lottery Corporation as of June 30, 2021, 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.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, 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.

#### ***Predecessor Auditor***

The financial statements of the Kentucky Lottery Corporation for the year ended June 30, 2020 were audited by another auditor whose report, dated September 18, 2020, expressed an unmodified opinion on those statements. As part of our audit of the June 30, 2021 financial statements, we were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the entity, and accordingly do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2021 on our consideration of the Kentucky Lottery 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 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 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 Kentucky Lottery Corporation's internal control over financial reporting and compliance.



Louisville, Kentucky  
September 24, 2021

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

---

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, 2021 and 2020. Please read it in conjunction with the financial statements, which follow.

Financial Highlights for Fiscal Year 2021

- Record operating revenues of \$1.586 billion were achieved in 2021, an increase of \$382.9 million or 31.8 percent over last year's previous sales record of \$1.203 billion. 2021 represents the tenth consecutive year of record sales for the KLC.
- Instant ticket sales increased \$220.6 million or 29.8 percent to a record \$961.7 million. 2021 represents the seventh consecutive year the KLC has achieved record instant ticket sales. The KLC rolled out 575 additional game touch 28 vending machines and added facings at the \$5, \$10, and \$20 price points.
- Draw game sales increased \$76.9 million or 17.9 percent from 2020 to \$506.0 million. Powerball and Mega Millions sales increased \$11.4 million and \$13.1 million, respectively, as a result of high jackpot levels. The Mega Millions jackpot hit \$1 billion and the Powerball jackpot climbed to \$731 million.
- Pick 3 and Pick 4 games had strong sales this year. In total, these games accounted for a \$36.1 million increase in sales compared to prior year.
- Keno generated sales of \$88.6 million, an increase from prior year by \$9.8 million or 12.4 percent. This is a significant increase considering a decline in sales the prior year when many bars and restaurants were not open and not at full capacity for a good portion of the fiscal year due to COVID-19.
- iLottery instant play games generated sales of \$118.6 million, exceeding prior year by \$85.4 million or 257.2 percent.
- Record dividend transfers to the state of \$355.1 million, an increase of \$82.9 million or 30.5 percent over last 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 the 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 cash equivalents, investments, accounts receivable, capital assets and deposits. As shown in Table 1, the KLC's total assets increased \$18.1 million to \$117.3 million in 2021. Total assets increased \$7.5 million to \$99.2 million in 2020 from \$91.7 million in 2019. Investments consist of U.S. Treasury zero-coupon bonds and other U.S. Government agency securities carried at fair value. Accounts receivable represents revenue to be collected primarily from the sale of draw and instant game tickets. Accounts receivable increased \$8.3 million to \$65.2 million in 2021. Accounts receivable increased \$19.6 million to \$56.9 million in 2020.



KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Capital Assets

The KLC's investment in capital assets, net of accumulated depreciation in 2021 and 2020, was \$5.2 and \$5.6 million, respectively. The investment in capital assets includes buildings, game equipment, data processing equipment and software, automobiles, furniture, and fixtures. The total decrease in the KLC's investment in capital assets for 2021 was \$0.4 million or 7.1 percent compared to an decrease of \$0.1 million or 1.8 percent in 2020. Additional information on the KLC's investment in capital assets can be found in Note 6 to the financial statements.

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

	<u>2021</u>	<u>Increase (Decrease)</u>	<u>2020</u>	<u>Increase (Decrease)</u>	<u>2019</u>
Current and other assets	\$99.4	\$19.5	\$79.9	\$9.1	\$70.8
Investments (noncurrent)	7.1	(0.6)	7.7	(1.4)	9.1
Capital assets, net	5.2	(0.4)	5.6	(0.1)	5.7
Deposits with Multi State Lottery Association	<u>5.6</u>	<u>(0.4)</u>	<u>6.0</u>	<u>(0.1)</u>	<u>6.1</u>
Total assets	<u>117.3</u>	<u>18.1</u>	<u>99.2</u>	<u>7.5</u>	<u>91.7</u>
Current liabilities	88.8	19.2	69.6	8.5	61.1
Long-term liabilities	<u>10.3</u>	<u>(0.6)</u>	<u>10.9</u>	<u>(1.4)</u>	<u>12.3</u>
Total liabilities	<u>99.1</u>	<u>18.6</u>	<u>80.5</u>	<u>7.1</u>	<u>73.4</u>
Net position components					
Net investment in capital assets	5.2	(0.4)	5.6	(0.1)	5.7
Unrestricted - accumulated unrealized gains on investments	1.0	(0.5)	1.5	0.2	1.3
Unrestricted	<u>12.0</u>	<u>0.4</u>	<u>11.6</u>	<u>0.2</u>	<u>11.4</u>
Net position	<u>\$18.2</u>	<u>\$(0.5)</u>	<u>\$18.7</u>	<u>\$0.3</u>	<u>\$18.4</u>

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Liabilities

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

	Current			Long-Term		
	2021	2020	2019	2021	2020	2019
Accounts payable and other liabilities	\$13.4	\$9.0	\$5.9	\$0.5	\$0.4	\$0.7
Prize liabilities	64.4	49.9	38.2	9.8	10.5	11.6
Due to Commonwealth	11.0	10.7	17.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b><u>\$88.8</u></b>	<b><u>\$69.6</u></b>	<b><u>\$61.1</u></b>	<b><u>\$10.3</u></b>	<b><u>\$10.9</u></b>	<b><u>\$12.3</u></b>

Total current liabilities increased \$19.2 million or 27.6 percent in 2021 and \$8.5 million or 13.9 percent in 2020. The account titled "Due to Commonwealth" increased \$300,000 in 2021 and decreased \$6.3 million in 2020. This represents payments due to the General Fund and the Kentucky Educational Excellence Scholarship Reserve Account after the fiscal year-end.

Long-term liabilities consist principally of prize liabilities for prizes paid in installments over several years and the noncurrent portion of accrued compensated absences. Long-term liabilities decreased \$600,000 or 5.5 percent in 2021 and decreased \$1.4 million or 11.4 percent in 2020. The decrease is attributable to the maturing of long-term prize liabilities. More detailed information can be obtained in Note 8 to the financial statements.

Net Position

As shown in Table 1 on page 4, the KLC's net position in 2021 decreased \$0.5 million. This change was attributable to the decrease in the accumulated unrealized gains on investments the KLC holds to maturity to fund future payments due on annuitized lottery prizes. Accounting principles dictate the KLC record the unrealized gain or loss related to the change in market value of these investments. Zero-coupon U.S. Government bonds have been purchased for the payment of installment prize awards and are generally held to maturity. The change in the market value of these investments (i.e. the unrealized gains on investments) was recorded as an decrease in unrestricted net position. Total net position of \$18.2 million included the KLC's net investment in capital assets of \$5.2 million and \$13.0 million in unrestricted net position. Unrestricted net position was comprised of \$1.0 million in accumulated unrealized gains on investments and \$12.0 million in working capital and cash flow that is utilized in the KLC's day-to-day operations. In 2020, the KLC's net position increased \$0.3 million to \$18.7 million due to the increase in the accumulated unrealized gains on investments.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

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

	<b>2021</b>	<b>Increase (Decrease)</b>	<b>2020</b>	<b>Increase (Decrease)</b>	<b>2019</b>
Total operating revenues	\$1,586.3	\$ 382.9	\$1,203.4	\$ 73.9	\$1,129.5
Direct costs and operating expenses:					
Direct costs					
Prize expense	1,067.4	266.2	801.2	76.4	724.8
Other direct costs	<u>130.7</u>	<u>33.5</u>	<u>97.2</u>	<u>7.5</u>	<u>89.7</u>
Total direct costs	1,198.1	299.7	898.4	83.9	814.5
Operating expenses	<u>33.2</u>	<u>0.1</u>	<u>33.1</u>	<u>1.1</u>	<u>32.0</u>
Total direct costs and operating expenses	1,231.3	299.8	931.5	85.0	846.5
Non-operating expenses (income)	0.4	1.0	(0.6)	0.1	(0.7)
Payments to the Commonwealth of Kentucky	<u>355.1</u>	<u>82.9</u>	<u>272.2</u>	<u>(11.4)</u>	<u>283.6</u>
Total expenses	<u>1,586.8</u>	<u>383.7</u>	<u>1,203.1</u>	<u>73.7</u>	<u>1,129.4</u>
Changes in net position	(0.5)	(0.8)	0.3	0.2	0.1
Net position at beginning of year	<u>18.7</u>	<u>0.3</u>	<u>18.4</u>	<u>0.1</u>	<u>18.3</u>
Net position at end of year	<u>\$ 18.2</u>	<u>\$ (0.5)</u>	<u>\$ 18.7</u>	<u>\$ 0.3</u>	<u>\$ 18.4</u>

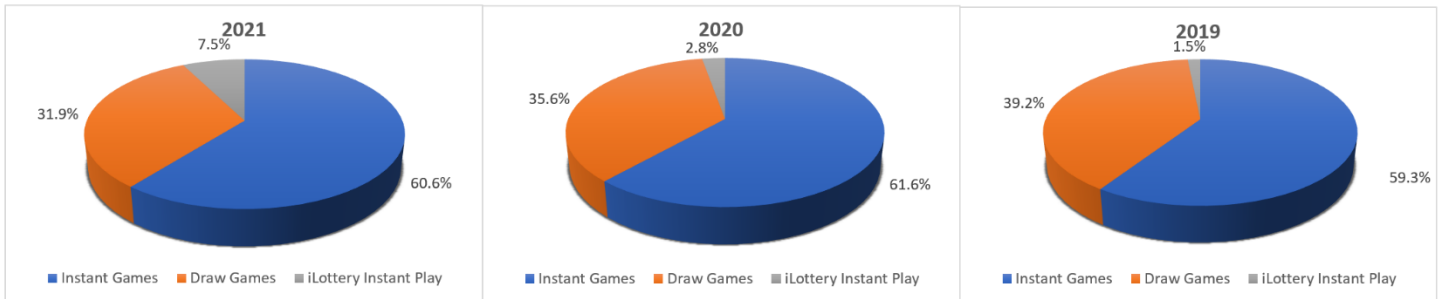
KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Operating Revenues and Prize Expense

Operating Revenues

In 2021, operating revenues consisted of ticket sales from three product categories, instant games, draw games, and iLottery instant play games. In 2021, the KLC generated record ticket sales of \$1.586 billion, an increase of \$382.9 million or 31.8 percent when compared to 2020. In 2020, the KLC generated ticket sales of \$1.203 billion, an increase of \$73.9 million or 6.5 percent when compared to 2019.

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



Instant Games

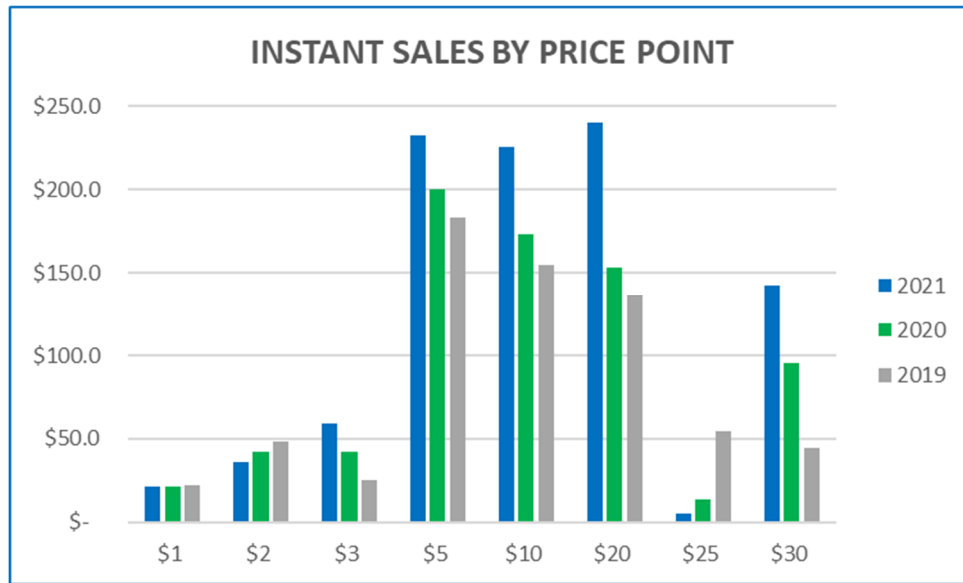
Table 4 and the accompanying chart compares sales for each instant game price point for 2021, 2020, and 2019.

**TABLE 4**  
**INSTANT SALES BY PRICE POINT**  
(In millions)

Price Point	2021			2020			2019	
	Sales	% of Total	Increase (Decrease)	Sales	% of Total	Increase (Decrease)	Sales	% of Total
\$1	\$ 21.7	2.3%	\$ 0.3	\$ 21.4	2.9%	\$ (0.9)	\$ 22.3	3.3%
\$2	35.9	3.7%	(6.1)	42.0	5.7%	(6.4)	48.4	7.2%
\$3	58.8	6.1%	16.9	41.9	5.7%	16.4	25.5	3.8%
\$5	232.4	24.2%	32.0	200.4	27.0%	17.0	183.4	27.4%
\$10	225.3	23.4%	52.4	172.9	23.3%	18.4	154.5	23.1%
\$20	239.9	24.9%	86.5	153.4	20.7%	17.3	136.1	20.3%
\$25	5.6	0.6%	(8.3)	13.9	1.9%	(40.8)	54.7	8.2%
\$30	142.1	14.8%	46.9	95.2	12.8%	50.9	44.3	6.6%
<b>Totals</b>	<b>\$ 961.7</b>	<b>100.0%</b>	<b>\$ 220.6</b>	<b>\$ 741.1</b>	<b>100.0%</b>	<b>\$ 71.9</b>	<b>\$ 669.2</b>	<b>100.0%</b>

KENTUCKY LOTTERY CORPORATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2021 and 2020

Instant Games (Continued)



Record KLC instant ticket sales of \$961.7 million were achieved in 2021 and accounted for 60.6 percent of all KLC sales, or an increase of \$220.6 million or 29.8 percent over 2020. Instant ticket sales of \$741.1 million were achieved in 2020, and accounted for 61.6 percent of all KLC sales, or an increase of \$71.9 million or 10.7 percent over 2019.

Sales growth in 2021 within the instant product category occurred at the \$1, \$3, \$5, \$10, \$20, and \$30 price points, which saw increases of 1.4 percent, 40.3 percent, 16.0 percent, 30.3 percent, 56.4 percent and 49.3 percent, respectively.

Sales decreases in 2021 were recognized at the \$2 price point with a decrease of 14.5 percent; and the \$25 price point with a decrease of 59.7 percent. The final \$25 game available for sale ended on June 30, 2021.

Sales growth in 2020 within the instant product category occurred at the \$3, \$5, \$10, \$20, and \$30 price points, which saw increases of 64.3 percent, 9.3 percent, 11.9 percent, 12.7 percent, and 114.9 percent, respectively. This year marked the first full year of sales for the \$30 price point as it was introduced in late February 2021. In 2020 it achieved \$95.2 million in sales.

Sales decreases in 2020 were recognized at the \$1 price point, which saw a decrease of 4.0 percent; the \$2 price point with a decrease of 13.2 percent; and the \$25 price point with a decrease of 74.6 percent.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Draw Games

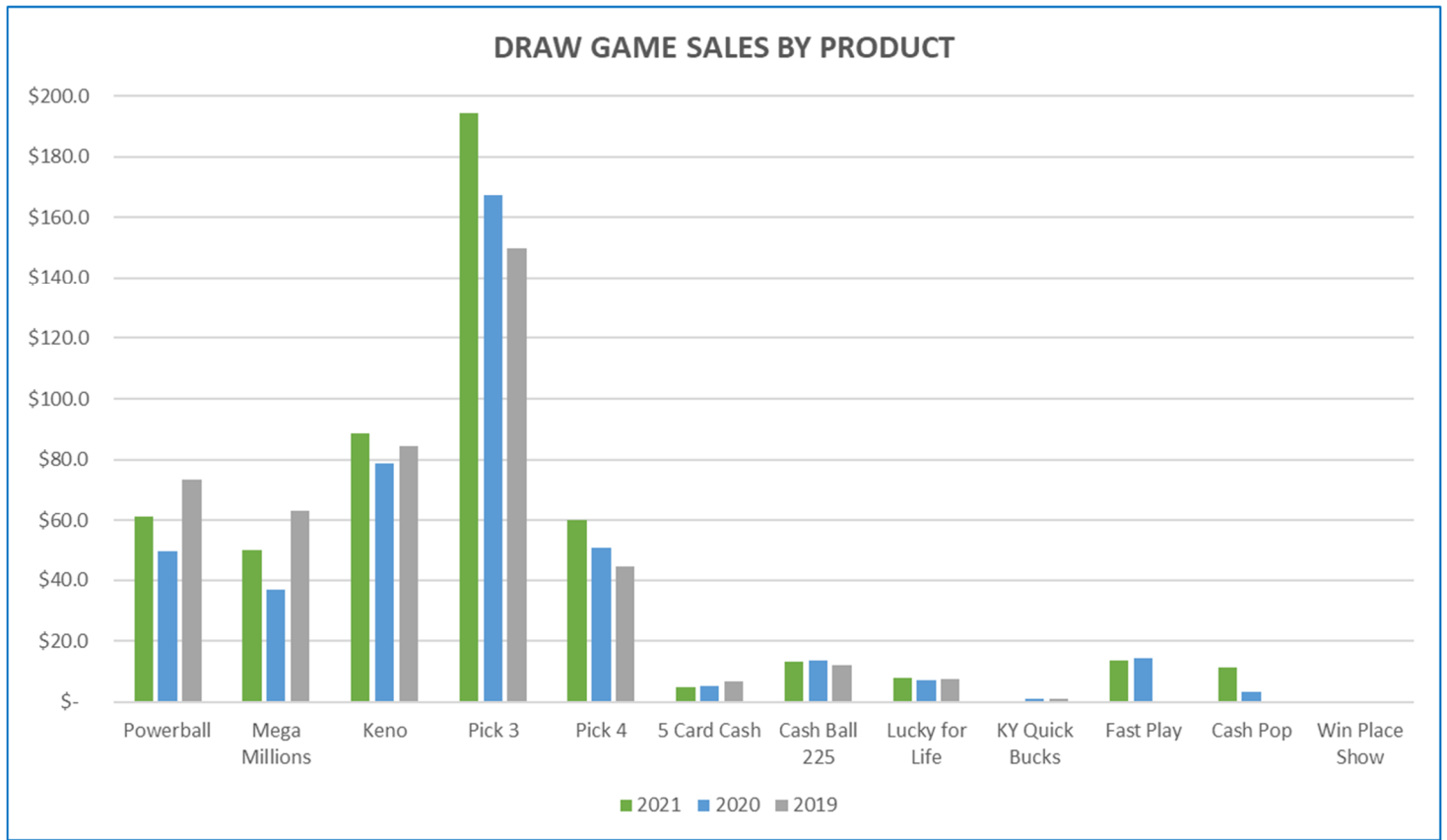
Table 5 and the accompanying chart compares draw game sales by product for 2021, 2020, 2019.

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

Product	2021			2020			2019	
	Sales	% of Total	Increase (Decrease)	Sales	% of Total	Increase (Decrease)	Sales	% of Total
Powerball	\$ 61.3	12.1%	\$ 11.4	\$ 49.9	11.6%	\$ (23.6)	\$ 73.5	16.6%
Mega Millions	50.2	9.9%	13.2	37.0	8.6%	(26.1)	63.1	14.2%
Keno	88.6	17.5%	9.8	78.8	18.4%	(5.5)	84.3	19.0%
Pick 3	194.2	38.4%	26.9	167.3	39.0%	17.4	149.9	33.8%
Pick 4	60.2	11.9%	9.3	50.9	11.9%	6.3	44.6	10.1%
5 Card Cash	5.0	1.0%	(0.4)	5.4	1.3%	(1.5)	6.9	1.6%
Cash Ball 225	13.3	2.6%	(0.4)	13.7	3.2%	1.7	12.0	2.7%
Lucky for Life	7.8	1.5%	0.6	7.2	1.7%	(0.3)	7.5	1.7%
KY Quick Bucks	-	0.0%	(1.0)	1.0	0.2%	(0.2)	1.2	0.3%
Fast Play	13.6	2.7%	(0.9)	14.5	3.4%	14.5	-	
Cash Pop	11.5	2.3%	8.1	3.4	0.8%	3.4	-	
Win Place Show	0.3	0.1%	0.3	-	0.0%	(0.1)	0.1	0.0%
<b>Totals</b>	<b>\$ 506.0</b>	<b>100.0%</b>	<b>\$ 76.9</b>	<b>\$ 429.1</b>	<b>100.0%</b>	<b>\$ (14.0)</b>	<b>\$ 443.1</b>	<b>100.0%</b>

KENTUCKY LOTTERY CORPORATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 June 30, 2021 and 2020

Draw Games (Continued)



Draw games sales were \$506.0 million in 2021, an increase of \$76.9 million or 17.9 percent when compared to 2020. Draw games sales accounted for 31.9 percent of all 2021 sales, and consisted of Powerball, Mega Millions, Keno, Pick 3, Pick 4, 5 Card Cash, Cash Ball 225, Lucky for Life, Fast Play, Cash Pop, and Win Place Show.

Draw game sales were \$429.1 million in 2020, a decrease of \$14.0 million or 3.2 percent when compared to 2019. Draw games sales accounted for 35.6 percent of all 2020 sales, and consisted of Powerball, Mega Millions, Keno, Pick 3, Pick 4, 5 Card Cash, Cash Ball 225, Lucky for Life, KY Quick Bucks, Fast Play, and Cash Pop. The KY Quick Bucks game ended in March 2020.

Sales increases were recognized in Powerball, Mega Millions, Keno, Pick 3, Pick 4, Lucky for life, and Cash Pop when compared to 2020. During 2021 the KLC had the first full year of sales for Fast Play and Cash Pop to the draw games portfolio. Sales of \$13.6 million and \$11.5 million were achieved, respectively.

Sales decreases were recognized in 5 Card Cash at 7.4 percent, Cash Ball 225 at 2.9 percent, and Fast Play at 6.2 percent.

iLottery Instant Play Games

iLottery instant play sales were \$118.6 million, an increase of \$85.4 million when compared to the \$33.2 million achieved in 2020. iLottery instant play sales accounted for 7.5 percent of all 2021 sales and 2.8 percent of all 2020 sales.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

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. 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. Similar to draw games, 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 based.

The following is a discussion of prize expense within certain product categories. With that background, Table 6 compares the 2021 expected gross prize payout percentages for each product category, as well as the actual gross payout percentages for 2021, 2020, and 2019.

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

	EXPECTED 2021	ACTUAL 2021	ACTUAL 2020	ACTUAL 2019
Instant Games	71.7%	71.5%	71.1%	70.9%
Draw Games:				
Powerball	50.0%	50.6%	49.6%	49.8%
Mega Millions	50.0%	50.0%	50.5%	50.1%
Keno	65.6%	65.2%	65.3%	65.1%
Pick 3	60.0%	55.9%	60.6%	58.5%
Pick 4	50.0%	56.7%	64.1%	42.1%
5 Card Cash	65.5%	60.6%	63.7%	64.3%
Cash Ball 225	53.8%	56.0%	49.5%	42.0%
Lucky for Life	61.8%	68.1%	54.7%	61.9%
Ky Quick Bucks	0.0%	0.0%	58.2%	58.7%
Fast Play	68.7%	68.2%	67.9%	0.0%
Cash Pop	67.0%	66.6%	66.4%	0.0%
Win Place Show	55.0%	47.6%	0.0%	48.1%
Draw Games	57.2%	57.2%	59.6%	55.2%
iLottery Instant Play	80.0%	84.2%	78.0%	76.3%
Total Gross Prize Payout Percentage	67.5%	67.9%	67.2%	64.8%
Less: Unclaimed Prizes	-0.7%	-0.6%	-0.6%	-0.6%
Total Prize Payout Percentage	66.8%	67.3%	66.6%	64.2%



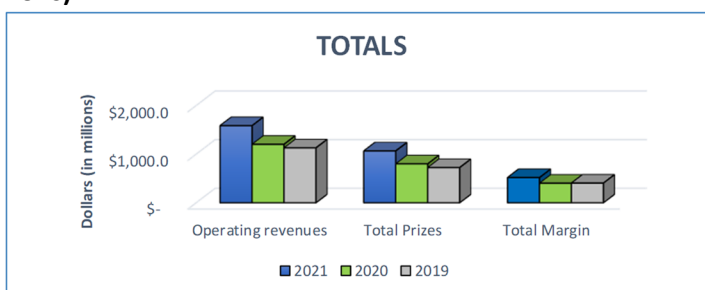
KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Total Prize Expense and Game Margin

Table 7 and the accompanying chart compares total operating revenues, prize expense, and game margin for 2021, 2020, and 2019.

**TABLE 7**  
**TOTAL OPERATING REVENUES, PRIZE EXPENSE AND GAME MARGIN**  
(In millions)

Totals			
	2021	2020	2019
Operating revenues	\$ 1,586.3	\$ 1,203.4	\$ 1,129.6
Less: instant tickets provided as prizes	0.0	0.0	(0.1)
<b>Total operating revenues</b>	<b>1,586.3</b>	<b>1,203.4</b>	<b>1,129.5</b>
Gross prize expense	1077.2	808.3	732.2
Less: unclaimed prizes	(9.8)	(7.1)	(7.4)
<b>Total prize expense</b>	<b>1067.4</b>	<b>801.2</b>	<b>724.8</b>
<b>Total game margin</b>	<b>\$ 518.9</b>	<b>\$ 402.2</b>	<b>\$ 404.7</b>



For 2021, gross prize expense (excluding unclaimed prizes) of \$1.077 billion, reflects a \$268.9 million or 33.2 percent increase from 2020 of \$808.3 million.

Total prize expense in 2021 was \$1.067 billion or 67.3 percent of total operating revenues compared to \$801.2 million or 66.6 percent in 2020.

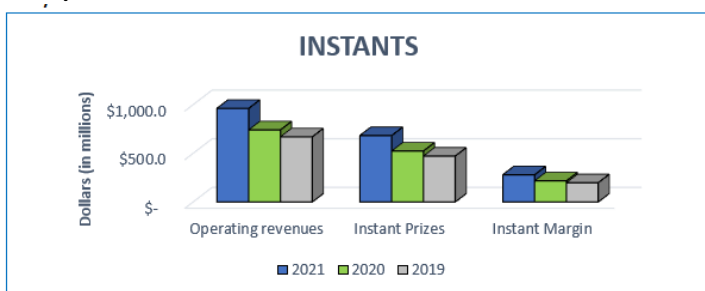
Total game margin in 2021 increased to \$518.9 or 32.7 percent of total operating revenues compared to \$402.2 million or 33.4 percent of total operating revenues in 2020. The increase in total game margin is \$116.7 million or 29 percent more than 2020.

Instant Prize Expense and Game Margin

Table 8 and the accompanying chart compares instant game operating revenues, prize expense, and game margin for 2021, 2020, and 2019.

**TABLE 8**  
**INSTANT GAME OPERATING REVENUES, PRIZE EXPENSE, AND GAME MARGIN**  
(In millions)

Instants			
	2021	2020	2019
Instant game operating revenues	\$ 961.7	\$ 741.1	\$ 669.2
Less: instant tickets provided as prizes	0.0	0.0	(0.1)
<b>Total operating revenues</b>	<b>961.7</b>	<b>741.1</b>	<b>669.1</b>
Gross prize expense	687.9	526.8	474.5
Less: unclaimed prizes	(5.5)	(3.1)	(3.0)
<b>Total prize expense</b>	<b>682.4</b>	<b>523.7</b>	<b>471.5</b>
<b>Instant game margin</b>	<b>\$ 279.3</b>	<b>\$ 217.4</b>	<b>\$ 197.6</b>



In 2021, gross prize expense for instant games increased to \$687.9 million or 71.5 percent of total instant game operating revenues compared to 71.1 percent in 2020. The KLC expected 71.7 percent in 2021.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Instant Prize Expense and Game Margin (Continued)

Total prize expense for instant games increased to \$682.4 million or 71.0 percent of total instant game operating revenues compared to \$523.7 million or 70.7 percent in 2020.

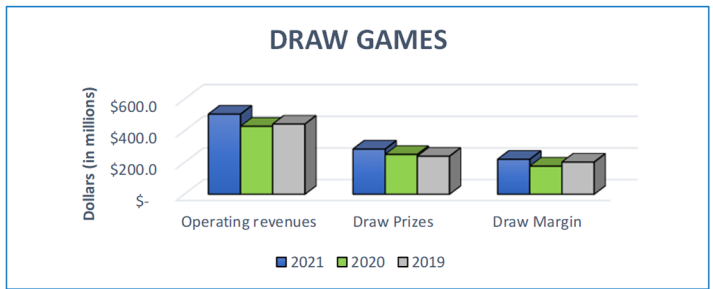
Instant game margin increased to \$279.3 million or 29.0 percent of total instant game operating revenues compared to \$217.4 million or 29.3 percent in 2020. This increase in instant game margin is \$61.9 million or 28.5 percent more than 2020.

Draw Game Prize Expense and Game Margin

Table 9 and the accompanying chart compares draw game operating revenues, prize expense, and game margin for 2021, 2020, and 2019.

**TABLE 9**  
**DRAW GAME OPERATING REVENUES, PRIZE EXPENSE, AND GAME MARGIN**  
(In millions)

Draw Games			
	2021	2020	2019
Draw game operating revenues	\$ 506.0	\$ 429.1	\$ 443.1
Less: instant tickets provided as prizes	0.0	0.0	0.0
Total operating revenues	506.0	429.1	443.1
Gross prize expense	289.4	255.6	244.5
Less: unclaimed prizes	(4.3)	(4.0)	(4.4)
Total prize expense	285.1	251.6	240.1
Draw game margin	\$ 220.9	\$ 177.5	\$ 203.0



In 2021, gross prize expense for draw games was \$289.4 million or 57.2 percent of total draw game operating revenues compared to \$255.6 million or 59.6 percent in 2020. The KLC expected 57.2 percent in 2021.

Total prize expense for draw games increased to \$285.1 or 56.3 percent of total draw game operating revenues in 2021 compared to \$251.6 million or 58.6 percent in 2020.

Draw game margin increased to \$220.9 million or 43.7 percent of total draw game operating revenues in 2021 compared to \$177.5 million or 41.4 percent in 2020. This increase in draw game margin is a \$43.4 million or 24.5 percent increase from 2020.

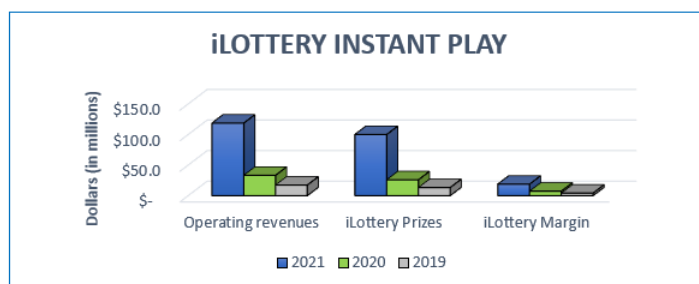
KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

iLottery Instant Play Prize Expense and Game Margin

Table 10 and the accompanying chart compares iLottery Instant Play operating revenues, prize expense, and game margin for 2021, 2020, and 2019.

**TABLE 10**  
**iLOTTERY INSTANT PLAY OPERATING REVENUES, PRIZE EXPENSE, AND GAME MARGIN**  
(In millions)

iLottery Instant Play			
	2021	2020	2019
iLottery instant play operating revenues	\$ 118.6	\$ 33.2	\$ 17.3
Less: instant tickets provided as prizes	0.0	0.0	0.0
<b>Total operating revenues</b>	<b>118.6</b>	<b>33.2</b>	<b>17.3</b>
Gross prize expense	99.9	25.9	13.2
Less: unclaimed prizes	0.0	0.0	0.0
<b>Total prize expense</b>	<b>99.9</b>	<b>25.9</b>	<b>13.2</b>
<b>iLottery instant play game margin</b>	<b>\$ 18.7</b>	<b>\$ 7.3</b>	<b>\$ 4.1</b>



In 2021, iLottery Instant Play gross and net prize expense was \$99.9 million or 84.2 percent of total iLottery Instant Play operating revenues compared to \$25.9 million or 78.0 percent in 2020.

iLottery Instant Play game margin increased to \$18.7 million or 15.8 percent of iLottery Instant Play operating revenues in 2021 compared to \$7.3 million or 22.0 percent 2020. This increase in iLottery instant play game margin is \$11.4 million or 156.2 percent more than 2020.

Other Expenses

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

	2021	Increase (Decrease)	2020	Increase (Decrease)	2019
Payments to retailers	\$90.6	\$19.6	\$71.0	\$4.0	\$67.0
Draw game and iLottery vendor expense	24.3	8.8	15.5	1.8	13.7
Instant ticket costs	15.8	5.1	10.7	1.7	9.0
<b>Total other direct costs</b>	<b>130.7</b>	<b>33.5</b>	<b>97.2</b>	<b>7.5</b>	<b>89.7</b>
Operating expenses	33.2	0.1	33.1	1.1	32.0
Non-operating (revenue) expenses	0.4	1.0	(0.6)	0.1	(0.7)

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 2021 and 2020 were 5.7 and 5.9 percent of total operating revenues. Draw game and iLottery vendor expenses for 2021 and 2020 were 1.5 percent and 1.3 percent of total operating revenues, respectively. Instant ticket costs include the cost to acquire and ship instant tickets to retailers and were 1.0 percent and 0.9 percent of total operating revenues in 2021 and 2020, respectively. Operating expenses were 2.1 percent and 2.7 percent of total operating revenues for 2021 and 2020, respectively.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

Other Expenses (Continued)

Non-operating (revenue) expenses, which includes investment income, interest expense, and other income, decreased \$1.0 million in 2021 and decreased \$0.1 million in 2020.

Investment Income (Loss)

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

	<u>2021</u>	<u>Increase (Decrease)</u>	<u>2020</u>	<u>Increase (Decrease)</u>	<u>2019</u>
Unrealized change in fair value of investments	\$ (0.5)	\$ (0.8)	\$ 0.3	\$ 0.2	\$ 0.1
Accretion of investments	0.4	(0.1)	0.5	(0.1)	0.6
Interest income	<u>0.0</u>	<u>(0.1)</u>	<u>0.1</u>	<u>(0.2)</u>	<u>0.3</u>
<b>Total investment income (loss)</b>	<b><u>\$ (0.1)</u></b>	<b><u>\$ (1.0)</u></b>	<b><u>\$ 0.9</u></b>	<b><u>\$ (0.1)</u></b>	<b><u>\$ 1.0</u></b>

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.

Interest income consists principally of interest on the KLC's cash balance, which is invested in short-term investments. A slight decrease in interest income in 2021 reflects the federal government's policy to lower short-term interest rates in 2021.

Payments to the Commonwealth of Kentucky

In 2021 and 2020, 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, 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 provide funding for postsecondary education and literacy development. Payments to the KEES Reserve Account represent prizes of instant and draw games that expired (went unclaimed) during the fiscal year. Payments to the Commonwealth of Kentucky in 2021 were \$355.1 million which consisted of \$345.3 million or an increase of \$80.2 million to the Commonwealth's general fund and Trust and Agency account and \$9.8 million or an increase of \$2.7 million to the KEES Reserve Account. Payments in 2020 were \$272.2 million, which consisted of \$265.1 million to the Commonwealth's general fund and \$7.1 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. To achieve this mission, the KLC will continue to introduce new and/or enhanced instant, draw, and iLottery instant play product offerings to further increase sales in fiscal year 2022.

KENTUCKY LOTTERY CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2021 and 2020

---

Currently Known Facts, Decisions, or Conditions (Continued)

Instant sales are budgeted to produce sales of \$897.0 million during fiscal year 2022, an decrease of \$64.7 million or 6.7 percent.

- The KLC will have a full year of 575 Game Touch 28 vending machines, which were fully deployed in December 2020.
- The KLC will have a full year of cashless functionality at 1470 vending machines, of which 1170 dispense instant tickets.
- One additional game launch is scheduled for FY2022, and each launch will include a new \$10 ticket.
- The retailer scratch-off incentive plan will continue with a few modifications to improve best practices and increase sales.

Draw game sales are budgeted to produce sales of \$504.8 million during fiscal year 2021, an decrease of \$1.2 million or 0.2 percent.

- The Lucky for Life draw game will have daily drawings beginning in July 2021, an increase from the current two drawings per week.
- A third weekly drawing will be added for the Powerball game in August 2021.
- Three draw games will be added to the iLottery portal, including Pick 3 and Pick 4 in August 2021 and Cash Pop in January 2022.
- A \$20 Fast Play ticket will be launched in March 2022, an increase from the highest price point currently offered of \$10.

iLottery instant play sales are budgeted to produce sales of \$190.0 million during fiscal year 2020, an increase of \$71.4 million or 60.2 percent.

- All instant play games will have an 85% payout.
- KLC will continue player promotions to attract new players and retain existing players.
- KLC will launch a new customer data platform and marketing solution to better recruit both retail and iLottery players.
- New, lower instant play price point will be offered.

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, 2021 and 2020

(dollars in thousands)

	2021	2020
<b>ASSETS</b>		
Current Assets		
Cash and equivalents	\$ 29,143	\$ 17,458
Cash and equivalents, annuitants	2,600	2,600
Investments at fair value, current portion	1,383	2,203
Accounts receivable, net	65,193	56,862
Other assets	1,096	824
Total current assets	<u>99,415</u>	<u>79,947</u>
Noncurrent Assets		
Investments at fair value, less current portion	7,068	7,701
Capital assets, net	5,212	5,592
Deposits with Multi-State Lottery Association	5,582	5,951
Total noncurrent assets	<u>17,862</u>	<u>19,244</u>
Total assets	<u>117,277</u>	<u>99,191</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable, accrued expenses, and compensated absences, current portion	13,359	8,946
Due to the Commonwealth of Kentucky	11,030	10,693
Estimated prize liability, current portion	64,447	49,928
Total current liabilities	<u>88,836</u>	<u>69,567</u>
Noncurrent Liabilities		
Accrued compensated absences, less current portion	512	399
Estimated prize liability, less current portion	9,764	10,553
Total noncurrent liabilities	<u>10,276</u>	<u>10,952</u>
Total liabilities	<u>99,112</u>	<u>80,519</u>
<b>NET POSITION</b>		
Net investment in capital assets	5,212	5,592
Unrestricted	12,953	13,080
Net position	<u>\$ 18,165</u>	<u>\$ 18,672</u>

See accompanying notes.

# ***KENTUCKY LOTTERY CORPORATION***

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended June 30, 2021 and 2020 (dollars in thousands)

	<b>2021</b>	<b>2020</b>
<b>Operating revenues</b>		
Instant games	\$ 961,683	\$ 741,063
Draw games	506,009	429,116
iLottery instant play games	<u>118,633</u>	<u>33,263</u>
Total operating revenues	<u>1,586,325</u>	<u>1,203,442</u>
<b>Direct costs</b>		
Prizes expense		
Instant games	682,351	523,684
Draw games	285,195	251,615
iLottery instant play games	<u>99,900</u>	<u>25,942</u>
Total prize expense	1,067,446	801,241
Payments to retailers	90,606	71,045
Draw game and iLottery vendor expense	24,275	15,473
Instant ticket costs	<u>15,820</u>	<u>10,706</u>
Total direct costs	<u>1,198,147</u>	<u>898,465</u>
<b>Operating revenues net of direct costs</b>	<u>388,178</u>	<u>304,977</u>
<b>Operating expenses</b>		
Advertising and promotion	11,166	11,561
Salaries, wages, and benefits	17,091	16,268
Contracted and professional services	1,997	2,196
Depreciation	1,159	1,108
Other general and administrative	<u>1,812</u>	<u>1,957</u>
Total operating expenses	<u>33,225</u>	<u>33,090</u>
<b>Operating income</b>	<u>354,953</u>	<u>271,887</u>
<b>Non-operating revenue (expense)</b>		
Payments to the Commonwealth of Kentucky	(355,100)	(272,223)
Investment (loss)/income	(67)	872
Interest expense	(421)	(495)
Other income	<u>128</u>	<u>200</u>
Total non-operating expense	<u>(355,460)</u>	<u>(271,646)</u>
<b>Change in net position</b>	<u>(507)</u>	<u>241</u>
Net position at beginning of year	<u>18,672</u>	<u>18,431</u>
<b>Net position at end of year</b>	<u>\$ 18,165</u>	<u>\$ 18,672</u>

See accompanying notes.

# **KENTUCKY LOTTERY CORPORATION**

## STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2021 and 2020 (dollars in thousands)

	<b>2021</b>	<b>2020</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 1,577,994	\$ 1,183,849
Cash receipts for deposits at the Multi-State Lottery Association	369	176
Cash payments to prize winners	(1,053,716)	(790,651)
Cash payments to suppliers	(141,667)	(111,216)
Cash payments to employees for services	(17,285)	(15,717)
Net cash provided by operating activities	<u>365,695</u>	<u>266,441</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Payments to the Commonwealth of Kentucky	<u>(354,763)</u>	<u>(278,486)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of capital assets	<u>(836)</u>	<u>(973)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	1,384	1,594
Investment income	205	335
Net cash provided by investing activities	<u>1,589</u>	<u>1,929</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>11,685</b>	<b>(11,089)</b>
Cash and equivalents at beginning of year	<u>20,058</u>	<u>31,147</u>
<b>Cash and equivalents at end of year</b>	<b>\$ 31,743</b>	<b>\$ 20,058</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	<u>\$ 354,953</u>	<u>\$ 271,887</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,159	1,108
Provision for losses on accounts receivable	193	198
Increase (decrease) in cash due to changes in:		
Accounts receivable, net	(8,524)	(19,770)
Prepaid PowerPlay License	0	45
Other assets	(272)	(106)
Deposits with Multi-State Lottery Association	369	176
Accounts payable, accrued expenses, and compensated absences	4,508	2,808
Estimated prize liability	<u>13,309</u>	<u>10,095</u>
Total adjustments	<u>10,742</u>	<u>(5,446)</u>
Net cash provided by operating activities	<u>\$ 365,695</u>	<u>\$ 266,441</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, 2021 and 2020 totaled \$421 and \$495, respectively.

The unrealized fair value of investments decreased \$507 for the year ended June 30, 2021 and increased \$241 for the year ended June 30, 2020.

See accompanying notes.



# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2021 and 2020  
(dollars in thousands)

---

### ***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 Comprehensive Annual 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

June 30, 2021 and 2020

(dollars in thousands)

---

### ***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 \$21 and \$21 for the years ended June 30, 2021 and 2020, respectively. A trade receivable is considered uncollectible based on pertinent facts and circumstances.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2021 and 2020

(dollars in thousands)

---

### ***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 interest expense 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 nine 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, 2021, 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. The KLC has nine grand prize winners that elected the annuity option and continue to be paid quarterly or annually.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020  
(dollars in thousands)

---

### *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 equivalents. Cash 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 Statement No. 72, *Fair Value Measurement and Application*. 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

Capital assets are carried at cost less accumulated depreciation. The KLC defines capital assets as assets with an initial, individual cost of more than \$5 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over estimated lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. 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

Interest related to construction of capital assets is capitalized. No interest was capitalized for the years ended June 30, 2021 and 2020.

# ***KENTUCKY LOTTERY CORPORATION***

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

---

### ***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. In January 2010, the Mega Millions states and MUSL signed an agreement for cross-selling of each other's products. MUSL currently includes 35 state lottery entities, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The chief executive officer of each member lottery serves on the MUSL Board of Directors. 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 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 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, 2021 and 2020, the KLC had no restricted net position.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2021 and 2020

(dollars in thousands)

---

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

#### **Subsequent Events Evaluation**

Since the KLC is part of the reporting entity of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report as a discretely presented component unit, management has evaluated subsequent events through September 24, 2021, and will re-evaluate subsequent events before the Commonwealth completes its Comprehensive Annual Financial Report in December 2021.

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

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

GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this statement require governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. This statement is not expected to have a material impact on the KLC's financial position or results of operations.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020. The provisions of this statement require governments with subscription-based information technology arrangements to recognize a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability. This statement is effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. This statement is not expected to have a material impact on the KLC's financial position or results of operations.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

### Note 3 – Cash and Equivalents

The components of cash and equivalents for the years ended June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash on deposit in banks	\$ 33,057	\$ 21,323
Checks issued against cash on deposit	<u>(1,314)</u>	<u>(1,265)</u>
	<u>\$ 31,743</u>	<u>\$ 20,058</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. The cash and cash equivalents, annuitants amount represents funds earmarked for future annuity prize payments. The balance is equal to the difference in the recorded annuity liability balance and the related investment balance.

### 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, 2021, the KLC's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Maturity</u>
U.S. Treasury Strips	\$ 5,721	\$ 5,721	\$ 0	Weighted average maturity of 3.74 years
Other U.S. Government backed	<u>2,730</u>	<u>0</u>	<u>2,730</u>	Weighted average maturity of 2.76 years
Total	<u>\$ 8,451</u>	<u>\$ 5,721</u>	<u>\$ 2,730</u>	

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

### Note 4 – Investments (Continued)

At June 30, 2020, the KLC's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Maturity</u>
U.S. Treasury Strips	\$ 6,625	\$ 6,625	\$ 0	Weighted average maturity of 4.24 years
Other U.S. Government backed	<u>3,279</u>	<u>0</u>	<u>3,279</u>	Weighted average maturity of 3.25 years
Total	<u>\$ 9,904</u>	<u>\$ 6,625</u>	<u>\$ 3,279</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 2021, \$2,184 of the other U.S. Government backed investments are not rated and the remaining \$546 are rated AAA. For 2020, \$2,736 of the other U.S. Government backed investments are not rated, and the remaining \$543 are rated AAA. Ratings are provided by Moody's.

*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 2021 and 2020, approximately 21 and 18 percent of total investments were in Resolution Funding Corporation Strips, respectively, and 7 and 5 percent in Israel Bonds, respectively, all of which are U.S. Government backed.

*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

June 30, 2021 and 2020

(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 of the current period include unrealized amounts from prior periods. The components of investment income for the years ended June 30, 2021 and 2020 consisted of the following:

Unrestricted net position at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Unrealized change in fair value of investments	\$ (507)	\$ 241
Accretion of investments	421	495
Security lending income	1	2
Interest income	<u>18</u>	<u>134</u>
Total investment (loss) income	<u>\$ (67)</u>	<u>\$ 872</u>

When compared to the historical cost method, recording investments at fair value results in a decrease in income of approximately \$507 in 2021 and an increase in income by approximately \$241 in 2020.

The KLC is authorized by state statutes and investment policies approved by the Board of Directors to lend its investment securities. The lending is managed by the Commonwealth's securities lending agent. The KLC's securities are co-mingled with the rest of the Commonwealth's securities. Refer to the Commonwealth of Kentucky's Comprehensive Annual Financial Report for details. All loans can be terminated on demand by either the KLC or the borrowers, although the average term of loans is approximately one day.

The Commonwealth's securities lending agent and its affiliates are prohibited from borrowing the KLC's securities. The Commonwealth's securities lending agent lends KLC's securities in exchange for cash. The cash is used to invest in repurchase agreements and securities are pledged as collateral. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. The KLC cannot pledge or sell collateral securities unless the borrower defaults. The agent indemnifies the KLC from any losses from borrowers. During 2021, the Commonwealth ended their securities lending contract.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

---

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

At June 30, 2021 the KLC had no loaned investments. At June 30, 2020, the KLC had loaned investments with fair values of approximately \$250 to authorized brokers for a fee. Cash received from securities loans is invested in repurchase agreements with at least 100 percent collateral pledge. Cash collateral for 2020 was over 101 percent. The repurchase agreements have carrying values of approximately \$255 at June 30, 2020, which are held by the KLC's securities custodian. At June 30, 2020, the KLC had no credit risk exposure to borrowers because the amounts the KLC owed to borrowers exceeded the amounts the borrowers owed to the KLC. The KLC loaned investments are included in the investments reported in the financial statements rather than the securities received in the exchange.

### *Note 5 – Accounts Receivable*

Accounts receivable at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 65,942	\$ 57,440
Allowance for doubtful accounts	<u>(749)</u>	<u>(578)</u>
Accounts receivable, net	<u>\$ 65,193</u>	<u>\$ 56,862</u>

Balances due from retailers for the sales of lottery tickets make up 98 percent of the accounts receivable balance above.

**KENTUCKY LOTTERY CORPORATION**

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

**Note 6 – Capital Assets**

Capital asset activity for the year ended June 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 423	\$ 0	\$ 0	\$ 423
Net capital assets, non-depreciable	<u>423</u>	<u>0</u>	<u>0</u>	<u>423</u>
Capital assets being depreciated				
Buildings	8,540	23	(19)	8,544
Game equipment	488	81		569
Data processing equipment and software	6,073	504	(266)	6,311
Automobiles, furniture, and fixtures	<u>2,797</u>	<u>228</u>		<u>3,025</u>
Total other capital assets at cost	<u>17,898</u>	<u>836</u>	<u>(285)</u>	<u>18,449</u>
Less accumulated depreciation for				
Buildings	(5,684)	(269)	1	(5,952)
Game equipment	(440)	(26)		(466)
Data processing equipment and software	(4,408)	(553)	227	(4,734)
Automobiles, furniture, and fixtures	<u>(2,197)</u>	<u>(311)</u>		<u>(2,508)</u>
Total accumulated depreciation	<u>(12,729)</u>	<u>(1,159)</u>	<u>228</u>	<u>(13,660)</u>
Net capital assets, depreciable	<u>5,169</u>	<u>(323)</u>	<u>(57)</u>	<u>4,789</u>
Total capital assets, net	<u>\$ 5,592</u>	<u>\$ (323)</u>	<u>\$ (57)</u>	<u>\$ 5,212</u>

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

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

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 423	\$ 0	\$ 0	\$ 423
Net capital assets, non-depreciable	423	0	0	423
Capital assets being depreciated				
Buildings	8,111	429		8,540
Game equipment	488			488
Data processing equipment and software	6,028	45		6,073
Automobiles, furniture, and fixtures	2,357	499	(59)	2,797
Total other capital assets at cost	16,984	973	(59)	17,898
Less accumulated depreciation for				
Buildings	(5,347)	(337)		(5,684)
Game equipment	(432)	(8)		(440)
Data processing equipment and software	(3,827)	(581)		(4,408)
Automobiles, furniture, and fixtures	(2,074)	(182)	59	(2,197)
Total accumulated depreciation	(11,680)	(1,108)	59	(12,729)
Net capital assets, depreciable	5,304	(135)	0	5,169
Total capital assets, net	\$ 5,727	\$ (135)	\$ 0	\$ 5,592

**KENTUCKY LOTTERY CORPORATION**

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(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, 2021 and 2020, included in accrued compensated absences in the accompanying Statements of Net Position, consisted of the following:

	2021	2020
Current	\$ 1,391	\$ 1,375
Compensated absences, less current portion	512	399
Total compensated absences	\$ 1,903	\$ 1,774

Years Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance
2021	\$ 1,774	\$ 1,425	\$ (1,296)	\$ 1,903
2020	\$ 1,535	\$ 1,362	\$ (1,123)	\$ 1,774

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS June 30, 2021 and 2020 (dollars in thousands)

---

### *Note 8 – Estimated Prize Liability*

Estimated prize liability at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Current:		
Grand prizes	\$ 1,459	\$ 1,459
Other prizes	<u>62,988</u>	<u>48,469</u>
Total current portion	<u>64,447</u>	<u>49,928</u>
Long-term:		
Grand prizes	<u>9,764</u>	<u>10,553</u>
Total prize liability	<u>\$ 74,211</u>	<u>\$ 60,481</u>

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(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 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2021	\$ 12,012	\$ 455	\$ (1,244)	\$ 11,223
2020	13,292	524	(1,804)	12,012

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

<u>Years Ending June 30,</u>	
2022	\$ 1,459
2023	1,355
2024	1,355
2025	1,305
2026	1,255
2027 through 2031	2,505
2032 through 2036	2,091
2037 through 2041	1,296
2042 through 2046	676
2047 through 2051	<u>312</u>
Total	13,609
Less unamortized discount	<u>(2,386)</u>
Total at present value	11,223
Less current portion	<u>(1,459)</u>
Total long-term portion at present value	<u><u>\$ 9,764</u></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 \$421 and \$495 in 2021 and 2020, respectively, is included in interest expense. These amounts comprise the entire amounts of interest expense for the years ended June 30, 2021 and 2020.

# **KENTUCKY LOTTERY CORPORATION**

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

---

### ***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. The fair value of investments is determined by the quoted market prices for each investment at the close of market.

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 2021 and 2020, the KLC's contributions were calculated using the eligible compensation amount for eligible employees of \$5,205 and \$5,094, respectively, for the 6.2 percent employer contribution (Mandatory and Supplemental Contributions), and \$11,575 and \$10,218, respectively, for the 8 percent employer contribution (Basic Contributions). Employer contributions actually made to the Plan were approximately \$1,249 and \$1,133 in 2021 and 2020, respectively. Employee contributions to the Plan were approximately \$323 and \$316 in 2021 and 2020, respectively. At June 30, 2021 and 2020, the KLC had an outstanding liability of approximately \$39 and \$32, respectively, owed to the Plan, as part of the accrued salaries balance.

During 2021 and 2020, forfeitures of \$26 and \$22, 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 Comprehensive Annual 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

June 30, 2021 and 2020

(dollars in thousands)

### *Note 10 – Leases*

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

Approximate minimum payments are:

<u>Years Ending June 30,</u>	<u>Vending</u>		
	<u>Machines</u>	<u>Monitors</u>	<u>Total</u>
2022	\$ 4,014	\$ 72	\$ 4,086
2023	3,696	11	3,707
2024	3,301	-	3,301
2025	3,168	-	3,168
2026	1,769	-	1,769
Thereafter	568	-	568
Total	<u>\$ 16,516</u>	<u>\$ 83</u>	<u>\$ 16,599</u>

Total expense for 2021 and 2020 was approximately \$4,276 and \$3,584, respectively.

### *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, 2021 and 2020, all unclaimed prize money was transferred to the KEES Reserve Account as required by HB 192 of the 2021 Regular Session. Payments are made after the end of each quarter.

# KENTUCKY LOTTERY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

(dollars in thousands)

---

### *Note 11 – Payments to the Commonwealth (Continued)*

Payments, including amounts accrued, to the Commonwealth for the years ended June 30, 2021 and 2020 included payments to the following funds:

	<u>2021</u>	<u>2020</u>
General Fund and Trust and Agency Account	\$ 345,343	\$ 265,105
KEES Scholarship Reserve Fund	<u>9,757</u>	<u>7,118</u>
	<u>\$ 355,100</u>	<u>\$ 272,223</u>

### *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 Comprehensive Annual 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 an initial term of July 10, 2011 through July 9, 2021. Through contract negotiations, this contract was amended September 30, 2019 and extended five years, from July 10, 2021 through July 9, 2026. Effective July 12, 2020, the weekly fees paid to IGT decreased by five percent. The commission paid to IGT for draw game lottery sales decreased from 1.5395 percent to 1.4625 percent of gross draw sales. The commission paid to IGT for scratch-off lottery sales decreased from 0.438 percent to 0.416 percent of net scratch-off sales. In addition, and in consideration of the additional products and services provided by IGT under the contract amendment and extension, KLC pays IGT a fixed fee of \$250,000 per month, which began August 12, 2020. IGT receives compensation of \$56.37 per retail location, per month, for retail communications network and management, plus an additional \$18.25 for locations with dual communication.

The Lottery has also contracted with IGT to provide an iLottery system, game content, and related services, with an initial term of December 23, 2014 through April 16, 2020, with a sales start date of April 17, 2016. Through contract negotiations, this contract was amended on April 17, 2020 and extended for an additional two years to April 16, 2022. 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.

# ***KENTUCKY LOTTERY CORPORATION***

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2021 and 2020

(dollars in thousands)

---

### ***Note 13 – Commitments and Contingencies (Continued)***

The Lottery contracted with Scientific Games International, Inc. (SG) to provide ticket production and cooperative services, including ticket ordering and distribution functions, with a contract extension term of March 9, 2018 through June 25, 2026. 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.

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

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 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 Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows of the Kentucky Lottery Corporation, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Kentucky Lottery Corporation's basic financial statements, and have issued our report thereon dated September 24, 2021.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Kentucky Lottery 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Lottery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kentucky Lottery 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 may exist that have not been identified.

MCM CPAs & Advisors LLP

P 502.749.1900

F 502.749.1930

2600 Meidinger Tower

462 South Fourth Street

Louisville, KY 40202

[www.mcmcpa.com](http://www.mcmcpa.com)

888.587.1719

A Member of PrimeGlobal - An Association  
of Independent Accounting Firms

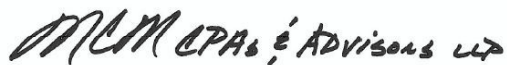
**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards* (Continued)**

***Compliance and Other Matters***

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Louisville, Kentucky  
September 24, 2021

# ***KENTUCKY LOTTERY CORPORATION***

## **SCHEDULE OF FINDINGS**

**Year Ended June 30, 2021**

---

### Schedule of auditor's results

We have issued an unmodified opinion, dated OPEN, on the financial statements of the Kentucky Lottery Corporation as of and for the year ended June 30, 2021.

Our audit disclosed no instances of noncompliance which are material to the Kentucky Lottery Corporation's financial statements.

### Findings relating to the financial statements

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

***KENTUCKY LOTTERY CORPORATION***

SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTIONS  
Year Ended June 30, 2021

---

The prior year's audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.