REPORT OF THE AUDIT OF THE KENTUCKY LOTTERY CORPORATION

For The Years Ended
June 30, 2026 and 2025

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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 LBMC, PC presents the financial and compliance audit of the books and records of the Kentucky Lottery Corporation for the years ended June 30, 2026, as required by KRS 154A.130.

We engaged LBMC, PC 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
Allison Ball
Allison Ball
Auditor of Public Accounts
Frankfort, KY

Enclosure

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Financial Report

June 30, 2026 and 2025

KENTUCKY LOTTERY CORPORATION

ANNUAL FINANCIAL REPORT
June 30, 2026 and 2025

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of the Kentucky Lottery Corporation (the "KLC"), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the KLC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the KLC as of June 30, 2026, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the KLC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Prior Period Financial Statements

The financial statements of the KLC as of June 30, 2025, were audited by other auditors whose report dated September 26, 2025 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' 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 auditors' report that includes our opinions. 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 GAAS 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 GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the KLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the KLC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 4 through 19 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 GAAS, 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 audits 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 18, 2026, on our consideration of the KLC's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the KLC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the KLC's internal control over financial reporting and compliance.

LBMC, PC

Louisville, Kentucky
September 18, 2026

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, 2026 and 2025. Please read it in conjunction with the financial statements, which follow.

The KLC is accounted for as an enterprise fund, reporting on all of the entity'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.

Financial Highlights for Fiscal Year 2026

- Record operating revenues of $2.380 billion were achieved in 2026, an increase of $224.2 million or 10.4 percent over last year's previous sales record of $2.156 billion. Fiscal year 2026 represents the fifteenth consecutive year of record sales for the KLC.
- Sales at retail totaled $1.313 billion and accounted for 55.2 percent of total sales. iLottery sales totaled $1.067 billion and made up the remaining 44.8 percent of sales for the year.
- Instant sales totaled $892.3 million, which is a $21.9 million decrease from last year. A total of 49 new games were launched in 2026. The decline in sales can be attributed to lower retail foot traffic, economic instability, and increased competition.
- Draw sales increased $18.4 million to $461.6 million. The increase was driven by a $40.5 million increase in Powerball sales, supported by two jackpots exceeding $1.7 billion. The growth was partially offset by declines in other draw games.
- iLottery instant play sales hit a record $1.026 billion. This was a $227.7 million or 28.5 percent increase over last year.
- Prize payments to players hit a record $1.783 billion.
- Operating expenses totaled $43.7 million which accounted for 1.8 percent of sales.
- Dividends to the state totaled $417.7 million, an increase of $35.2 million or 9.2 percent over last year. The increase in dividends can be attributed to the increase in Powerball sales as a result of the two Powerball jackpots over $1.7 billion during the fiscal year and the 28.5 percent increase in iLottery instant play sales

Total Assets

Total assets consist primarily of cash and equivalents, investments, accounts receivable, owned capital assets and deposits. As shown in Table 1, the KLC's total assets increased $2.0 million to $140.2 million in 2026. Total assets decreased $9.9 million to $138.2 million in 2025 from $148.1 million in 2024. Investments consist of U.S. Treasury zero-coupon bonds carried at fair value. Accounts receivable represent revenue to be collected primarily from the sale of draw and instant game tickets. Accounts receivable increased $7.4 million to $85.3 million in 2026. Accounts receivable decreased $5.2 million to $77.9 million in 2025. Additional information on accounts receivable can be found in footnote 5 in the financial statements.

Capital Assets

The KLC's investment in capital assets, net of accumulated depreciation and right-to-use amortization in 2026 and 2025, was $4.2 and $6.2 million, respectively. The investment in capital assets includes buildings, game equipment, data processing equipment and software, automobiles, and furniture and fixtures. The total decrease in the KLC's investment in capital assets for 2026 was $2.0 million or 32.3 percent compared to a decrease of $2.7 million or 30.3 percent in 2025. Additional information on the KLC's investment in capital assets can be found in Note 6 to the financial statements. Right-to-use lease assets represent equipment leases. Additional information on the KLC's lease can be found in Note 10 to the financial statements.

TABLE 1
NET POSITION
(In millions)

	2026	Increase (Decrease)	2025	Increase (Decrease)	2024
Current and other assets	$ 125.9	$ 4.9	$ 121.0	$ (6.3)	$ 127.3
Investments (noncurrent)	6.1	(0.3)	6.4	(0.8)	7.2
Capital assets					
Owned assets	4.2	(0.3)	4.5	(0.3)	4.8
Right-of-use lease Assets	–	(1.7)	1.7	(2.4)	4.1
Capital assets, net	4.2	(2.0)	6.2	(2.7)	8.9
Deposits with Multi State Lottery Association	4.0	(0.6)	4.6	(0.1)	4.7
Total assets	140.2	2.0	138.2	(9.9)	148.1
Current liabilities	116.6	2.4	114.2	(8.1)	122.3
Noncurrent liabilities	7.1	(0.3)	7.4	(1.9)	9.3
Total liabilities	123.7	2.1	121.6	(10.0)	131.6
Net position components					
Net investment in capital assets	4.2	(0.3)	4.5	(0.3)	4.8
Unrestricted - accumulated unrealized loss on investments	–	0.6	(0.6)	–	(0.6)
Unrestricted	12.3	(0.3)	12.6	0.3	12.3
Net position	$ 16.5	$ –	$ 16.5	$ –	$ 16.5

Liabilities

TABLE 2
LIABILITIES
(In millions)

	Current			Noncurrent		
	2026	2025	2024	2026	2025	2024
Accounts payable and other liabilities	$ 15.1	$ 12.5	$ 12.5	$ 0.4	$ 0.5	$ 0.5
Prize liabilities	90.2	87.1	92.2	6.7	6.9	7.9
Due to Commonwealth	11.3	12.9	14.4	–	–	–
Lease Liabilities	–	1.7	3.2	–	–	0.9
Total liabilities	$ 116.6	$ 114.2	$ 122.3	$ 7.1	$ 7.4	$ 9.3

Total current liabilities increased $2.4 million or 2.1 percent in 2026 and decreased $8.1 million or 6.6 percent in 2025. The account titled "Due to Commonwealth" decreased $1.6 million in 2026 and decreased $1.5 million in 2025. This represents payments due to the General Fund, Trust and Agency, and the Kentucky Educational Excellence Scholarship Reserve Account after the fiscal year-end.

Noncurrent liabilities decreased $0.3 million or 4.1 percent in 2026 and decreased $1.9 million or 20.4 percent in 2025. Noncurrent liabilities consist principally of prize liabilities for prizes paid in installments over several years and the noncurrent portion of accrued compensated absences. More detailed information can be obtained in Note 8 to the financial statements. Lease liabilities represent the present value of future payments related to equipment leases. Additional information on the KLC's lease can be found in Note 10 to the financial statements.

Net Position

As shown in Table 1 on page 5, the KLC's net position in 2026 remained unchanged from the previous year. Total net position of $16.5 million included the KLC's net investment in capital assets of $4.2 million and $12.3 million in unrestricted net position. Unrestricted net position was comprised of $12.3 million in working capital and cash flow that is utilized in the KLC's day-to-day operations. In 2025, the KLC's net position remained unchanged from the previous year.

Net Position (Continued)

TABLE 3
CHANGES IN NET POSITION
(In millions)

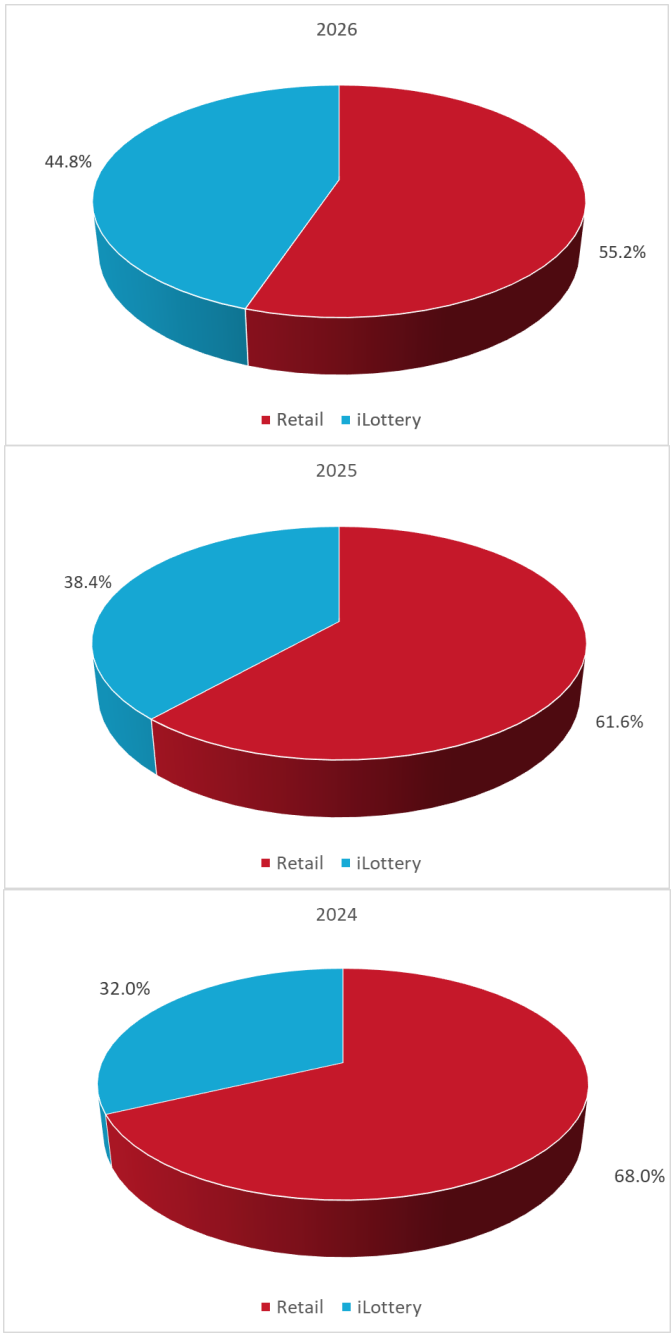
	2026	Increase (Decrease)	2025	Increase (Decrease)	2024
Operating revenues					
Instant games	$ 892.3	$ (21.9)	$ 914.2	$ (26.6)	$ 940.8
Draw games	461.6	18.4	443.2	(79.0)	522.2
iLottery instant play games	1,026.6	227.7	798.9	164.0	634.9
Total operating revenues	$2,380.5	$ 224.2	$2,156.3	$ 58.4	$2,097.9
Direct costs and operating expenses:					
Direct costs					
Prize expense	1,783.0	182.6	1,600.4	83.6	1,516.8
Other direct costs	137.9	4.1	133.8	(2.1)	135.9
Total direct costs	1,920.9	186.7	1,734.2	81.5	1,652.7
Operating expenses	43.7	2.0	41.7	(1.3)	43.0
Total direct costs and operating expenses	1,964.6	188.7	1,775.9	80.2	1,695.7
Non-operating expense (revenue)	(1.8)	0.3	(2.1)	0.7	(2.8)
Payments to the Commonwealth of Kentucky	417.7	35.2	382.5	(22.9)	405.4
Total expenses	2,380.5	224.2	2,156.3	58.0	2,098.4
Changes in net position	–	–	–	0.4	(0.5)
Net position at beginning of year	16.5	–	16.5	(0.5)	17.0
Net position at end of year	$ 16.5	$ –	$ 16.5	$ –	$ 16.5

Operating Revenues and Prize Expense

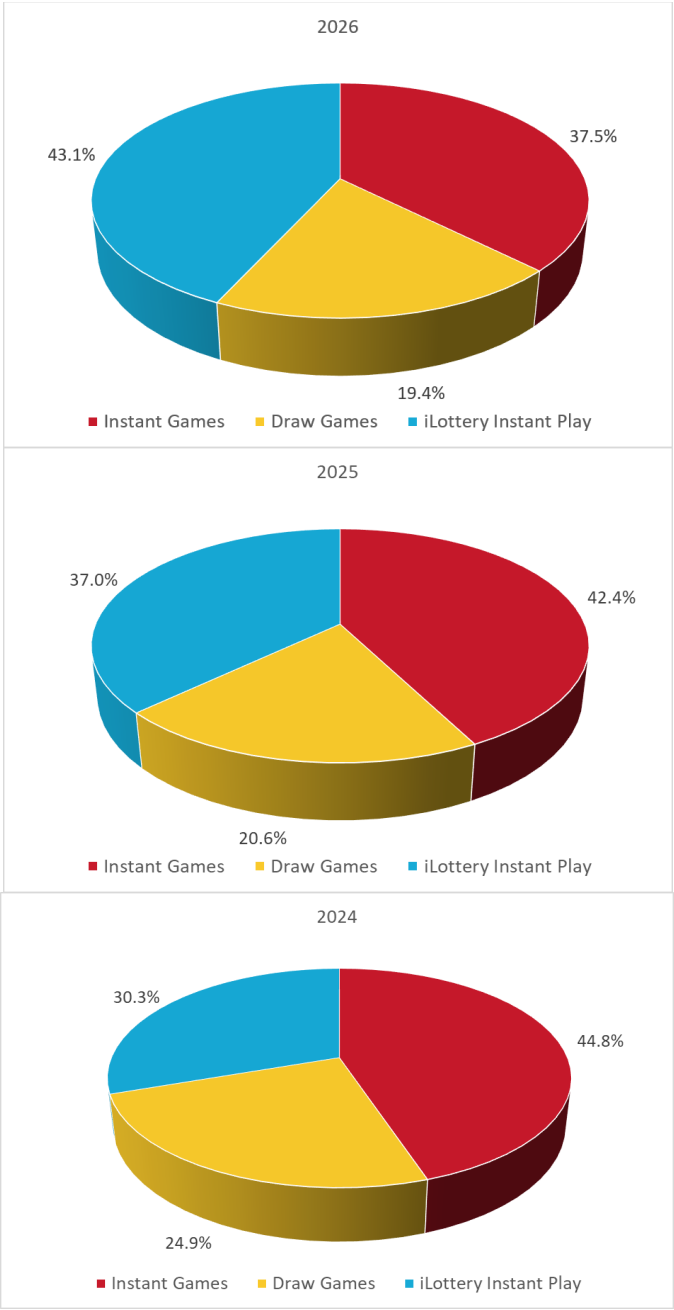
Operating Revenues

In 2026, operating revenues consisted of ticket sales from two channels, retail and iLottery, and three product categories, instant, draw, and iLottery instant play. In 2026, the KLC generated record ticket sales of $2.380 billion, an increase of $224.2 million or 10.4 percent when compared to 2025. In 2025, the KLC generated ticket sales of $2.156 billion, an increase of $58.4 million or 2.8 percent when compared to 2024.

SALES BY CHANNEL AS A PERCENT OF SALES



SALES BY PRODUCT CATEGORY AS A PERCENT OF SALES

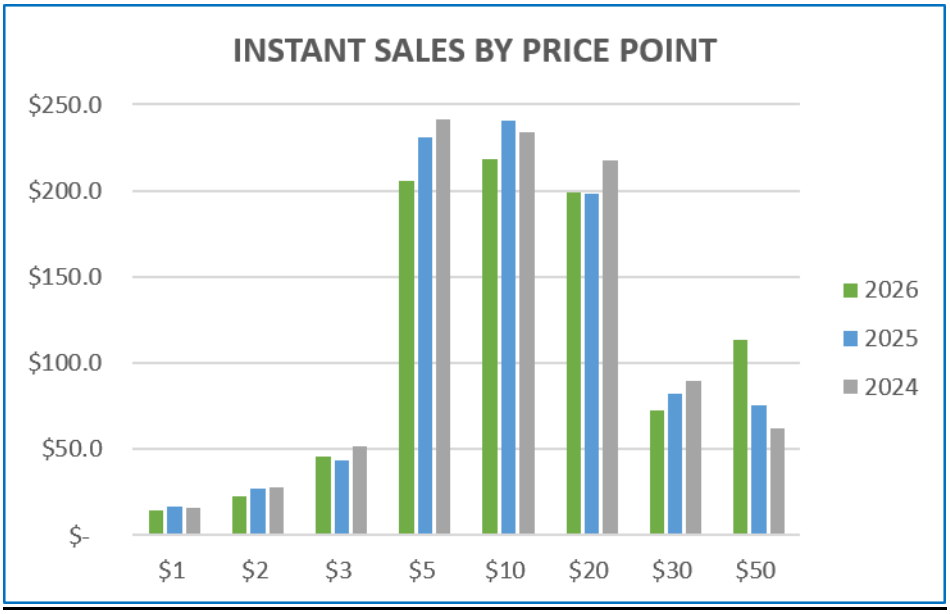


Instant Games

Table 4 and the accompanying chart compares sales for each instant game price point for 2026, 2025, and 2024.

TABLE 4
INSTANT SALES BY PRICE POINT
(In millions)

	2026			2025			2024	
Price Point	Sales	% of Total	Increase (Decrease)	Sales	% of Total	Increase (Decrease)	Sales	% of Total
$1	$ 14.8	1.7%	$ (2.0)	$ 16.8	1.8%	$ 0.7	$ 16.1	1.7%
$2	22.9	2.6%	(4.0)	26.9	2.9%	(1.3)	28.2	3.0%
$3	46.0	5.2%	2.9	43.1	4.7%	(8.8)	51.9	5.5%
$5	205.6	23.0%	(25.5)	231.1	25.3%	(10.4)	241.5	25.7%
$10	218.3	24.4%	(22.2)	240.5	26.3%	6.7	233.8	24.8%
$20	198.7	22.2%	0.7	198.0	21.7%	(19.6)	217.6	23.1%
$30	72.8	8.2%	(9.4)	82.2	9.0%	(7.7)	89.9	9.6%
$50	113.2	12.7%	37.6	75.6	8.3%	13.8	61.8	6.6%
Totals	$ 892.3	100.0%	$ (21.9)	$ 914.2	100.0%	$ (26.6)	$ 940.8	100.0%



Instant Games (Continued)

KLC instant ticket sales of $892.3 million were achieved in 2026 and accounted for 37.5 percent of all KLC sales, a decrease of $21.9 million or 2.4 percent from 2025. Instant ticket sales of $914.2 million were achieved in 2025 and accounted for 42.4 percent of all KLC sales, a decrease of $26.6 million or 2.8 percent from 2024.

Sales decreased in 2026 within the instant product category at all but three price points. Like other consumer products, lottery sales, specifically scratch-off sales, were impacted by the economy and an increase competition for the consumers disposable income. See Table 4 for all price point sales and changes from prior year.

Sales also decreased in 2025 within the instant product category at all but three price points, for the same reasons noted above. See Table 4 for all price point sales and changes from prior year.

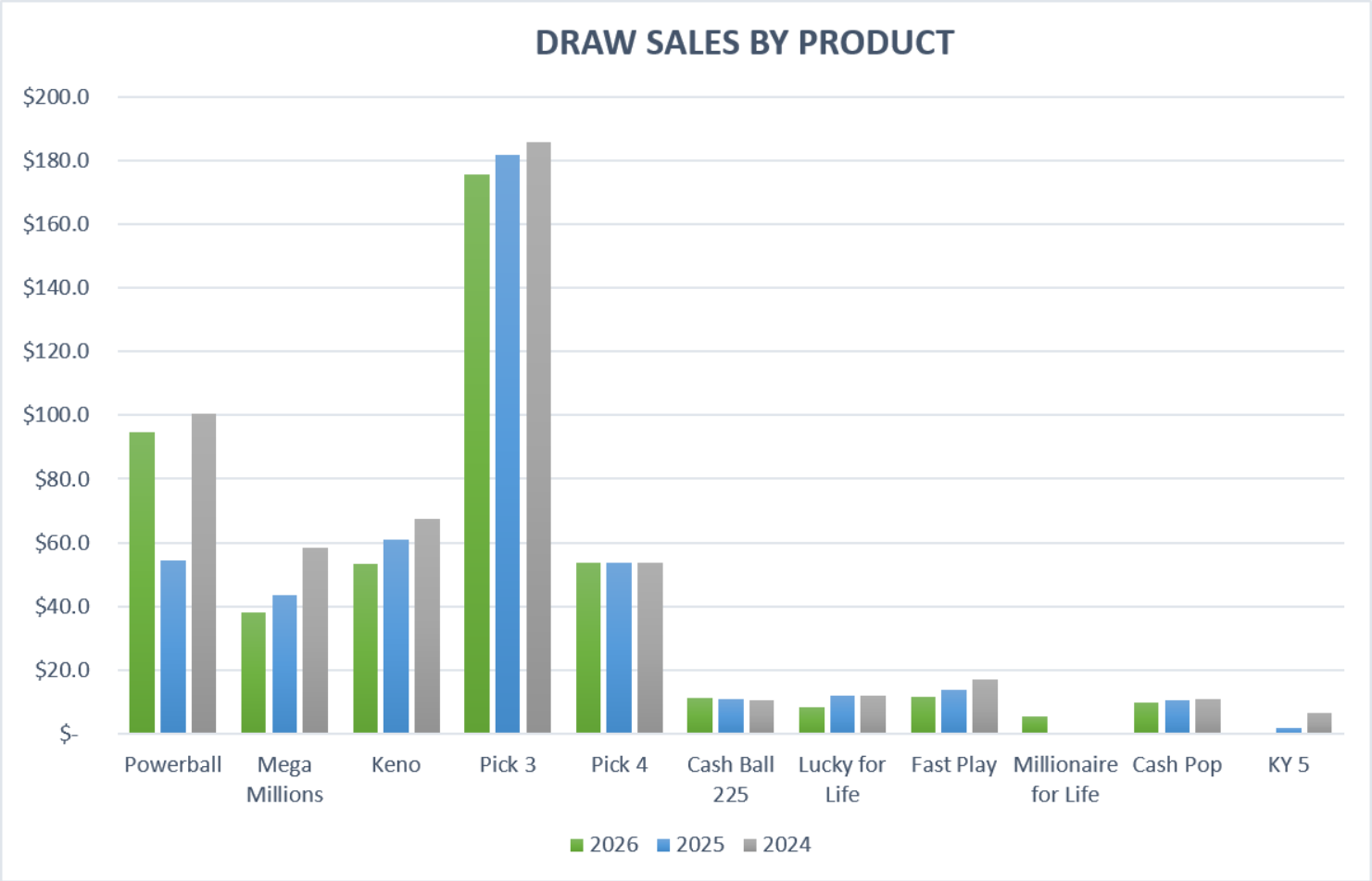
Draw Games

Table 5 and the accompanying chart compares draw sales by product for 2026, 2025, 2024.

TABLE 5
DRAW SALES BY PRODUCT
(In millions)

	2026			2025			2024	
Product	Sales	% of Total	Increase (Decrease)	Sales	% of Total	Increase (Decrease)	Sales	% of Total
Powerball	$ 94.8	20.5%	$ 40.5	$ 54.3	12.2%	$ (46.3)	$ 100.6	19.3%
Mega Millions	37.9	8.2%	(5.5)	43.4	9.8%	(15.0)	58.4	11.2%
Keno	53.2	11.5%	(7.8)	61.0	13.8%	(6.4)	67.4	12.9%
Pick 3	175.5	38.0%	(6.3)	181.8	41.1%	(3.8)	185.6	35.6%
Pick 4	53.7	11.6%	(0.1)	53.8	12.1%	0.3	53.5	10.2%
Cash Ball 225	11.3	2.4%	0.6	10.7	2.4%	0.1	10.6	2.0%
Lucky for Life	8.4	1.8%	(3.6)	12.0	2.7%	0.2	11.8	2.3%
Fast Play	11.5	2.5%	(2.3)	13.8	3.1%	(3.1)	16.9	3.2%
Millionaire for Life	5.5	1.2%	5.5	–	0.0%	–	–	0.0%
Cash Pop	9.8	2.1%	(0.8)	10.6	2.4%	(0.4)	11.0	2.1%
KY 5	–	0.0%	(1.8)	1.8	0.4%	(4.6)	6.4	1.2%
Totals	$ 461.6	100.0%	$ 18.4	$ 443.2	100.0%	$ (79.0)	$ 522.2	100.1%

Draw Games (Continued)



Draw sales were $461.6 million in 2026, an increase of $18.4 million or 4.2 percent when compared to 2025. Draw games sales accounted for 19.4 percent of all of 2026 sales, and consisted of Powerball, Mega Millions, Keno, Pick 3, Pick 4, Cash Ball 225, Lucky for Life, Fast Play, Cash Pop, and Millionaire for Life. Lucky for Life was retired by MUSL on February 21, 2026. The game was succeeded by a new MUSL game, Millionaire for Life.

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

Sales increases were recognized in Powerball and Cash Ball 225 when compared to 2025. The Millionaire for Life game began February 22, 2026.

Sales decreases were recognized in Mega Millions, Keno, Pick 3, Pick 4, Fast Play, and Cash Pop. The Lucky for Life game ended in February 2026 and the Kentucky 5 game ended in November 2024.

iLottery Instant Play Games

iLottery instant play 2026 sales were $1.026 billion, an increase of $227.7 million when compared to the $798.9 million achieved in 2025. iLottery instant play sales accounted for 43.1 percent of all 2026 sales and 37 percent of all 2025 sales. Instant play games consist of a variety of play styles, categories, and price points, ranging from $0.10 to $50.00.

Prize Expense

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

The following is a discussion of prize expense within certain product categories. With that background, Table 6 compares the actual gross payout percentages for 2026, 2025, and 2024.

TABLE 6
GROSS PRIZE PAYOUT PERCENTAGES
ALL PRODUCTS

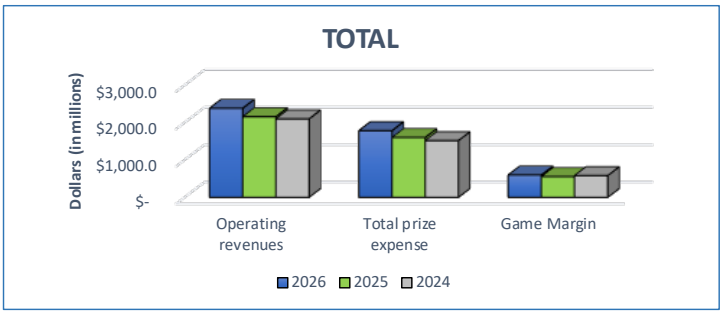
	ACTUAL 2026	ACTUAL 2025	ACTUAL 2024
Instant Games	72.4%	72.1%	71.7%
Draw Games:			
Powerball	51.2%	50.4%	49.8%
Mega Millions	50.9%	50.7%	49.7%
Keno	65.4%	66.3%	65.7%
Pick 3	57.5%	59.4%	61.8%
Pick 4	48.7%	51.2%	48.7%
Cash Ball 225	57.4%	52.1%	64.8%
Lucky for Life	60.1%	59.9%	59.8%
Fast Play	76.0%	69.3%	69.5%
Millionaire for Life	55.1%	0.0%	0.0%
Cash Pop	67.1%	67.6%	67.7%
Kentucky 5	0.0%	57.8%	52.8%
Draw Games	56.2%	57.7%	57.6%
iLottery Instant Play	87.7%	87.3%	87.2%
Total Gross Prize Payout Percentage	75.9%	74.7%	72.9%
Less: Unclaimed Prizes	-1.0%	-0.5%	-0.6%
Total Prize Payout Percentage	74.9%	74.2%	72.3%

Game Margin for Total Products

Table 7 and the accompanying chart compares game margin for total products for 2026, 2025, and 2024. Game margin is operating revenues less total prize expense.

TABLE 7
GAME MARGIN FOR TOTAL PRODUCTS
(In millions)

Total Products	2026	2025	2024
Operating revenues	$ 2,380.5	$ 2,156.3	$ 2,097.9
Gross prize expense	1,806.0	1,612.0	1,529.2
Less: unclaimed prizes	(23.0)	(11.6)	(12.4)
Total prize expense	1,783.0	1,600.4	1,516.8
Game margin	$ 597.5	$ 555.9	$ 581.1



For 2026, gross prize expense (excluding unclaimed prizes) of $1.806 billion, reflects a $194 million or 12 percent increase from 2025 of $1.612 billion.

Total prize expense in 2026 was $1.783 billion or 74.9 percent of total operating revenues compared to $1.600 billion or 74.2 percent in 2025.

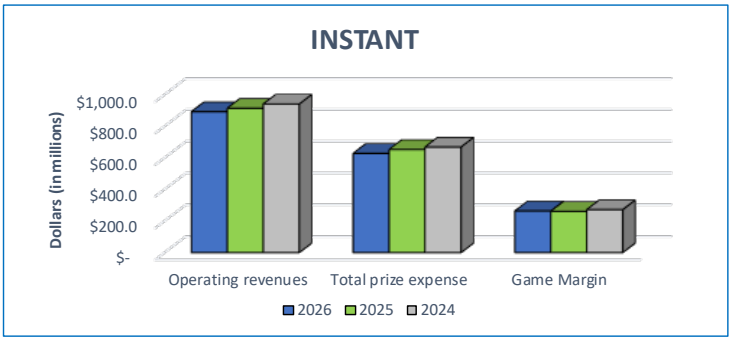
Total game margin in 2026 increased to $597.5 or 25.1 percent of total operating revenues compared to $555.9 million or 25.8 percent of total operating revenues in 2025. The increase in total game margin is $41.6 million or 7.5 percent more than in 2025.

Game Margin for Instant Games

Table 8 and the accompanying chart compares game margin for instant games 2026, 2025, and 2024.

TABLE 8
GAME MARGIN FOR INSTANT GAMES
(In millions)

Instant Games	2026	2025	2024
Operating revenues	$ 892.3	$ 914.2	$ 940.8
Gross prize expense	646.3	658.8	674.8
Less: unclaimed prizes	(17.8)	(6.0)	(6.2)
Total prize expense	628.5	652.8	668.6
Game margin	$ 263.8	$ 261.4	$ 272.2



In 2026, gross prize expense for instant games decreased to $646.3 million or 72.4 percent of total instant game operating revenues compared to 72.1 percent in 2025.

Game Margin for Instant Games (Continued)

Total prize expense for instant games decreased to $628.5 million or 70.4 percent of total instant game operating revenues compared to $652.8 million or 71.4 percent in 2025.

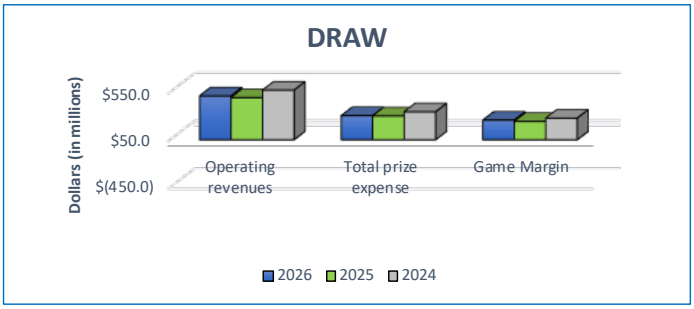
Game margin for instant games increased to $263.8 million or 29.6 percent of operating revenues for instant games compared to $261.4 million or 28.6 percent in 2025. This increase in game margin is $2.4 million or 0.9 percent more than 2025.

Game Margin for Draw Games

Table 9 and the accompanying chart compares game margin for draw games for 2026, 2025, and 2024.

TABLE 9
GAME MARGIN FOR DRAW GAMES
(In millions)

Draw Games	2026	2025	2024
Operating revenues	$ 461.6	$ 443.2	$ 522.2
Gross prize expense	259.6	255.8	300.7
Less: unclaimed prizes	(5.1)	(5.5)	(6.2)
Total prize expense	254.5	250.3	294.5
Game margin	$ 207.1	$ 192.9	$ 227.7



In 2026, gross prize expense for draw games was $259.6 million or 56.2 percent of operating revenues for draw games compared to $255.8 million or 57.7 percent in 2025.

Total prize expense for draw games increased to $254.5 million or 55.1 percent of operating revenues for draw games in 2026 compared to $250.3 million or 56.5 percent in 2025.

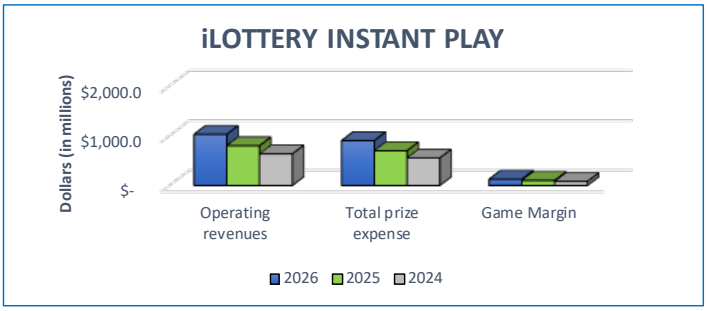
Game margin increased to $207.1 million or 44.9 percent of operating revenues for draw games in 2026 compared to $192.9 million or 43.5 percent in 2025. This increase in game margin is a $14.2 million or 7.4 percent increase from 2025.

Game Margin for iLottery Instant Play Games

Table 10 and the accompanying chart compares operating revenues, prize expense, and game margin for iLottery instant play games for 2026, 2025, and 2024.

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

iLottery Instant Play Games	2026	2025	2024
Operating revenues	$ 1,026.6	$ 798.9	$ 634.9
Gross prize expense	900.1	697.4	553.7
Less: unclaimed prizes	(0.1)	(0.1)	0.0
Total prize expense	900.0	697.3	553.7
Game margin	$ 126.6	$ 101.6	$ 81.2



In 2026, net prize expense for iLottery instant play games was $900.0 million or 87.7 percent of operating revenues for iLottery instant play games compared to $697.3 million or 87.3 percent in 2025.

Game margin for iLottery instant play games increased to $126.6 million or 12.3 percent of operating revenues for iLottery instant play games in 2026 compared to $101.6 million or 12.7 percent 2025. This increase in game margin is $25 million or 24.6 percent more than 2025.

Other Expenses

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

	2026	Increase (Decrease)	2025	Increase (Decrease)	2024
Payments to retailers	$ 80.7	$ (1.3)	$ 82.0	$ (5.4)	$ 87.4
Draw games and iLottery vendor expense	43.4	6.2	37.2	3.6	33.6
Instant ticket costs	13.8	(0.8)	14.6	(0.3)	14.9
Total other direct costs	137.9	4.1	133.8	(2.1)	135.9
Operating expenses	43.7	2.0	41.7	(1.3)	43.0
Non-operating (revenue) expense	(1.8)	0.3	(2.1)	0.7	(2.8)

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 2026 and 2025 were 3.4 and 3.8 percent of total operating revenues. Payments to retailers for 2026 and 2025 as a percent of retail operating revenue were 6.1 percent and 6.2 percent, respectively. Draw games and iLottery vendor expenses for 2026 and 2025 were 1.8 percent and 1.7 percent of total operating revenues, respectively. Instant ticket costs include the cost to acquire and ship instant tickets to retailers and were 0.6 percent and 0.7 percent of total operating revenues in 2026 and 2025, respectively. Operating expenses for 2026 and 2025 were 1.8 percent and 1.9 percent of total operating revenues, respectively.

Other Expenses (Continued)

Non-operating (revenue) expense, which includes investment income, accretion of investments, and other income, increased $0.3 million in 2026 and increased $0.7 million in 2025.

Investment Income (Loss)

TABLE 12
INVESTMENT INCOME (LOSS)
(In millions)

	2026	Increase (Decrease)	2025	Increase (Decrease)	2024
Unrealized change in fair value of investments	$ –	$ –	$ –	$ 0.4	$ (0.4)
Accretion of investments	0.3	(0.1)	0.4	$ (0.1)	0.5
Interest income	1.5	(0.4)	1.9	$ (1.0)	2.9
Total investment income (loss)	$ 1.8	$ (0.5)	$ 2.3	$ (0.7)	$ 3.0

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

Payments to the Commonwealth of Kentucky

In 2026 and 2025, payments to the Commonwealth of Kentucky represent transfers and an accrual of funds from the KLC to the Commonwealth's general fund, Trust and Agency account, and to the Kentucky Educational Excellence Scholarship ("KEES") Reserve Account. Payments to the general fund and Trust and Agency Account, which are approved by the Board of Directors and remitted to the Commonwealth on a monthly basis, are predominantly used by the General Assembly to pay for college scholarships, grants, and education programs. Payments to the KEES Reserve Account represent prizes that expired (went unclaimed) during the fiscal year. Transfers to the Commonwealth of Kentucky in 2026 were $419.2 million which consisted of $400.8 million or an increase of $29.8 million to the Commonwealth's general fund and Trust and Agency account and $18.4 million or an increase of $5.4 million to the KEES Reserve Account. Payments in 2025 were $384.0 million, which consisted of $371.0 million to the Commonwealth's general fund and $13.0 million the KEES Reserve Account.

Analysis of KLC's Financial Information

Table 1 shows that, as of June 30, 2026, the KLC's net position remains unchanged from the prior year. The change in total assets ($2.0 million or 1.4% increase) is comprised of a $4.9 million (4%) increase in current assets offset by a $2.9 million (16.9%) decrease in non-current assets. The change in total liabilities ($2.1 million or 1.7% increase) is comprised of a $2.4 million (2.1%) increase in current liabilities, offset by a $0.3 million (4.1%) decrease in non-current liabilities.

The decrease in non-current assets is driven by a $2.0 million decrease in capital assets. Refer to the "Significant Capital Asset and Long-Term Financing Activity" section for further analysis.

As shown in Table 3, total operating revenues increased $224.2 million (10.4%). This increase is comprised of a $227.7M (28.5%) increase in iLottery instant play sales and an $18.4 million (4.2%) increase in draw game sales, offset by a $21.9 million (2.4%) decrease in instant game sales. The increase in iLottery instant play sales is driven by four primary factors: (1) increased focus on new user acquisition in the current year, including first-time deposit matches; (2) increase in deposit limits to align with industry averages; (3) increased general recognition of competition (i.e., DraftKings, FanDuel, etc.) drives higher iLottery recognition; and (4) higher investment in branding and marketing relating to the iLottery sales channel.

Table 7 shows that total (net) prize expense increased $182.6 million (11.4%). This increase is comprised of a $194 million (12%) increase in gross prize expense, offset by an $11.4 million (98.3%) increase in unclaimed prize expense. The increase in gross prize expense correlates with the increase in operating revenues above. The increase in unclaimed prize expense is primarily due to a strategic decision to end a large number of scratch-off games, which resulted in $17.8 million unclaimed prizes related to ended scratch-off games. This represents an increase of $11.8 million in unclaimed prizes related to ended scratch-off games, which is offset by a decrease in unclaimed prizes related to draw games of $0.4 million.

Significant Capital Asset and Long-Term Financing Activity

As of June 30, 2026, the capital asset balance decreased $2.0 million from $6.2 million in 2025. The decrease in capital assets is primarily driven by a decrease of $1.7 million relating to right-of-use assets, leased from International Game Technologies ("IGT"). These leases related to the rental of lottery vending machines as part of the lottery gaming system contract with IGT. The terms of the leases were up to seven years and expired in the current fiscal year. As such, the right-of-use asset and related liabilities have been removed from the KLC's statement of net position.

No other significant capital asset activity occurred in the current year.

Currently Known Facts, Decisions, or Conditions

The Kentucky Lottery Corporation's mission is to produce the maximum net revenues for the Commonwealth by offering the best lottery games to its citizens, games of the highest quality and integrity, which are consistent with good public policy and social responsibility, and to operate within the framework of public accountability. The lottery faces challenges with increased gaming competition and inflation. To advance KLC's mission and address these challenges, we will focus on enhancing how we engage with players and expanding convenient, modern ways for them to interact with our games. This includes thoughtfully evolving our product offerings and the overall player experience to support sustainable growth in fiscal year 2027.

Budgeted sales for fiscal year 2027 total $2.472 billion. Retail sales total $1.274 billion and iLottery sales total $1.198 billion.

Instant sales are budgeted to produce sales of $881.8 million during fiscal year 2027, a decrease of $10.5 million or 1.2 percent.

- A new family of scratch-off games offering long-term prize opportunities will be introduced.
- Licensed property games will expand to support new player acquisition.
- Another local partnership will provide creative content for a new omni-channel game.
- The use of Scratch Connect will be broadened to enhance cross-play engagement.
- Digital menu boards and halo lighting will continue to roll out at retail to improve game visibility.

Currently Known Facts, Decisions, or Conditions (continued)

Draw game sales are budgeted to produce sales of $430.0 million during fiscal year 2027, a decrease of $31.6 million or 6.8 percent.

- Fiscal Year 2026 included two historically large Powerball jackpots exceeding $1.7 billion; similar jackpot runs are not anticipated for fiscal year 2027, resulting in lower expected year-over-year draw sales.
- A new multi-state draw game will be introduced to provide players with an additional play option. The game will include a promotional partnership focused on a large national fan base and will include experiential prizes.
- Enhancements to Fast Play will increase jackpot odds and improve visibility through strategic placement on vending machines.

iLottery instant play sales are budgeted to produce sales of $1.160 billion during fiscal year 2027, an increase of $133.4 million or 13.0 percent.

- A full-year pipeline of 48 new instant play games will be introduced to meet demand for frequent new content.
- Transactional data will be leveraged to personalize the player experience and improve engagement.
- A new local partnership will continue supporting content development for new omni-channel products.

Additional initiatives include continued enhancement of retail equipment and digital infrastructure, further integration of omni-channel features designed to increase cross-play between retail and iLottery products, and increased winner awareness highlights of notable winners and participating retail locations.

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, 2026 and 2025

	2026	2025
ASSETS		
Current Assets		
Cash and equivalents	**$ 38,895**	$ 40,710
Investments at fair value, current portion	**511**	1,256
Accounts receivable, net	**85,308**	77,885
Other assets	**1,189**	1,162
Total current assets	**125,903**	121,013
Noncurrent Assets		
Investments at fair value, less current portion	**6,054**	6,353
Capital assets		
Non-depreciable assets	**423**	423
Depreciable assets	**3,769**	4,113
Right-to-use lease assets	**–**	1,712
Capital assets, net	**4,192**	6,248
Deposits with Multi-State Lottery Association	**3,996**	4,583
Total noncurrent assets	**14,242**	17,184
Total assets	**140,145**	138,197
LIABILITIES		
Current Liabilities		
Accounts payable, accrued expenses, and compensated absences, current portion	**15,084**	12,492
Due to the Commonwealth of Kentucky	**11,325**	12,873
Estimated prize liability, current portion	**90,209**	87,086
Lease liability, current Portion	**–**	1,712
Total current liabilities	**116,618**	114,163
Noncurrent Liabilities		
Accrued compensated absences, less current portion	**380**	482
Estimated prize liability, less current portion	**6,674**	6,986
Total noncurrent liabilities	**7,054**	7,468
Total liabilities	**123,672**	121,631
NET POSITION		
Net investment in capital assets	**4,192**	4,536
Unrestricted	**12,281**	12,030
Net position	**$ 16,473**	$ 16,566

KENTUCKY LOTTERY CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2026 and 2025
(dollars in thousands)

	2026	2025
Operating revenues		
Instant games	**$ 892,259**	$ 914,185
Draw games	**461,608**	443,195
iLottery instant play games	**1,026,632**	798,884
Total operating revenues	**2,380,499**	2,156,264
Direct costs		
Prizes expense		
Instant games	**628,474**	652,814
Draw games	**254,502**	250,268
iLottery instant play games	**900,049**	697,352
Total prize expense	**1,783,025**	1,600,434
Payments to retailers	**80,661**	82,010
Draw games and iLottery vendor expense	**43,405**	37,134
Instant ticket costs	**13,849**	14,638
Total direct costs	**1,920,940**	1,734,216
Operating revenues net of direct costs	**459,559**	422,048
Operating expenses		
Advertising and promotion	**13,263**	12,627
Salaries, wages, and benefits	**22,473**	21,165
Contracted and professional services	**2,949**	2,615
Depreciation and amortization	**2,915**	3,791
Other general and administrative	**2,072**	1,488
Total operating expenses	**43,672**	41,686
Operating income	**415,887**	380,362
Non-operating (expense) revenue		
Payments to the Commonwealth of Kentucky	**(417,700)**	(382,476)
Investment income/(loss)	**1,827**	2,283
Amortization of estimated prize liability	**(333)**	(396)
Other income	**226**	246
Total non-operating expense	**(415,980)**	(380,343)
Change in net position	**(93)**	19
Net position at beginning of year	**16,566**	16,547
Net position at end of year	**$ 16,473**	$ 16,566

KENTUCKY LOTTERY CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2026 and 2025
(dollars in thousands)

	2026	2025
Cash Flows from Operating Activities		
Cash received from customers	**$ 2,373,076**	$ 2,161,469
Cash receipts for deposits at the Multi-State Lottery Association	**587**	123
Cash payments to prize winners	**(1,780,214)**	(1,606,448)
Cash payments to suppliers	**(154,144)**	(150,847)
Cash payments to employees for services	**(22,398)**	(21,142)
Net cash provided by operating activities	**416,907**	383,155
Cash Flows from Noncapital Financing Activities		
Payments to the Commonwealth of Kentucky	**(419,248)**	(384,038)
Cash Flows from Capital and Related Financing Activities		
Payments of leases	**(1,712)**	(2,383)
Purchases of capital assets	**(887)**	(1,116)
Net cash used by capital and related activities	**(2,599)**	(3,499)
Cash Flows from Investing Activities		
Proceeds from sale of investments	**1,284**	1,384
Proceeds from sale of capital assets	**28**	–
Investment income	**1,813**	2,119
Net cash provided by investing activities	**3,125**	3,503
Increase in cash and equivalents	**(1,815)**	(879)
Cash and equivalents at beginning of year	**40,710**	41,589
Cash and equivalents at end of year	**$ 38,895**	$ 40,710
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	**$ 415,887**	$ 380,362
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	**2,915**	3,791
Provision for losses on accounts receivable	**112**	(31)
Increase (decrease) in cash due to changes in:		
Accounts receivable, net	**(7,535)**	5,236
Other assets	**(27)**	71
Deposits with Multi-State Lottery Association	**587**	123
Accounts payable, accrued expenses, and compensated absences	**2,490**	7
Estimated prize liability	**2,478**	(6,410)
Total adjustments	**1,020**	2,787
Net cash provided by operating activities	**$ 416,907**	$ 383,149

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, 2026 and 2025 totaled $333 and $396, respectively.

The unrealized fair value of investments increased for the years ended June 30, 2026 and 2025 by $93 and $19, respectively.

Note 1 - Organization

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

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

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

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

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

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.

Certain amounts within the Statement of Cash Flow for the year ending June 30, 2025 have been reclassified to conform to current period presentation.

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. A trade receivable is considered uncollectible based on pertinent facts and circumstances. Trade receivables are written-off when deemed uncollectible. KLC wrote off approximately $27 and $70 for the years ended June 30, 2026 and 2025, respectively. Recoveries of trade receivables previously written-off are recorded when received. KLC recorded recoveries of $20 and $4 for the years ended June 30, 2026 and 2025, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

Prizes

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

Estimated Prize Liability

A liability for grand prize winners electing annual installments is recorded based on the cost of U.S. Treasury zero-coupon bonds and other U.S. Government agency securities purchased to fund the liability, adjusted for the accretion of interest based upon the purchased yield and maturity date. The estimated prize liability is presented in the statement of net position, net of this imputed interest. Imputed interest is amortized to accretion of investments over the life of the annuity utilizing the effective interest method. Grand prizes with annual installment options are awarded related to the Win for Life, Lucky for Life, Powerball, Mega Millions, Millionaire for Life 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 ten 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, 2026, the KLC did not have any grand prize or second tier prize winners elect the grand prize annuity option. Lucky for Life was retired by MUSL on February 21, 2026. The game was succeeded by a new MUSL game, Millionaire for Life.

Millionaire for Life grand prizes and second tier prizes are paid in annual installments for the life of a winner or for twenty years for certain claimants. A single lump-sum cash payments is also available. As of June 30, 2026, 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. As of June 30, 2025, the KLC had one grand prize winner that elected the annuity option. The final annuity payment was made in June 2026.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Cash and Equivalents

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

Investments

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

Capital Assets

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Deposits with MUSL

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

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

Net Position

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

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

As of June 30, 2026 and 2025, the KLC had no restricted net position.

Note 2 - Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In April 2024, GASB issued Statement No. 103 – *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025. The implementation of this statement did not have a material impact on the KLC's financial position or results of operations.

In September 2024, the GASB issued Statement No. 104 - *Disclosure of Certain Capital Assets*. The objective of this Statement is to enhance transparency and comparability in financial reporting. The Statement requires governments to provide more detailed disclosures about certain capital assets in their financial statements, specifically those related to leases, SBITAs, and assets held for sale and are effective for fiscal years beginning after June 15, 2025. The implementation of this statement did not have a material impact on the KLC's financial position or results of operations.

Pending Accounting Pronouncements Not Yet Adopted

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

In December 2025, the GASB issued statement No. 105 – *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the data of the financial statements but before the date the financial statements are available to be issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026.

Note 3 - Cash and Equivalents

The components of cash and equivalents for the years ended June 30, 2026 and 2025 consisted of the following:

	2026	2025
Cash on deposit in banks	$ 39,181	$ 41,737
Checks issued against cash on deposit	(286)	(1,027)
	$ 38,895	$ 40,710

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

Note 4 - Investments

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

At June 30, 2026, the KLC's investment balances were as follows:

Investment Type	Fair Value	Level 1	Level 2	Maturity
U.S. Treasury Strips	$ 6,565	$ 6,565	$ –	Weighted average maturity of 7.60 years

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

Investment Type	Fair Value	Level 1	Level 2	Maturity
U.S. Treasury Strips	$ 7,067	$ 7,067	$ –	Weighted average maturity of 7.77 years
Other U.S. Government backed	542	–	542	Weighted average maturity of 0.79 years
Total	$ 7,609	$ 7,067	$ 542	

Note 4 - Investments (Continued)

Credit Rating - U.S. Treasury obligations which are backed by the full faith and credit of the U.S. Government are not rated. For 2026, there were no other U.S. Government backed investments that are not rated. For 2025, $542 of the other U.S. Government backed investments are not rated.

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

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

Concentration of Credit Risk - The KLC's general investment policy is to take a very conservative approach when investing KLC money. The policy requires 100 percent of KLC's investments must be in U.S. Treasuries or other debt securities backed by the U.S. Government. For 2026, all investments were in U.S. Treasuries. For 2025, approximately 7 percent of total investments were in Resolution Funding Corporation Strips, all of which are U.S. Government backed. The remaining 93 percent were in U.S. Treasuries.

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.

The net change in the fair value of investments includes all changes in fair value that occurred during the year. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods. The components of investment income for the years ended June 30, 2026 and 2025 consisted of the following:

	2026	2025
Unrealized change in fair value of investments	$ (93)	$ 19
Accretion of investments	333	396
Interest income	1,587	1,868
Total investment income	$ 1,827	$ 2,283

When compared to the historical cost method, recording investments at fair value results in a decrease in 2026 investment income of approximately $93 and an increase in 2025 investment income of approximately $19.

Note 4 - Investments (Continued)

Unrestricted net position at June 30, 2026 and 2025 is as follows:

	2026	2025
Unrestricted net position excluding unrealized gains on investments	$ 12,948	$ 12,604
Accumulated unrealized loss on investments	(667)	(574)
Total unrestricted net position	$ 12,281	$ 12,030

The KLC is authorized by state statutes and investment policies approved by the Board of Directors to lend its investment securities. At June 30, 2026 and June 30, 2025 the KLC had no loaned investments.

Note 5 - Accounts Receivable

Accounts receivable at June 30, 2026 and 2025 consisted of the following:

	2026	2025
Accounts receivable	$ 85,689	$ 78,160
Allowance for doubtful accounts	(381)	(275)
Accounts receivable, net	$ 85,308	$ 77,885

Balances due from retailers for the sales of lottery tickets make up 92 and 94 percent of the accounts receivable balances above for 2026 and 2025, respectively.

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2026 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	$ 423	$ –	$ –	$ 423
Net capital assets, non-depreciable	423	–	–	423
Capital assets being depreciated, amortized				
Buildings	9,394	69	(38)	9,425
Game equipment	434	–	(1)	433
Data processing equipment and software	8,296	537	(189)	8,644
Right-to-use, equipment	19,619	–	(19,619)	–
Automobiles, furniture, and fixtures	2,911	281	(113)	3,079
Total other capital assets at cost	40,654	887	(19,960)	21,581
Less accumulated depreciation/amortization for				
Buildings	(7,078)	(335)	1	(7,412)
Game equipment	(428)	(5)	–	(433)
Data processing equipment and software	(6,934)	(558)	201	(7,291)
Right-to-use, equipment	(17,907)	(1,712)	19,619	–
Automobiles, furniture, and fixtures	(2,482)	(305)	111	(2,676)
Total accumulated depreciation/amortization	(34,829)	(2,915)	19,932	(17,812)
Net capital assets, depreciable/amortization	5,825	(2,028)	(28)	3,769
Total capital assets, net	$ 6,248	$ (2,028)	$ (28)	$ 4,192

Note 6 - Capital Assets (Continued)

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

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

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 580 hours of paid time off. Prior to July 1, 2025, employees could accrue no more than 696 hours of paid time off. Accrued paid time off at June 30, 2026 and 2025, included in accrued compensated absences in the accompanying Statements of Net Position, consisted of the following:

	2026	2025
Current	$ 1,716	$ 1,695
Compensated absences, less current portion	380	482
Total compensated absences	$ 2,096	$ 2,177

Years Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance
2026	$ 2,177	$ 1,815	$ (1,896)	$ 2,096
2025	$ 2,131	$ 1,677	$ (1,631)	$ 2,177

Note 8 - Estimated Prize Liability

Estimated prize liability at June 30, 2026 and 2025 consisted of the following:

	2026	2025
Current:		
Grand prizes	$ 645	$ 1,255
Other prizes	89,564	85,831
Total current portion	90,209	87,086
Long-term:		
Grand prizes	6,674	6,986
Total prize liability	$ 96,883	$ 94,072

Note 8 - Estimated Prize Liability (Continued)

Liability activity of grand prize awards payable was as follows:

Years Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance
2026	$ 8,241	$ 333	$ (1,255)	$ 7,319
2025	$ 9,200	$ 396	$ (1,355)	$ 8,241

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

Years Ending June 30,	
2027	645
2028	595
2029	595
2030	595
2031	543
2032 through 2036	2,611
2037 through 2041	1,841
2042 through 2046	1,352
2047 through 2051	832
2052 through 2056	468
Total	10,077
Less unamortized discount	(2,758)
Total at present value	7,319
Less current portion	(645)
Total long-term portion at present value	$ 6,674

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 $333 and $396 in 2026 and 2025, respectively, is included in accretion of investments.

Note 9 - Retirement Plan

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

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

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

During 2026 and 2025, the KLC's contributions were calculated using the eligible compensation amount for eligible employees of $3,719 and $3,731, respectively, for the 6.2 percent employer contribution (Mandatory and Supplemental Contributions), and $14,894 and $14,286, respectively, for the 8 percent employer contribution (Basic Contributions). Employer contributions actually made to the Plan were approximately $1,422 and $1,374 in 2026 and 2025, respectively. Employee contributions to the Plan were approximately $231 in both 2026 and 2025. At June 30, 2026 and 2025, the KLC had an outstanding liability of approximately $60 and $58, respectively, owed to the Plan, as part of the accrued salaries balance.

During 2026 and 2025, there were no forfeitures used to reduce retirement plan expenses.

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

Note 10 - Leases

The KLC has entered into leases for the rental of lottery vending machines as part of the lottery gaming system contract with International Game Technologies ("IGT"). The terms of the leases are up to seven years. In the current year, the KLC entered into a new contract with IGT which provided for the continued rental of lottery vending machines. The terms of the new contract includes fees based on a percentage of sales rather than a fixed fee.

Under the previous contract, the KLC reported right-of-use assets and liabilities for equipment leases. As of June 30, 2026, and June 30, 2025, these amounts were as follows:

	2026	2025
Right-to-use lease assets	$ –	$ 1,712
Current portion of lease liability	–	1,712
Total lease liabilities	$ –	$ 1,712

There are no liabilities for future equipment lease liabilities as of June 30, 2026.

Total expense for 2026 and 2025 was approximately $1,712 and $2,383 respectively.

Activity of lease liabilities was as follows:

Years Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance
2026	$ 1,712	–	(1,712)	$ –
2025	$ 4,095	–	(2,383)	$ 1,712

Other information related to equipment leases was as follows:

	2026	2025
Weighted-average remaining lease term (years)	–	1.06
Weighted-average discount rate	–	4.37%

Note 11 - Payments to the Commonwealth

Payments to the Commonwealth represent transfers of funds from the KLC to the Commonwealth's General Fund, Trust and Agency account, and the Kentucky Educational Excellence Scholarship ("KEES") Reserve Account. The payments to the General Fund and Trust and Agency account, which are approved by the Board of Directors and remitted to the Commonwealth on a monthly basis, are used to pay for college scholarships, grants, and education programs. The payments to the KEES Reserve Account are used to cover any funding shortfalls to the merit-based KEES program, which provides college or technical school scholarships to Kentucky high school students. The amounts payable to the KEES Reserve Account result from unclaimed prizes on instant and draw games. Prizes not claimed within 180 days of the drawing date for draw games or game ending date for instant tickets are forfeited and considered unclaimed. During the years ended June 30, 2026 and 2025, all unclaimed prize money was transferred to the KEES Reserve Account as required by HB 6 of the 2025 Regular Session. Payments are made after the end of each quarter.

Payments, including amounts accrued, to the Commonwealth for the years ended June 30, 2026 and 2025 included payments to the following funds:

	2026	2025
General Fund and Trust and Agency Account	$ 394,681	$ 370,886
KEES Scholarship Reserve Fund	23,019	11,590
	$ 417,700	$ 382,476

Note 12 - Risk Management

The KLC is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; data breach; and natural disasters. The KLC has purchased commercial insurance to cover these risks except for workers' compensation and damage to buildings and personal property for which the KLC utilizes the Commonwealth's Risk Management Fund to cover the exposure to these potential losses. The Commonwealth's Annual Comprehensive Financial Reports should be referred to for additional disclosures related to the Risk Management Fund. The amount of commercial coverage has not decreased, nor has the amount of settlements exceeded coverage for the years ending June 30, 2026, 2025, or 2024, respectively.

Note 13 - Commitments and Contingencies

The Lottery has contracted with IGT to provide for the operation of the gaming system, with a contract term that extends through July 9, 2036. The commission paid to IGT for draw game lottery sales is 1.4625 percent of gross draw sales. The commission paid to IGT for scratch-off lottery sales is 0.416 percent of net scratch-off sales. IGT receives compensation of $56.34 per retail location, per month, for retail communications network and management. IGT receives additional compensation of $30.00 per retail location, per month, for cashless equipment communication.

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

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

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

Independent Auditors' 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Lottery Corporation (the "KLC") as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the KLC's basic financial statements, and have issued our report thereon dated September 18, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the KLC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the KLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the KLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the KLC's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

LBMC, PC

Louisville, Kentucky
September 18, 2026