

**Briefing Report:
An Overview Of Charitable Gaming
In Kentucky**



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The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

CONTENTS

	<u>Page</u>
<u>TRANSMITTAL LETTER</u>	1
<u>EXECUTIVE SUMMARY</u>	3
<u>INTRODUCTION</u>	5
<u>BRIEFING REPORT OBJECTIVES, SCOPE, AND METHODOLOGY</u>	8
<u>ISSUES IMPACTING KENTUCKY CHARITABLE GAMING</u>	9
<u>CONCLUSION</u>	29
<u>APPENDIX I - TOP TEN CHARITABLE ORGANIZATIONS BY GAMING ACTIVITY</u>	31
<u>APPENDIX II - CHARITABLE GAMING ADMINISTRATION AND REVENUE USES FOR THE TOP TEN STATES IN CHARITABLE GAMING GROSS RECEIPTS IN 2006</u>	33
<u>APPENDIX III - CHARITABLE GAMING IN KENTUCKY BY PARTICIPATING COUNTY FOR 2006 AND 2007</u>	34
<u>APPENDIX IV - CHARITABLE GAMING REPORTS AMONG TOP TEN NAFTM GAMING STATES</u>	37
<u>PUBLIC PROTECTION CABINET RESPONSE</u>	39



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

September 24, 2008

Robert Vance, Secretary
Public Protection Cabinet
Office of the Secretary
Capital Plaza Tower
500 Mero Street, 5th Floor
Frankfort, Kentucky 40601

RE: Performance Briefing Report: An Overview of Charitable Gaming in Kentucky

Dear Secretary Vance:

The enclosed report, *Briefing Report: An Overview of Charitable Gaming in Kentucky*, identifies issues and offers observations impacting the Kentucky Department of Charitable Gaming (DCG). For this report, we reviewed applicable state law and requested and reviewed financial and demographic information for all Kentucky licensed charitable organizations for calendar years 2001 through 2007. In addition, we conducted interviews with DCG and other states' charitable gaming officials and employees, reviewed DCG charitable gaming files, and reviewed reports from DCG and other states' charitable gaming organizations.

We will be distributing this report in accordance with the mandates of Kentucky Revised Statute 43.090. Additionally, we also distribute the report to members of the General Assembly committees with oversight authority, as well as other interested parties.

In accordance with Kentucky Revised Statute 43.090(1), the Environmental and Public Protection Cabinet must notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and of the recommendations it has not implemented, and reasons therefore, within sixty (60) days of the completion of the final audit.

Our Performance and Examination Audits Branch evaluates the effectiveness and efficiency of government programs as well as risk assessments and benchmarking of state operations. We will be glad to discuss with you at any time this report or the services offered by our office. If you have any questions, please contact Brian Lykins, Executive Director of the Office of Technology and Special Audits, or me.

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



Secretary Vance
September 24, 2008
Page 2

We greatly appreciate the courtesies and cooperation extended to our staff during this process.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts



An Overview Of Charitable Gaming In Kentucky

Background

In November 1992, by a vote of 777,373 to 324,824, voters approved an amendment to the Kentucky Constitution to permit the General Assembly to establish and regulate charitable gaming. Charitable gaming is the most common form of legal gaming allowed in the United States, followed by pari-mutuel wagering. The Kentucky Department of Charitable Gaming (DCG), within the Public Protection Cabinet, is responsible for the oversight of charitable gaming activities regulated under the provisions in KRS Chapter 238. Charitable gaming activities include bingo, raffles, charity fund raising events, poker, blackjack, prize games, and other licensed and regulated events.

In 2007, players spent more money on charitable gaming than was wagered on horseracing in Kentucky. Of the three types of legalized gaming in Kentucky, charitable gaming received approximately \$489 million in gross receipts, or 29 percent of the dollars wagered. The Kentucky Lottery had the largest amount of gaming revenue, capturing approximately \$744 million, or 44 percent in gross receipts, while horseracing was third with wagered receipts of approximately 470 million, or 28 percent.

Despite charitable gaming's size and importance, national uniformly accepted practices, rules, and standards do not exist for charitable gaming and no central federal oversight agency exists to establish these guidelines. The National Association of Fundraising Ticket Manufacturers (NAFTM), a trade association of companies that manufacture pull-tabs, bingo paper, and supplies for gaming, is the only recognized comprehensive reporter of states' charitable gaming information.

According to the most recent data compiled by NAFTM, Kentucky is one of the top charitable gaming states in the nation in both dollars wagered (gross receipts) and the net receipts available for charitable purposes. Out of the 35 states reporting to NAFTM, the following table illustrates that Kentucky ranked fourth in comparison to other states' charitable gaming gross receipts in 2006.

Rank	State	Gross Receipts
1	Minnesota	\$ 1,288,155,000
2	Washington	\$787,078,392
3	Texas	\$662,254,915
4	Kentucky	\$528,853,471
5	Indiana	\$525,748,892
6	Michigan	\$413,131,952
7	New York	\$353,149,354
8	Alaska	\$349,429,648
9	Virginia	\$321,261,000
10	North Dakota	\$261,675,261

Source: *Charity Gaming in North America, Annual Report 2006*, issue by the National Association of Fund Raising Ticket Manufacturers and Kentucky's Department of Charitable Gaming.

DCG's operations are directly funded through a fee on gross gaming receipts paid by more than 730 Kentucky licensed charitable gaming organizations. Effective July 1, 2007, KRS 238.570 was amended to allow adjustments to this fee based on annual gross receipts by October 1 of each odd-numbered year.

Charitable gaming licensees included churches, schools, bands, sports programs, veterans groups, fire and rescue departments, arts organizations, animal welfare groups, history or museum organizations, and others. In order to qualify for a gaming license, an organization must have an IRS 501(c)(3), (4), (8), (10), or (19) exempt

organization status, or be a school, institution of higher education, or state college or university. Kentucky's licensed games that generated the \$489 million in gross receipts:

- pull-tab events – 76 percent;
- bingo – 20 percent;
- raffles – 2 percent; and,
- special events (casino nights and school or church events or festivals) and prize wheels – 2 percent.

Scope

In this briefing report, the Kentucky Auditor of Public Accounts provides an overview of several issues related to Kentucky charitable gaming, as well as comparisons to other top charitable gaming states, where applicable. The issues discussed further are:

- administration and taxation among top charitable gaming states;
- charitable gaming proceeds provided to Kentucky charities;
- decreases in gaming attendance and gross receipts;
- DCG's staffing and regulatory actions;
- potential problems with charitable gaming volunteers;
- quality and content of charitable gaming reports;
- impact of expanded gaming on charitable gaming; and,
- public funding for the awareness and treatment of problem gaming.

Conclusion

Information presented in this report impacts DCG and the oversight of charitable gaming activities. Specifically, the following items warrant further consideration for improvement.

- Of the top 10 states in charitable gaming gross receipts, Kentucky is the only state that provides funding solely to its regulatory agency and not structured to provide additional revenue to the state's

General Fund or for other governmental purposes.

- Kentucky statutes relating to charitable gaming provide no restriction on the amount of prize payouts that can be awarded to ensure receipts are available to provide to the charitable organization.
- Statutes do not require DCG to perform scheduled audits of charitable gaming organizations, nor has DCG adopted a policy or developed an audit strategy to perform scheduled audits to ensure an organization's financial practices are evaluated within an established time period.
- Charitable organizations can continue to alter their financial reporting to DCG because no financial reporting requirements exist that specify a date when a charitable organization's financials can no longer be revised.
- Kentucky statutes do not require a state registry of charitable gaming volunteers to be maintained or that charitable gaming organizations provide volunteer information to DCG.
- The DCG annual report could provide additional information including:
 - data analysis of several years of charitable gaming's financial activity;
 - statistics regarding various regulatory activity including training events, audit activities, and regulatory compliance actions;
 - the names of charitable organizations that return the highest percentage of receipts after payouts; and,
 - the names of charitable organizations that fail to comply with KRS 238.536(1) that at least 40 percent of gross receipts after prize payouts be expended for the organizations charitable purpose.
- Kentucky provides no public funding for the awareness and treatment of problem gaming.

Introduction

The Kentucky Constitution was amended in 1992 to permit charitable gaming.

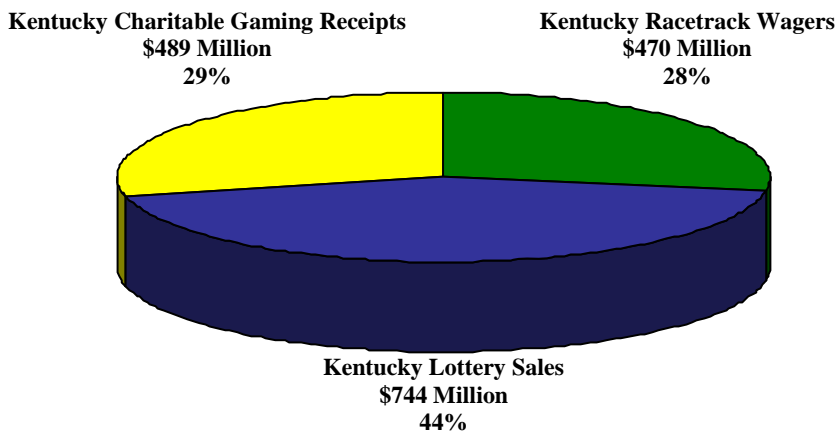
In November 1992, by a vote of 777,373 to 324,824, voters approved an amendment to the Kentucky Constitution to permit the General Assembly to establish and regulate charitable gaming. In 1994, the General Assembly enacted KRS 238.500 that states: “charitable gaming conducted by charitable organizations is an important method of raising funds for legitimate charitable purposes and is in the public interest.” KRS Chapter 238 establishes a mechanism for regulating charitable gaming, including defining the scope of charitable gaming activities, setting standards to insure honesty and integrity, providing for accounting for moneys generated from charitable gaming, and providing penalties for violations of statutes and regulations.

In 2006, charitable gaming outpaced horseracing in gross receipts.

Charitable gaming is the most common form of legal gambling allowed in the United States, followed by pari-mutuel wagering. Only Arkansas, Hawaii, Tennessee, and Utah, do not allow charitable gaming. The remaining 46 states allow some form of charitable gaming.

In 2007, players spent more money on charitable gaming than was wagered on horseracing in Kentucky. Of the three types of legalized gaming in Kentucky, charitable gaming received approximately \$489 million in gross receipts, or 29 percent of the dollars wagered. The Kentucky Lottery had the largest amount of gaming revenue, capturing approximately \$744 million, or 44 percent in gross receipts, while horseracing was third with wagered receipts of approximately 470 million, or 28 percent. Graph 1 illustrates Kentucky’s gaming revenue for 2007 (the most recent year that this information was available for all three activities):

Graph 1: Kentucky Gaming Receipts in 2007



Sources: Department of Charitable Gaming, Kentucky Horse Racing Authority, and the Kentucky Lottery Corporation 2007 annual reports.

No federal oversight of charitable gaming or uniform standards exists – each state is unique.

Oversight of charitable gaming is similar in structure to the nation’s horseracing industry, in that each state has a unique administration and form. Despite charitable gaming’s size and importance, national uniformly accepted practices, rules, and standards do not exist for charitable gaming and no central federal oversight agency exists to establish these guidelines.

The National Association of Fundraising Ticket Manufacturers (NAFTM), a trade association of companies that manufacture pull-tabs, bingo paper, and supplies for gaming, is the only recognized comprehensive reporter of states’ charitable gaming information. The North American Gaming Regulators Association (NAGRA) produces an annual report of states’ gaming activities, but the charitable gaming information is significantly less detailed than the annual NAFTM reports.

Kentucky ranked in the top five states for gross and net charitable receipts.

According to NAFTM, Kentucky is one of the top charitable gaming states in the nation in both dollars wagered (gross receipts) and the net receipts available for charitable purposes. The following table illustrates that Kentucky ranked fourth in comparison to other states’ charitable gaming gross receipts and fifth in net receipts to charity in 2006.

Table 1: Top Ten States by Gross Receipts and Net Charitable Receipts in 2006

Rank	State	Gross Receipts	Rank	State	Net Receipts
1	Minnesota	\$1,288,115,000	1	Minnesota	\$113,210,000
2	Washington	\$787,078,392	2	Michigan	\$72,149,010
3	Texas	\$662,254,915	3	Indiana	\$67,343,989
4	Kentucky	\$528,853,471	4	New York	\$57,273,043
5	Indiana	\$525,748,892	5	Kentucky	\$53,342,078
6	Michigan	\$413,131,952	6	Virginia	\$43,050,000
7	New York	\$353,149,354	7	Wisconsin	\$39,866,015
8	Alaska	\$349,429,648	8	Alaska	\$35,732,844
9	Virginia	\$321,261,000	9	Texas	\$33,814,326
10	North Dakota	\$261,675,261	10	New Jersey	\$31,384,133

Source: *Charity Gaming in North America, Annual Report 2006*, issued by the National Association of Fund Raising Ticket Manufacturers, and *The Office of Charitable Gaming 2006 Annual Report*, issued by the Kentucky Office of Charitable Gaming.

The Kentucky Department of Charitable Gaming (DCG), within the Public Protection Cabinet, is responsible for the oversight of charitable gaming activities. This agency was formerly known as the Office of Charitable Gaming until Executive Order 2008-0507 changed its name on June 6, 2008. DCG regulates charitable gaming activities including bingo, raffles, charity fundraising events, poker, blackjack, prize games, and other events licensed and regulated under provisions of the Charitable Gaming Act, under KRS 238.505(2). Organizations subject to regulation include charitable organizations, operators of charitable gaming facilities, and manufacturers and distributors of charitable gaming supplies and equipment.

DCG's operations are directly funded through a fee on charitable gaming gross receipts.

DCG's operations are directly funded through a fee on gross gaming receipts paid by more than 730 Kentucky licensed charitable gaming organizations. Effective July 1, 2007, KRS 238.570 was amended to allow adjustments to this fee based on annual gross receipts by October 1 of each odd-numbered year.

One-third of Kentucky charitable gaming licenses were for church-related charitable activities.

Charitable gaming licensees include churches, schools, bands, sports programs, veterans groups, fire and rescue departments, arts organizations, animal welfare groups, history or museum organizations, and others. In order to qualify for a gaming license, an organization must have an IRS 501(c)(3), (4), (8), (10), or (19) exempt organization status, or be a school,

institution of higher education, or state college or university. According to DCG's Annual Reports, "[o]ne-third of charitable gaming licensees are Catholic charities (churches, schools, or men's groups.)" Organizations associated with military veterans make up the second largest group of licensees. Together, these two groups account for approximately half of Kentucky's 758 licensed charitable gaming organizations in 2007.

76 percent of charitable gaming receipts in 2007 were generated from pull-tabs.

Total reported charitable revenues for 2007 indicated pull-tab sales were the most popular forms of charitable gaming among Kentucky's licensed games that generated the \$489 million in gross receipts:

- pull-tab events – 76 percent;
- bingo – 20 percent;
- raffles – 2 percent; and,
- special events (casino nights and school or church events or festivals) and prize wheels – 2 percent.

The top 10 charitable organizations by gaming activity are provided in Appendix I.

Pull-tab and bingo games are simple, but charitable gaming operating rules, game procedures, and laws are quite complex. The DCG offers a useful handbook for charities that explains allowable games, events, and rules. The *Guide to Charitable Gaming in the Commonwealth of Kentucky* is available at the DCG Website, www.dcg.ky.gov.

Briefing Report Objectives, Scope, and Methodology

In this briefing report, the Kentucky Auditor of Public Accounts provides an overview of several issues related to Kentucky charitable gaming. This overview examines trends and conditions in charitable gaming and includes comparisons to other top charitable gaming states where applicable. The issues discussed further are:

- administration and taxation among top charitable gaming states;
- charitable gaming proceeds provided to Kentucky charities;
- decreases in gaming attendance and gross receipts;
- DCG's staffing and regulatory actions;

- potential problems with charitable gaming volunteers;
- quality and content of charitable gaming reports;
- impact of expanded gaming on charitable gaming; and,
- public funding for the awareness and treatment of problem gaming.

The Auditor of Public Accounts reviewed and requested financial and demographical information for all licensed charitable organizations for calendar years 2001 through 2007. The last official report from DCG contained 2007 data.

In addition to this data, the following procedures were undertaken with the assistance of DCG staff:

- interviews with DCG officials and employees;
 - reviews of charitable gaming files;
 - interviews with other states' charitable gaming officials;
 - reviews of other states' charitable gaming practices; and,
 - review of charitable gaming member organizations' reports and analyses.
-

Issues Impacting Kentucky Charitable Gaming

Kentucky's charitable gaming administration and limited use of fees is unique among the top gaming states.

Kentucky's oversight and use of charitable gaming revenue is unlike other top gaming states. Appendix II compares charitable gaming oversight and associated costs among the top 10 grossing states recognized by NAFTM. The APA surveyed these states and noted a variance in key components of administration and funding structures – notably the taxation of charitable gaming revenue and its uses.

DCG is a stand-alone agency within the Public Protection Cabinet. Kentucky's charitable gaming oversight is not coupled with horseracing or lottery activities. The other top 10 states have oversight bodies located in lottery commissions, departments of revenue, a department of agriculture, a racing board, and one with the Attorney General.

Excluding regulatory costs, no General Fund monies are provided from charitable gaming gross receipts.

The taxation and use of charitable gaming revenue also varies widely, as well as the rates of licensing fees. Most noteworthy are the methods to assess charitable gaming funds as revenue for a state or local government. Kentucky is a standout in that its fee on gross receipts provides 100 percent of the funding for DCG and no additional revenue is available for other uses outside the regulatory function. On July 1, 2008, the 0.53 percent fee was raised to 0.60 percent, but the financing structure remains the same.

The other nine top gaming states surveyed use charitable gaming revenues to support their oversight and provide additional monies to state government general funds, local governments, or other governmental unit functions or special funds. Revenues used for these purposes ranged from over \$600,000 in Virginia, to over \$51,000,000 for the top charitable gaming state, Minnesota.

In January 2008, Executive Order 2008-0011 served as a “directive to all Executive Branch Cabinets and agencies to implement cost saving measures immediately to assist in closing the deficit faced by the Commonwealth in the current fiscal year.” Citing the Executive Order above, \$700,000 of license fees collected by DCG was transferred by the Finance and Administration Cabinet on May 9, 2008, to the Commonwealth’s General Fund.

A lawsuit was filed on July 23, 2008, in Franklin Circuit Court by an alliance of charitable gaming organizations requesting that the court, among other things, provide a temporary injunction to prevent an increase in the licensee fees from 0.53 to 0.60 percent of charitable gaming receipts. The petitioners claim that increasing this fee will “cause immediate and irreparable damage to the petitioner’s organizations and similarly situated charitable gaming organizations.” In addition, the lawsuit asked the court to declare that payments made to DCG by charitable gaming organizations are fees statutorily dedicated to regulatory and enforcement purposes and are not a tax for expenditure in the General Fund. This lawsuit was still pending at the time this report was released.

Table 2 provides a summary of the data in Appendix II. It highlights the oversight entity and the amount of annual revenue provided to states’ or local governments’ general funds for the top 10 states in charitable gaming gross receipts, per NAFTM.

Table 2: Additional Annual Revenue Provided to State or Local Governments for the Top Ten Gaming States

State	Oversight Entity	Revenue to Governments Excluding Regulatory Costs
Minnesota	Minnesota Gambling Control Board	\$51,138,000
Washington	Washington State Gambling Commission	\$3,134,120
Texas	Texas Lottery Commission	\$24,926,602
Kentucky	Department of Charitable Gaming, Public Protection Cabinet	\$0
Indiana	Indiana Department of Revenue, now Indiana Gaming Commission	\$3,500,000
Michigan	Michigan Lottery, Charitable Gaming Division	\$10,489,125
New York	New York State Racing and Wagering Board	\$784,809
Alaska	Alaska Department of Revenue, Tax Division, Gaming Group	Less Than \$2,000,000
Virginia	Virginia Department of Agriculture and Consumer Services, Division of Charitable Gaming	\$630,826
North Dakota	Office of Attorney General	\$11,415,089

Source: Auditor of Public Accounts based on the most recent information provided by Kentucky and other states, primarily 2006.

Kentucky does not require a specific percentage of charitable gaming gross receipts to be used for charitable purposes.

Though gross receipts from charitable gaming were approximately \$489 million in 2007, the actual amount available for charitable purposes was \$52.3 million, which was nearly 11 percent of the money wagered. In fact, this percent was an increase in charity proceeds from 2001 through 2007. According to the states that reported to NAFTA, 10 percent was the national average of charitable gaming proceeds provided to a charity in 2006.

Table 3: Proceeds to Kentucky Charities

Year	Gross Receipts	Prize Payouts	Receipts AFTER Payouts	Charity Proceeds	Charity Percent of Gross Receipts	Charity Percent AFTER Payouts
2001	\$607,048,878	\$518,887,156	\$88,161,722	\$48,224,884	7.94%	54.70%
2002	\$608,011,213	\$516,735,847	\$91,275,366	\$50,700,505	8.34%	55.55%
2003	\$588,431,015	\$497,259,147	\$91,171,868	\$51,324,142	8.72%	56.29%
2004	\$570,008,971	\$478,679,095	\$91,329,876	\$48,427,205	8.50%	53.02%
2005	\$545,647,574	\$456,724,892	\$88,922,682	\$52,711,239	9.66%	59.28%
2006	\$528,853,471	\$439,234,398	\$89,619,073	\$53,342,078	10.09%	59.52%
2007	\$488,513,261	\$402,853,890	\$85,659,372	\$52,287,091	10.70%	61.04%

Source: Auditor of Public Accounts based on the Department of Charitable Gaming's Annual Reports from 2001 to 2007.

KRS 238.536 (1) requires at least 40 percent of charitable gaming receipts after prize payouts to be expended for charitable purposes.

To ensure that charities receive a portion of the receipts from charitable gaming, KRS 238.536 (1) requires that after prize payouts are made, at least 40 percent of the remaining gaming receipts must be retained to be expended for charitable purposes. These expenditures shall be used exclusively for purposes consistent with the charitable, religious, educational, literary, civic, fraternal, or patriotic functions or objectives of the licensed charitable organizations.

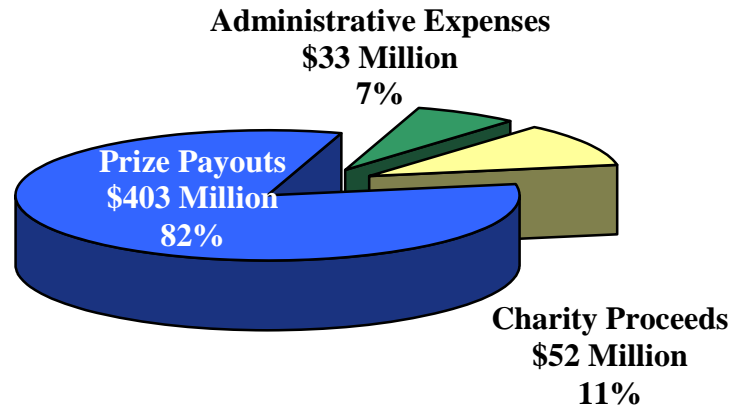
The statute is designed to ensure that administrative expenses do not consume all the money remaining after prizes are paid, leaving nothing for the charitable cause the gaming event was intended to assist. For example, if a charitable gaming event raised \$100 and \$80 was paid out in prizes, according to statute the charity should receive at least 40 percent of the remaining \$20, or a minimum of \$8 for charitable purposes.

Kentucky's total average prize payout was 82.5 percent in 2007.

The larger the prize payout the less available to expend for a charitable purpose and for operating expenses. Kentucky's average prize payout in 2007 was 82.5 percent of charitable gaming receipts. According to DCG staff, a large prize payout allows charitable organizations to compete with casinos, slots machines, lotteries, and other forms of gaming where the payout is typically lower.

Due to statutory requirements imposed by KRS 238.536, administrative expenses cannot exceed 60 percent of gross receipts after prize payouts. Administrative expenses include such items as rent, bookkeeping, janitorial services, and security. The graph below identifies Kentucky charitable gaming prize payouts, administrative expenses, and charitable proceeds for 2007.

Graph 2: Distribution of Kentucky’s Charitable Gaming Receipts - 2007



Source: Auditor of Public Accounts based on the *Office of Charitable Gaming 2007 Annual Report*, issued by the Kentucky Office of Charitable Gaming.

The following table provides the amounts and percentages of the prize payouts and administrative expenses for 2001 through 2007.

Table 4: Prize Payouts and Administrative Cost History

Year	Gross Receipts	Prize Payouts	Prize Payout Percentage	Receipts AFTER Payouts	Admin Expenses	Admin Expense Percentage
2001	\$607,048,878	\$518,887,156	85.50%	\$88,161,722	\$39,943,854	45.31%
2002	\$608,011,213	\$516,735,847	85.00%	\$91,275,366	\$40,574,861	44.45%
2003	\$588,431,015	\$497,259,147	84.50%	\$91,171,868	\$39,771,785	43.62%
2004	\$570,008,971	\$478,679,095	84.00%	\$91,329,876	\$39,053,402	42.76%
2005	\$545,647,574	\$456,724,892	83.70%	\$88,922,682	\$36,211,925	40.72%
2006	\$528,853,471	\$439,234,398	83.10%	\$89,619,073	\$36,276,995	40.48%
2007	\$488,513,261	\$402,853,890	82.47%	\$85,659,372	\$33,372,280	38.96%

Source: Auditor of Public Accounts based on the Department of Charitable Gaming’s Annual Reports from 2001 to 2007.

Kentucky's charitable organizations' overall compliance with KRS 238.536 is improving.

According to DCG, 92 percent of Kentucky's charitable organizations complied with the statutory requirement that at least 40 percent of gross receipts after prize payouts be expended for the organization's charitable purpose. As previously demonstrated in Table 3, the total amount available for charity was approximately 61 percent of total gross receipts after prize payouts for 2007, which is an increase from 54.7 percent in 2001. The following table lists the top 25 out of 190 charitable organizations for 2007 with gross receipts of at least \$1 million having the highest percentage of charitable proceeds after payouts. (Note: This list is in descending order.)

Table 5: Top 25 Charitable Organizations over \$1 Million Paying Highest Percent to Charity in 2007

Charitable Organization	County	Gross Receipts	Prize Payouts	Receipts AFTER Prizes	Charity Proceeds	Charity Percentage
National Corvette Museum Foundation, Inc.	Warren	\$2,318,700	\$763,153	\$1,555,547	\$1,549,101	99.59%
St Jude Children's Research Hospital/ALSAC	Jefferson	\$1,375,300	\$344,647	\$1,030,653	\$939,374	91.14%
American Legion #76 - Clarence Fields Post	Boyd	\$3,162,937	\$2,515,248	\$647,689	\$561,139	86.64%
The Other Side Fun Park, Inc.	Warren	\$2,470,623	\$1,998,496	\$472,127	\$401,561	85.05%
The Arc of Owensboro, Inc.	Daviess	\$2,229,815	\$1,866,317	\$363,498	\$300,374	82.63%
St Henry Parish	Kenton	\$1,037,078	\$838,754	\$198,324	\$162,804	82.09%
VFW Post #4075	Franklin	\$1,393,717	\$1,134,929	\$258,788	\$206,959	79.97%
VFW Post #2734 - Ladies Auxiliary	Mason	\$1,197,565	\$994,145	\$203,420	\$162,622	79.94%
Covington Catholic High School	Kenton	\$1,061,611	\$908,721	\$152,890	\$120,629	78.90%
St. Henry District High School	Boone	\$1,750,840	\$1,385,273	\$365,567	\$287,741	78.71%
George K. Bowling Community Park, Inc.	Metcalfe	\$3,093,262	\$2,466,189	\$627,073	\$492,569	78.55%
Immaculate Heart of Mary Church	Boone	\$1,185,039	\$961,830	\$223,209	\$168,997	75.71%
People Helping People	Boyd	\$2,865,042	\$2,369,861	\$495,181	\$374,539	75.64%
American Legion Post #157	Bullitt	\$1,248,666	\$1,081,132	\$167,534	\$125,693	75.03%
American Legion #23	Warren	\$1,325,284	\$1,109,376	\$215,908	\$161,026	74.58%
Kentucky Soccer Association	Jefferson	\$1,530,156	\$1,223,875	\$306,281	\$224,533	73.31%
River City Eagles #3686	McCracken	\$1,300,945	\$1,057,667	\$243,278	\$175,643	72.20%
American Legion Post #81	Grayson	\$1,520,312	\$1,278,715	\$241,597	\$174,317	72.15%
Barn Lot Theater	Metcalfe	\$2,710,559	\$2,193,474	\$517,085	\$370,911	71.73%
Jakes Branch VFD, Inc.	Perry	\$1,539,941	\$1,267,536	\$272,405	\$193,207	70.93%
Avawam VFD & Rescue Squad	Perry	\$1,249,687	\$1,066,941	\$182,746	\$129,092	70.64%
Helping Hands Health Clinic, Inc.	Todd	\$2,989,669	\$2,339,748	\$649,921	\$448,848	69.06%
St Gabriel the Archangel	Jefferson	\$3,346,855	\$2,611,271	\$735,584	\$507,462	68.99%
American Legion #193	Jefferson	\$1,246,107	\$1,065,580	\$180,528	\$123,527	68.43%
George Rogers Clark High School	Clark	\$2,345,914	\$1,918,862	\$427,052	\$289,598	67.81%

Source: Auditor of Public Accounts based on 2007 information provided by the Department of Charitable Gaming.

Some charitable organizations did not comply with KRS 238.536.

According to DCG, the charitable organizations that do not ensure 40 percent of the receipts after prize payouts are used for the organization's charitable purpose are put on probation with graduated penalty levels stipulated per KRS 238.536. The penalties range from required training and filing a corrective action plan to a one-year license suspension for organizations that fall below 25 percent in a calendar year or below 40 percent for two consecutive years. Mandatory training and corrective action plans required for organizations above 25 percent are not required for the organizations that are subject to a license suspension.

Though DCG gathers data regarding compliance with the 40 percent requirement, charitable organizations that violate this requirement are not identified in the DCG annual report. The following table was provided by DCG to illustrate the 40 percent violators by penalty over a five-year period.

Table 6: Breakdown of 40 percent Violators

Description	2003	2004	2005	2006	2007
35 – 39.99%	20	19	11	12	9
30 – 34.99%	17	16	9	11	9
25 – 29.99%	14	13	6	4	13
Under 25% (license suspended for 1 year)	16	26	7	19	38
Consecutive year under 40% (license suspended for 1 year)	14	8	15	15	5
Total Suspended	30	34	22	34	43
Total Violators	81	82	48	59	69
Total Licensees	740	739	782	736	758
Total % of violators	11%	11%	6%	8%	9%
Total % of suspensions	4%	5%	3%	5%	6%

Source: Auditor of Public Accounts based on information provided by the Department of Charitable Gaming.

The following table lists the 29 charitable organizations from a total of 190 that had gross receipts of at least \$1 million in 2007 and did not make the required percent of receipts available to benefit a charity.

Table 7: Charitable Organizations with Receipts over \$1 Million that Did Not Provide the Required Percent of Receipts to a Charity in 2007

Charitable Organization	County	Gross Receipts	Prize Payouts	Receipts AFTER Prizes	Charity Proceeds	Charity Percentage
Committee for the Preservation of the Robert P Warren Birthplace	Todd	\$1,120,419	\$1,019,602	\$100,817	\$6,460	6.41%
Turning Point for Autism, Inc.	Jefferson	\$1,279,968	\$1,176,571	\$103,397	\$8,321	8.05%
Lake Dreamland Center, Inc.	Jefferson	\$1,037,133	\$950,592	\$86,541	\$7,021	8.11%
American Indian Heritage Museum, Inc.	Whitley	\$1,933,935	\$1,697,681	\$236,254	\$29,859	12.64%
Bourbon County Band Boosters, Inc.	Bourbon	\$1,355,869	\$1,235,379	\$120,489	\$21,816	18.11%
Sheltered Risks Inc	Shelby	\$1,358,831	\$1,233,813	\$125,018	\$23,235	18.59%
USA Harvest, Inc.	Jefferson	\$1,734,755	\$1,460,958	\$273,797	\$58,285	21.29%
Maine Coon Rescue	Simpson	\$2,066,861	\$1,844,164	\$222,697	\$50,283	22.58%
Kentucky Harvest, Inc.	Jefferson	\$1,463,310	\$1,237,182	\$226,128	\$52,047	23.02%
Buechel Youth Football, Inc.	Jefferson	\$1,299,529	\$1,178,276	\$121,253	\$28,316	23.35%
Louisville Legends, Inc.	Jefferson	\$1,537,418	\$1,372,546	\$164,872	\$39,596	24.02%
American Legion Post #202 - Harristown	Simpson	\$2,161,675	\$1,941,237	\$220,438	\$60,683	27.53%
Kentuckiana Center for Education, Health & Research	Jefferson	\$1,768,303	\$1,559,133	\$209,170	\$57,877	27.67%
Brain Injury Association of KY	Jefferson	\$1,963,197	\$1,666,964	\$296,233	\$82,891	27.98%
Kentucky Boys State, Inc.	Jefferson	\$1,497,694	\$1,298,661	\$199,033	\$57,333	28.81%
Dreams with Wings, Inc.	Jefferson	\$1,723,761	\$1,526,166	\$197,595	\$59,064	29.89%
Fern Creek Optimist, Inc.	Jefferson	\$2,096,041	\$1,818,391	\$277,650	\$83,573	30.10%
Mercy Mission	Bell	\$1,294,700	\$1,251,728	\$42,972	\$13,343	31.05%
Council of Independent Catholic Bishops	Jefferson	\$1,706,632	\$1,510,198	\$196,434	\$63,293	32.22%
Rockcastle Youth League Football	Rockcastle	\$1,523,195	\$1,302,130	\$221,065	\$71,883	32.52%
Healing Housing, Inc.	Jefferson	\$1,221,146	\$1,059,177	\$161,969	\$52,916	32.67%
Jewish Community Center	Jefferson	\$1,730,244	\$1,509,799	\$220,445	\$73,687	33.43%
FOP #31 - St. Matthews Lodge	Jefferson	\$2,363,905	\$2,031,924	\$331,981	\$112,994	34.04%
Old Catholic Mission Society	Jefferson	\$1,995,727	\$1,717,945	\$277,782	\$94,682	34.08%
FOP #69 Wilderness Trace Lodge	Boyle	\$1,248,668	\$1,006,585	\$242,083	\$86,937	35.91%
2nd Regiment KY Infantry, Orphan Brigade	Jefferson	\$1,037,606	\$892,973	\$144,633	\$53,771	37.18%
Whitley County Touchdown Club	Whitley	\$1,307,406	\$1,117,887	\$189,519	\$72,481	38.24%
Bullitt East Athletic Boosters, Inc.	Jefferson	\$2,405,447	\$2,111,119	\$294,328	\$113,530	38.57%
Mayfield High School Booster Club, Inc.	Graves	\$1,622,057	\$1,437,132	\$184,925	\$73,149	39.56%

Source: Auditor of Public Accounts based on 2007 information provided by the Department of Charitable Gaming.

Auditors conducted a file review for six of the organizations that fell below the 40 percent mark in 2006, including at least one file from each penalty level listed under KRS 238.536. While it appeared that all of the organizations had been notified of their violations, two organizations were missing corrective action plans. One of these organization’s file was also missing documentation of required training and evidence of a quarterly review by DCG. Three of the organizations had their licenses suspended or surrendered, which was in compliance with the statute.

Exempt organizations are not required to report the amount used for charitable purposes.

Though charitable organizations that gross \$25,000 or less are required to file an annual financial report, they are exempt from licensing requirements under KRS 238.535(1) and are not included in the gross receipts reported by DCG. For exempt organizations, only total gross receipts and total prize payouts are required to be reported to DCG; therefore, gaming receipts made available for a charity are unknown. DCG does not monitor an exempt organization’s gaming activities unless a complaint is received.

The following table represents an overview of exempt organizations, including the number of charitable organizations reporting information for the years 2002 through 2007.

Table 8: Statistics for Organizations Exempt from Licensing Requirements

Year	Number of Exempt Organizations Reporting	Exempt Organizations Reporting More Than \$25,000	Gross Receipts	Payouts
2002	548	4	\$1,144,133	\$392,670
2003	584	5	\$1,580,844	\$535,870
2004	698	1	\$1,513,215	\$458,351
2005	428	6	\$1,678,851	\$540,674
2006	414	4	\$1,597,623	\$484,634
2007	512	0	\$1,784,935	\$509,722

Source: Auditor of Public Accounts based on information provided by the Office of Charitable Gaming.

Kentucky charitable gaming attendance and gross receipts are decreasing.

According to 2007 data, Kentucky charitable gaming gross receipts decreased 19.5 percent and attendance decreased 21.8 percent since 2001. The following table illustrates the annual and overall change in receipts and attendance since 2001.

Table 9: Declines in Kentucky Charitable Gaming Gross Receipts and Attendance

Year	Gross Receipts	Gross Receipts Annual Percentage Change	Attendance	Attendance Annual Percentage Change
2001	\$607,048,878	-	5,441,875	-
2002	\$608,011,213	0.2%	5,450,449	0.2%
2003	\$588,431,015	(3.2%)	5,313,352	(2.5%)
2004	\$570,008,971	(3.1%)	5,102,667	(4.0%)
2005	\$545,647,574	(4.3%)	4,703,666	(7.8%)
2006	\$528,853,471	(3.1%)	4,485,189	(4.6%)
2007	\$488,513,261	(7.6%)	4,257,040	(5.1%)
Overall Decrease		(19.5%)		(21.8%)

Source: Auditor of Public Accounts based on the Office of Charitable Gaming's Annual Reports from 2001 to 2007.

Despite drops in attendance and fewer overall receipts, DCG's Executive Director stated that better policing and money management at Kentucky's gaming events could still allow charities to collect a greater percentage of gaming proceeds. A declining economy, higher gas prices, and recent smoking bans are suggested as the reasons for reduced gaming activities. Appendix III provides attendance and other charitable gaming information for each participating county of the Commonwealth.

41 counties experienced a 10 percent or greater decline in charitable gaming attendance.

APA summarized the charitable gaming data provided by DCG by county for 2003 and 2007 to determine the counties that had the steepest decline in attendance at charitable gaming activities. For the counties that had attendance information for both years, 41 counties experienced a 10 percent or more decrease in attendance. The following table illustrates those counties decrease in attendance.

Table 10: Counties with a Decrease in Charitable Gaming Attendance of 10 Percent or More

County	2003 Attendance	2007 Attendance	Decrease	Percentage Decrease
Mercer	27,326	452	26,874	98.3%
Clay	2,471	164	2,307	93.4%
Johnson	11,735	2,418	9,317	79.4%
Breckinridge	27,861	7,600	20,261	72.7%
Marshall	1,680	520	1,160	69.0%
Grant	22,877	9,370	13,507	59.0%
Mason	33,215	13,786	19,429	58.5%
Letcher	46,056	20,378	25,678	55.8%
Lewis	3,088	1,491	1,597	51.7%
Bourbon	23,130	11,867	11,263	48.7%
Marion	10,723	5,545	5,178	48.3%
Campbell	61,248	31,849	29,399	48.0%
Kenton	181,055	95,017	86,038	47.5%
Martin	27,166	14,645	12,521	46.1%
Scott	30,598	17,007	13,591	44.4%
Rockcastle	58,375	32,855	25,520	43.7%
Franklin	40,025	23,687	16,338	40.8%
Woodford	9,080	5,774	3,306	36.4%
Whitley	265,396	169,273	96,123	36.2%
Boyd	213,400	136,974	76,426	35.8%
Pendleton	6,789	4,563	2,226	32.8%
Casey	2,050	1,460	590	28.8%
Perry	61,010	43,452	17,558	28.8%
Nelson	37,165	26,586	10,579	28.5%
Simpson	345,192	248,502	96,690	28.0%
Carroll	3,110	2,327	783	25.2%
Harlan	18,269	13,691	4,578	25.1%
Floyd	101,673	76,773	24,900	24.5%
Fayette	111,683	86,589	25,094	22.5%
Daviess	145,272	114,499	30,773	21.2%
Laurel	151,629	119,624	32,005	21.1%
Greenup	41,702	33,337	8,365	20.1%
Pike	84,382	67,743	16,639	19.7%
Christian	46,319	37,503	8,816	19.0%
McCracken	107,158	87,028	20,130	18.8%
Jefferson	1,813,732	1,473,286	340,446	18.8%
Trigg	2,029	1,674	355	17.5%
Logan	1,525	1,283	242	15.9%
Hopkins	21,055	18,292	2,763	13.1%
Bullitt	18,545	16,188	2,357	12.7%
Meade	20,723	18,395	2,328	11.2%

Source: Auditor of Public Accounts based on information provided by the Office of Charitable Gaming.

17 counties had a 10 percent or greater increase in charitable gaming attendance.

Though many counties experienced a decrease in attendance of charitable gaming activities, there were also counties with significant increases in attendance from 2003 to 2007. Of those counties having attendance information available for both years, there were 17 counties that had a 10 percent or more increase in charitable gaming attendance. The following table provides the attendance information of these counties.

Table 11: Counties with at Least a 10 Percent Increase in Charitable Gaming Attendance

County	2003 Attendance	2007 Attendance	Increase	Percentage Increase
Barren	15,363	17,036	1,673	10.9%
Taylor	4,636	5,164	528	11.4%
Bracken	514	578	64	12.5%
Todd	56,227	65,466	9,239	16.4%
Metcalfe	41,417	53,600	12,183	29.4%
Clark	97,507	127,223	29,716	30.5%
Bell	157,906	206,844	48,938	31.0%
Anderson	5,685	9,454	3,769	66.3%
Fulton	4,706	7,968	3,262	69.3%
Boyle	20,843	35,577	14,734	70.7%
Graves	20,668	36,560	15,892	76.9%
McCreary	9,953	18,749	8,796	88.4%
Henderson	4,777	45,722	40,945	857.1%
Rowan	1,522	14,628	13,106	861.1%
Muhlenberg	255	3,436	3,181	1247.5%
Fleming	951	14,725	13,774	1448.4%
Shelby	765	27,754	26,989	3528.0%

Source: Auditor of Public Accounts based on information provided by the Office of Charitable Gaming.

DCG does not conduct scheduled audits or investigations to verify the financial information self-reported by the licensed organizations.

In 2006, Kentucky had 44 staff positions, which was one charitable gaming staff position for every \$12 million in gross receipts that year. Due to recent budget cuts, DCG staff has been reduced to 42 employees spread among its Commissioner's Office and two divisions: the Division of Licensing and Compliance, and the Division of Enforcement. These staffs include investigators, accountants, and attorneys.

DCG has not adopted a policy or developed an audit strategy to perform scheduled audits to ensure charitable organizations are consistently monitored. Scheduled audits or investigations are not performed by DCG; however, audits and investigations are initiated as a result of complaints. Unless there is an audit, the financial information provided to DCG is self reported and is not verified. Manipulations of financial data to ensure compliance will not be discovered without an audit. No requirement exists specifying a date when charitable organizations can no longer revise the financial statements. As of April 2008, the Audit Branch had 16 audits in progress. DCG would like to have enough staff to conduct scheduled audits and assist organizations with their financial records.

According to DCG officials, there is a continual backlog of cases that could be closed if there were additional staff. As of April 2008, the Investigation Branch had 15 open cases from 2005, 48 open cases from 2006, 44 open cases from 2007, and 10 cases in 2008.

The following table provides additional information related to the duties of the two divisions established by DCG to regulate Kentucky’s charitable gaming activities.

Table 12: Department of Charitable Gaming’s Regulatory Duties and Workload Information

Division of Licensing and Compliance	
Licensing Branch – 8 Employees	Compliance Branch – 10 Employees
<p>Activities:</p> <ul style="list-style-type: none"> ▪ Reviews gaming license applications for approval or denial ▪ Reviews tax exempt status ▪ Performs criminal history checks ▪ Reviews all entities’ financial reports to ensure completeness and accuracy ▪ Issues deficiency letters ▪ Issues invoices for all fees due DCG ▪ Issues licenses and processes changes 	<p>Activities:</p> <ul style="list-style-type: none"> ▪ Conducts inspections of an organization’s office and facility to ensure compliance with charitable gaming regulations ▪ Conducts unscheduled investigations of the charitable gaming activities in progress to ensure compliance with regulations ▪ Investigates complaints ▪ Assists all branches as needed or requested
<p>Workload: In 2007, 758 charitable gaming licenses were issued. The accounting section processed more than 700 quarterly reports.</p>	<p>Workload: The Compliance Branch received 198 complaints and conducted 65 investigations in 2007.</p>
<p>Distinction Between the Two Branches: The Licensing Branch deals with the issuance of charitable gaming licenses and with the review of any necessary financial reports the licensees are required to submit. The Compliance Branch inspects the offices of organizations prior to any license being issued to ensure the charity is legitimate in all respects and conducts inspections of charitable gaming activities to insure the rules of gaming are being followed.</p>	

Division of Enforcement	
Audit Branch – 6 Employees	Investigation Branch – 7 Employees
<p>Activities:</p> <ul style="list-style-type: none"> ▪ Audits the financial records, reports, and statements of DCG licensed entities ▪ Assists the Investigative Branch determine if a diversion of charitable gaming proceeds has occurred ▪ Assists with training sessions regarding charitable gaming reporting requirements 	<p>Activities:</p> <ul style="list-style-type: none"> ▪ Conducts investigations involving criminal activities – not limited to charitable gaming violations - ▪ Interviews witnesses and defendants ▪ Works in conjunction with the Kentucky State Police and local law enforcement agencies, as well as federal prosecutors ▪ Testifies and presents evidence to the courts
<p>Workload:</p> <p>The Audit Branch issued 33 final audit reports and assigned 16 audits in 2007 with a staff of five auditors. These audits are performed in response to complaints, rather than at periodic intervals.</p>	<p>Workload:</p> <p>In 2007, the Investigation Branch opened 170 cases and as of April 2008, there were 117 open cases, including some dating back to 2005.</p>
<p>Distinction Between the Two Branches:</p> <p>Until the auditors discover evidence of fund diversion or other criminal acts, the investigators are not usually involved in the audit. Auditors are not involved in investigations until criminal acts related to charitable gaming funds are discovered.</p>	

Source: Auditor of Public Accounts based on information provided by the Department of Charitable Gaming.

Comparing Kentucky's staffing and funding with other states is difficult because each state regulates charitable gaming differently. Some states regulate charitable gaming as part of a larger agency that also oversees lotteries or other commercial forms of gaming. Some states may not have an enforcement division or may only license one particular type of gaming, such as bingo.

Kentucky ranked third in 2006 in the number of DCG staff available to monitor gaming.

Staffing and budget information for the top 10 charitable gaming states is provided below in Table 13. Only Washington and Texas have more charitable gaming employees than the Kentucky DCG. Washington, with a staff of 168, has one staff person for every \$4.7 million regulated, while Texas, with a staff of 47, has one staff person for every \$14.1 million regulated.

Table 13: Staffing and Budget Information on the Top Ten States in Charitable Gaming Gross Receipts

State	Gross Receipts	Staff	Agency Budget	Source of Budget
Minnesota	\$1,288,115,000	32	\$2,800,000	Legislative Appropriation-Dedicated Funds
Washington	\$787,078,392	168	\$14,448,999	License Fees/ID Stamps/Fines
Texas	\$662,254,915	47	\$2,480,812	General Revenue Funds
Kentucky	\$528,853,471	44	\$3,299,600	Application & License Fees/Fines
Indiana	\$525,748,892	17	\$2,102,152	License Fees
Michigan	\$413,131,952	24	\$8,000,000	License Fees, Pulltab Revenues
New York	\$353,149,354	15	\$2,466,000	5% Net Proceeds Additional License Fee from Bell Jar Ticket Sales
Alaska	\$349,429,648	9.3	\$812,155	General Revenue Funds
Virginia	\$321,261,000	34	\$2,688,238	General Assembly Appropriation
North Dakota	\$261,675,261	17	\$1,075,000	General Revenue Funds

Source: *Charity Gaming in North America, Annual Report 2006*, issued by the National Association of Fundraising Ticket Manufacturers, and *The Office of Charitable Gaming 2006 Annual Report*, issued by the Kentucky Office of Charitable Gaming.

Potential problems with charitable gaming volunteers exist.

Charitable organizations in Kentucky and other states often use outside volunteers for assistance with bingo and gaming activities. Gaming benefits from volunteers that have refined skills and techniques that keep games running smoothly and players entertained. Some charitable organizations may be new to gaming events or lack entertainment skills and may seek outside help with gaming events. Unfortunately, the underlying motives of some volunteers are other than charitable. A review of states' recent investigations and audits revealed significant problems involving specific volunteers.

Professional "volunteers" are able to personally benefit by engaging in collusions and criminal activities that result in theft of gaming funds. Some volunteers receive monetary benefits for their roles in the games, despite laws prohibiting payments for volunteer activities.

The APA surveyed other states in order to identify how volunteers are regulated. The states that responded to our questions appeared to have problems with volunteers similar to Kentucky's, but there was no clear best practice or remedy available to curb questionable activities. Among the top 10 NAFTM gaming states that responded to our inquiries, no state required background checks of charitable gaming volunteers. However, although not required, certain workers may be subject to registrations and background checks.

DCG has placed restrictions on charitable gaming volunteers.

The following are some notable provisions and limitations for gaming volunteers summarized from the June 2007 revision of the DCG's *Guide to Charitable Gaming in the Commonwealth of Kentucky*.

General Provisions

- All volunteers must be readily identifiable.
- Training in game conduct and control of funds is required.
- Limitations exist on gaming purchases and playing games.

Compensation

- No compensation or tipping for services related to gaming activities is allowed.
- Attempts to disguise compensations are subject to criminal penalties under KRS 238.995.
- Conspicuous signs, notes, or announcements are required to provide notice that no gaming tips are allowed for volunteers.
- Organizations may provide volunteers:
 - up to \$10 in food or drinks per day if consumed at gaming locations;
 - identifying clothing; and,
 - raffle awards of non-cash items valued at up to \$25 for achievements of predetermined goals.
- Organizations are required to report amounts spent on volunteers in financial reports (820 KAR 1:060 Section 1 (4)).
- Automatic presumption of compensation occurs if a person volunteers more than four gaming events per week or four special limited fundraising events per year.
- Volunteers under 18 years of age may work bingo games and sell pull-tabs.

- Volunteers can buy and sell raffle tickets or work and play charity fundraising event games unless a house rule states otherwise.

Recordkeeping

- Records must be prepared by a volunteer or chairperson and without compensation.
- Volunteers may verify deposit reconciliations but proceeds must be counted by an officer or chairperson.
- Ticket raffle sales must contain lists of volunteers' selling tickets names and numbers of tickets and ticket ranges provided to sell.

Volunteer activities are also limited by Kentucky law.

KRS 238.540 restricts certain volunteer activities, notably compensation and tipping, as follows:

[C]haritable gaming shall be conducted and administered solely by officers, members, and bona fide employees of the licensed charitable organization. Volunteer personnel, who may or may not be members of the licensed charitable organization, may be utilized if each volunteer is readily identifiable as a volunteer. No person engaged in the conduct and administration of charitable gaming shall receive any compensation for services related to the charitable gaming activities, including tipping. No net receipts derived from charitable gaming shall inure to the private benefit or financial gain of any individual. Any effort or attempt to disguise any other type of compensation or private inurement shall be considered an unauthorized diversion of funds and shall be actionable under KRS 238.995.

Despite the controls and standards, problems with charitable gaming volunteers in the Commonwealth exist. The following illustrates Kentucky's problems with volunteers.

A Kenton County grand jury has indicted four persons for allegedly misappropriating funds from a charitable bingo operation in Covington. The four are Anna Ruff, 52, and Billy Joe "Butch" Daniels, 51, both of Corinth, Deborah Bartlett, 43, of Covington, and Jeffrey Franklin, 61, of Lawrenceburg, Ind. Each faces three felony counts arising from the financial operations of charitable gaming at the Pike Street bingo hall in Covington. The bingo games were conducted on behalf of VFW Post 1484 and its Ladies Auxiliary, based in Park Hills. In February of 2005, the Kentucky Office of Charitable Gaming (OCG) began investigating allegations that bingo

game volunteers were being paid, which is illegal under state charitable gaming law, said Henry Lackey, OCG executive director. Subsequent audits could not account for \$81,000 that should have been credited to Post 1484 and \$177,400 to the auxiliary post. Jeffrey Franklin was an officer in Post 1484 and chairman of its gaming sessions. Bartlett and Ruff were both members of the auxiliary post and both co-chaired the bingo games, according to post records; Daniels is Ms. Ruff's brother. Upon completion of its investigation, OCG turned over its findings to Kenton County Commonwealth's Attorney Rob Sanders, who presented information to the grand jury. Arraignment is scheduled tomorrow.

Source: May 12, 2008, Office of Communications and Public Outreach, Kentucky Energy and Environment Cabinet

Quality and content of charitable gaming reports vary among the states.

Top gaming states' charitable gaming reports vary widely in quality and content. Although it is difficult to establish reporting standards due to the wide variation in structures among states' charitable gaming units, it is possible to compare gaming reports and identify promising reporting practices for Kentucky to consider. Unlike some of the other top 10 gaming states, the Commonwealth currently has no legal requirement to produce a charitable gaming annual report. Thus, issuance and content of Kentucky's annual charitable gaming reports have been determined by the DCG.

The APA reviewed charitable gaming states' annual reports, newsletters, and strategic plans and compared these to Kentucky's. Some states, for example Minnesota and Alaska, provide formal financial statements of data that are not included in Kentucky's reports. Some states supplement annual reports with quarterly data and newsletters aimed at the gaming industry – Kentucky does not. Two states' charitable gaming units provide detailed strategic plans – Kentucky has none specific to its gaming activities.

A DCG newsletter designed to assist charitable gaming organizations, Charitable Chatter, was last issued August 2006. The DCG reported to us that it is considering bringing back a periodic newsletter, but that current budget constraints impose limitations.

The potential exists to improve Kentucky's charitable gaming reports.

The following are some general areas of possible improvement based on our review of the other states' charitable gaming reports:

- provide extended annual comparison of receipts, expenditures, and prizes paid;
- improve presentations of data and supplement these with narratives;
- provide attendance data and gross receipts for top charitable organizations;
- include additional statistics for regulatory activity, inspections, and administrative actions, events training, and audit activities;
- list the charitable organizations that did not comply with the requirement to return 40 percent of charitable receipts after prize payouts; and,
- present financial data in formal financial statement format.

Highlights of the top 10 NAFTM states' gaming reports are included in Appendix IV. We encourage the DCG to review these reports and consider improvements to make its reports more transparent, detailed, comparable, and valuable to a wider group of potential users.

Due to the variables involved, the impact of expanded gaming upon charitable gaming would be difficult to determine.

DCG staff report that they were unable to gather data that can be used to accurately predict the effects expanded gaming would have in Kentucky. In part, this is due to the number of variables that must be considered, including the types of charitable games that exist in various states, the types of expanded gaming that were introduced in those states, and the methods by which the gaming activities were tracked and regulated in each of these states. According to NAFTM, a comprehensive study on the impact of expanded gaming upon charitable gaming has not been performed.

Many factors could contribute to a decline in charitable gaming receipts.

Many factors may contribute to a decline in charitable gaming receipts. In West Virginia, pull-tab charitable gaming revenues dropped from \$134 million in 2001 to \$116 million in 2004, following the introduction of "limited video gaming." Kentucky's charitable gaming gross receipts declined from \$607 million in 2001 to \$529 million in 2006, even without expanded gaming. According to NAFTM data, Indiana's gross receipts were \$583 million in 2002 and \$520 million in 2005.

Despite the existence of casinos, a lottery, and horse racing, Indiana remains one of the top five states in charitable gaming gross receipts.

Seven of the top 10 states in charitable gaming gross receipts have casinos, with Kentucky being one of the three exceptions. Several of the top 10 states, including Minnesota, have multiple casinos.

Kentucky has no public funding for awareness and treatment of gaming problems.

Though the public debate of potential expanded gaming continues, Kentucky does not provide public funding for awareness or treatment of problem gaming. In a 2007 informational bulletin prepared for the 2008 General Assembly, the Kentucky Legislative Research Commission (LRC) estimated the Commonwealth's current pathological gambler populations at approximately 40,000 and problem gamblers at 80,000 to 120,000. LRC noted that social costs related to gambling addictions are difficult to estimate, but include a variety of consequences such as debt, crime, and personal bankruptcy.

Legislative bills to fund a state-run compulsive gamblers awareness and treatment fund were proposed during the 2007 and 2008 General Assembly sessions. However, both proposals failed.

At the national level, the Association of Problem Gambling Service Administrators (APGSA) includes charitable gaming among gambling problem areas it services and studies. Of the top 10 charitable gaming states noted by NAFTM, only Minnesota, Washington, Indiana, and New York are members of the APGSA.

For the top 10 charitable gaming states in 2006, Table 14 provides states' annual budget for problem gambling based on data provided to the APGSA. The \$115,000 listed for Kentucky was reported in error. These funds were provided by a not-for-profit independent organization. Funding for problem gambling assistance may include, administration, help lines, counseling, prevention services, media awareness, and other activities and target a wide variety of gaming and gambling activities.

Table 14: Annual Budgets for Problem Gambling

State	APGSA Member	Annual Budget for Problem Gambling
Minnesota	Yes	\$1,775,000
Washington	Yes	\$956,750
Texas	No	Not Available
Kentucky	No	\$115,000 (1)
Indiana	Yes	\$5,250,000
Michigan	No	\$3,000,000
New York	Yes	\$5,000,000
Alaska	No	Not Available
Virginia	No	Not Available
North Dakota	No	\$4,000,000

Source: Auditor of Public Accounts based on the Association of Problem Gambling Service Administrators' website as of July 14, 2008. Data is presented for information purposes and the APA does not attest to accuracy and completeness.

Notes: (1) According to the Kentucky Department of Mental Health, Developmental Disabilities and Addiction Services, no funding for problem gambling was appropriated by the General Assembly. Instead, the \$115,000 is associated with the Kentucky Council on Problem Gambling, an independent not-for-profit organization.

The Kentucky Council on Problem Gambling (KYCPG) includes bingo and pull-tab activities within its group of problem gambling activities. The KYCPG is a not-for-profit organization that provides education and training programs and purports to be “gambling neutral” and built around a model to foster responsible gaming and wagering programs in collaboration with public and private industries.

KYCPG will continue to advocate for legislation to establish an awareness and treatment fund for problem gamblers. KYCPG recommends the source of this funding to be proportionate contributions from each of the three legal forms of gambling in Kentucky (60 percent Lottery, 20 percent from both horse racing and charitable gaming).

Conclusion

Information presented in this report impacts DCG and the oversight of charitable gaming activities. Specifically, the following items warrant further consideration for improvement:

- Of the top 10 states in charitable gaming gross receipts, Kentucky is the only state that provides funding solely to its regulatory agency and not structured to provide additional revenue to the state's General Fund or for other governmental purposes.

- Kentucky statutes relating to charitable gaming provide no restriction on the amount of prize payouts that can be awarded to ensure receipts are available to provide to the charitable organization.
- Statutes do not require DCG to perform scheduled audits of charitable gaming organizations, nor has DCG adopted a policy or developed an audit strategy to perform scheduled audits to ensure an organization's financial practices are evaluated within an established time period.
- Charitable organizations can continue to alter their financial reporting to DCG because no financial reporting requirements exist that specify a date when a charitable organization's financials can no longer be revised.
- Kentucky statutes do not require a state registry of charitable gaming volunteers to be maintained or that charitable gaming organizations provide volunteer information to DCG.
- The DCG annual report could provide additional information including:
 - data analysis of several years of charitable gaming's financial activity;
 - statistics regarding various regulatory activity including training events, audit activities, and regulatory compliance actions; and,
 - names of charitable organizations that return the highest percentage of receipts after payouts to charity and those organizations that fail to comply with the 40 percent statutory requirement.
- Kentucky provides no public funding for the awareness and treatment of problem gaming.

APPENDICES

Appendix I: Top Ten Charitable Organizations by Gaming Activity

Source: Office of Charitable Gaming

Top Ten Charitable Organizations in Gross Receipts from Bingo

Name	County	Gross Receipts
Franklin Simpson Educational Excellence Foundation	Simpson	\$617,994
The Nature Academy, Inc.	Kenton	\$616,953
Holy Name of Jesus Catholic Church	Henderson	\$610,365
Helping Hands Health Clinic, Inc.	Todd	\$605,382
The Children's Advocacy Center of Green River District	Henderson	\$599,076
Owensboro Catholic High School	Daviess	\$587,751
Simpson County Chapter Vietnam Veterans Club, Inc.	Simpson	\$576,463
Reidland High School	McCracken	\$573,327
African American Heritage Center, Inc.	Simpson	\$569,176
Simpson County Historical Society, Inc.	Simpson	\$564,723

Top Ten Charitable Organizations in Gross Receipts from Pull-tabs

Name	County	Gross Receipts
American Legion #76 - Clarence Fields Post	Boyd	\$3,149,787
Catlettsburg Lodge 142 of the Odd Fellows	Boyd	\$2,853,544
St Gabriel the Archangel	Jefferson	\$2,771,237
Whitley County Baseball Boosters	Whitley	\$2,760,091
George K. Bowling Community Park, Inc.	Metcalfe	\$2,557,175
Corbin's United Effort	Whitley	\$2,533,465
AMVETS #95 - Jessie Stewart Post	Greenup	\$2,525,992
People Helping People	Boyd	\$2,471,575
Southern High School Alumni Association, Inc.	Jefferson	\$2,447,870
Clark County Band Boosters, Inc.	Clark	\$2,444,274

Appendix I: Top Ten Charitable Organizations by Gaming Activity (continued)**Top Ten Charitable Organizations in Gross Receipts from Raffles**

Name	County	Gross Receipts
National Corvette Museum Foundation, Inc.	Warren	\$2,318,700
St Jude Children's Research Hospital/ALSAC	Jefferson	\$1,375,800
Scott County High School	Scott	\$195,799
Fraternal Order of Eagles 2329	Boyd	\$188,673
Juvenile Diabetes Research - Kentuckiana Chapter	Jefferson	\$187,146
Trooper Island, Inc.	Franklin	\$149,522
Kentucky Opera Association, Inc.	Jefferson	\$128,450
CASA, Inc.	Jefferson	\$128,400
Hilltopper Athletic Foundation, Inc.	Warren	\$127,636
St Jerome Church	Jefferson	\$124,723

Top Ten Charitable Organizations in Gross Receipts from Prize Wheel

Name	County	Gross Receipts
Cathedral of Christ the King School	Fayette	\$61,038
Our Lady of Mercy Academy	Jefferson	\$12,715
Assumption High School	Jefferson	\$12,033
St Joseph Church	Jefferson	\$10,947
St Francis of Assisi Catholic Church	Jefferson	\$9,074
Holy Trinity Catholic Church	Jefferson	\$8,520
St Joseph Church	Nelson	\$7,788
Christ the King Church	Hopkins	\$7,766
Holy Family Catholic Church	Jefferson	\$6,873
Nazareth Literary and Benevolent Institution	Nelson	\$6,362

Top Ten Charitable Organizations in Gross Receipts from Special Licensing

Name	County	Gross Receipts
St Joseph Catholic Orphan Society	Jefferson	\$301,326
St Paul Catholic Church	Jefferson	\$157,930
St Agnes Parish	Jefferson	\$150,071
St Rita Church	Jefferson	\$132,333
St Joseph Church	Kenton	\$132,016
Holy Family Catholic Church	Jefferson	\$129,462
St. Joseph Female Ursuline Academy, Inc.	Daviess	\$127,171
St. Athanasius Church	Jefferson	\$127,096
St Edward Church	Jefferson	\$126,299
St Lawrence Catholic Church	Jefferson	\$126,265

Appendix II: Charitable Gaming Administration and Revenue Uses for the Top Ten States in Charitable Gaming Gross Receipts in 2006

State and Principal Regulatory Agency	Methods Used to Collect Revenue	Gross Receipts from Charitable Gaming	Revenue Collected from Charitable Gaming	Annual Cost Incurred by Regulatory Agency	Additional Revenue to State or Local Government
Minnesota – Minnesota Gambling Control Board	License and Tax	\$1,288,115,000	\$53,550,425	\$2,651,000	State: \$51,138,000
Washington – Washington State Gambling Commission	License and Tax	\$787,078,392	\$58,007,668	\$14,876,940 (FY 07, FY 06 requested)	State: \$831,960 Local: \$2,302,160
Texas – Texas Lottery Commission	License, Tax, and Fees	\$662,254,915	\$29,457,614	\$2,480,812	State: \$13,166,159 Local: \$11,760,443
Kentucky – Public Protection Cabinet, Department of Charitable Gaming	License and Fee	\$528,853,471	\$3,193,234	\$2,802,923	None
Indiana – Indiana Department of Revenue (now, Indiana Gaming Commission)	License	\$525,748,892	\$3,862,650	\$2,102,152	Build Indiana Fund: \$3,500,000
Michigan – Michigan Lottery, Charitable Gaming Division	License and Tax	\$413,131,952	\$18,364,071	\$8,066,588	State: \$10,489,125
New York – New York State Racing and Wagering Board	License	\$353,149,354	\$3,385,241	\$2,446,000	The state retains 60% (of \$784,809) and local (municipal) government retains 40% (of \$784,809) of the licensing fees paid by the gaming organizations.
Alaska – Department of Revenue, Tax Division, Gaming Group	License and Tax	\$349,429,648	\$2,457,812	Not available	State: \$2,000,000
Virginia – Department of Agriculture and Consumer Services, Division of Charitable Gaming	License and Fee	\$321,261,000	\$3,283,692	\$2,635, 578	State: \$630,826
North Dakota – Office of Attorney General	License and Tax	\$261,675,261	\$11,305,013	\$640,480	State: \$10,973,547 Special Funds: \$441,542

Source: Auditor of Public Accounts based on information provided by Kentucky and other states.

Appendix III: Charitable Gaming in Kentucky by Participating County for 2006 and 2007

County	# of Org.		Gross Receipts		Payouts		Expenses		Charity Proceeds		Charity Proceeds as % of Gross Receipts		Attendance		2000 Population	Per Capita Spending	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007		2006	2007
Adair	3	2	\$742,229	\$0	\$612,494	\$0	\$80,322	\$0	\$49,414	\$0	6.7%	0.0%	6,889	-	17,244	\$43	\$0
Allen	1	0	\$429,543	\$0	\$383,470	\$0	\$15,967	\$0	\$30,106	\$0	7.0%	0.0%	4,913	-	17,800	\$24	\$0
Anderson	3	3	\$1,473,281	\$1,695,010	\$1,273,729	\$1,438,173	\$74,001	\$84,230	\$125,551	\$172,607	8.5%	10.2%	7,918	9,454	19,111	\$77	\$89
Barren	2	2	\$1,960,696	\$2,031,649	\$1,696,616	\$1,706,506	\$126,862	\$134,280	\$137,217	\$190,863	7.0%	9.4%	16,773	17,036	38,033	\$52	\$53
Bell	13	14	\$23,243,816	\$22,093,652	\$20,675,411	\$19,578,194	\$1,502,352	\$1,249,565	\$1,066,053	\$1,265,893	4.6%	5.7%	205,722	206,844	30,060	\$773	\$735
Boone	17	17	\$5,553,171	\$5,847,367	\$4,333,472	\$4,519,393	\$288,229	\$307,100	\$931,471	\$1,020,874	16.8%	17.5%	29,434	28,861	85,991	\$65	\$68
Bourbon	3	6	\$953,271	\$1,381,921	\$814,476	\$1,245,379	\$69,271	\$98,773	\$69,524	\$37,768	7.3%	2.7%	7,770	11,867	19,360	\$49	\$71
Boyd	16	16	\$25,154,972	\$21,039,805	\$21,018,116	\$17,640,179	\$1,292,265	\$1,107,338	\$2,844,592	\$2,292,289	11.3%	10.9%	158,696	136,974	49,752	\$506	\$423
Boyle	5	7	\$5,500,626	\$4,439,392	\$4,571,507	\$3,574,768	\$453,214	\$453,206	\$475,905	\$411,417	8.7%	9.3%	45,238	35,577	27,697	\$199	\$160
Bracken	2	3	\$106,660	\$89,375	\$57,421	\$44,086	\$2,760	\$2,236	\$46,479	\$43,053	43.6%	48.2%	646	578	8,279	\$13	\$11
Breathitt	1	2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%	0.0%	-	-	16,100	\$0	\$0
Breckinridge	8	9	\$1,623,650	\$951,413	\$1,403,095	\$785,863	\$62,177	\$36,971	\$158,377	\$128,579	9.8%	13.5%	12,375	7,600	18,648	\$87	\$51
Bullitt	8	8	\$2,282,156	\$2,200,453	\$1,873,644	\$1,817,548	\$71,378	\$82,658	\$337,135	\$300,247	14.8%	13.6%	17,023	16,188	61,236	\$37	\$36
Butler	1	1	\$30,261	\$1,665	\$21,345	\$0	\$4,679	\$0	\$4,237	\$1,665	14.0%	100.0%	344	-	13,010	\$2	\$0
Calloway	2	4	\$1,187,179	\$1,231,296	\$1,027,079	\$1,042,412	\$45,683	\$46,108	\$114,417	\$142,776	9.6%	11.6%	8,766	9,033	34,177	\$35	\$36
Campbell	38	37	\$4,300,635	\$4,207,337	\$3,105,836	\$3,029,037	\$163,607	\$159,701	\$1,031,191	\$1,018,599	24.0%	24.2%	36,759	31,849	88,616	\$49	\$47
Carlisle	1	1	\$25,413	\$26,608	\$10,233	\$12,039	\$841	\$739	\$14,339	\$13,830	56.4%	52.0%	-	-	5,351	\$5	\$5
Carroll	3	2	\$441,633	\$247,579	\$360,448	\$199,508	\$32,718	\$22,951	\$48,467	\$25,120	11.0%	10.1%	3,078	2,327	10,155	\$43	\$24
Carter	1	1	\$722,370	\$3,750	\$780,770	\$0	\$0	\$0	(\$58,400)	\$3,750	(8.1%)	100.0%	-	-	26,889	\$27	\$0
Casey	1	1	\$23,534	\$18,845	\$7,539	\$5,825	\$200	\$592	\$15,794	\$12,428	67.1%	65.9%	1,293	1,460	15,447	\$2	\$1
Christian	12	14	\$5,749,204	\$5,402,312	\$4,515,068	\$4,438,764	\$400,464	\$404,908	\$833,672	\$558,640	14.5%	10.3%	38,726	37,503	72,265	\$80	\$75
Clark	8	10	\$14,055,697	\$13,844,358	\$11,400,249	\$11,373,441	\$918,914	\$918,288	\$1,736,534	\$1,552,629	12.4%	11.2%	119,987	127,223	33,144	\$424	\$418
Clay	2	2	\$159,999	\$17,329	\$152,107	\$16,512	\$7,849	\$593	\$43	\$224	0.0%	1.3%	1,479	164	24,556	\$7	\$1
Clinton	1	0	\$706,453	\$0	\$615,074	\$0	\$55,901	\$0	\$35,479	\$0	5.0%	0.0%	5,162	-	9,634	\$73	\$0
Daviess	32	32	\$9,328,388	\$10,020,648	\$7,360,760	\$7,846,583	\$576,516	\$607,171	\$1,391,113	\$1,566,895	14.9%	15.6%	118,716	114,499	91,545	\$102	\$109
Fayette	45	47	\$15,680,918	\$14,253,881	\$12,228,329	\$10,915,560	\$1,596,561	\$1,415,005	\$1,856,029	\$1,923,316	11.8%	13.5%	90,899	86,589	260,512	\$60	\$55
Fleming	3	3	\$1,902,771	\$2,236,374	\$1,623,498	\$1,873,892	\$138,804	\$152,320	\$140,469	\$210,163	7.4%	9.4%	13,625	14,725	13,792	\$138	\$162
Floyd	9	8	\$11,443,226	\$8,720,886	\$10,222,307	\$7,545,568	\$733,788	\$639,609	\$487,132	\$535,709	4.3%	6.1%	93,720	76,773	42,441	\$270	\$205
Franklin	9	15	\$5,794,473	\$3,572,628	\$4,735,150	\$2,804,521	\$460,199	\$249,620	\$599,124	\$518,487	10.3%	14.5%	41,001	23,687	47,687	\$122	\$75
Fulton	-	1	\$0	\$970,495	\$0	\$883,417	\$0	\$71,526	\$0	\$15,552	0.0%	1.6%	-	7,968	7,752	\$0	\$125
Gallatin	1	1	\$81,224	\$0	\$65,830	\$0	\$2,879	\$0	\$12,515	\$0	15.4%	0.0%	733	-	7,870	\$10	\$0
Grant	2	1	\$1,935,941	\$1,645,828	\$1,655,170	\$1,375,409	\$116,855	\$89,114	\$163,916	\$181,305	8.5%	11.0%	11,713	9,370	22,384	\$86	\$74
Graves	6	6	\$3,724,840	\$3,601,161	\$3,158,894	\$3,068,495	\$248,002	\$245,438	\$317,944	\$287,228	8.5%	8.0%	33,614	36,560	37,028	\$101	\$97
Grayson	6	7	\$3,470,217	\$3,343,887	\$2,990,228	\$2,863,603	\$130,060	\$133,647	\$349,929	\$346,638	10.1%	10.4%	27,606	27,500	24,053	\$144	\$139
Green	2	2	\$441,072	\$431,527	\$361,410	\$348,510	\$22,199	\$22,656	\$57,462	\$60,361	13.0%	14.0%	4,536	4,293	11,518	\$38	\$37
Greenup	7	6	\$5,265,128	\$6,962,680	\$4,391,898	\$5,758,895	\$327,145	\$442,545	\$546,085	\$761,240	10.4%	10.9%	28,535	33,337	36,891	\$143	\$189

Appendix III: Charitable Gaming in Kentucky by Participating County for 2006 and 2007 (continued)

County	# of Org.		Gross Receipts		Payouts		Expenses		Charity Proceeds		Charity Proceeds as % of Gross Receipts		Attendance		2000 Population	Per Capita Spending	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007		2006	2007
	Hardin	14	14	\$15,534,678	\$14,977,594	\$13,052,819	\$12,582,351	\$1,017,227	\$1,055,617	\$1,464,632	\$1,339,625	9.4%	8.9%	103,048	107,599	94,174	\$165
Harlan	2	1	\$956,690	\$1,374,657	\$855,083	\$1,232,926	\$48,789	\$76,302	\$52,818	\$65,429	5.5%	4.8%	9,929	13,691	33,202	\$29	\$41
Harrison	1	1	\$1,196,905	\$927,698	\$999,755	\$789,817	\$34,975	\$29,496	\$162,175	\$108,385	13.5%	11.7%	4,398	4,582	17,983	\$67	\$52
Henderson	13	13	\$4,501,420	\$4,438,695	\$3,573,139	\$3,487,387	\$402,232	\$415,600	\$526,049	\$535,708	11.7%	12.1%	43,091	45,722	44,829	\$100	\$99
Henry	1	1	\$1,683,966	\$1,643,640	\$1,510,456	\$1,490,788	\$68,402	\$74,753	\$105,108	\$78,099	6.2%	4.8%	17,169	16,521	15,060	\$112	\$109
Hickman	1	1	\$15,522	\$15,285	\$4,473	\$4,943	\$652	\$728	\$10,397	\$9,614	67.0%	62.9%	150	-	5,262	\$3	\$3
Hopkins	7	6	\$2,320,439	\$1,749,728	\$1,914,723	\$1,363,712	\$146,160	\$109,100	\$259,557	\$276,916	11.2%	15.8%	22,813	18,292	46,519	\$50	\$38
Jefferson	229	246	\$147,788,887	\$135,939,517	\$122,116,193	\$111,698,543	\$11,021,464	\$10,075,485	\$14,651,230	\$14,165,489	9.9%	10.4%	1,530,076	1,473,286	693,604	\$213	\$196
Jessamine	1	1	\$18,978	\$25,367	\$10,095	\$10,305	\$1,293	\$1,369	\$7,590	\$13,692	40.0%	54.0%	-	-	39,041	\$0	\$1
Johnson	4	4	\$488,912	\$170,632	\$398,752	\$146,622	\$33,899	\$13,989	\$56,261	\$10,021	11.5%	5.9%	6,083	2,418	23,445	\$21	\$7
Kenton	47	50	\$19,520,223	\$14,613,304	\$14,557,888	\$11,150,517	\$1,284,073	\$797,563	\$3,678,263	\$2,665,224	18.8%	18.2%	125,114	95,017	151,464	\$129	\$96
Knox	3	3	\$103,714	\$101,067	\$25,726	\$27,336	\$4,103	\$1,763	\$73,885	\$71,968	71.2%	71.2%	1,090	-	31,795	\$3	\$3
Laurel	12	11	\$15,100,587	\$13,113,448	\$13,280,473	\$11,445,688	\$854,558	\$756,012	\$965,557	\$911,748	6.4%	7.0%	132,626	119,624	52,715	\$286	\$249
Letcher	8	8	\$4,802,334	\$2,977,840	\$4,112,537	\$2,571,700	\$281,081	\$184,632	\$408,716	\$221,509	8.5%	7.4%	32,933	20,378	25,277	\$190	\$118
Lewis	1	1	\$332,274	\$193,622	\$301,726	\$169,614	\$21,504	\$12,140	\$9,044	\$11,868	2.7%	6.1%	1,616	1,491	14,092	\$24	\$14
Lincoln	2	2	\$931,570	\$720,512	\$794,097	\$604,915	\$46,059	\$32,493	\$91,414	\$83,104	9.8%	11.5%	12,018	9,403	23,361	\$40	\$31
Livingston	1	1	\$159,650	\$160,112	\$109,978	\$137,959	\$4,410	\$3,674	\$45,262	\$18,479	28.4%	11.5%	1,277	1,012	9,804	\$16	\$16
Logan	1	1	\$41,605	\$69,321	\$35,052	\$55,434	\$1,868	\$3,334	\$4,685	\$10,553	11.3%	15.2%	1,330	1,283	26,573	\$2	\$3
Madison	8	10	\$7,988,372	\$6,937,330	\$6,834,705	\$5,845,204	\$570,333	\$524,517	\$583,335	\$567,609	7.3%	8.2%	67,454	61,297	70,872	\$113	\$98
Magoffin	1	1	\$8,650	\$5,650	\$4,800	\$3,500	\$1,000	\$1,000	\$2,850	\$1,150	32.9%	20.4%	-	-	13,332	\$1	\$0
Marion	9	9	\$968,445	\$720,756	\$777,858	\$572,456	\$35,660	\$31,070	\$154,928	\$117,230	16.0%	16.3%	8,438	5,545	18,212	\$53	\$40
Marshall	1	1	\$158,990	\$44,207	\$140,313	\$41,102	\$7,190	\$628	\$11,487	\$2,477	7.2%	5.6%	2,019	520	30,125	\$5	\$1
Martin	3	4	\$2,712,551	\$2,215,162	\$2,519,894	\$2,072,533	\$94,628	\$66,796	\$98,029	\$75,833	3.6%	3.4%	16,013	14,645	12,578	\$216	\$176
Mason	7	7	\$1,884,374	\$2,429,455	\$1,493,567	\$1,945,761	\$120,091	\$84,798	\$270,715	\$398,896	14.4%	16.4%	9,519	13,786	16,800	\$112	\$145
McCracken	12	12	\$12,211,170	\$11,976,775	\$10,126,199	\$9,871,302	\$796,437	\$786,260	\$1,288,534	\$1,319,214	10.6%	11.0%	90,960	87,028	65,514	\$186	\$183
McCreary	2	3	\$2,211,726	\$1,984,201	\$1,937,764	\$1,775,299	\$97,955	\$92,629	\$176,007	\$116,273	8.0%	5.9%	19,120	18,749	17,080	\$129	\$116
McLean	1	1	\$0	\$0	\$0	\$0	\$250	\$0	(\$250)	\$0	0.0%	0.0%	-	-	9,938	\$0	\$0
Meade	8	9	\$1,835,998	\$2,306,705	\$1,505,639	\$1,898,203	\$85,652	\$100,264	\$244,707	\$308,237	13.3%	13.4%	19,431	18,395	26,349	\$70	\$88
Mercer	3	3	\$31,809	\$21,214	\$20,500	\$17,549	\$1,306	\$970	\$10,003	\$2,695	31.4%	12.7%	419	452	20,817	\$2	\$1
Metcalfe	4	4	\$4,902,331	\$6,174,037	\$4,011,186	\$4,976,986	\$228,478	\$293,706	\$662,667	\$903,346	13.5%	14.6%	45,823	53,600	10,037	\$488	\$615
Montgomery	2	2	\$21,780	\$17,640	\$12,500	\$10,000	\$598	\$280	\$8,683	\$7,360	39.9%	41.7%	-	-	22,554	\$1	\$1
Muhlenberg	1	1	\$344,836	\$383,236	\$279,722	\$312,112	\$28,306	\$26,644	\$36,808	\$44,480	10.7%	11.6%	3,672	3,436	31,839	\$11	\$12
Nelson	14	14	\$3,515,014	\$3,422,132	\$2,730,806	\$2,641,027	\$224,525	\$217,802	\$559,682	\$563,303	15.9%	16.5%	26,266	26,586	37,477	\$94	\$91
Ohio	2	2	\$513,052	\$426,943	\$434,424	\$328,739	\$20,584	\$13,178	\$58,044	\$85,026	11.3%	19.9%	4,365	4,460	22,916	\$22	\$19
Oldham	5	6	\$176,246	\$180,177	\$76,533	\$81,818	\$20,919	\$8,262	\$78,794	\$90,098	44.7%	50.0%	-	-	46,178	\$4	\$4
Pendleton	1	1	\$992,890	\$694,940	\$848,716	\$608,044	\$56,311	\$35,510	\$87,863	\$51,386	8.8%	7.4%	6,274	4,563	14,390	\$69	\$48

Appendix III: Charitable Gaming in Kentucky by Participating County for 2006 and 2007 (continued)

County	# of Org.		Gross Receipts		Payouts		Expenses		Charity Proceeds		Charity Proceeds as % of Gross Receipts		Attendance		2000 Population	Per Capita Spending	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007		2006	2007
Perry	9	9	\$6,671,626	\$6,129,334	\$5,627,592	\$5,107,744	\$401,953	\$384,026	\$642,081	\$637,564	9.6%	10.4%	43,922	43,452	29,390	\$227	\$209
Pike	7	6	\$8,453,019	\$7,437,298	\$7,302,966	\$6,241,566	\$594,965	\$577,890	\$555,088	\$617,842	6.6%	8.3%	80,534	67,743	68,736	\$123	\$108
Powell	2	1	\$385,286	\$2,790	\$340,316	\$2,232	\$17,329	\$76	\$27,641	\$482	7.2%	17.3%	3,254	-	13,237	\$29	\$0
Pulaski	16	17	\$19,309,087	\$18,021,401	\$16,386,051	\$15,242,414	\$1,441,882	\$1,433,693	\$1,481,154	\$1,345,293	7.7%	7.5%	138,373	139,631	56,217	\$343	\$321
Rockcastle	4	4	\$3,823,035	\$4,347,608	\$3,338,845	\$3,777,526	\$324,163	\$352,941	\$160,027	\$217,141	4.2%	5.0%	32,455	32,855	16,582	\$231	\$262
Rowan	5	4	\$1,918,610	\$1,603,782	\$1,614,127	\$1,280,247	\$162,933	\$150,111	\$141,550	\$173,424	7.4%	10.8%	19,113	14,628	22,094	\$87	\$73
Scott	4	4	\$3,143,038	\$2,367,370	\$2,532,721	\$1,843,811	\$245,648	\$154,360	\$364,669	\$369,200	11.6%	15.6%	23,296	17,007	33,061	\$95	\$72
Shelby	5	6	\$1,758,949	\$2,544,711	\$1,495,749	\$2,208,992	\$145,243	\$205,084	\$117,958	\$130,635	6.7%	5.1%	15,446	27,754	33,337	\$53	\$76
Simpson	21	19	\$31,127,835	\$29,440,066	\$26,078,560	\$24,382,164	\$2,381,986	\$2,455,260	\$2,667,290	\$2,602,642	8.6%	8.8%	266,492	248,502	16,405	\$1,897	\$1,795
Spencer	1	1	\$21,152	\$12,721	\$14,649	\$3,438	\$2,843	\$690	\$3,660	\$8,593	17.3%	67.5%	155	-	11,766	\$2	\$1
Taylor	2	2	\$520,887	\$486,257	\$437,853	\$412,869	\$19,582	\$17,724	\$63,451	\$55,665	12.2%	11.4%	5,225	5,164	22,927	\$23	\$21
Todd	4	4	\$9,599,116	\$8,866,457	\$8,035,805	\$7,342,764	\$562,255	\$573,680	\$1,001,056	\$950,013	10.4%	10.7%	66,937	65,466	11,971	\$802	\$741
Trigg	1	1	\$99,521	\$117,134	\$79,061	\$88,861	\$3,257	\$3,611	\$17,203	\$24,662	17.3%	21.1%	1,905	1,674	12,597	\$8	\$9
Union	4	4	\$300,857	\$276,846	\$206,831	\$197,939	\$20,932	\$18,806	\$73,094	\$60,101	24.3%	21.7%	7,471	6,369	15,637	\$19	\$18
Warren	11	11	\$7,474,198	\$7,763,253	\$5,433,911	\$5,168,297	\$197,480	\$187,465	\$1,842,807	\$2,407,492	24.7%	31.0%	41,716	46,801	92,522	\$81	\$84
Washington	4	4	\$507,230	\$589,517	\$439,226	\$459,172	\$21,193	\$22,283	\$46,811	\$108,062	9.2%	18.3%	5,346	5,727	10,916	\$46	\$54
Whitley	14	12	\$21,500,194	\$22,024,651	\$18,321,602	\$18,706,431	\$2,023,271	\$1,841,428	\$1,155,321	\$1,476,792	5.4%	6.7%	167,974	169,273	35,865	\$599	\$614
Woodford	2	2	\$768,595	\$798,359	\$637,770	\$663,153	\$24,452	\$24,856	\$106,374	\$110,350	13.8%	13.8%	7,352	5,774	23,208	\$33	\$34
Totals	822	857	\$528,853,471	\$488,513,261	\$439,234,398	\$402,853,890	\$36,276,995	\$33,511,238	\$53,342,078	\$52,148,133	10.1%	10.7%	4,485,189	4,257,040	3,707,704	\$143	\$132

Source: Auditor of Public Accounts based on information provided by the Department of Charitable Gaming's Annual Reports for 2006 and 2007, and by the U.S. Census Bureau, Population Division.

Appendix IV: Charitable Gaming Reports Among Top Ten NAFTM Gaming States

Minnesota Gambling Control Board	<p>Periodic Report <i>Annual Report of the Minnesota Gambling Control Board Fiscal Year 2007 July 1, 2006 – June 30, 2007:</i> http://www.gcb.state.mn.us/PDF_Files/FY07.pdf</p> <p>Supplemental Reports A supplementary bi-monthly newsletter, <i>Gaming News</i>, is available: http://www.gcb.state.mn.us/PDF_Files/GNJuneJulyAug08.pdf</p>
Washington State Gambling Commission	<p>Periodic Report <i>Gambling Statistics for Fiscal Year Ending June 30, 2007:</i> http://www.wsgc.wa.gov/docs/stats/loa/2007-fy.pdf</p> <p>Supplemental Reports A quarterly report, <i>Focuses on Gambling</i> is targeted at licensees and provides information on current events, rules, and policy decisions: (http://www.wsgc.wa.gov/newsletters/focus.asp)</p> <p>A five-year strategic plan (2009-2013) further enhances periodic reports and includes an agency overview, strategies for success, and performance measures: http://www.wsgc.wa.gov/docs/strategic_plan.pdf</p>
Texas Lottery Commission	<p>Periodic Report <i>Charitable Bingo Operations Division 2006 Annual Report:</i> http://www.txbingo.org/export/sites/bingo/Documents/pdfs/Final_07.31.07_BG8209_2006_Annual_Report.pdf</p> <p>Supplemental Reports A comprehensive strategic plan (includes lottery operations) is available: http://www.txlottery.org/export/sites/default/Documents/2007_2011strategicplan.pdf</p> <p><i>Charitable bingo news is updated often and supplements periodic reports with advisory opinions: http://www.txbingo.org/export/sites/bingo/index.html</i></p>
Kentucky Department of Charitable Gaming	<p>Periodic Report <i>Department of Charitable Gaming 2007 Annual Report:</i> http://dcg.ky.gov/NR/rdonlyres/41C4E8D4-3F1B-4EB8-ABBC-1305EA2B8676/0/2006AnnualReport.pdf</p> <p>Supplemental Reports A newsletter, <i>Charitable Chatter</i> was available through August 2006 and provided overviews of current events and question and answer pages: http://dcg.ky.gov/newspubs.htm</p>
Indiana Gaming Commission	<p>Periodic Report <i>Indiana Gaming Commission 2007 Annual Report to Governor Mitch Daniels:</i> http://www.in.gov/igc/files/FY2007-Annual.pdf</p>

**Appendix IV: Charitable Gaming Reports Among Top Ten NAFTM Gaming States
(continued)**

<p>Michigan Lottery, Charitable Gaming Division</p>	<p>Periodic Report <i>Michigan Lottery Charitable Gaming Division Annual Report 2007 – October 1, 2006 to September 30, 2007:</i> http://www.michigan.gov/documents/cg/BSL-CG-AR2007_220469_7.pdf</p>
<p>New York State Racing and Wagering Board</p>	<p>Periodic Report <i>New York State Racing & Wagering Board 2007 Annual Report and Simulcast Report:</i> http://www.racing.state.ny.us/annualreports/AnnualReport2007.pdf</p> <p>Supplemental Reports Board meetings are available through live broadcast links: http://www.racing.state.ny.us/bmeetings/web.stream.htm</p>
<p>Alaska Department of Revenue, Tax Division, Gaming Group</p>	<p>Periodic Report <i>Alaska Tax Division, Department of Revenue Annual Report of Gaming Group Operations:</i> http://www.tax.alaska.gov/programs/documentviewer/viewer.aspx?196r</p>
<p>Virginia Department of Agriculture and Consumer Services, Division of Charitable Gaming</p>	<p>Periodic Report <i>Virginia Department of Charitable Gaming 2007 Annual Report to the Governor and General Assembly:</i> http://www.dcg.virginia.gov/about/annual-report-2007.pdf</p> <p>Supplemental Reports A comprehensive strategic plan is available: http://www.dcg.virginia.gov/about/strategic-plan-2008.pdf</p> <p>Virginia Gaming Board meeting minutes are available: http://www.dcg.virginia.gov/board/minutes/default.shtm</p>
<p>North Dakota Office of Attorney General</p>	<p>Periodic Report <i>Office of Attorney General Biennial Report 2005 – 2007:</i> http://www.ag.nd.gov/Reports/BiennialReports/BiennialReport05-07.pdf</p> <p>Supplemental Reports An informative quarterly newsletter, the “Gaming Update” provides updates of laws, rules, events, and special topics. http://www.ag.nd.gov/Gaming/Gaming.htm</p>

PUBLIC PROTECTION CABINET RESPONSE



**PUBLIC PROTECTION CABINET
Office of the Secretary**

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Robert D. Vance
Secretary

September 22, 2008

Bryan Lykins
Executive Director
Office of Technology and Special Audits
Auditor of Public Accounts
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Dear Mr. Lykins:

Thank you for the opportunity to review and respond to your *Briefing Report: An Overview of Charitable Gaming in Kentucky*. We appreciate the time and attention that your office has devoted to assessing the operations of the Department of Charitable Gaming ("DCG") as well as the charitable gaming industry statewide. Your thorough report will be a valuable tool in helping DCG improve both its efficacy in fulfilling its mission and the quality of service that it provides to its constituents.

According to the report, there are seven items that "specifically warrant further consideration." We begin our response by addressing these items, as follows:

1. **Of the top 10 states in charitable gaming gross receipts, Kentucky is the only state that provides funding solely to its regulatory agency and not structured to provide additional revenue to the state's General Fund or for other governmental purposes.**

Current law makes it difficult for charitable gaming in Kentucky to fund other areas. KRS 238.570 establishes a charitable gaming regulatory account; that account includes the annual statutory licensing fee paid by charitable organizations for their gaming activities, as well as any other fees or administrative fines assessed by DCG. The statute specifically restricts the use of the account to support of the agency. Additionally, the statute was amended in 2006 to limit if not eliminate the accrual of excess funds in the account.

Bryan Lykins
Page Two
September 22, 2008

2. Kentucky statutes relating to charitable gaming provide no restriction on the amount of prize payouts that can be awarded to ensure receipts are available to provide to the charitable organization.

Although there is no cap on the percentage of gross receipts that may be paid out in prizes, KRS 238.536 does prescribe a retention percentage commonly known as “the 40% rule,” requiring the payment of at least 40% of net proceeds to a proper charity. This requirement encourages organizations to make informed decisions regarding the amount of payout necessary to attract patrons while maximizing the proceeds remaining for the charity.

Further, Kentucky has two statutes that limit prize payouts in bingo and pulltab games. KRS 238.545(1) caps the amount that can be awarded for bingo games at each bingo session at \$5,000. KRS 238.545(2) caps the amount that can be awarded for an individual charity game ticket (pulltab) at \$599 and the amount that can be awarded in a progressive or cumulative pulltab game at \$2,400. There are currently no other statutes that limit prize payouts in raffles, festival games, or casino nights.

3. Statutes do not require DCG to perform scheduled audits of charitable gaming organizations, nor has DCG adopted a policy or developed an audit strategy to perform scheduled audits to ensure an organization’s financial practices are evaluated within an established time period.

DCG currently conducts audits of charitable gaming organizations based on complaints. DCG is investigating the use of Cabinet resources, including the Office of Inspector General and Office of Legal Services, to expand its auditing practices.

4. Charitable organizations can continue to alter their financial reporting to DCG because no financial reporting requirements exist that specify a date when a charitable organization’s financials can no longer be revised.

Charitable organizations are permitted to amend their financial reports in response to an audit or administrative action initiated by DCG. DCG supports a reasonable deadline for the submission of revised reports; however, DCG currently has authority to impose and enforce a deadline when warranted. Respectfully, DCG does not experience significant problems with prolonged filing delays or repeated revisions by charitable organizations.

Bryan Lykins
Page Three
September 22, 2008

5. Kentucky statutes do not require a state registry of charitable gaming volunteers to be maintained or that charitable gaming organizations provide volunteer information to DCG.

Current state law does not mandate a state registry of individuals that volunteer at gaming sessions for charitable organizations. However, DCG has promulgated 820 KAR 1:0058, requiring each organization to keep a list on an official form of the volunteers for bingo sessions, pulltab sessions, and special limited charitable gaming (casino nights); an organization shall provide this form to DCG upon submitting the organization's financial report or upon request. 820 KAR 1:057 Section 3(7). Moreover, 820 KAR 1:060 creates a rebuttable presumption of compensation if a person volunteers at more than four gaming sessions a week or more than four special limited charitable fundraising events per year.

6. The DCG annual report could provide additional information including: data analysis of several years of charitable gaming's financial activity; statistics regarding various regulatory activity, including training events, audit activities, and regulatory compliance actions; and, names of charitable organizations that return the highest percentage of receipts after payouts to charity and those organizations that fail to comply with the 40 percent statutory requirement.

DCG agrees that this information is beneficial to the charitable gaming community and will include it in future annual reports.

7. Kentucky provides no public funding for the awareness and treatment of problem gaming.

DCG supports public funding for the awareness and treatment of problem gaming, but all facets of the gaming industry in this state should contribute. Such legislation was proposed in the 2008 session of the General Assembly. However, when the bill was passed out of committee, only charitable gaming was required to fund the program, even though charitable gaming is the source of only 10% of the calls received on the 1-800-GAMBLER helpline according to the Kentucky Council on Problem Gambling website (www.kvpcg.org). DCG does not believe that Kentucky charities should bear the entire burden in this area.

* * *

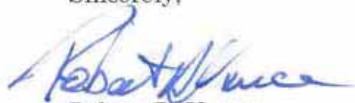
Bryan Lykins
Page Four
September 22, 2008

In addition to these issues, we also wish to address the difference in the percentage of proceeds available to the most successful charities, as listed in Table 5: Top 25 Charitable Organizations over \$1 Million Paying Highest Percent to Charity in 2007 (page 14 of the report). The primary reason that the percentage of proceeds available to the National Corvette Museum Foundation, Inc. and the St. Jude Children's Research Hospital is so high is that these charities conduct raffles only, and the cost associated with raffles is minimal. A majority of the remaining charitable organizations on the list conduct gaming at a location that they own, and need not pay the cost of rent for a gaming facility.

The report also states that exempt organizations are not required to report the amount of gaming proceeds they use for charitable purposes. It is correct that exempt organizations need not file periodic reports, as such. However, under KRS 238.535(2), these organizations must disclose the amount of money used for charitable purposes on their annual financial report for the renewal of their annual license.

Again, we thank you for the very helpful and informative report, and hope that this letter is of use to you in finalizing it. Please do not hesitate to contact me if you have any remaining questions or concerns.

Sincerely,



Robert D. Vance
Secretary

Cc: Commissioner Henry Lackey
Ryan Keith

