Tennessee Education Lottery Corporation
2004 Annual Report

On June 11, 2003, Governor Phil Bredesen, joined by members of the Tennessee General Assembly and students from across Tennessee, signs the Tennessee Education Lottery Implementation Law.

Contents

Front row, L to R: Dennis Bottorff, *Chair*, Claire Tucker, *Secretary/Treasurer*, Deborah Story. **Back row, L to R:** Jim Ripley, Marvell Mitchell, Jim Hill, *Vice Chair*.

Message from the Chair

DENNIS BOTTORFF

The Tennessee Education Lottery Corporation is pleased to present its inaugural annual report. As well as providing detailed information regarding the TEL's financial performance, the report features the games, the players, the retailers and, most importantly, the scholars who have benefited from the TEL's highly successful first Fiscal Year. During the first five months and 12 days in business, the Lottery produced scholarships for every eligible Tennessee student.

I'm especially thankful to Governor Phil Bredesen for allowing me to play a part in one of the most important undertakings of his administration, one that will impact the educational opportunities available to Tennesseans for generations. I'm also grateful for the capable and dedicated Board of Directors assembled by the Governor in July 2003. Their focus and commitment has been essential to the success of the TEL. The Board is always mindful of the public trust placed in its hands and is committed to maintain the highest integrity in every aspect of the Lottery's operation.

On behalf of the TEL Board of Directors, I also want to thank the staff of the TEL, from our CEO and executive team to every employee who worked together to launch the Lottery games in record-breaking time. The commitment and dedication of the TEL employees resulted in one of the most successful lottery start-ups in history.

Once you've joined me in reflecting over the past year, I know you'll share my optimism about the years to come. As Chair, and on behalf of the members of the Board of Directors, it is my pleasure to report the outstanding success of the Tennessee Education Lottery Corporation.

Morris H. Fair

NOVEMBER 12, 1929 – APRIL 7, 2004

As one of the founding members of the Board of Directors, Morris Fair played an integral role in the success of the Tennessee Lottery. Morris worked tirelessly from his initial appointment throughout his challenging last few months, adding careful thought and judgment to important matters and never losing sight of the Lottery's mission to improve education in the state of Tennessee.

Morris leaves behind a legacy of integrity and dedication in public life, loyalty and caring in private life, and commitment and diligence in all his endeavors. Our staff and Board remain deeply saddened by his passing and forever grateful for his contribution and fellowship.

Message from the CEO

REBECCA PAUL

It is with immense pride that we present the Tennessee Education Lottery Corporation's annual report for the Fiscal Year 2003-2004. Our first few months have been an exciting time for Lottery employees, retailers, players, and student scholars. From the whirlwind of starting this business to the excitement of the games' launches to the success we've achieved thus far for education, it has been a great experience.

And what a success it has been—we surpassed the initial goal of $88 million for fall 2004 scholarships. The TEL transferred more than $123 million for education programs and more than $2 million for after-school programs after just five months and 12 days of ticket sales. Thanks to a kick-off network of approximately 3,500 retail partners, strong leadership and support from Governor Phil Bredesen, the Tennessee General Assembly—especially the prime sponsors of the Lottery legislation, Senator Steve Cohen and Representative Chris Newton—and and our Board of Directors, as well as the energy and dedication of a talented staff, the TEL's first five months and 12 days were an unqualified success.

As we reflect on our accomplishments in the following pages, we also look ahead to new challenges and opportunities. We will continue to provide entertainment to Lottery players while maintaining sound business practices and superior customer service. We will maintain the highest level of integrity and public trust and we will always remember our primary purpose: to maximize Lottery revenues for the education programs we fund.

The Tennessee Education Lottery Corporation is off to a solid start and we are humbled and challenged by the prospect of what we may yet achieve for Tennessee students. On behalf of all the employees of the TEL, it is my great pleasure to present the annual report of our inaugural fiscal year.

Helping Scholars

With the help of an early launch—21 days before the original target of February 10—the Tennessee Education Lottery Corporation closed the first Fiscal Year with net proceeds nearly 40 percent above an initial goal of $88 million. Word spread quickly that every eligible student would receive a scholarship to attend higher education institutions in the state, helping to build excitement about the Lottery games. After just five months and 12 days, the Lottery transferred over $123 million to the Lottery for Education Account.

As the TEL continued to introduce games and build momentum, the Tennessee Student Assistance Corporation (TSAC) began working to put these funds to use. TSAC representatives canvassed the state's high schools with scholarship information in order for students from Memphis to Mountain City to learn about—and apply for—the new higher education funding opportunities.

As of June 30, 2004, TSAC had awarded the following grants and scholarships to Tennessee students:

- 31,886 HOPE Scholarships
- 111 HOPE Access Awards
- 8,215 Wilder-Naifeh Technical Skills Grants

In addition to the funds transferred for the scholarship programs, the Lottery transferred more than $2 million for after-school programs. Although plans for these programs have not yet been finalized, it's clear that the future is brighter for a variety of education programs in Tennessee.

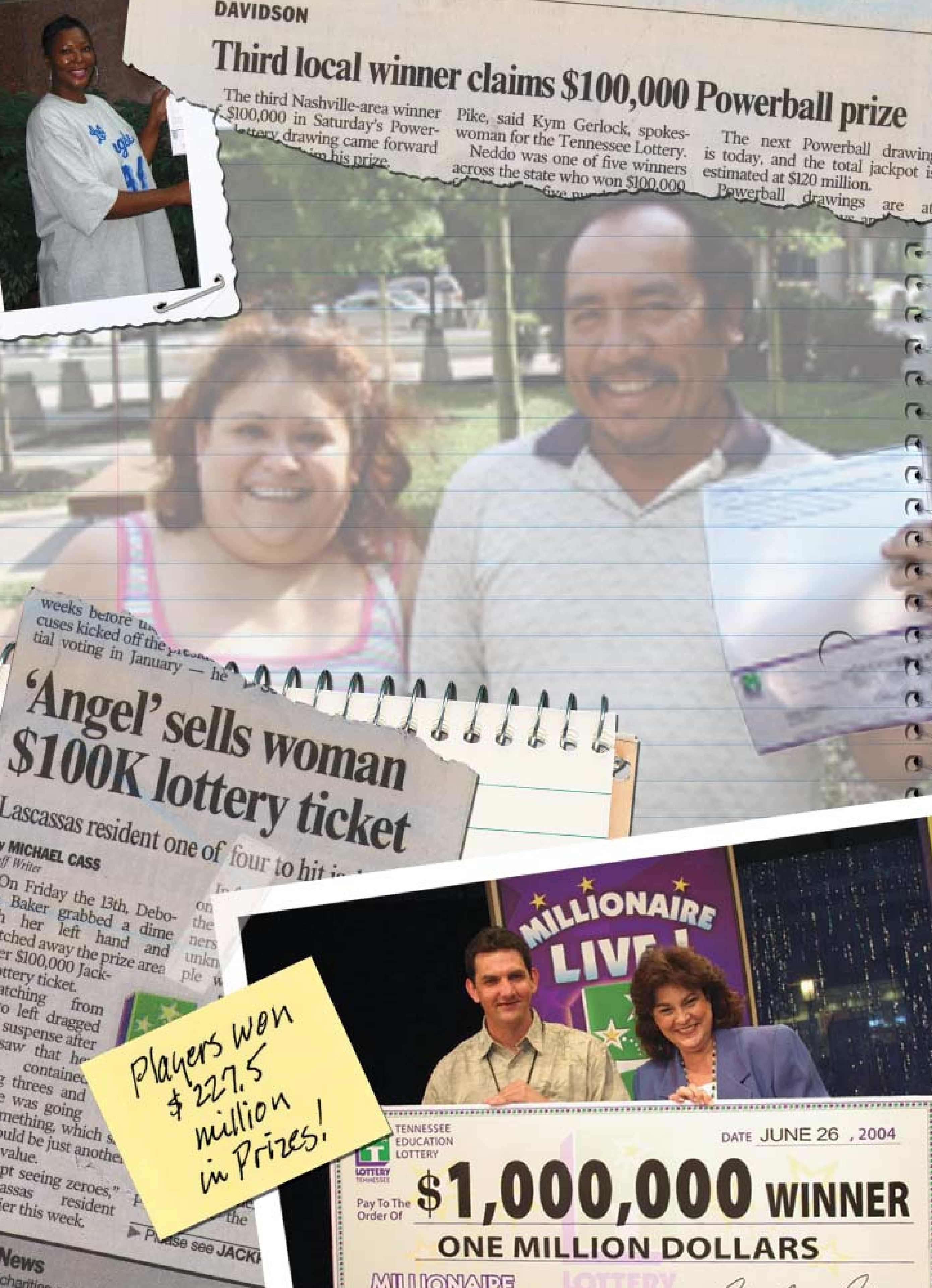
Games

The Tennessee Education Lottery Corporation launched instant ticket sales on January 20, three weeks before the scheduled start date. The first four instant ticket games unveiled were "Tennessee Millionaire," "Lucky 7's," "Tennessee Treasures," and "$100,000 Jackpot." The instant games proved an immediate success and helped make the Tennessee Lottery start-up one of the most profitable in history. First-day sales were $10.8 million and, by the end of Fiscal Year 2003-2004, instant tickets accounted for 85 percent of overall sales. After the initial launch, the Lottery continued to introduce new instant games approximately every other week. Twenty-nine games were available by June 30, helping the Lottery gross nearly $361.9 million in instant ticket sales.

Once instant tickets were available, the Lottery quickly addressed its next goal of starting an online game within 60 days. Once again, the goal was surpassed—this time by 19 days—with the launch of CASH 3 on March 1. Players welcomed the addition of this game, in which they pick three numbers to match the three numbers drawn nightly at the Nashville studio of one of the Lottery's television partners. The drawings, broadcast each night throughout the state on several partner stations, helped the game reach more than $26 million in gross sales for the Fiscal Year.

As the TEL continued to unveil instant ticket games and manage the daily drawings for CASH 3, a new wave of excitement began as news spread that Tennessee would join 27 other jurisdictions in the multi-state Powerball game. On April 19, players in the state were able to purchase Powerball tickets and enjoy the thrill of a then $90 million jackpot. That jackpot continued to climb to $212 million—the sixth largest in Powerball history—until a single winner was announced on May 8. As of June 30, there were more than 781,000 Powerball winning tickets sold in Tennessee, helping add nearly $39.8 million to TEL's gross revenues.

These three well-received games helped the Tennessee Education Lottery Corporation garner more than $123 million for education and an additional $2 million for after-school programs during its first five months and 12 days.



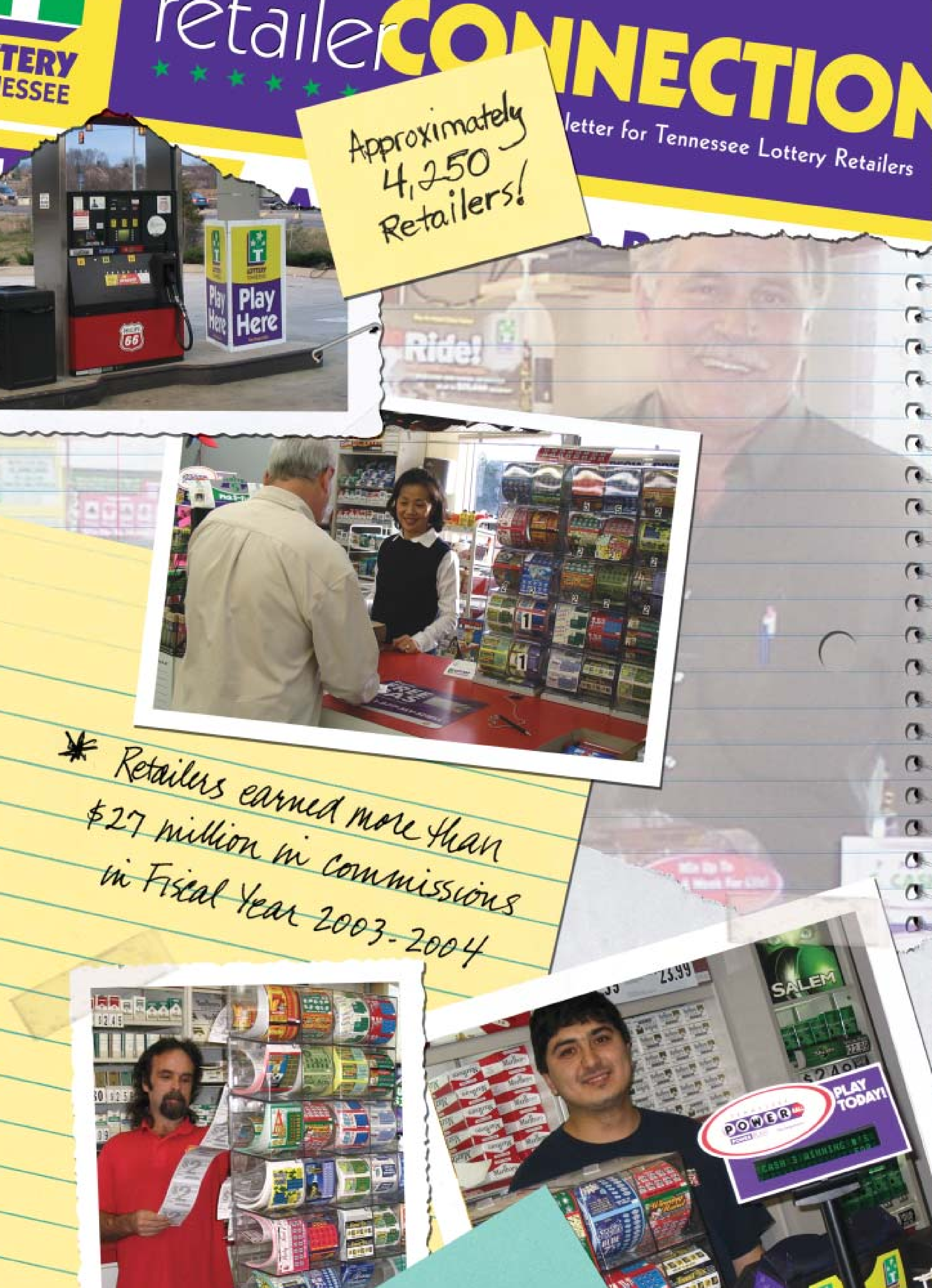
Winners/Players

Not only is the Tennessee Lottery a win for education in the state, but it also provides a new form of entertainment for millions of excited players. Players won nearly $227.5 million in prizes after just five months and 12 days of ticket sales, and every day brings new stories from those who have experienced the excitement of winning.

In addition to thousands of cash and ticket prizes awarded daily, 18 players won $50,000 or more each playing instant games and another 12 players won $100,000 or more each from Powerball prizes. Also, as of June 30, one lucky player doubled his $100,000 Powerball prize to $200,000 by choosing the Power Play option, which multiplies from two to five times the amount of any non-jackpot Powerball prize.

Along with the popularity of instant cash prizes, players proved they like a second chance. Players who received entry tickets from the purchase of "Tennessee Millionaire" and "Volunteer Millionaire" instant games enthusiastically participated in the chance to win $1 million in the first of three grand prize drawings. More than 250,000 entry tickets were received for the first "Millionaire Live!" drawing, a live broadcast produced in conjunction with the Lottery's Nashville television partner on June 26. A lucky Knoxvillian took home a $1 million prize, becoming the TEL's biggest winner to date.

While the Lottery maximizes profits for scholarships, players in Tennessee enjoy the variety of the games offered. The players' excitement is surely only exceeded by the enthusiasm of students and families as the funds generated through ticket sales begin to be put to use.



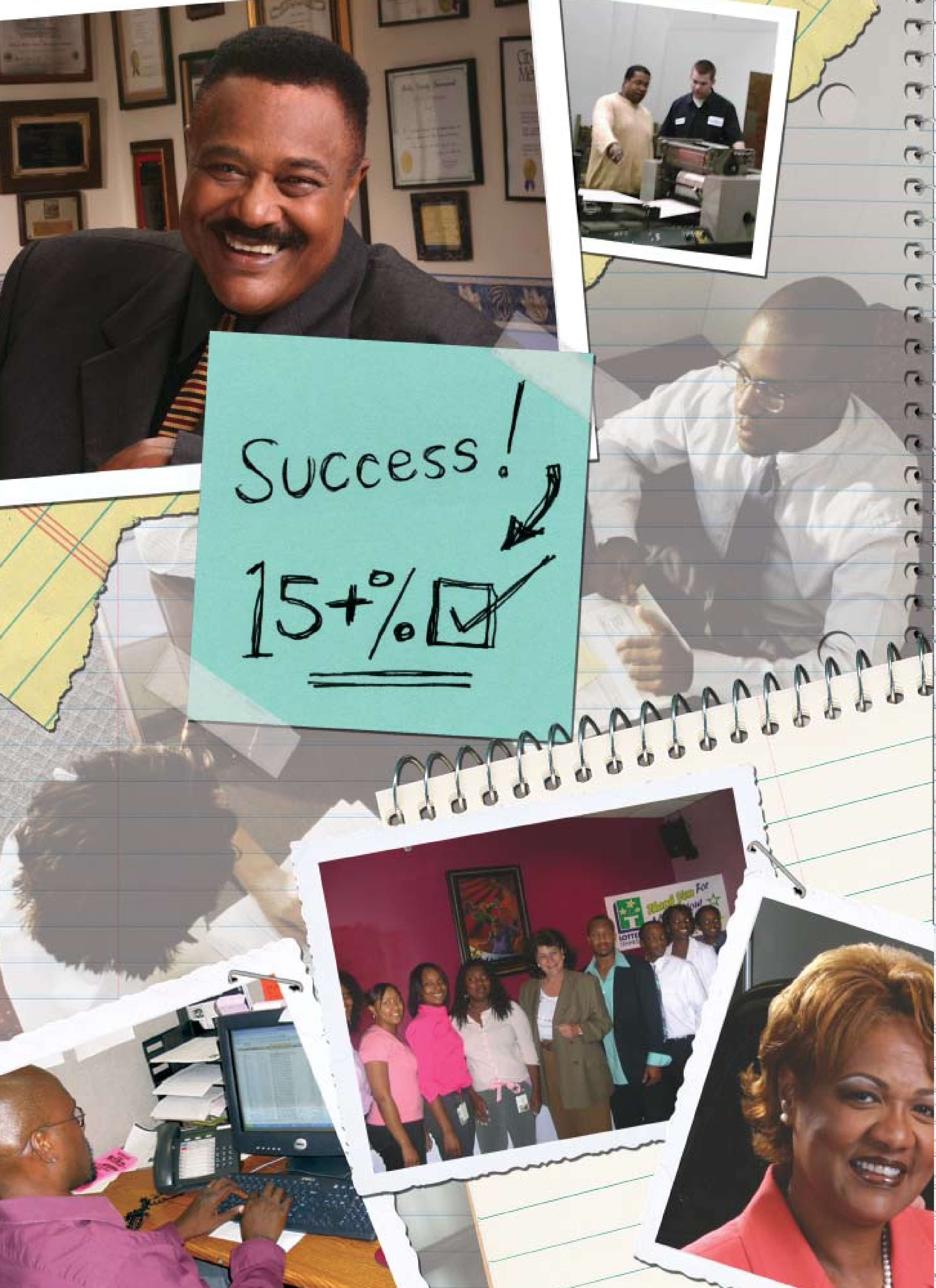
Retailers Get in the Game

Ask anyone who works with the Tennessee Lottery and you'll learn that the key to a successful operation is a strong, dynamic network of retailers. After a fall 2003 statewide announcement explaining how potential retailers could "Get in the Game," Tennessee businesses answered the call by submitting applications. Lottery employees worked diligently to approve thousands of retailers before kick-off. After a rigorous screening and approval process, the Lottery provided equipment installation, marketing materials and numerous group and individual training sessions. By the January 20 launch date, a network of nearly 3,500 retail partners shared the excitement of first-day ticket sales, which totaled $10.8 million.

As the applications continued to arrive, Lottery employees concentrated on providing the best customer service possible. A toll-free retailer service hotline, technical assistance, a network of sales representatives throughout the state and retailer newsletters are just some of the ways the Tennessee Lottery provides support for retailers so they can make the most of their new products.

By June 30, more than 4,250 retailers were offering Lottery games, earning nearly $27.8 million in sales commissions. Retail partners also assist the TEL through the Retailer Advisory Council, a group of 12 representatives from across the state that meets quarterly to provide feedback and discuss pertinent issues.

Thanks to the commitment and dedication of our retail partners, every eligible student received a scholarship for the fall semester of 2004, and a bright future for education is secure.



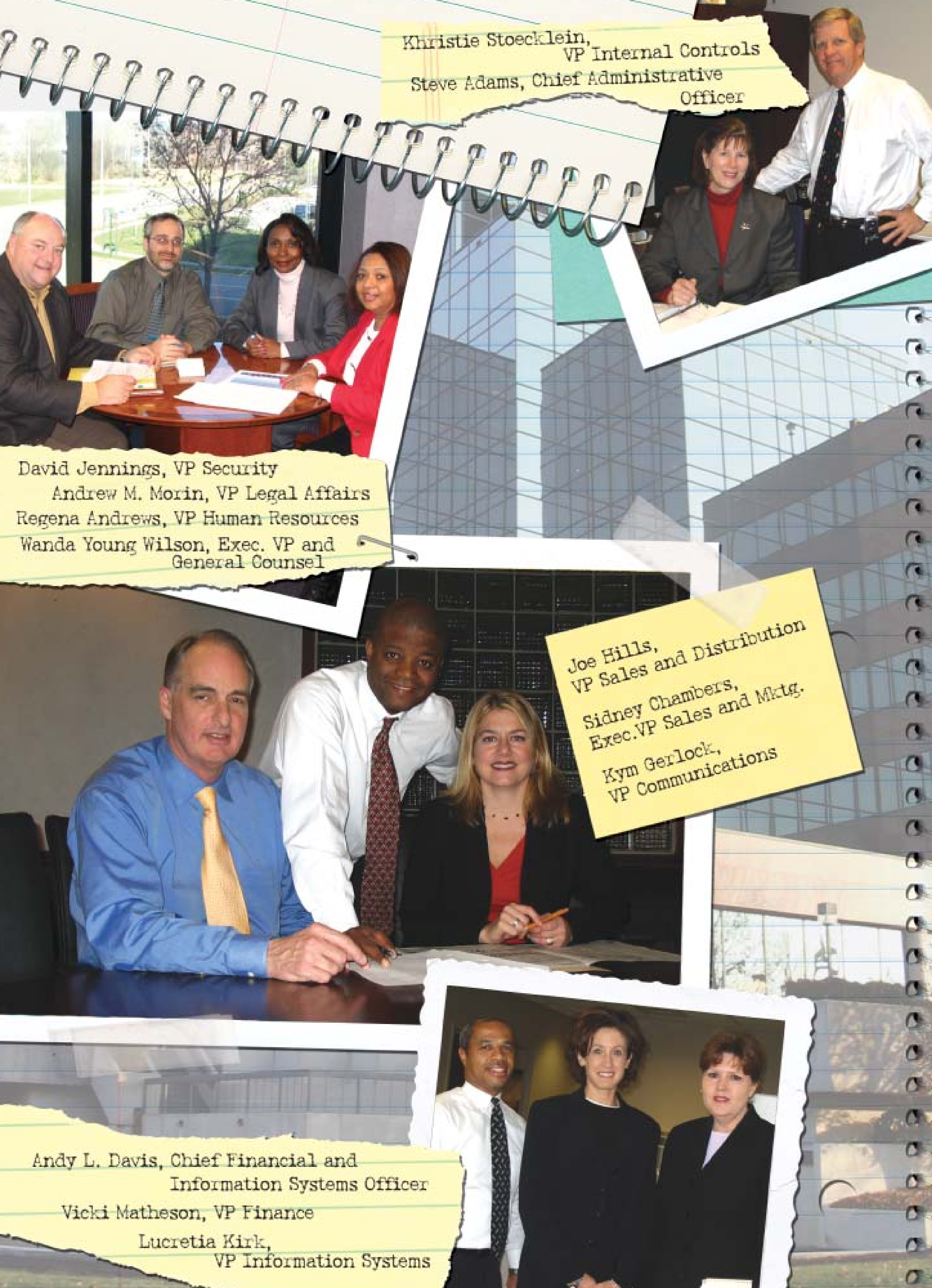
Participation by Minority-Owned Businesses

In addition to generating funds for education programs, the Tennessee Education Lottery Corporation has a positive economic impact on a variety of businesses in the state. The Tennessee Education Lottery Implementation Law challenged the Lottery to strive toward maintaining a minimum of 15 percent minority business participation. By June 30, over 30 percent of the dollars spent by the TEL on non-major procurements were spent with minority-owned businesses. In addition, minority-owned businesses participated with the TEL's three major procurement vendors in contracting opportunities at levels that far exceeded everyone's expectations.

As part of its efforts to increase participation by minority-owned businesses, the TEL adopted an Equal Business Opportunity Program. A key element of this program is education of the minority community. A major part of the education component is the TEL's Internship Program with the historical black colleges and universities (HBCUs) in Tennessee. The primary objective of this program is to provide an exposure to and understanding of the lottery industry to future business leaders, while providing meaningful and substantive entry-level professional employment experience, as well as income, to students attending HBCUs throughout the state. The TEL's first intern class started in May. The program is sponsored financially by the TEL's three major procurement vendors.

One of the keys to having a successful Equal Business Opportunity Program is having a racially diverse staff. While a diversity goal was not set for staffing, the Lottery is proud of its well-balanced employee roster, which was 49 percent minority as of June 30.

The Lottery Board also obtains input and guidance from the Advisory Council on Minority Business Participation. The Council is composed of nine citizens, with three members from each of the state's grand divisions. At the Council's first meeting in June, members commended the TEL's achievements in maximizing the participation of minorities in its operations and offered a variety of ideas for the future.



Organization

The Tennessee Education Lottery Corporation team includes more than 170 employees in its headquarters and five district offices across the state. In addition to the Nashville headquarters, players and retailers can visit the Lottery's offices in Chattanooga, Knoxville, Memphis, and Johnson City. The dedicated professionals who make up the TEL team are committed to the integrity of the Lottery games and maximizing profits for education while providing players with entertainment.

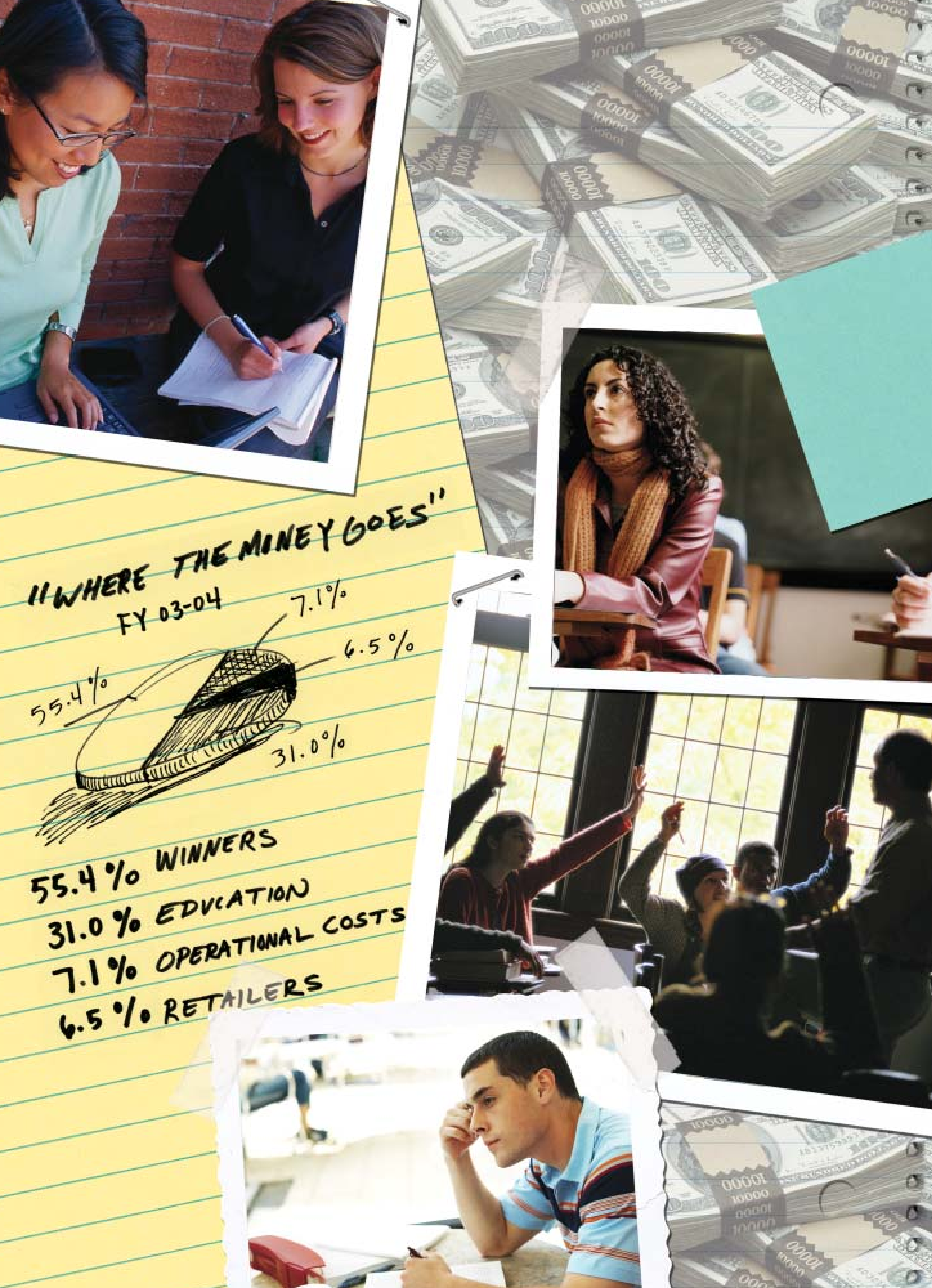
EXECUTIVE DIVISION: Rebecca Paul, *CEO and President*
The Executive Division is responsible for developing the overall vision of the Tennessee Lottery and ensuring that the strategies to achieve all objectives are successfully implemented. The division oversees all day-to-day operations of the Corporation, with a particular focus on marketing. The Executive Division also includes the Communications Department, which handles all media and public relations, the speakers bureau and player services.

LEGAL DIVISION: Wanda Young Wilson, *Executive Vice President and General Counsel*
The Legal Division encompasses the departments of Human Resources, Legal Services and Security. The Human Resources Department manages all personnel functions for the headquarters and district office staffs. The Legal Services Department provides legal advice and assistance to management and the Board of Directors, serves as the corporate records keeper and manages contract compliance. The Security Department is responsible for physical and intellectual property security as well as the integrity of the televised drawings.

ADMINISTRATION: Steve Adams, *Chief Administrative Officer*
The Administration Division includes facilities management, legislative affairs, internal audit, prize validation, retailer contract administration and retailer services.

SALES AND MARKETING DIVISION: Sidney Chambers, *Executive Vice President*
The Sales and Marketing Division oversees the sales operation, which includes retailer sales, distribution, marketing, and promotions. The division is also responsible for the Lottery's sales force and the management of all district offices.

FINANCE AND INFORMATION SYSTEMS: Andy Davis, *Chief Financial and Information Systems Officer*
Finance and Information Systems is responsible for financial and retail accounting and reporting, cash management, budgeting, collections, procurement, computer systems, technology infrastructure and telecommunications systems.


"WHERE THE MONEY GOES"
FY 03-04
7.1%
6.5%
55.4%
31.0%
55.4% WINNERS
31.0% EDUCATION
7.1% OPERATIONAL COSTS
6.5% RETAILERS

Financials

Auditor's Opinion Letter

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 3, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of the Tennessee Education Lottery Corporation as of June 30, 2004, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Tennessee Education Lottery Corporation's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Honorable John G. Morgan
December 3, 2004
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Education Lottery Corporation, as of June 30, 2004, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the Tennessee Education Lottery Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ras

Management Discussion and Analysis

The management team of the Tennessee Education Lottery Corporation ("TEL") offers readers of the TEL's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 26 of this annual report. The financial statements, notes, and this discussion are the responsibility of management. In future years, when prior-year information is available, a comparative analysis of financial data will be presented.

Financial Highlights

The TEL launched instant ticket sales on January 20, 2004. The TEL had a statewide network of approximately 3,500 retailers. This increased in the ensuing five months to approximately 4,250 retailers as of June 30, 2004. Sales began with the introduction of four (4) instant ticket games. Since that time, the TEL has introduced an additional twenty-five (25) instant games, averaging two games every two weeks.

On March 1, 2004, we introduced our first online game, CASH 3, with a nightly drawing of one three-digit number between 000 and 999.

On April 19, 2004, we began sales for the nationally recognized multi-jurisdictional game, known as Powerball, where the numbers are drawn twice a week on Wednesday and Saturday evenings.

The successful launch of the TEL games enabled the TEL to generate over $123 million in fiscal year 2004 for education, plus over $2 million for after school programs.

Other significant financial highlights include the following:

- Gross ticket sales were $427.69 million. Ticket sales, net of free instant tickets issued as prizes were $391.75 million.
- Gross prize expense was $216.97 million. This expense increases or decreases in direct proportion to ticket sales and represented approximately 55.4% of net ticket sales in 2004.
- Direct gaming expenses (not including prize expense) were $36.73 million. These expenses increase or decrease in proportion to ticket sales and represented approximately 8.59% of gross ticket sales in 2004. These expenses represented retailer commissions of $27.79 million and vendor fee payments of $8.94 million. Vendor fees represent 2.1% of gross ticket sales.
- Operating and other administrative expenses were $11.41 million, representing 2.7% of gross ticket sales.
- Advertising expenses were $4.79 million, representing 1.1% of gross ticket sales.
- Other operating revenues were $1.26 million. These included retailer application and service fees.

Overview of the Financial Statements

The TEL is accounted for similar to a business activity and as a discretely presented component unit of the State of Tennessee, reporting transactions using the full accrual basis of accounting. This discussion and analysis is intended to serve as an introduction to the TEL's basic financial statements, along with the notes to the financial statements. The basic financial statements include three components that report the TEL's net assets and changes therein: The Statement of Net Assets on page 26; the Statement of Revenues, Expenses, and Changes in Net Assets on page 27; and the Statement of Cash Flows on pages 28 and 29.

The Statement of Net Assets reflects the TEL's financial position at June 30, 2004.

The Statement of Revenues, Expenses and Changes in Net Assets reports the activity of selling lottery products and expenses related to such activity for the year ended June 30, 2004.

The Statement of Cash Flows outlines the cash inflows and outflows related to the activity of selling lottery products for the year ended June 30, 2004.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 30 of this annual report.

Each quarter, the TEL transfers its net proceeds, as defined by the Tennessee Education Lottery Implementation Law, to the general fund of the state treasury for credit to the Lottery for Education Account. As a result, the TEL's net assets consist of capital assets and funds restricted for other statutorily-defined purposes. The reader of these financial statements should review the assets and liabilities in the Statement of Net Assets and the operating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Assets to assess the TEL's financial position as of June 30, 2004.

Financial Analysis

Current Assets

Cash and other assets at June 30, 2004 were $80.52 million. These consisted primarily of cash and retailer receivables. Deposits with the State of Tennessee Local Government Investment Pool were $66.45 million. Retailer receivables approximated $11.04 million, representing funds due from retailers which are generally collected within three weeks of the reporting period.

Capital Assets

Total capital assets at June 30, 2004 were $2.3 million. These consisted of fixed assets and leasehold improvements common to a business entity. They are presented net of depreciation and amortization.

Current Liabilities

Total current liabilities at June 30, 2004 were $79.61 million consisting mainly of the $59.50 million to be transferred to the Lottery Education Account and $2.05 million to be transferred to the After School Programs Special Account in July 2004; $14.53 million representing prizes payable to prize winners; $2.9 million representing amounts due to vendors for goods and services; and $554 thousand representing deferred sales.

Long Term Liabilities

Total long term liabilities at June 30, 2004 were $915 thousand. This amount represents deferred rent incurred in relation to operating leases for TEL office space.

Net Assets

Generally, the TEL's net assets are comprised of three components: assets invested in capital assets, unrestricted assets, and restricted assets.

Investments in capital assets were $2.3 million and represent capital assets acquired since inception, net of accumulated depreciation.

Unrestricted assets were a negative $2.3 million, representing capital assets not restricted for use by the business entity.

Restricted assets were $2.3 million and are comprised of $265 thousand restricted for certain uncollected retailer accounts receivable as defined by statute, and $2.05 million in unclaimed prizes restricted for future prizes or special prize promotions as mandated by statute.

Sales

Total lottery ticket sales for fiscal year 2004 were $427.69 million.

Gross instant ticket sales for the fiscal year 2004 were $361.86 million. This represents approximately 85% of the total gross sales. The instant ticket marketing strategy included multiple game introductions, along with $1, $2 and $5 price points. The games most popular with the players were Lucky 7's, Sizzling 7's and $100,000 Jackpot.

CASH 3 sales for the fiscal year 2004 were $26.04 million. This represents approximately 6% of gross sales. CASH 3 is a daily game whereby the player chooses a 3-digit number and wins a set prize amount if his or her numbers are selected in a nightly drawing. The aggregate prize amount per draw varies based on the number of winners and the prize amount. Historically, the average prize payout is approximately 50% of the sales for this game.

Powerball sales for the fiscal year 2004 were $39.79 million. This represents approximately 9% of the gross sales. Powerball is a multi-jurisdictional lottery game operated in the following jurisdictions; Arizona, Colorado, Connecticut, Delaware, Idaho, Iowa, Indiana, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Montana, North Dakota, Nebraska, New Hampshire, New Mexico, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Vermont, Wisconsin, West Virginia; District of Columbia and US Virgin Islands. Approximately 50% of gross sales are made available for prize payments. The jackpot prize is paid on a pari-mutuel basis. All other prizes are set prize amounts in accordance with the game prize structure.

Prize Expense

Gross prize expense for instant games in fiscal year 2004 was $183.89 million. Instant games prize expense is managed through the number of tickets printed for each game and value of prizes as determined prior to ticket production. Prize expense is recognized based on an established prize structure and related percentage of sales for each game introduced, and is recognized when products are made available for sale to the public.

Gross prize expense for online games generally increases or decreases in direct proportion to ticket sales of the related game. Prize expense for online games is historically 50% of sales.

Gross prize expense for CASH 3 is impacted by the number and the prize value of winning tickets. To recognize prize expense on a consistent basis for this game, the TEL recognizes prize expense based on the historical industry average of 50%. Prize expense for CASH 3 in fiscal year 2004 was $13.19 million.

Gross prize expense for Powerball is recognized at 50% of sales in accordance with the game rules established by the Multi-State Lottery Association. Prize expense for Powerball in fiscal year 2004 was $19.89 million.

Unclaimed Prizes

The TEL recognizes a percentage of all prize expenses will remain unclaimed. Due to lack of data specific to unclaimed prizes at the TEL for the 2004 fiscal year, we estimated 2% as the percentage we expect to remain unclaimed relating to all prizes for instant games. For online games, we used an estimate of 2% of the prize liability (excluding jackpot prizes) as unclaimed prizes.

As these percentages are less than the actual industry average from the prior fiscal year (2003), we believe unclaimed prizes is conservatively estimated for fiscal year 2004.

Direct Gaming and Operating Expenses

Direct gaming expenses represent retailer commissions and vendor fees, which change in proportion with changes in ticket sales. Retailer commissions for fiscal year 2004 were $27.79 million. The TEL compensates its retailers through a set commission percentage of 6.5% on all instant tickets settled and online tickets sold. In addition, retailers will receive a $25 thousand bonus for selling a winning Powerball jackpot ticket. No bonus was paid in fiscal year 2004.

In 2004, vendor fees were $8.94 million. Vendor fees represent payments and commitments to our two major suppliers, GTECH Corporation and Scientific Games International, Inc., for the instant and online gaming products, systems, and services. The amount is determined based on a percentage of sales formula in accordance with contractual payment terms.

Advertising expenses were $4.79 million in 2004. The majority of these costs represents payments to Gish, Sherwood and Friends, our major advertising partner, for media buys and production costs.

Operating and other gaming expenses were $11.41 million for the fiscal year 2004. The majority of these costs related to professional fees of $1.44 million, retailer marketing and merchandising costs of $1.75 million and personnel expense of $5.79 million. Included in this figure is $3.6 million of costs incurred prior to start of ticket sales on January 20, 2004.

Other Operating Revenue

Other revenue consists primarily of retailer application fees and service fees. Other revenue for fiscal year 2004 totaled $1.26 million.

Significant Factors Impacting Next Year

The TEL will continue to work towards expanding its product offerings and product distribution network.

Expected product offerings will include higher price point instant games and a minimum of one additional online game.

As of July 1, 2004, the claim period for online games changed from 365 days to 180 days. We can not determine the impact, if any, to unclaimed prizes for the fiscal year 2005.

Contacting the TEL's Finance Department

This financial report is designed to provide the State of Tennessee, the public, and other interested parties with an overview of the financial results of the TEL's activities, and to show the TEL's accountability for conducting business in a fiscally responsible manner. If you have questions about this report or require additional financial information, contact the TEL's Finance Department at the following address:

Tennessee Education Lottery Corporation
Plaza Tower MetroCenter
200 Athens Way, Suite 200
Nashville, Tennessee 37228

STATEMENT OF NET ASSETS

	AS OF JUNE 30, 2004
ASSETS	
CURRENT ASSETS:	
Cash (Note 2)	$ 67,729,000
Restricted fidelity fund cash	265,000
Retailer accounts receivable, net of commissions due to retailers	11,044,000
Prepaid expenses and other assets	1,191,000
Prepaid rent	294,000
Total current assets	80,523,000
Capital Assets, net of depreciation of $166,000	2,314,000
TOTAL ASSETS	82,837,000
LIABILITIES	
CURRENT LIABILITES:	
Due to Lottery for Education Account (Note 6)	59,499,000
Due to After School Program Account	2,049,000
Prizes payable	14,530,000
Accounts payable	390,000
Accrued liabilities	2,518,000
Deferred rent	68,000
Deferred revenue	554,000
Total current liabilities	79,608,000
LONG-TERM LIABILITIES	
Noncurrent portion of deferred rent	915,000
TOTAL LIABILITIES	80,523,000
NET ASSETS:	
Investment in capital assets	2,314,000
Unrestricted assets	(2,314,000)
Restricted Assets:	
Restricted for uncollectible retailer receivables	265,000
Restricted for future prizes	2,049,000
TOTAL NET ASSETS	$ 2,314,000

See notes to financial statements.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	INCEPTION TO JUNE 30, 2004
OPERATING REVENUES:	
Ticket sales	$ 427,686,000
Instant tickets provided as prizes	(35,937,000)
Net ticket sales	391,749,000
Retailer service fees	992,000
Other	269,000
Net operating revenues	393,010,000
OPERATING EXPENSES:	
Available prizes	216,972,000
Prizes recognized as unclaimed	(4,098,000)
Net prizes	212,874,000
Retailer commissions and bonuses	27,793,000
Contractor fees	8,939,000
Advertising	4,799,000
Salaries and benefits	5,787,000
Retailer merchandising and marketing	1,748,000
Rent, utilities, and maintenance	843,000
Depreciation	166,000
Professional fees	1,435,000
Other	1,429,000
Total operating expenses	265,813,000
OPERATING INCOME	127,197,000
NONOPERATING REVENUES (EXPENSES):	
Interest revenue	195,000
Interest expense	(21,000)
Retailer fees for future uncollectible retailer receivables	265,000
Proceeds to After School Program Account	(2,049,000)
Proceeds to Lottery for Education Account	(123,273,000)
Total nonoperating revenues(expenses)	(124,883,000)
NET ASSETS, beginning of year	—
NET ASSETS, end of year	$ 2,314,000

See notes to financial statements.

STATEMENT OF CASH FLOWS

	For the Year Ended June 30, 2004
OPERATING ACTIVITIES:	
Cash received from customers	$ 381,259,000
Other operating cash received	1,259,000
Cash paid to prize winners	(198,329,000)
Cash paid to/on behalf of gaming vendors	(8,575,000)
Cash paid to retailers	(27,820,000)
Cash paid for advertising	(3,553,000)
Cash paid to/on behalf of contractors and employees	(6,219,000)
Other operating payments	(4,538,000)
Net cash provided by operating activities	133,484,000
NONCAPITAL FINANCING ACTIVITIES:	
Payments to Lottery for Education Account	(63,774,000)
Short-term borrowings under line of credit agreement	3,600,000
Principal payments under line of credit agreement	(3,600,000)
Interest paid	(21,000)
Fidelity fund cash received from retailers	288,000
Fidelity fund cash refunded to retailers	(23,000)
Net cash used in noncapital financing activities	(63,530,000)
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of property and equipment	(2,096,000)
Net cash used in capital and related financing activities	(2,096,000)
INVESTING ACTIVITIES:	
Interest income	136,000
Net cash provided by investing activities	136,000
NET CASH PROVIDED BY ALL ACTIVITIES	67,994,000
CASH at inception	—
CASH at end of year	$ 67,994,000

RECONCILIATION OF CASH ON THE STATEMENT OF NET ASSETS

Cash	$ 67,729,000
Restricted fidelity fund cash	265,000
Cash at end of year	$ 67,994,000

STATEMENT OF CASH FLOWS

RECONCILIATION OF NET OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	$ 127,197,000
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	166,000
Changes in assets and liabilities:	
Retailer accounts receivable	(11,044,000)
Prepaids and other assets	(1,426,000)
Accounts payable and accrued liabilities	3,507,000
Prizes payable	14,530,000
Deferred revenue	554,000
Net cash provided by operating activities	$ 133,484,000

Tennessee Education Lottery Corporation

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Reporting Entity — Effective June 11, 2003, the Tennessee Education Lottery Implementation Law (the "Act"), Tennessee Code Annotated §§ 4-51-101,et.seq., was signed into law, creating the Tennessee Education Lottery Corporation (the "TEL"). Pursuant with the Act, the TEL was incorporated in the State of Tennessee as a body, politic and corporate, and a quasi-public instrumentality.

The TEL is considered a component unit of the State of Tennessee because the state has financial accountability for fiscal matters as follows: (1) the board of directors is appointed by the governor; (2) upon dissolution of the TEL, title to all property owned by the TEL shall vest in the State of Tennessee; and (3) the TEL provides financial benefits to the state in the form of transfer payments to the state treasury. The accompanying financial statements present information only as to the transactions of the programs of the TEL. The TEL is reported as a discretely presented component unit within the State of Tennessee's Comprehensive Annual Financial Report.

The TEL is responsible for the provision of lotteries on behalf of the State of Tennessee in accordance with the Act and is deemed to be acting, in all respects, for the benefit of the people of the State of Tennessee.

The TEL began ticket sales on January 20, 2004. The TEL's lottery games include instant ticket sales and online ticket sales for CASH 3 and Powerball.

Basis of Presentation — The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The TEL has the option of following subsequent private-sector guidance subject to this same limitation.

Basis of Accounting and Measurement Focus — Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, and the measurement focus refers to what transactions and events should be recorded. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Revenue Recognition — Lottery games are sold to the public by contracted retailers. Revenue is recognized for instant games when retailers make them available for sale to the public, as indicated by the retailers' activation of tickets. Revenue is recognized for online games when tickets are sold to players and the related draw occurs. Certain instant games include free tickets, which entitle the holder to exchange one instant ticket for another of equal value. The selling price of free tickets reduces instant ticket revenue when the ticket is claimed by a player.

Net Assets — Net assets represent cumulative revenues less expenses in excess of net proceeds transferred to the Lottery for Education Account, as defined under the Act (see Note 6). Net assets include funds invested in capital assets, restricted assets and unrestricted net assets.

Cash — Cash includes cash in banks, petty cash, and balances on account in the State of Tennessee Local Government Investment Pool (LGIP).

Retailer Accounts Receivable — Retailer accounts receivable represents lottery proceeds due from retailers for net ticket sales less commissions and prizes paid by the retailers. Lottery proceeds are collected weekly from retailer bank accounts established in trust for the TEL.

Capital Assets — Capital assets are stated at cost less accumulated depreciation. Depreciation on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 7 years for most assets. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal.

Deferred Revenue — Funds collected from retailers for online game tickets sold in advance of the prize drawings are recorded as deferred revenue and recognized as revenue once the related drawing occurs.

Fidelity Fund — In accordance with the Act, upon acceptance as a TEL retailer, retailers contribute a fee to a fidelity fund. Funds may be used to cover losses incurred as a result of nonfeasance, malfeasance, or misfeasance of TEL retailers. Fidelity fund proceeds are held in a demand deposit account at Citizens Bank and are classified as restricted fidelity fund cash on the Statement of Net Assets. At the end of each fiscal year, the net assets exceeding $500 thousand may be treated as net proceeds from the TEL subject to transfer to the Lottery for Education Account. As of the year ended June 30, 2004, there were no fidelity funds available for transfer as net proceeds.

Retailer Commissions and Bonuses — Retailers receive a commission of 6.5% on all instant tickets settled and online tickets sold. Where commission has been paid to retailers for deferred revenue ticket sales, this fee is recorded as a prepaid expense until the related revenue is recognized. A $25 thousand bonus will be paid to the retailer who sells a winning Powerball jackpot ticket. No bonus was paid in fiscal year 2004.

Contractor Fees — The TEL has contracted with two vendors, GTECH Corporation ("GTECH") and Scientific Games International, Inc. ("Sci-Games"), for the majority of the gaming systems and supplies.

GTECH operates the gaming network that consists of over 4,250 instant and online retailer ticket terminals and associated software. GTECH receives a fee of 1.24% of the selling price of online tickets sold, and of instant ticket activations, net of free tickets available as prizes.

Sci-Games prints and distributes the instant game tickets to retailers. Sci-Games receives a fee of 1.139% of the selling price of instant ticket activations by retailers.

Prizes — In accordance with the Act, as nearly as practical, at least 50% of ticket proceeds must be made available as prize money. Gross prize expense for instant ticket sales is recognized based on a predetermined prize structure for each game. Generally, gross prize expense for online games is recognized based on the estimated payout experience over the life of the games or the industry averages.

Powerball prizes are shared based on contributions to the prize pool by all member lotteries of the Powerball Group of the Multi-State Lottery Association ("MUSL"). All Powerball grand prizes won by players who purchase tickets in Tennessee will be funded by investments purchased by MUSL. The investments will be held by MUSL in trust for the TEL.

Unclaimed Prizes — Prizes not claimed within 90 days of the game-end date for instant games, and within 365 days of a game draw date for online games are forfeited as unclaimed prizes.

For instant games, an estimated percentage of total prize expense is recognized as unclaimed prizes based upon the lottery's claim experience or industry averages.

For online games, an estimated percentage of prize liability, excluding jackpot prizes, is recognized as unclaimed prizes based upon the lottery's claim experience or industry averages.

In accordance with the Act, fifty percent (50%) of unclaimed prizes recognized at the fiscal year end must be transferred to the After School Programs Special Account. On July 30, 2004, the TEL transferred $2.049 million to the State of Tennessee After School Programs Special Account, representing 50% of unclaimed prizes recognized at June 30, 2004. The remainder of unclaimed prizes is used to fund future prizes or special prize promotions, as defined by the statute.

Budget — Pursuant with the Act, annually by June 30, the TEL is required to submit a proposed operating budget for the next fiscal year to the Tennessee Department of Finance and Administration, Office of Legislative Budget Analysis, and Comptroller of the Treasury. Additionally, the TEL is required to submit for informative purposes, a proposed operating budget for the succeeding fiscal year by September 1, to the Tennessee Department of Finance and Administration.

Contingencies — Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. As of June 30, 2004, no such liability exists.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined.

Advertising — In accordance with AICPA Statement of Position 93-7, Reporting on Advertising Costs, advertising costs are expensed the first time the related advertising takes place.

Insurance — In order to minimize financial losses resulting from the occurrence of theft; employee dishonesty; legal judgments; work-related employee injury and accidents; and catastrophic events, the TEL has obtained insurance from various providers. In the event of loss, coverage is provided as follows:

Employee dishonesty — aggregate of $500 thousand total
Business personal property — limit of $300.5 thousand in any one occurrence
Automobile — limit of $1 million combined single limit (bodily injury/property damage)
General liability — aggregate of $2 million
Worker's compensation — up to statutory limits
Employment practices liability — aggregate of $5 million
Umbrella coverage — aggregate of $5 million

Non Operating Revenues and Expenses — Represents revenues and expenses resulting from activities not associated with the sale of lottery tickets.

Compensated Absences — On June 30, 2004, the TEL had a temporary paid time off policy in effect. This policy allowed each employee to use up to eight days of paid leave. If an employee terminated their employment with the TEL, the corporation would not be liable to the employee for any unused balance. Therefore, no accrual was made for compensated absences for this fiscal year.

(2) CASH

Cash is held in demand deposit accounts at various financial institutions. At June 30, 2004, the bank balances of approximately $2.2 million were fully insured by either federal depository insurance or the state's collateral for public deposits in accordance with the Collateral Pool for Public Deposits Act of 1990 (Tennessee Code Annotated, Title 9, Chapter 4-501). Pursuant to the aforementioned act, these deposits were collateralized with U.S. Government securities; surety bonds issued by insurance companies meeting certain requirements, including licensure under the laws of the State of Tennessee; or standby letters of credit from approved Federal Home Loan Banks. The securities are held in the name of the State of Tennessee by an authorized trustee custodian. The fair value of the underlying securities must be equal to at least 90% of the amount of funds held by the financial institution on behalf of the TEL. In the event of bank failure by financial institutions holding TEL funds, remaining members of the collateral pool are contractually obligated to refund any uncollateralized balances to the TEL.

Cash in excess of immediate needs represent surplus cash deposited in the LGIP fund, administered by the State of Tennessee Office of the Treasury. The voluntary fund is a short-term investment vehicle that is available for use by state and local government entities. The LGIP invests its assets in the following instruments:

- United States bonds, notes and treasury bills or other obligations guaranteed as to principal and interest by the United States or any of its agencies;
- Repurchase agreements for obligations of the United States or its agencies;
- Certificates of deposit in banks and savings and loans associations recognized as state depositories pursuant to Tennessee Code Annotated Section 9-4-107, provided, however, certificates of deposit shall be collateralized in accordance with the provisions of Tennessee Code Annotated Section 9-4-403;
- Prime commercial paper which shall be rated in the highest category by at least two nationally recognized commercial paper rating services.
- Prime banker's acceptances that are eligible for purchase by the Federal Reserve System;
- Securities lending agreements whereby securities may be loaned for a fee; provided, however, eligible collateral as defined in Tennessee Code Annotated, Section 9-4-103, whose market value is at least equal to one hundred two percent (102%) of the market value of the borrowed securities shall be required for each loan. For purposes of this provision, eligible collateral shall include cash collateral, which shall be equal to at least one hundred percent (100%) of the market value of the borrowed securities; and
- Obligations of the State pursuant to Tennessee Code Annotated, Section 9-4-602(b).

As of June 30, 2004, the State of Tennessee's pooled investment funds net assets totaled $4.5 billion and were invested in the following financial instruments:

Certificates of deposit	45%
United States agencies	33%
Commercial paper	16%
Repurchase agreements	6%

The TEL's deposits with the LGIP were approximately $66.5 million at June 30, 2004. Interest earned on the TEL's deposits was approximately $177 thousand for the year ended June 30, 2004.

No allocation will be made as to the TEL's share of the types of investments or LGIP's risk categories. The TEL's share of the assets and liabilities arising from the above investments will not be presented on the Statements of Net Assets since the LGIP is operated on a pooled basis. To do so may give the misleading impression that the TEL has some controlling authority over the investment vehicles.

The custodial credit risk for the Local Government Investment Pool is presented in the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2004. This report may be obtained by contacting the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298.

(3) LINE OF CREDIT

On August 29, 2003, in order to fund initial startup expenses and to provide working capital, the TEL obtained a $15.0 million revolving line of credit which expired on June 30, 2004, from First Tennessee Bank. Under this agreement, at the TEL's option, the outstanding principal balance bore interest at the Wall Street Journal Prime Rate or the Libor Rate plus 250 basis points. During the year ended June 30, 2004, the TEL borrowed and repaid $3.6 million in principal, along with interest totaling approximately $21 thousand under this line of credit.

(4) CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital asset being depreciated:				
Furniture and fixtures	$ —	$ 85,000	$ —	$ 85,000
Computer equipment	—	273,000	—	273,000
Vehicles	—	884,000	—	884,000
Leasehold improvements	—	260,000	—	260,000
Communication equipment	—	677,000	—	677,000
Software	—	243,000	—	243,000
Gaming equipment	—	58,000	—	58,000
Total capital assets	—	2,480,000	—	2,480,000
Less accumulated depreciation	—	(166,000)	—	(166,000)
Total capital assets, net	$ —	$ 2,314,000	$ —	$ 2,314,000

(5) OPERATING LEASES AND DEFERRED RENT

The TEL has entered into noncancelable operating leases for office space for its headquarters and district offices, and for outdoor advertising billboard space. These leases expire at various dates through 2014. Certain office space operating leases contain provisions for scheduled rental increases and are renewable at the option of the TEL. No lease renewal options were exercised during the fiscal year ending June 30, 2004.

Office Space Leases — As an incentive for entering into certain office space lease agreements, the TEL received rent abatements approximating $667 thousand from landlords. In accordance with Financial Accounting Standards 13, Accounting for Leases, and Governmental Accounting Standards 13, Accounting for Operating Leases with Scheduled Rent Increases, the TEL recognizes the related assets as a reduction to prepaid rent as rent becomes due and recognizes the related liabilities as a reduction to rent expense over the entire lease term on a straight line basis. As of June 30, 2004, prepaid rent relating to the lease incentives was approximately $269 thousand.

Deferred rent of approximately $983 thousand existed at June 30, 2004. Of this amount, $68 thousand is considered current and $915 thousand of this amount is non current. The non current amount is made of $554 thousand relating to rent abatements and $361 thousand relating to the straight line presentation of the escalating rent payments over the life of the Nashville office lease.

Future minimum rental payments, net of deferred rent expense, under noncancelable operating leases with original terms of one year or more are scheduled as follows:

Year Ending June 30:	
2005	$ 998,000
2006	1,356,000
2007	1,356,000
2008	1,356,000
2009	1,316,000
2010-2014	5,498,000
Total minimum lease payments	$ 11,880,000

Rental expense for office space under all related operating leases, net of deferred rent, totaled approximately $93 thousand, for the year ended June 30, 2004.

Outdoor Billboard Leases — Future minimum rental payments under noncancelable operating leases with original terms of one year or more are scheduled as follows:

Year Ending June 30:	
2005	$ 835,000
2006	220,000
2007	213,000
2008	213,000
2009	195,000
Total minimum lease payments	$ 1,676,000

Rental expense for outdoor billboards under all related operating leases totaled approximately $95 thousand for the year ended June 30, 2004.

(6) DUE TO LOTTERY FOR EDUCATION ACCOUNT

In accordance with the Act, all net proceeds of the TEL are due to the Lottery for Education Account. "Net proceeds" is defined under the Act as "all revenue derived from the sale of lottery tickets or shares and all other monies derived from lottery games less operating expenses."

"Operating expenses" are defined under the Act as "all costs of doing business, including, but not limited to, prizes, commissions, and other compensation paid to lottery retailers, advertising and marketing costs, rental fees, personnel costs, capital costs, depreciation of property and equipment, amounts held in or paid from a fidelity fund, and all other operating costs." All other expenses are considered non operating.

Net proceeds and operating expenses for the year ended June 30, 2004, are summarized as follows:	
Operating revenues:	
Ticket sales	$ 427,686,000
Less instant tickets provided as prizes	(35,937,000)
Net ticket sales	391,749,000
Service fees and other revenue	1,261,000
Net operating revenues	393,010,000
Operating expenses, as defined:	
Gaming	260,249,000
Operating	9,662,000
Total operating expenses, as defined	269,911,000
Net proceeds before distribution of unrestricted net assets	123,099,000
Non-operating revenue and expenses	
Interest income	195,000
Interest expense	(21,000)
Total non-operating revenue and expenses	174,000
Net proceeds subject to transfer	$ 123,273,000
Amount due to Lottery for Education Account for year	$ 123,273,000
Amount paid during year	(63,774,000)
Amount due to Lottery for Education Account, end of year	$ 59,499,000

All amounts due at June 30, 2004, were transferred to the Lottery for Education Account in July 2004.

(7) EMPLOYEE BENEFITS

457 Employees Deferred Compensation Plan — Effective September 22, 2003, the TEL provided its employees with a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the "457 Plan"). The 457 Plan, available to all employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. During the year ended June 30, 2004, employees contributed approximately $166 thousand to the 457 Plan.

401(a) Employer Defined Contribution Plan — Effective September 22, 2003, the TEL established a defined contribution plan in accordance with Internal Revenue Code Section 401(a) (the "401(a) Plan"). Under the 401(a) Plan all employees receive compensation from the TEL in the form of non-voluntary deferrals to their individual 401(a) accounts as follows:

1. Contribution of five percent (5%) of employee's compensation, and
2. Matching contribution of seventy-five percent (75%) of the participant's contributions to the 457 Plan up to the first five percent (5%) of the participant's compensation.

These contributions vest over a 4-year period at a rate of twenty-five percent (25%) per year and are not available to participants until termination, retirement, death, or unforeseeable emergency. During the year ended June 30, 2004, the TEL contributed approximately $262 thousand to the 401(a) Plan on behalf of its employees. Forfeitures of plan contributions will be used to offset administrative expenses and/or reduce future contribution costs.

Section 1448 of the Small Business Job Protection Act of 1996 added Subsection (g) to Section 457 of the Internal Revenue Code to provide that all assets and income under a Section 457(b) plan that are maintained by a state or local government employer must be held in trust for the exclusive benefit of plan participants and their beneficiaries. The 457 Plan and 401(a) Plan assets are held in aggregate by Manulife Financial, the plans' custodian.

The aggregate fair value of the plans' assets was $398 thousand, net of forfeitures and administrative fees, as of June 30, 2004.

(8) COMMITMENTS AND CONTINGENCIES

Millionaire Drawings — The TEL has committed to conducting two special lottery drawings whereby prizes totaling approximately $2.07 million will be awarded to six individuals. The TEL anticipates completing these drawings by June 30, 2005.

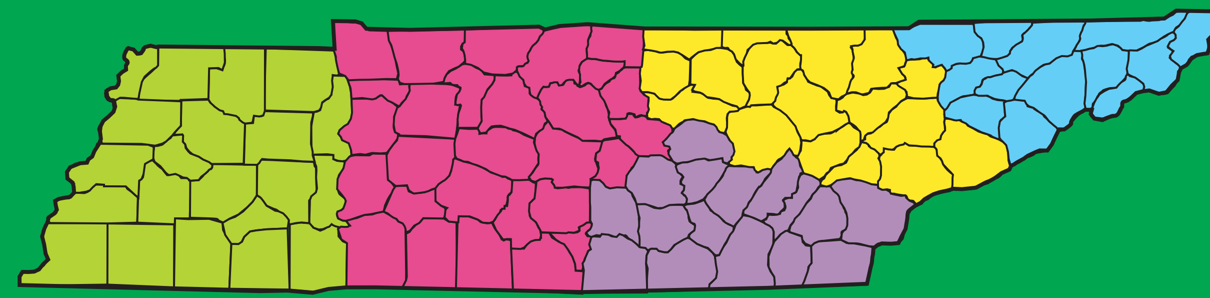
Legal — The TEL is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the TEL.

(9) SUBSEQUENT EVENTS

During the month of July 2004, the TEL entered into 3 one year, operating lease agreements for outdoor billboard advertising space. In relation to these billboards, the TEL expects to incur expense of approximately $27 thousand, during the fiscal year ending June 30, 2005.

On July 1, 2004, the claim period for online games was changed from 365 days to 180 days.

Tennessee Education Lottery Corporation District Offices



DISTRICT 1

Chattanooga
Friar's Branch II
6016 Shallowford Rd., Suite 200
Chattanooga, TN 37421
phone: 423-308-3610
fax: 423-308-3629

Bledsoe	McMinn	Warren
Bradley	Meigs	White
Coffee	Monroe	
Franklin	Polk	
Grundy	Rhea	
Hamilton	Sequatchie	
Marion	Van Buren	

DISTRICT 2

Knoxville
Cedar Springs Shopping Center
9298 Kingston Pike
Knoxville, TN 37922
phone: 865-251-1900
fax: 865-251-1919

Anderson	Knox	Scott
Blount	Loudon	Sevier
Campbell	Morgan	Union
Clay	Overton	
Cumberland	Pickett	
Fentress	Putnam	
Jackson	Roane	

DISTRICT 3

Memphis
Perimeter Shopping Center
5266 Summer Ave., Suite 75
Memphis, TN 38122
phone: 901-322-8520
fax: 901-322-8539

Benton	Gibson	Lauderdale
Carroll	Hardeman	Madison
Chester	Hardin	McNairy
Crockett	Haywood	Obion
Decatur	Henderson	Shelby
Dyer	Henry	Tipton
Fayette	Lake	Weakley

DISTRICT 4

Nashville
Plaza Tower Metro Center
200 Athens Way, Suite 200
Nashville, TN 37228
phone: 615-324-6500
fax: 615-324-6512

Bedford	Hickman	Marshall	Smith
Cannon	Houston	Maury	Stewart
Cheatham	Humphreys	Montgomery	Sumner
Davidson	Lawrence	Moore	Trousdale
Dekalb	Lewis	Perry	Wayne
Dickson	Lincoln	Robertson	Williamson
Giles	Macon	Rutherford	Wilson

DISTRICT 5

Johnson City
378 Marketplace Blvd., Suite 5
Johnson City, TN 37604
phone: 423-794-1050
fax: 423-794-1069

Carter	Hawkins
Claiborne	Jefferson
Cocke	Johnson
Grainger	Sullivan
Greene	Unicoi
Hamblen	Washington
Hancock	

LOTTERY
TENNESSEE

Tennessee Education Lottery Corporation • Plaza Tower Metro Center • 200 Athens Way, Suite 200 • Nashville, TN 37228

tnlottery.com