

FUELING *imagination,* FUNDING EDUCATION





Commonwealth of Kentucky
OFFICE OF THE GOVERNOR

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Dear Friends:

As Governor of Kentucky, I would like to congratulate the Kentucky Lottery Board of Directors, retailers, management and staff for a record-breaking year. This year, every dollar of the \$253 million accrued will directly benefit Kentucky's students.

The Kentucky lottery was created on the premise of benefitting Kentucky's education system—for years that promise went unfulfilled and money intended to directly benefit our children was swept into other ventures.

During our administration's first legislative session, this irresponsible practice was finally ended. The lottery fund was created with one purpose in mind—to aid the education of Kentucky students—and will not, under our administration, be used for anything else. Not only does the Kentucky Lottery provide funds for college student aid and scholarship programs, but also the Kentucky Dual Credit Scholarship Program. This program also provides funds for dual credit scholarships in all 173 school districts, allowing students to receive both high school and college credit at the same time.

In order to develop a strong foundation for economic growth in Kentucky, a priority must be placed on strengthening our education system and workforce. We should never backslide on our commitment to either. Kentucky students are the future of our Commonwealth, and we should all be invested in their success.

As citizens, we should take our state motto to heart: "United We Stand, Divided We Fall." We must take pride in our Commonwealth. By working together, we can achieve a brighter, more secure future for all Kentuckians. We can and we will, because We Are Kentucky!

Sincerely,

Matthew G. Bevin
Governor



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HIGHLIGHTED BY A WORLD-RECORD POWERBALL JACKPOT, FISCAL YEAR 2016 WAS ANOTHER *record-breaker* FOR THE KENTUCKY LOTTERY.

We're pleased to report sales for the fiscal year were **\$997.3 million**. This breaks the old sales record established in FY15 of \$899.1 million by \$98.2 million (10.9%). For 18 out of the past 23 years, we've broken records for sales and dividends.

In fact, in FY16, records were broken in every measurable category.

Scratch-off ticket sales continued to be the best-selling product in the lottery's portfolio, finishing the year with a record-breaking \$597.3 million in sales. This is \$36.8 million (6.6%) more than the previous year.

Draw game sales, however, were key in the record-breaking performance. This category closed the year at \$399.6 million in sales, which was \$60.9 million (18%) more than the previous year. This breaks the previous record of \$339.5 million, which stood for 12 years. Keno showed solid performance, with sales rising to a record \$65.9 million.

These record sales led to record prizes paid to players of \$620.6 million, as well as record retailer commissions of \$62.6 million.

The dramatic rise in draw game results could be attributed to the world record-breaking jackpot run of nearly \$1.6 billion we saw in January 2016. However, while this absolutely helped us exceed the state's estimates for the year, in reality we were on track to break our all-time sales record before this run even started thanks to the solid performance in our other game categories.

Our board of directors has approved an aggressive budget for FY17. It includes a goal for the Kentucky Lottery to reach \$1 billion in sales for the first time in history. We're focused on becoming a billion dollar lottery and are working hard to achieve this goal.

Sincerely,

June Hudson
Chair
KLC Board of Directors



Marty Gibbs
Acting President and CEO
Kentucky Lottery
Corporation



KLC BOARD OF DIRECTORS (as of 6/30/16)

June Hudson
Chair

Mark F. Sommer
Vice Chair

Allison Ball
Kentucky State
Treasurer

Jan Buddeke
Director

Ted Richardson
Director

Lisa J. Haydon
Director

THE KLC'S PROCEEDS TO THE COMMONWEALTH WHICH FUNDS COLLEGE SCHOLARSHIPS AND GRANTS ACROSS THE COMMONWEALTH REACHED A RECORD **\$253 MILLION** IN FY16.

SCRATCH-OFF tickets

Scratch-off ticket sales rose to their highest level in KLC history in FY16 - \$597.3 million, shattering the previous record of \$560.5 million set in FY15 by \$36.8 million (6.6%).



Several changes were made in the product line in FY16. These included introducing fewer games so that those on sale would last longer in retail locations, and increasing prize levels across several price points.

Another key factor for this increase was the first full year of the Game Day Thursday program. Instead of a twice-a-month new game launch pattern the KLC had followed for years, Game Day Thursday allowed for a single once-a-month new game launch schedule. This transition allowed games to better develop a player base and was well-received by both retailers and players.



In addition, 300 new ticket vending machines were also deployed, leading to increased sales in these locations.

Our retailer scorecard program continued

to ensure ticket displays and point-of-sale materials were optimized. This has placed an increased emphasis on using Plan-O-Grams at retailers across the state, helping create visual continuity at retail locations (which in turn helped grow sales). The program has also helped reduce retailer product outages. Retailers can win prizes based on their scores.

At retail, the \$5 price point was where the most actual tickets were sold (more than 35.6 million tickets), while the \$25 price point registered the largest sales increase (20.5%) from the previous FY. Several new licensed property games were introduced, including MGM GRAND® Las Vegas, the Magic 8 Ball, Pac-Man™, The Wizard of Oz™ and Corvette® Cash.



PAMELA JONES of Louisville couldn't contain her emotions after winning \$40,000. She scratched off a \$5 MGM Grand Las Vegas ticket at Thorntons on Brownsboro Road in Louisville. Jones said the reason she plays the lottery is because of the KEES college scholarship program. "It makes me feel good to know that even though I might not win on a ticket that college students like my daughter are benefiting from lottery funds," she said.

C-STORE STOP pays off big FOR MONROE COUNTY WOMAN

Darlene Estes of Fountain Run almost always stops by her local convenience store on her way to work to buy Kentucky Lottery Scratch-off tickets. One stop in particular really paid off in a big way.

She chose to play a Bluegrass Blowout ticket at Jr. Food #816 in Scottsville. After scratching off the winning number 44 and matching it to one of her numbers, Estes discovered she'd won the game's top prize.

"I just couldn't believe it," she said. "When I took the ticket up to the clerk to have it checked, I told the man behind me that he might have to catch me." The clerk did confirm that she'd won \$150,000 on the \$10 ticket. Estes then called her supervisor at the Dollar General Store where she works to say she wasn't going to be able to make it in that day.

"I'm just so glad I won so I can help family," Estes said. She also planned to buy a new car.



DRAW Games

Draw games offered by the KLC in FY16 were Pick 3, Pick 4, Keno, Kentucky Cash Ball and 5 Card Cash. The KLC also participated in the multistate games Powerball, Mega Millions and Lucky for Life.

This category closed the year at \$399.6 million in sales, which was \$60.9 million (18%) more than the previous year. This breaks the previous record of \$339.5 million, which stood for 12 years. Keno showed solid performance, with sales rising to a record \$65.9 million. The best-selling draw game was Pick 3, which saw sales rise to a record \$139.6 million.

FY16 ANOTHER RECORD BREAKING YEAR

- Record sales - **\$997,319,000**
- Record proceeds to the Commonwealth - **\$253,044,000**
- Record scratch-off ticket sales - **\$597,325,000**
- Record draw game sales - **\$399,573,000**
- Record prizes to players - **\$620,570,000**
- Record commission to retailers - **\$62,574,000**



EFFECTIVELY MANAGING OPERATING EXPENSES

Operating expenses for FY16 were **\$30.1 million**, only 3.1% of sales. This is down from the FY15 figure of 3.2% of sales.

POWERBALL:

This rather prophetic statement was included in the KLC's FY15 annual report:

"Changes for the game during FY16 will be designed to increase the amount of secondary cash prizes while helping grow the jackpot to larger levels."

Increase it did - Powerball sales in Kentucky rocketed to \$94.4 million from \$65 million in FY15. This is a 45.2% (or \$29.4 million) increase from the previous year. Key in this increase was a world record-breaking jackpot of nearly \$1.6 billion in January 2016 (see right).

While Kentucky did not have a jackpot winner in FY16, there were six players who won the game's \$1 million second prize by matching the five white-ball winning numbers but not the Powerball. In addition, another player matched the five white ball winning numbers and paid an additional \$1 for the game's multiplier Power Play option, increasing the prize to \$2 million!

With a matrix change that occurred in October 2015, matching four white ball winning numbers and the Powerball wins a \$50,000 prize. Since that change, 35 Kentucky Lottery players have won this prize - and five others who chose Power Play multiplied their winnings (two won \$100,000, while three more won \$150,000)!

MEGA MILLIONS:

While the Powerball record dominated the multistate game story in FY16, Mega Millions sales dipped slightly during the year. Sales dropped \$1.9 million (5.8%) to \$31.3 million. The game suffered due to a lack of sustained jackpot runs through the fiscal year and to the increased visibility of Powerball during the period.

Played in a style similar to Powerball (players select five white balls from 1 to 56 and one "Mega Ball" from 1 to 46), the game also has an add-on "Megaplier" feature which acts as a prize multiplier. Drawings are on Tuesday and Friday nights.

While no one in Kentucky hit the Mega Millions jackpot in FY16, there was one player who won the game's second prize of \$1 million.

PICK 3 AND PICK 4:

Pick 3, which continues to be the most widely played KLC draw game, saw an increase in sales from the previous year. Sales for the game ended FY16 at \$139.6 million, a 6.3% increase. Pick 4 sales also rose, closing the year up 10.7% to \$42.6 million. Both of these games set new sales records in FY16, aided in part by the addition of Sunday midday draws in January.

KENTUCKY CASH BALL:

Kentucky Cash Ball sales dipped slightly in FY16, dropping 3% to \$9.7 million. Changes for the game slated for January 2017 are expected to increase sales.

During the year, eight players won the game's top prize of \$200,000 on a \$1 wager, and one picked up a \$100,000 prize on a 50-cent wager. Drawn six nights a week, Cash Ball is a four-plus-one number game similar in play to Kentucky's Powerball.

\$1,586,400,000, - A WORLD RECORD!

A single Powerball jackpot in January 2016 reached **\$1,586,400,000**, shattering the world record for the largest lottery jackpot in history.

The jackpot rolled 20 times before it reached the final stratospheric level. Once the drawing broke the world record, Kentucky Lottery staff members knew they needed to mark the occasion by saying thanks to players. A plan was quickly launched to give away 1500 free plays in four cities on the day of the drawing.

"We'd never done anything like this before," said the KLC's Vice President of Sales Pete Ramsey.

"I really thought players would embrace the chance to join us to be a part of history, but I was also nervous - this was our first time doing an event like this, and I started worrying people might not show up."



"When I got a call two hours before our first event with the news that people were already lining up," Ramsey said, laughing, "I knew we'd hit a home run."

All tickets were quickly distributed in Louisville, Lexington, Bowling Green and Covington - it took less than 30 minutes in each location to hand out the free tickets. In just a 36 hour period, news of the giveaways generated 139 TV stories seen by 4,018,582 viewers, and was front page above-the-fold for two days in a row in the Lexington Herald Leader newspaper.



LUCKY FOR LIFE

In its first full year of sales, the Lucky for Life game showed promise and a substantial percentage sales increase. In FY15, the KLC started the year selling the Decades of Dollars game and saw a late FY transition to Lucky for Life. In that year, sales of the two games combined were \$4.7 million. Lucky for Life on its own finished FY16 with \$9 million in sales, a 91.5% increase.

Sold in 21 states, the \$2 game has one of the most innovative prizes ever offered by the Kentucky Lottery: the top prize is \$1,000 a day – EVERY day – for life. The game offers a second prize of \$25,000 a year for life, as well as eight other cash prize levels. While Kentucky had no top prize Lucky for Life winner in FY16, there were 41 winners in the Bluegrass State of the game's \$5,000 third prize, totaling \$205,000.

5 CARD CASH:

Instead of the numbers players usually get for one of the draw games like Pick 3 or Powerball, the 5 Card Cash ticket contains five card symbols. Rather than trying to match numbers, players try to match card symbols to win.

Sales of the game ended the year at \$7.7 million. This was \$600,000 less (or 8.1%) than sales of the game in FY15. There was one winner of the game's top prize of \$100,000.

KENO:

A change made in FY16 to the fast-draw Keno game helped drive a 39.2% sales increase for the product. Keno ended the year with a record \$65.9 million in sales, which is \$18.6 million more than the previous year. After initially being only offered in social environments (such as restaurants and bowling alleys), Keno To Go was introduced in August and allowed all Kentucky Lottery retailers to sell the game. This helped expand the Keno player base by greatly increasing the number of venues where it could be played, leading to increased sales.



POWERBALL WINNER *gives back*

While Kentucky didn't have a grand prize winner in the \$1.5 billion jackpot, there were three winners of the game's second prize of \$1 million. One of them was Linda Windey, a New York native staying with relatives in Ohio due to her temporary job with eBay. She purchased three Powerball tickets at Cincinnati South Travel Center on Richmond Road in Walton, KY. Windey discovered one of them matched five numbers after checking her tickets when she got home from work.

And in one of the most interesting twists ever to a winner story, on the day Windey came to lottery headquarters to claim her prize she noticed a bloodmobile parked in front of the building for a regularly scheduled employee blood drive. Saying she felt like she needed to give back "after having a million dollars fall out of the sky," following her news conference she tucked her \$1 million check under her arm, marched out to the bloodmobile and donated a pint of blood.

"Tiny Tornadoes" WIN \$1 MILLION!

Another \$1 million winning ticket from the world-record Powerball jackpot was claimed by a group of 11 coworkers from Paducah Public Schools. They worked for the McNabb Head Start Program and call themselves the "Tiny Tornadoes".

Staff members, who had not played together prior to the record-breaking drawing, each kicked in \$5. They bought 27 quick pick tickets.

After Wednesday night's drawing, group member Angel Lawrence (left) checked their numbers from copies she'd made of their tickets. After finding the winning numbers on Twitter, she and her daughter saw they had a \$1 million winner. Lawrence then called group member Tracy Leonard (right) with the news - once they realized the tickets were at school in Leonard's desk, they called and woke the school's principal who met them at school that night so they could retrieve the tickets.

When they arrived at work the next morning, the remaining group members realized they'd won. "It was emotional when they talked about what each of them were going to do with the winnings," Leonard said. After taxes, each person received approximately \$62,727.



SANDRA GOINES AND MICKEY REGAN OF NORTHERN KENTUCKY WON THE MEGA MILLIONS SECOND PRIZE OF \$1 MILLION IN FY16. THEY PURCHASED THEIR TICKET AT THE HIGHLAND HEIGHTS MARATHON.

KENTON COUNTY MAN "Strikes" BIG WITH CASH BALL

Gregory Popham, 62, of Crestview Hills loves to bowl in his free time. While at La Ru Lanes in Highland Heights, Popham bought a Cash Ball ticket for the Nov. 9, 2015, drawing. He tucked the ticket inside his bowling shoe, securing it in a locker at the bowling alley with the plans to check it later in the week.

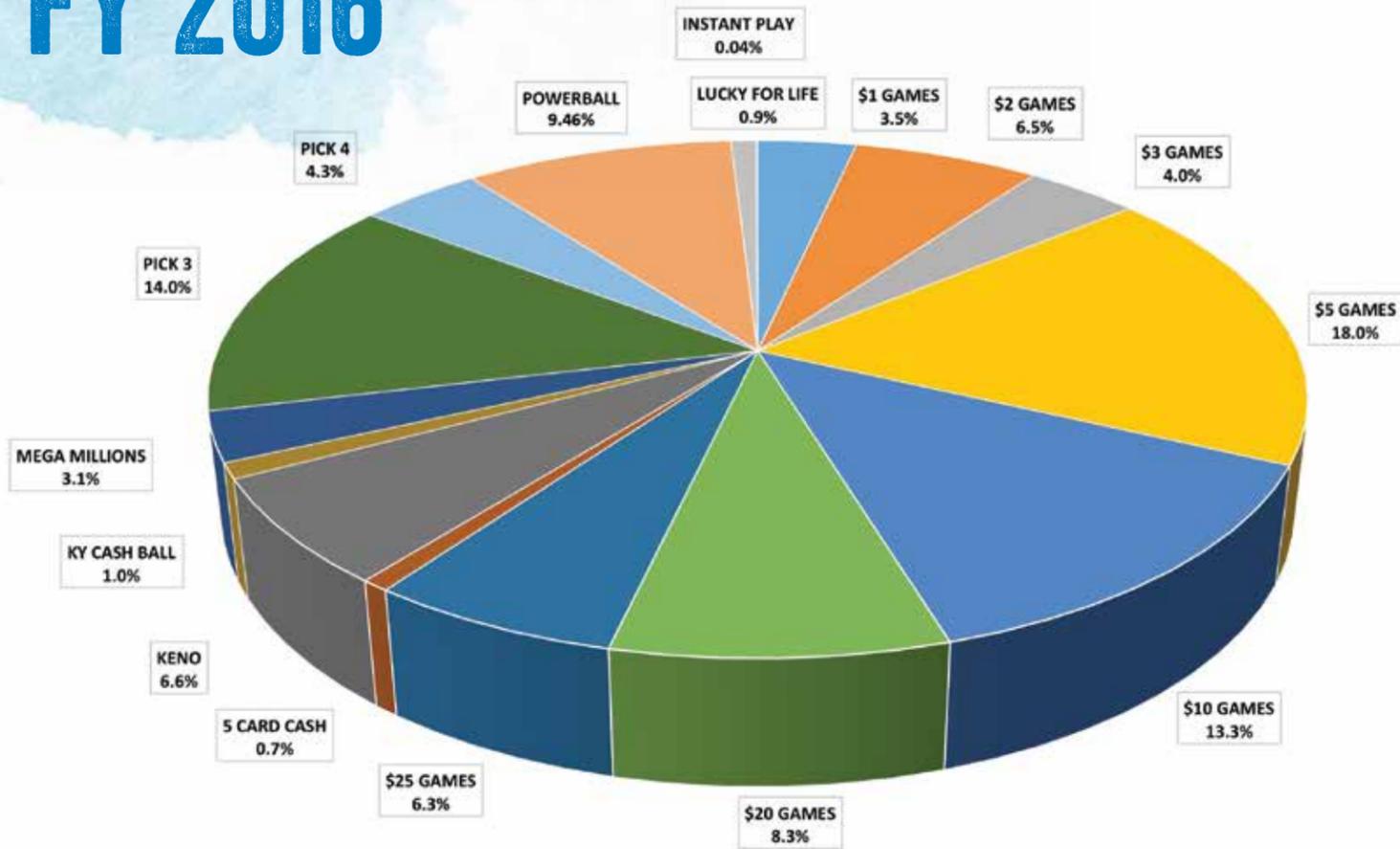
Glenn Schmidt, the bowling alley owner, called Popham the morning after the drawing to ask him if he'd checked his tickets as they'd sold a \$200,000 ticket. "He knew I'd played Cash Ball and thought it could be me that had won," Popham said.

Popham never imagined that he would actually have the winning ticket. He went by the bowling alley on his lunch break, and Schmidt read the winning numbers while Popham looked at the numbers on his ticket. "When I read my numbers, reality set in and I did believe it then," Popham told lottery officials. "I then began to get very sweaty."

Popham, who serves as a police officer for Campbell County, is married and has five children and two grandchildren. He chose the numbers on his Cash Ball ticket by using birthdays of his children and grandchildren, and he said he wanted to use some of the winnings to take a family vacation.



PRODUCT SHARE FY 2016



LOTTERY SALES ENTER THE *internet* ERA

KY Lottery available via the internet starting in April 2016.

Eligible Kentucky players who registered for an account at kylottery.com and were within the boundaries of the state were able to purchase Powerball, Mega Millions and Kentucky Cash Ball draw games. At launch there were five Instant Play games ranging in price from 50 cents to \$3 available, with 11 online by the end of the FY (and more to come in FY17).

At launch, Kentucky was one of three states selling Instant Win tickets online, joining Michigan and Georgia.

The platform was designed with several responsible gaming controls in place to protect players. Safeguards include:

- ◆ Age verification to confirm a player is over 18.
- ◆ Daily, weekly and monthly deposit limits. These limits can be lowered by players at any time, and if they subsequently raise them, a 24-hour cooling-off period is in place before new limits are activated.
- ◆ Self-exclusion from the site, meaning players will not be able to access any of the site's wagering functions.
- ◆ Other features such as a visible play clock available at all times showing length of play; the display of bets, wins, losses and account balances as cash; and free or demonstration games with the same payout percentages and odds as games available for purchase.

Sales for the platform for the nearly three months in FY 16 it was available were \$521,000, and FY17 sales are projected to be \$7 million.





PEOPLE REALLY **DO** WIN!

The KLC awarded \$620.6 million in cash prizes in FY16, up \$64.3 million (11.6%) from the previous year. That's nearly 64 cents for every dollar spent by players. Since inception, Kentucky Lottery players have won **\$10.5 billion in prizes!**

Here are just a few of the players who shared in the riches last year!



FUELING *imagination,* FUNDING EDUCATION

Kentucky Lottery proceeds have now surpassed \$2,800,000,000 for college scholarship and grant programs.

Lottery dividends started being transferred away from the Commonwealth's General Fund on a gradual basis in Fiscal Year 1999. Through FY16, the \$2,765,882,456 in proceeds have gone to fund need-based and merit-based grants and scholarships, along with a reserve fund for the programs.

All told, 654,249 students across the Commonwealth have received a lottery-funded college scholarship or grant since FY99. The awards are distributed by the Kentucky Higher Education Assistance Authority (KHEAA).

Lottery revenue funds the need-based College Access Program (CAP) and Kentucky Tuition Grants (KTG), along with the popular Kentucky Educational Excellence Scholarship (KEES) program.

"KEES, CAP and KTG are 100% funded by the Kentucky Lottery, and would not be the robust programs they are today without the Lottery's support," said Dr. Carl Rollins, KHEAA's Executive Director. "Assisting thousands of Kentucky students and families to afford college is an outstanding legacy for the organization."

In fact, 95 cents of every non-loan student aid dollar awarded by the Commonwealth comes straight from the sales of lottery tickets. And the results are tangible

– according to KHEAA, data from the KEES program indicates more of Kentucky's best and brightest students are staying in Kentucky to attend college.

All unclaimed Kentucky Lottery prize money goes into the KEES Reserve Fund to help maintain the financial stability of the program. Around \$9 million annually is projected to go into this fund, and it has received approximately \$126.5 million since this practice started in FY03.

The first \$3 million in Kentucky Lottery proceeds each year goes to the University of Kentucky's "Read To Achieve" program and the Collaborative Center for Literacy Development, with a total of \$51 million going to these programs since FY00.

CONRAD JOHNSON

University of Louisville
Sophomore
Finance and Mathematics w/a
concentration on Actuary Science
From: Fort Thomas, KY
Receives: KEES/CAP

“

Being in a situation where my family is unable to help with paying for school, the funds I received from the Kentucky Lottery meant that college was attainable without taking on massive amounts of debt that I'd be paying off well into the future. Without the aid I received, I could not have feasibly attended college, and so I am thankful for the Kentucky Lottery.

”

KRISTINE HERRERA

Eastern Kentucky University
Junior
Medical Laboratory Science
(Pre-Med)
From: Elizabethtown, KY
Receives: KEES



“

These funds have been an amazing help. Because of them, I don't have to worry about financing my undergraduate career. Graduate/medical school is a great expense, so KEES money has alleviated some of the stress that I have about investing in my higher education.

”

College-Educated KENTUCKIANS ON THE RISE

When the KEES, CAP and KTG programs were established, one of the primary goals was to increase the number of Kentuckians with college degrees. This in turn would potentially help create a better educated workforce, which would then help grow the level of economic prosperity for our entire state.

Data from the Kentucky Higher Education Assistance Authority show this is happening. The number of Kentucky residents over the age of 25 who have an earned postsecondary degree has risen to 31.2%, up 5% since 2008. Translated, that means nearly 1/3 of Kentuckians in this age range now hold a college degree.

“

In high school, I always worked so hard on ACT scores and GPA in order to raise my KEES! I am thankful that I was able to receive some college payment help based on my hard work!

Being the first in my family to attend college creates an overflowing cup of stress, worry and excitement. Having some funds that help pay for college has helped lessen the worry and stress and add more to the excitement.

”



LACEY HOWARD

University of Kentucky
Junior
Kinesiology
From: Salyersville, KY
Receives: KEES

MEGHAN HOLSCLOW

Spalding University
2016 graduate
Fine Arts
From: Louisville, KY
Received: KEES/KTG

“

I would not have been able to pay for my undergraduate experience at Spalding University if it hadn't been for the grants, scholarships, and other financial aid I received. Now that I am looking at grad schools, knowing that I am debt free from my undergrad makes everything so much easier. I will not have to add a debt on top of another and can look at more options without feeling limited.

”



SARAH BASHAM

Western Kentucky University
2016 Graduate
Human Resources
Management
From: Bowling Green, KY
Received: KEES/CAP

“

College courses are challenging enough on their own, especially being a first generation college student. The entire process was a new venture. Knowing that I did not have any financial burdens, I was able to focus on my studies and extracurricular activities. Now that I am a college graduate, it is comforting to know that I do not have an exorbitant amount of debt weighing on my shoulders. Instead, I am able to invest my time and money within my community. I am forever thankful to those who have played a hand in the KY Lottery educational funding, it has made a world of difference.

”

KYLOTTERY.COM



ELIZABETH PENA

University of Louisville
Sophomore
Communications
From Louisville, KY
Receives: KEES
(Elizabeth is the first in her family to attend college.)

“

The funds mean that my parents do not have to stress about paying for my books or room and board. It is a way to thank them for supporting me to the best of their ability all these years.

”





BROOKE ADAMS

University of Louisville
Senior
Elementary Education
From: Shepherdsville, KY
Receives: KEES



Going to U of L with the help of the Kentucky Lottery has revealed my calling in life; to teach. I want to show my future students that by staying in school, they are paving a path of success for themselves and their future.



LOTTERY *proceeds* MOVING FORWARD

In the Commonwealth's 2017-2018 budget, Kentucky Lottery proceeds are designated to several different college scholarship and grant programs. In addition to KEES, CAP and KTG, Lottery funds will also fund these programs starting in FY17:

- ◆ KY Teacher Scholarship
- ◆ National Guard Tuition Assistance

- ◆ Coal County College Completion Scholarship
- ◆ Work-Ready Scholarship Program
- ◆ Dual Credit Scholarship Program

For more information on any of these programs, visit kheaa.com.

TOP SCHOOLS WHERE GRANTS AND SCHOLARSHIPS WERE USED IN FY16:

SCHOOL	GRANTS / SCHOLARSHIPS	AMOUNT
University of Kentucky	13,913	\$26,070,671
University of Louisville	10,361	\$18,625,173
Eastern Kentucky University	10,620	\$17,306,689
Western Kentucky University	10,050	\$16,807,082
Morehead State University	6,009	\$10,222,496

TOP COUNTIES WHERE STUDENTS RECEIVED GRANTS AND SCHOLARSHIPS IN FY16:

COUNTY	GRANTS / SCHOLARSHIPS	AMOUNT
Jefferson	21,084	\$34,121,012
Fayette	7,894	\$13,134,589
Kenton	4,239	\$7,055,212
Boone	3,811	\$6,457,982
Warren	3,580	\$5,820,172



RETAILER COMMISSIONS IN FY16 WERE A RECORD-BREAKING \$62.6 MILLION, BESTING LAST YEAR'S MARK BY \$6.8 MILLION (12%). THE AVERAGE KLC RETAILER SOLD \$336,932 IN TICKETS AND EARNED \$21,140 IN COMMISSIONS.

There were 15 statewide second-chance promotions conducted by the KLC during FY16. Players could enter by going to the KLC's website and submitting information from non-winning scratch-off or draw game tickets.

POPULAR PROMOTIONS INCLUDED:

- ◆ A number of concert ticket giveaways through iHeart Media, sending winners to see shows by the likes of Fleetwood Mac, Eric Church, Jason Aldean, the Dave Matthews Band and the Eagles.
- ◆ The \$1,000,000 Las Vegas Grand Challenge promotion, where six scratch-off players won a trip to Las Vegas, NV and a chance to win \$1,000,000.
- ◆ A Share the Spirit holiday promotion awarding 25 players \$600 - and then the winners were able to pick someone else who also won \$600.
- ◆ A Pac-Man™ promotion, where a lucky winner received a full-size arcade Pac-Man™ game.



The Keno "Power Hours" promotion doubled or tripled a player's winnings if the words DOUBLER or TRIPLER appeared on the tickets. The promotion led to a 17.5% sales increase during the promotion and 21.2% sales increase after promotion.



Promotions

Pat Kemper (below) was the winner of the 2016 Kentucky Lottery / Kentucky Derby Festival Fanatic promotion. The Louisville native and retiree got to experience her very first Thunder Over Louisville in remarkable style – she was the Thundernator who pushed the button to start the largest annual fireworks show in North America. Over the two week festival, Kemper enjoyed a variety of experiences from being on Millionaires Row at Churchill Downs on Derby Week to riding in the Pegasus Parade and on the Belle of Louisville in the Great Steamboat Race (just to name a few).



The KLC's Winner Wagon (and its sister, the Minnie Winnie) participated in 10 fairs and festivals across the Commonwealth, reaching more than 1.5 million people.



Rick Watts of Partridge, KY was one of two lucky winners of the Muscle Car Money second-chance promotion. He picked up his brand-new 2016 Dodge Challenger at a car dealership in Hazard.



The Start Your Engines with the Kentucky Speedway gave Steve Milligan of Newport amazing access to a weekend of NASCAR racing! Players could enter the promotion through non-winning Lucky for Life tickets. Milligan received four of the best seats in the house for the race (they were recliners), Weekend Fan Zone passes, programs, hotel accommodations, \$250 in food vouchers, a pace car ride, and a chance to meet several big-name drivers and owners.

THE RIGHT WAY TO RUN A BUSINESS- CORPORATE SOCIAL Responsibility

KENTUCKY COUNCIL ON PROBLEM GAMBLING:

The Kentucky Lottery is a founding member of the Kentucky Council on Problem Gambling (KYCPG). The council was formed in 1995 to educate the community about problem and compulsive gambling, offer training to counselors interested in treating gambling disorders and offer financial assistance for treatment to those wanting help.



1-800-GAMBLER:

Managed in conjunction with the KYCPG, the 1-800-GAMBLER hotline is staffed 24-7 by professionals trained in problem and compulsive gambling issues. Anyone with any sort of gambling problem can call the number for information, guidance and referrals to treatment programs and Gamblers Anonymous. In FY17, a new service through which players can get help via text message or online chat will be launched.

RESPONSIBLE GAMING EDUCATION WEEK AND PROBLEM GAMBLING AWARENESS MONTH:



These events raise community awareness of issues related to problem and compulsive gambling, as well as emphasizing that there is help available for those suffering from this addiction. A KLC staff member has been involved with the planning and execution of the Responsible Gaming Education Week campaign for the 12 years it has existed, and chaired the campaign in FY16.

RESPONSIBLE GAMING EDUCATION WEEK AND PROBLEM GAMBLING AWARENESS MONTH:

◆ "Play Responsibly. Remember, it's just a game." This message, including the 1-800-GAMBLER hotline number, is placed on ticket vending machines, ticket dispensers, all point-of-sale materials, game brochures, game cards, television advertising, print advertising, and outdoor

and transit advertising. "Play Responsibly" appears on instant scratch-off and draw games tickets and play slips. The message is also used in all 30-second radio spot advertising, and the logo is used on 30-second TV advertising.

- ◆ The KLC's website contains "Play Responsibly" information accessed directly from the home page. It also contains links to the National Council on Problem Gambling site and the 1-800-GAMBLER site.
- ◆ Brochures with the Gamblers Anonymous questions and the 1-800-GAMBLER hotline number are placed in all retailer play centers. Stickers with the hotline number are placed in various point-of-sale locations in lottery retailers.
- ◆ Retailers are required annually to sign a form acknowledging they have been informed of the KLC's "Play Responsibly" program, that materials with the 1-800-GAMBLER hotline number are permanently located in their store, and that they are aware of the KLC's policy regarding the prohibition of play by anyone under the age of 18.



YEAR-LONG RESPONSIBLE PLAY BILLBOARD CAMPAIGN LAUNCHED

The Kentucky Lottery continued the "Play Responsibly" billboard campaign in FY16. Billboards all across the Commonwealth shared the message along with the 1-800-GAMBLER phone number. In total, the nearly 150 billboards landed 31 million impressions. The campaign is slated to be continued in FY17.



CHOICES: THERE'S ALWAYS A RIGHT

A decade ago, the KLC launched "Choices – There's Always A Right One." The in-school addiction prevention exercise is designed to inform youths about the dangers of addictions that can come from alcohol abuse, drugs and gambling. The program is geared toward students in grades six through nine and has been distributed to more than 200 middle schools throughout the Commonwealth. It has also been placed in each of the state's 13 Regional Prevention Centers which use it in community awareness presentations.

Over the course of the fiscal year the KLC received numerous requests from charitable organizations throughout the state in need of support. More than 72 entities were supported through items such as scratch-off tickets to be given away as door prizes or prize packages made up of lottery-related items to be raffled off at silent auctions. Feedback from organizations has always been very positive, with many of them saying the lottery donation is one of the most popular items of their event.



KLC Cares FOR THE COMMUNITY

Kentucky Lottery employees pride themselves on caring for their community and helping those in need. In FY16, employees have continued to reach out to others by supporting various charitable and community-based organizations.

Over the year, employees personally raised funds for local schools, Big Brothers Big Sisters, Ronald McDonald House and March of Dimes, just to name a few. This year the KLC's March of Dimes Walk team raised more than \$4000 for the cause. The KLC is restricted from giving directly to charitable causes; however, its employees have embraced corporate fundraising campaigns for the Metro United Way and Fund for the Arts. In FY16, KLC employees raised more than \$66,000 for these two nonprofit organizations alone.

In addition to employee financial contributions, the KLC works with the American Red Cross to host a blood drive on a quarterly basis. KLC employees donated 62 units of blood in FY16. According to the American Red Cross, this could help save the lives of nearly 200 people.

The KLC implemented a program called KLCares in 2006. The program focuses on serving the community through donation and group volunteerism. Thanks to the generosity of KLC employees and employees of IGT, disadvantaged elementary school students received items collected from a winter coat and book drive. Employees also collected clothes, shoes and toiletries for the KLC neighbors at the Healing Place recovery center, along with pet supplies that were donated to No Kill Louisville, an organization dedicated to improving animal welfare and preventing unnecessary shelter killing.



ARCH GLEASON

Made a difference

Arthur L. "Arch" Gleason Jr., a husband, father, grandfather, friend and globally-recognized business professional – with a heart as big as the sky – passed away in July 2016. He was 69 years old.

For nearly 23 years, Arch served as president and CEO of the Kentucky Lottery Corporation. He oversaw the growth of the lottery to an operation with nearly \$1 billion annually in sales. Arch handed numerous four-foot-long checks to Powerball winners, never missed recognizing an employee's birthday, and most importantly oversaw the Kentucky Lottery's transition to the funding source of college scholarship and grant programs. His fingerprints have been on every KEES scholarship ever awarded in the Commonwealth, and he took great pride in the more than \$2.5 billion in scholarships and grants given during his tenure.

Arch rose to become recognized as one the most respected and accomplished lottery leaders in the U.S. and the world. While in Kentucky, he served five years as president of the World Lottery Association, travelling

the globe as he led the world-wide trade organization representing the lotteries of 80 different countries.

Arch truly had a servant's heart, and it steered much of his work. He led Kentucky to be one of the first U.S. lotteries to establish a responsible gambling program, a model now used across the country. He also took this work to the global community, working to establish the first-ever responsible gambling standards for lottery use on a world-wide basis.

His charitable efforts over the decades were endless, but he particularly enjoyed his work on the boards of directors for Bridgehaven Mental Health Services (where he served as board president), the Fund for the Arts and the American Heart Association. Arch was also a member of the Metro United Way's Tocqueville Society.

Due in part to his CPA training – and because it was just the way our friend was wired – Arch LOVED numbers. It's no coincidence that this tribute is next to our financial statement.

Godspeed, Arch. We miss you.

KLC RECOGNIZED 22ND STRAIGHT YEAR FOR FINANCIAL EXCELLENCE

For 22 consecutive years, the KLC has achieved the highest form of recognition in the area of governmental accounting and financial reporting. The KLC once again earned for FY15 the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada. The award recognizes organizations that demonstrate a spirit of full disclosure and clearly communicate their financial story. The KLC was the second lottery in North America to receive this award, and only one other U.S. lottery has received this designation more often than the KLC.

FINANCIAL STATEMENTS

Kentucky Lottery Corporation STATEMENTS OF NET POSITION June 30, 2016 and 2015 (dollars in thousands)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$10,387	\$3,775
Cash and cash equivalents, annuitants	2,600	2,376
Investments at fair value, current portion	1,969	6,538
Accounts receivable, net	36,354	35,177
Prepaid PowerPlay License, current portion	67	67
Other	1,002	711
Total current assets	52,379	48,644
Noncurrent Assets		
Investments at fair value, less current portion	14,084	15,068
Prepaid PowerPlay License, less current portion	180	247
Capital assets, net	5,711	6,689
Deposits with Multi-State Lottery Association	4,734	5,126
Total noncurrent assets	24,709	27,130
Total assets	77,088	75,774
LIABILITIES		
Current Liabilities		
Accounts payable, accrued expenses, and compensated absences, current portion	8,485	7,101
Due to the Commonwealth of Kentucky	5,578	3,278
Estimated prize liability, current portion	26,124	27,820
Total current liabilities	40,187	38,199
Noncurrent Liabilities		
Accrued compensated absences, less current portion	1,035	1,020
Estimated prize liability, less current portion	15,034	15,697
Total noncurrent liabilities	16,069	16,717
Total liabilities	56,256	54,916
NET POSITION		
Net investment in capital assets	5,711	6,689
Unrestricted	15,121	14,169
Net position	\$20,832	\$20,858

Kentucky Lottery Corporation STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

	2016	2015
Operating revenues		
Instant games	\$597,325	\$560,494
Draw games	399,573	338,628
iLottery instant play games	421	0
Less instant tickets provided as prizes	(13,477)	(12,192)
Total operating revenues	983,842	886,930
Direct costs		
Prize expense		
Instant games	398,852	372,186
Draw games	221,405	184,090
iLottery instant play games	313	0
Total prize expense	620,570	556,276
Commissions to retailers	62,574	55,857
Vendor expense	9,728	7,680
Ticket costs	7,926	7,479
Total direct costs	700,798	627,292
Operating revenues net of direct costs	283,044	259,638
Operating expenses		
Advertising and promotion	10,293	9,291
Salaries, wages, and benefits	14,465	13,952
Contracted and professional services	2,189	1,966
Depreciation	1,313	1,326
Other general and administrative	1,849	2,251
Total operating expenses	30,109	28,786
Operating income	252,935	230,852
Non-operating revenue (expense)		
Payments to the Commonwealth of Kentucky	(253,044)	(236,101)
Investment income	1,111	716
Interest expense	(1,029)	(1,572)
Other income	1	184
Total non-operating expense	(252,961)	(236,773)
Change in net position	(26)	(5,921)
Net position at beginning of year	20,858	26,779
Net position at end of year	\$20,832	\$20,858

The Corporation has adopted GASB Statement 31, which requires investments to be presented at fair value, resulting in a decrease of income of approximately \$26 in 2016 and a decrease in income of \$921 in 2015, when compared to the historical cost method.

The above financial information was derived from the annual financial statements. The financial audit for the year ended June 30, 2016 was performed by Harding, Shymanski & Company, P.S.C. A copy of the completed annual report can be downloaded at www.kylottery.com or obtained by writing: Kentucky Lottery Corporation, PR Dept., 1011 W Main Street, Louisville, KY 40202 or by calling (502)560-1677.



KLC EXECUTIVE STAFF:

Margaret "Marty" Gibbs
Acting President and CEO

Howard B. Kline
Executive Vice President & CFO

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Steve Casebeer
Senior Vice President of Sales and Marketing

Gary Ruskowski
Senior Vice President of Information Technology & CIO

Bill Hickerson
Senior Vice President of Security

Mary Harville
Senior Vice President, General Counsel & Corporate Secretary

Gale Vessels
Senior Vice President of Internal Audit & Information Security

Chip Polston
Senior Vice President of Communications, Public Relations & Social Responsibility

VICE PRESIDENTS:

Brenda Wilkerson
Vice President of IT Operations

TH Morris
Vice President of Systems Development

Rick Kelley
Vice President of Finance and Administration

Maggie Garrison
Vice President and Corporate Controller

Pete Ramsey
Vice President of Sales

Michele Sullivan
Vice President of Human Resources

Edie Frakes
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