



FINANCIAL AND COMPLIANCE AUDIT REPORT

Tennessee Education Lottery Corporation

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury



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JASON E. MUMPOWER
Comptroller

November 15, 2023

The Honorable Bill Lee, Governor
Members of the General Assembly
Board of Directors, Tennessee Education Lottery Corporation

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Education Lottery Corporation for the year ended June 30, 2023. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

A handwritten signature in blue ink that reads 'Katherine J. Stickel'.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

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Audit Report
Tennessee Education Lottery Corporation
For the Year Ended June 30, 2023

Contents

	<u>Page</u>
Audit Highlights	1
Financial Section	
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Statement of Net Position	15
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows	17
Notes to the Financial Statements	19
Internal Control, Compliance, and Other Matters	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	33

TENNESSEE EDUCATION LOTTERY CORPORATION

AUDIT HIGHLIGHTS

Tennessee Education Lottery Corporation's Mission

To maximize net lottery proceeds through the sale of its products in a socially responsible manner for the benefit of designated education programs in Tennessee.

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Board of Directors, Tennessee Education Lottery Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Tennessee Education Lottery Corporation, a component unit of the State of Tennessee, as of and for the years ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Tennessee Education Lottery Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Education Lottery Corporation as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the Tennessee Education Lottery Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes

the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tennessee Education Lottery Corporation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2023, on our consideration of the Tennessee Education Lottery Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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* in considering the Tennessee Education Lottery Corporation's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 30, 2023

TENNESSEE EDUCATION LOTTERY CORPORATION

Management's Discussion and Analysis

The Tennessee Education Lottery Corporation (TEL) offers the following discussion and analysis to the readers of the financial statements. This narrative overview provides an objective analysis of TEL's financial activity for the fiscal years ended June 30, 2023, and June 30, 2022. The overview should be considered in conjunction with the independent auditor's report, the accompanying audited financial statements, and the notes to the financial statements. The financial statements, notes, and this discussion are the responsibility of management.

Understanding TEL's Financial Statements

TEL, a quasi-public instrumentality, is a component unit of the State of Tennessee. TEL's activities are accounted for as a business-type activity using the accrual basis of accounting, similar to a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of comparative financial statements, along with notes to the financial statements designed to highlight TEL's net position and changes therein resulting from business operations.

The financial statements comprise three components:

- **The statement of net position** – reflects TEL's financial position at June 30, 2023.
- **The statement of revenues, expenses, and changes in net position** – reports revenues and expenses incurred in relation to the sale of lottery products, as well as other non-gaming-related activity for the fiscal year ended June 30, 2023.
- **The statement of cash flows** – outlines the cash inflows and outflows related to the activity of selling lottery products and other business-related activities for the fiscal year ended June 30, 2023.

The notes to the financial statements document additional information that is essential for readers to gain a comprehensive understanding of the data provided in TEL's financial statements.

TEL's primary business purpose is to generate revenues to fund college scholarships and grants for residential Tennessee students attending higher educational institutions within the state. Accordingly, the main focus of the financial statements is determining funds available for deposit to the State of Tennessee's Lottery for Education Account. Furthermore, in addition to funding this account, TEL's unclaimed prize funds are deposited to the After-School Programs special account, which benefits after-school programs throughout the State of Tennessee.

As of January 1, 2022, Public Chapter 593 transfers the duties and powers related to sports wagering in the State of Tennessee to the Sports Wagering Advisory Council; therefore, six months of sports wagering activity was presented within the financial statements for the year ended June 30, 2022.

Overview of Financial Position

Condensed Statements of Net Position

	June 30, 2023	Increase/ (Decrease)	June 30, 2022
Assets:			
<i>Current assets</i>			
Cash	\$ 195,880,000	\$ 23,027,000	\$ 172,853,000
Retailer accounts receivable, net	90,245,000	4,750,000	85,495,000
Other	8,958,000	1,036,000	7,922,000
Total current assets	295,083,000	28,813,000	266,270,000
<i>Noncurrent assets</i>			
Capital assets, net	1,027,000	(239,000)	1,266,000
Right-to-use asset, net	2,650,000	(1,376,000)	4,026,000
Total noncurrent assets	3,677,000	(1,615,000)	5,292,000
Total assets	298,760,000	27,198,000	271,562,000
Liabilities:			
<i>Current liabilities</i>			
Due to Lottery for Education Account	113,794,000	(268,000)	114,062,000
Due to After School Programs Account	18,000,000	-	18,000,000
Prizes payable	157,117,000	26,859,000	130,258,000
Accounts payable and accrued liabilities	5,348,000	1,610,000	3,738,000
Unearned revenues	1,196,000	144,000	1,052,000
Long term lease liability, current	1,359,000	35,000	1,324,000
Total current liabilities	296,814,000	28,380,000	268,434,000
<i>Noncurrent liabilities</i>			
Long term lease liability, noncurrent	1,426,000	(1,359,000)	2,785,000
Other noncurrent liabilities	464,000	94,000	370,000
Total noncurrent liabilities	1,890,000	(1,265,000)	3,155,000
Total liabilities	298,704,000	27,115,000	271,589,000

Net Position:

Net investment in capital assets	3,677,000	2,411,000	1,266,000
Restricted for uncollectible retailer receivables	56,000	30,000	26,000
Unrestricted	(3,677,000)	(2,358,000)	(1,319,000)
Total net position	\$ 56,000	\$ 83,000	\$ (27,000)

Assets

The \$27.2 million increase in total assets at June 30, 2023, was primarily due to an increase in lottery ticket revenues, resulting in increased cash and retailer receivables.

Liabilities

The \$27.1 million increase in total liabilities at June 30, 2023, relates primarily to increased ticket revenues, resulting in higher prizes payable during the fiscal year.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	June 30, 2023	Increase/ (Decrease)	June 30, 2022
<i>Revenues:</i>			
Instant games	\$1,684,814,000	\$ (5,991,000)	\$1,690,805,000
Drawing-style games	417,430,000	80,891,000	336,539,000
Less instant/promotional tickets provided as prizes	(144,124,000)	(719,000)	(143,405,000)
Games revenue, net	1,958,120,000	74,181,000	1,883,939,000
Bad debt recoveries/(expenses), net	79,000	66,000	13,000
Retailer service fees	2,997,000	-	2,997,000
Interest income	5,343,000	4,419,000	924,000
Licensee fees, sports wagering	-	(2,993,000)	2,993,000
Other revenues	299,000	10,000	289,000
Total revenues	1,966,838,000	75,683,000	1,891,155,000
<i>Expenses:</i>			
Cost of revenues	1,430,316,000	46,395,000	1,383,921,000
General, administrative and other operating expenses	21,042,000	1,603,000	19,439,000
Other	-	(28,000)	28,000
Proceeds to Lottery for Education Account	497,397,000	29,815,000	467,582,000
Proceeds to After School Programs Account	18,000,000	-	18,000,000
Proceeds to Tennessee Promise	-	(2,242,000)	2,242,000
Total expenses	1,966,755,000	75,543,000	1,891,212,000

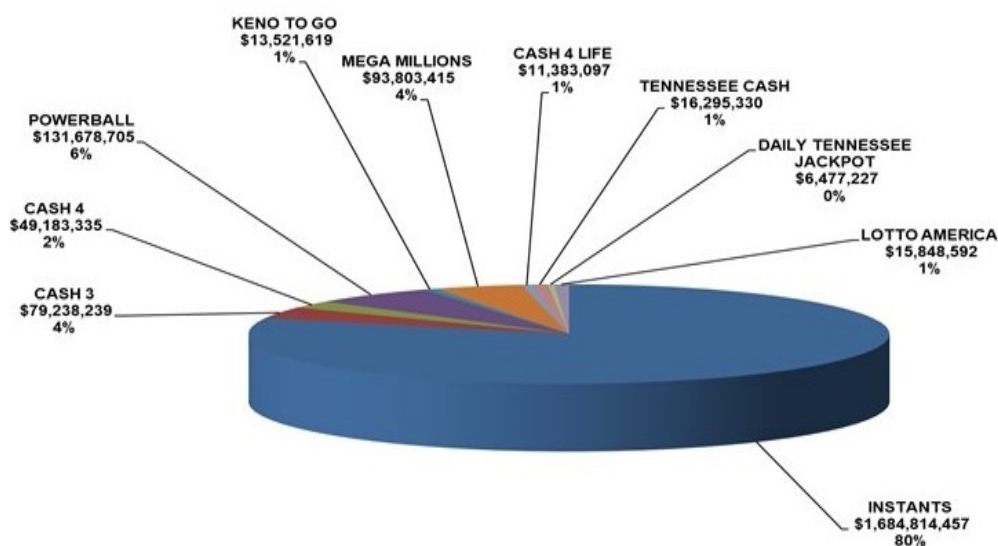
Change in net position		83,000	140,000	(57,000)
Total net position, beginning of year		(27,000)	(57,000)	30,000
Total net position, end of year	\$	56,000	\$ 83,000	\$ (27,000)

Fiscal Year 2023 Financial Highlights for the Tennessee Education Lottery

The Tennessee Education Lottery Corporation raised \$515.3 million for all lottery-funded education programs during fiscal year 2023, bringing the total to over \$7 billion since sales began on January 20, 2004.

Gross ticket revenues for fiscal year 2023 were more than \$2.1 billion, bringing the total since inception to over \$28 billion. Total prizes won since inception total more than \$19.2 billion, with 378 winning tickets sold worth \$1 million or more.

Tennessee Education Lottery Corporation Revenues by Major Product For Fiscal Year June 30, 2023



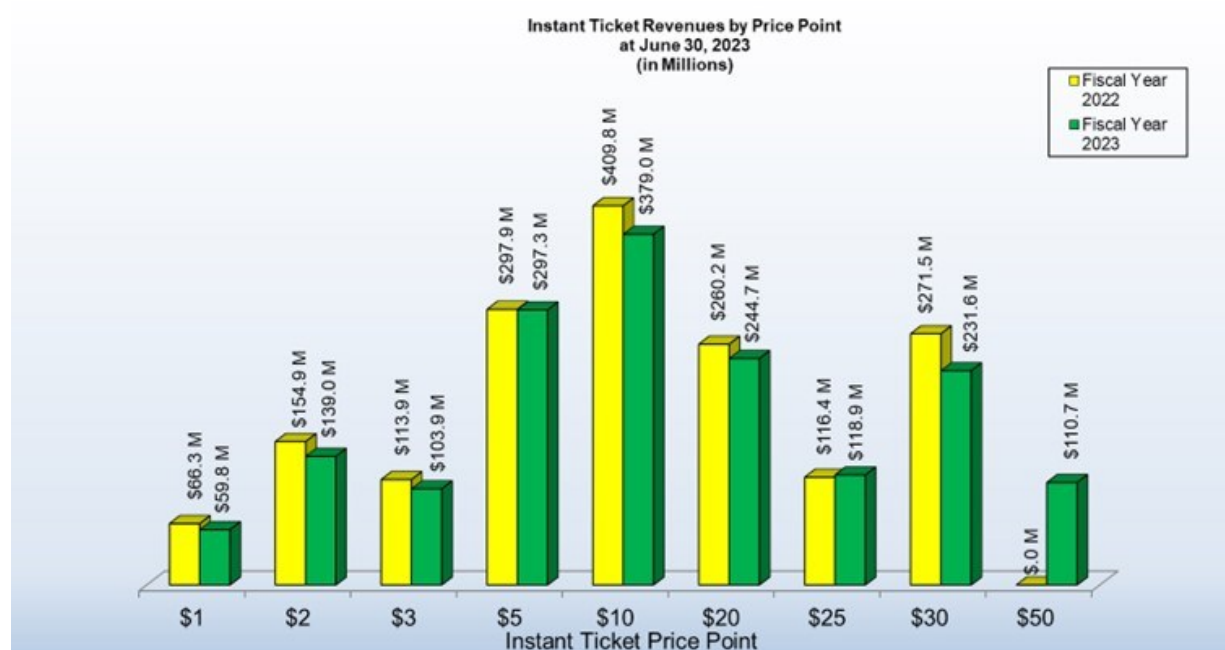
Management attributes the fiscal year revenue results to staying focused on the corporation's mission to serve Tennessee students and their families by responsibly maximizing proceeds for all education programs. The TEL works continually to refine our business model, introduce innovative and entertaining games for our players, promote efficiencies and best business practices across the organization, and provide quality support for the retailers selling the lottery's products.

Instant Ticket Revenues

In fiscal year 2023, revenues for *Instant Tickets* were \$1.68 billion compared to \$1.69 billion in fiscal year 2022. Instant tickets represent approximately 83% of total gross revenues in both fiscal years.

Sixty-two new instant ticket games were introduced during fiscal year 2023. These new games contribute to the instant product's continued success by providing players with new and exciting ways to play the popular games. TEL's Jumbo Bucks family of games continues to be the top choice of players in both fiscal years.

The \$10 price point, primarily driven by JUMBO Jumbo Bucks, led the instant ticket revenues, followed by the \$5 price point. The TEL also introduced its first \$50 price point ticket, generating over \$110 million in instant game revenues.



Draw-Style Revenues

Cash 3 revenues of \$79.2 million in fiscal year 2023 decreased by 2.8% compared to fiscal year 2022.

Cash 4 revenues of \$49.2 million in fiscal year 2023 decreased by 3.0% compared to fiscal year 2022.

Revenues for *Tennessee Cash* were \$16.3 million during fiscal year 2023, up \$1.2 million year over year. The year-over-year increase is due primarily to two jackpots of over \$2.1 million and \$920,000. *Tennessee Cash* is a cash jackpot drawing-style game.

Fiscal year 2023 *Keno to Go!* revenues were \$13.5 million, down nearly \$1 million.

Fiscal year 2023 *Daily Tennessee Jackpot* revenues were \$6.5 million. *Daily Tennessee Jackpot* is a daily jackpot drawing-style game that launched in November of this fiscal year.

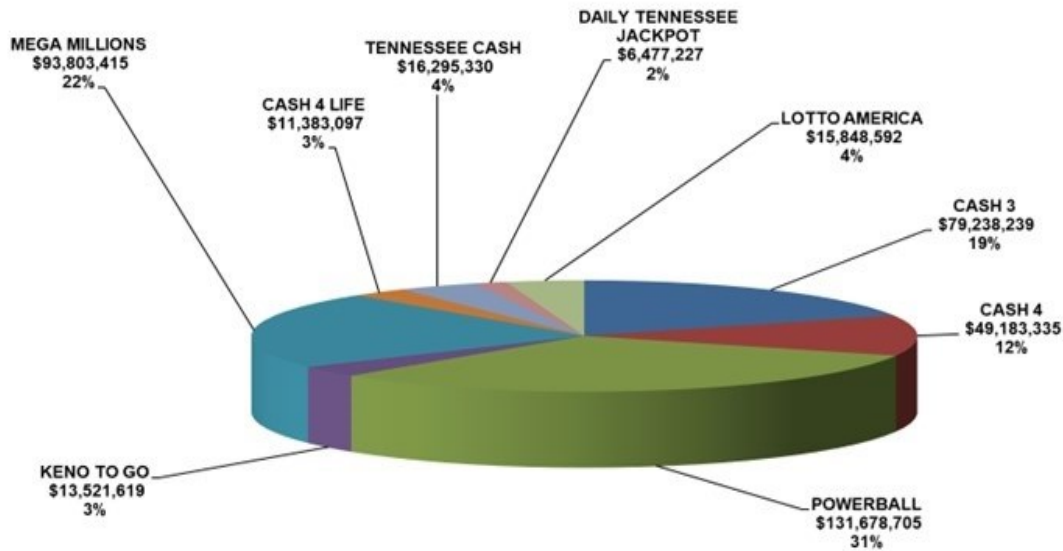
Powerball is a drawing-style lottery game operated in the following jurisdictions in addition to Tennessee: Arizona, Arkansas, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Texas, U.S. Virgin Islands, Vermont, Wisconsin, West Virginia, and Wyoming. Starting January 2010, the Mega Millions lottery consortium group began selling *Powerball* tickets as part of a cross-selling agreement with members of the Multi-State Lottery Association (MUSL). *Powerball* revenues for fiscal years 2023 and 2022 were \$131.7 million and \$108.5 million, respectively. These amounts represent approximately 6.3% and 5.3% of gross ticket revenues, respectively. The year-over-year increase is due primarily to two jackpots in fiscal year 2023 of over \$750 million, one being \$2 billion, enhanced by the addition of a third weekly drawing.

Mega Millions is a drawing-style lottery game administered by the Mega Millions lottery consortium. The consortium includes the following state lotteries: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, Ohio, Virginia, and Washington. Tennessee and certain other MUSL lottery members are authorized to sell the consortium's *Mega Millions* game as part of a cross-selling agreement, which began in January 2010. Revenues for fiscal years 2023 and 2022 were \$93.8 million and \$43.7 million, respectively. The increase of \$50.1 million year over year was due to two jackpots over \$1 billion in fiscal year 2023.

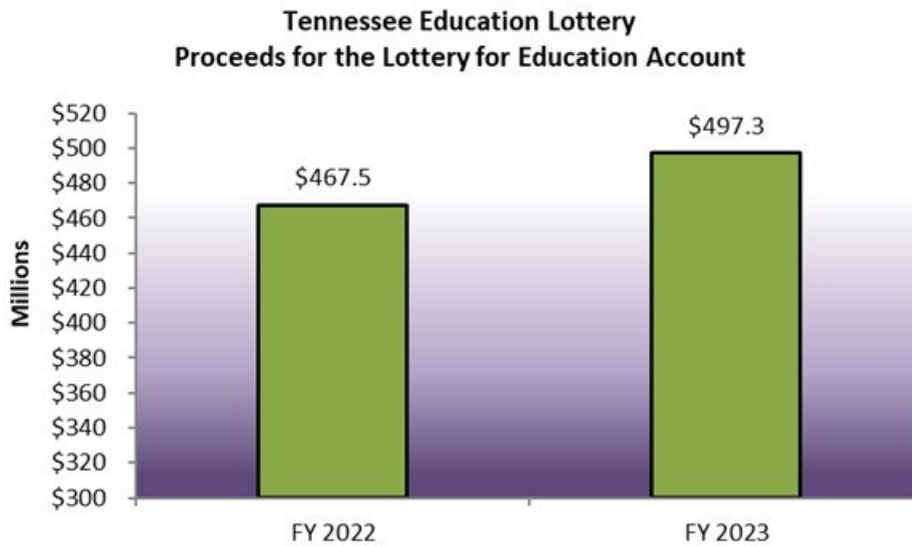
Cash 4 Life, a drawing-style game, was introduced in Tennessee on November 1, 2015, and has 10 member lotteries: Florida, Georgia, Indiana, Maryland, Missouri, New Jersey, New York, Pennsylvania, Tennessee, and Virginia. The game provides opportunities to win either \$1,000 a day for life or \$1,000 a week for life. Revenues were \$11.4 million for 2023 and \$12.2 million for 2022. There were two winners in Tennessee of \$1,000 a day for life in fiscal year 2023.

Lotto America is a drawing-style game, launched in Tennessee on November 15, 2017, and has 13 members: Delaware, Indiana, Iowa, Kansas, Maine, Minnesota, Montana, New Mexico, North Dakota, Oklahoma, South Dakota, Tennessee, and West Virginia. Revenues were \$15.8 million for 2023 and \$10.4 million for 2022, or a 50% year-over-year increase, primarily due to the addition of a third weekly drawing.

Tennessee Education Lottery Corporation
Revenues by Draw-Style Product
For Fiscal Year June 30, 2023



TEL generated \$497.3 million for the Lottery for Education Account in fiscal year 2023, compared to \$467.5 million in fiscal year 2022.



The amounts deposited to the After-School Programs special account are derived from unclaimed instant and drawing-style game prizes at fiscal year-end. Prizes not claimed within 90 days of the announced game-end date for instant games, and within 180 days of the draw for all drawing-style games, are forfeited as unclaimed prizes.

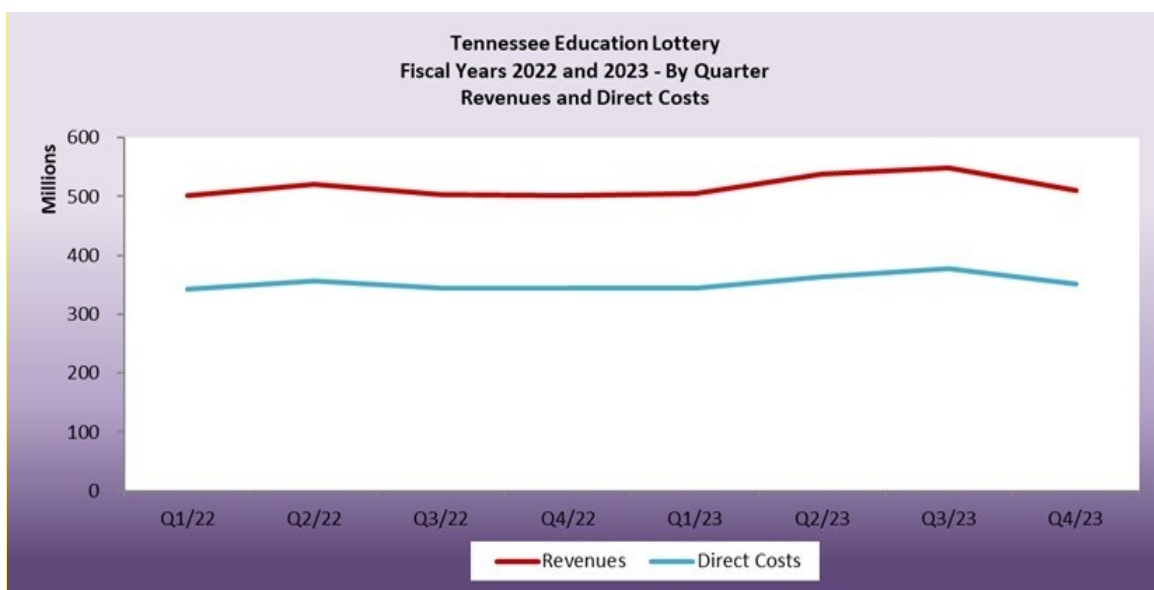
TEL records estimated unclaimed prizes for each instant game within the month the game is closed and reconciles the actual amounts when the claim period ends. For drawing-style games, TEL records the actual unclaimed amounts determined after the expiration of the related claim period for the draw.

In fiscal year 2023, TEL recognized \$18 million for the After-School Programs special account.



Cost of Revenues

Cost of revenues consists of prize expense, net of unclaimed prizes; retailer commissions; and major gaming vendor fees for lottery products. As the following chart depicts, these expenses relate to and change in direct proportion with changes in ticket revenues:



Gross prize expense was \$1.262 billion and \$1.220 billion in the years 2023 and 2022, respectively. The increase of \$41.3 million in 2023 reflects fluctuations in ticket revenues and the product choices of players in the related period.

Instant games prize expense is managed through the number of tickets printed for each game and the value of prizes as determined prior to ticket production. Prize expense is recorded based on an established prize structure and a related percentage of revenues for each game introduced and is recognized when products are made available to the public. The aggregated prize payout for all instant games was 68.2% of instant game revenues, net of free tickets, for fiscal year 2023 and 67.9% for fiscal year 2022.

Gross prize expense for drawing-style games generally increases or decreases in direct proportion to ticket revenues of the related game and is recorded at the time of the related draw. The aggregated prize payout for all drawing-style games was 50.5% and 50.6% for fiscal years 2023 and 2022, respectively.

Retailer commissions were \$137 million and \$132 million for fiscal years 2023 and 2022, respectively. Consistent with the cost-driver relationship of ticket revenues to retailer commissions, the increase of \$5 million in 2023 reflects the increase in revenues.

Retailers are compensated a set commission percentage of 6.5% on all instant tickets settled and drawing-style tickets sold. They also receive an additional 1% bonus for cashing *Cash 3* and *Cash 4* ticket prizes. Additionally, TEL will pay a bonus of \$50,000 to a retailer who sells a single jackpot-winning ticket for *Powerball* or *Mega Millions*; however, if there are multiple winning *Powerball* or *Mega Millions* jackpot-winning tickets sold in Tennessee in a single drawing, the \$50,000 selling bonus will be proportionately divided among the respective retailers based on the number of winning tickets sold by the retailer. TEL will also pay a \$5,000 bonus to retailers selling any drawing-style game ticket where the prize won is equal to or greater than \$1 million; however, if there are multiple winning tickets sold in Tennessee in a single drawing that qualify for one of the selling bonuses, the respective selling bonus will be divided between or among the respective retailers equally based on the number of winning tickets sold by each retailer.

Drawing-style game ticket-selling bonuses equaling \$35,000 and \$101,200 were awarded for fiscal years 2023 and 2022, respectively.

Major gaming vendor fees for fiscal years 2023 and 2022 were \$37.1 million and \$36.3 million, respectively. TEL has retained two major gaming contractors, one for the operation of its gaming systems and retailer network and one for the manufacturing, warehousing, and distribution of its instant ticket games. The instant ticket vendor receives 0.8128% of the selling price of all instant ticket activations, whereas the gaming systems and network vendor receives 1.1999% of the selling price of drawing-style tickets sold and of the selling price of instant ticket activations, net of free instant tickets available as prizes.

Advertising costs incurred by TEL were \$7.6 million and \$7.3 million, respectively, for fiscal years 2023 and 2022. Budget directives and constraints significantly influence these costs. Management continually strives to achieve an optimal balance between advertising costs and obtained benefits, while keeping the costs relatively consistent with prior-year amounts.

General, administrative, and other operating expenses were \$21.1 million and \$18.6 million for the fiscal years 2023 and 2022, respectively. For each of these years, the five major components were depreciation, personnel, professional fees, property, and telecommunications expenses. These expenses do not change in direct proportion with revenues but are instead significantly influenced by budget directives and constraints, as well as current business and economic conditions. In view of these factors, moderate variances in these expenses are expected to occur over fiscal periods. Nevertheless, to the most reasonable extent possible, TEL's management team works diligently to make these expenses relatively consistent year over year.

Potential Factors Impacting Future Results

TEL's mission is to maximize revenues for the purpose of maximizing payments to the Lottery for Education Account. A continuous assessment of Tennessee's economic environment and TEL's own product lines and operations is essential to accomplish this mission. The following considerations have been presented to inform those interested in TEL's operations about factors that could potentially affect future results:

- TEL will continue to introduce new and/or enhanced instant and drawing-style game product offerings.
- TEL will continually review the prize payout percentages for its instant games to ensure we are receiving the highest actual net proceeds for each game and/or price point category.
- TEL will continue to enhance its promotional offerings and VIP Rewards program to improve brand awareness and increase player participation in our games.
- Changes to TEL's enabling legislation.

Contacting TEL's Financial Management

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 TEL's activities and to show TEL's accountability for conducting business in a fiscally responsible manner. If you have questions about this report or require additional financial information, contact TEL's Finance Department at the following address:

Tennessee Education Lottery Corporation
26 Century Boulevard
Suite 200
Nashville, Tennessee 37214

TENNESSEE EDUCATION LOTTERY CORPORATION
Statement of Net Position
As of June 30, 2023

Assets

Current assets:

Cash (Note 2)	\$ 195,824,000
Lottery retailer accounts receivable, net (Note 1)	90,245,000
Restricted fidelity fund cash (Note 2)	56,000
Prepaid expenses and other assets	8,958,000
Total current assets	295,083,000

Noncurrent assets:

Capital assets, net of depreciation of \$8,572,000 (Note 4)	1,027,000
Right to use asset, net of amortization of \$2,725,000 (Note 5)	2,650,000
Total noncurrent assets	3,677,000
Total assets	298,760,000

Liabilities

Current liabilities:

Due to Lottery for Education Account (Note 6)	113,794,000
Due to After-School Programs Account (Note 7)	18,000,000
Lottery prizes payable	157,117,000
Accounts payable	363,000
Accrued liabilities	4,985,000
Long term lease liability, current (Note 5)	1,359,000
Unearned revenues	1,196,000
Total current liabilities	296,814,000

Noncurrent liabilities:

Long term lease liability, noncurrent (Note 5)	1,426,000
Equal business opportunity program	250,000
Intern program	214,000
Total noncurrent liabilities	1,890,000
Total liabilities	298,704,000

Net Position

Net investment in capital assets	3,677,000
Restricted for:	
Restricted for uncollectible retailer receivables	56,000
Unrestricted	(3,677,000)
Total net position	\$ 56,000

The notes to the financial statements are an integral part of this statement.

TENNESSEE EDUCATION LOTTERY CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

Operating revenues

Lottery ticket revenue	\$ 2,102,323,000
Less instant/promotional tickets provided as prizes	(144,124,000)
Net lottery ticket revenue	1,958,199,000
Retailer service fees	2,997,000
Other	270,000
Net operating revenues	1,961,466,000

Operating expenses

Available lottery prizes	1,261,997,000
Current year actual unclaimed prizes (Note 7)	(18,896,000)
Net lottery prizes	1,243,101,000
Retailer commissions and bonuses	137,085,000
Contractor fees	37,086,000
Advertising	7,611,000
Salaries and benefits	16,984,000
Retailer merchandising and marketing	5,433,000
Rent and maintenance	79,000
Depreciation and amortization	1,934,000
Professional fees	367,000
General, administrative, and other operating	1,648,000
Right to use asset interest expense	30,000
Total operating expenses	1,451,358,000
Operating income	510,108,000

Nonoperating revenues (expenses)

Interest revenue	5,343,000
Retailer fees for future uncollectible retailer receivables	29,000
Proceeds to Lottery for Education Account (Note 6)	(497,397,000)
Proceeds to After-School Programs Account (Note 7)	(18,000,000)
Total nonoperating revenues (expenses)	(510,025,000)

Increase in net position	83,000
Net position - beginning of year	(27,000)
Net position - end of year	\$ 56,000

The notes to the financial statements are an integral part of this statement.

TENNESSEE EDUCATION LOTTERY CORPORATION

Statement of Cash Flows For the Year Ended June 30, 2023

Cash flows from operating activities

Cash received from customers	\$ 1,953,727,000
Other operating cash received	3,236,000
Cash paid for lottery prizes	(1,216,663,000)
Cash paid to/on behalf of gaming vendors	(36,947,000)
Cash paid to retailers	(137,094,000)
Cash paid for advertising	(7,652,000)
Cash paid to/on behalf of employees	(15,498,000)
Other operating payments	(8,012,000)
Net cash provided by operating activities	535,097,000

Cash flows from noncapital financing activities

Payments to Lottery for Education Account	(497,663,000)
Payments to After-School Programs Account	(18,000,000)
Fidelity fund cash received from retailers	32,000
Fidelity fund cash refunded to retailers	(3,000)
Net cash used for noncapital financing activities	(515,634,000)

Cash flows from capital and related financing activities

Purchase of property and equipment	(320,000)
Payments to lessor for right to use lease asset	(1,459,000)
Net cash used for capital and related financing activities	(1,779,000)

Cash flows from investing activities

Interest income	5,343,000
Net cash provided by investing activities	5,343,000

Net increase in cash	23,027,000
Cash - beginning of year	172,853,000
Cash - end of year	\$ 195,880,0

TENNESSEE EDUCATION LOTTERY CORPORATION
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2023

Reconciliation of cash on the statement of net position

Cash	\$ 195,824,000
Restricted fidelity fund cash	56,000
Cash at end of year	\$ 195,880,000

Reconciliation of operating income to net cash provided by operating activities:

Operating income	510,108,000
Adjustments to reconcile operating income to net cash provided by operating activities	
Bad debt expense	(79,000)
Depreciation and amortization	1,934,000
Right to use lease interest expense	30,000
Changes in assets and liabilities:	
Retailer/licensee accounts receivable	(4,672,000)
Prepays and other assets	(36,000)
Accounts payable and accrued liabilities	1,610,000
Lottery prizes payable	26,411,000
Unearned revenues	144,000
Unearned rent	(447,000)
Equal business opportunity program	50,000
Intern program	44,000
Net cash provided by operating activities	\$ 535,097,000

The notes to the financial statements are an integral part of this statement.

TENNESSEE EDUCATION LOTTERY CORPORATION

Notes to the Financial Statements

June 30, 2023

Note 1. Summary of Significant Accounting Policies

Organization and Description of Reporting Entity

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

TEL is considered a component unit of the State of Tennessee as the state has financial accountability for fiscal matters as follows:

1. the board of directors is appointed by the Governor;
2. upon dissolution of TEL, title to all TEL property shall vest in the State of Tennessee; and
3. TEL provides financial benefits to the state in the form of deposit payments to the state treasury.

The accompanying financial statements present information only as to the transactions of TEL's programs. TEL is reported as a discretely presented component unit within the State of Tennessee's *Annual Comprehensive Financial Report*, which may be viewed at <https://www.tn.gov/finance/rdo/faccfin-ar.html>.

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.

On January 20, 2004, TEL began selling lottery tickets. For the year ended June 30, 2023, TEL's lottery revenues included a variety of instant ticket games and drawing-style games: *Cash 3*, *Cash 4*, *Tennessee Cash*, *Keno to Go!*, *Powerball*, *Mega Millions*, *Cash 4 Life*, *Daily Tennessee Jackpot*, and *Lotto America*.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Notes to the Financial Statements (Continued)

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 accrual basis of accounting and the economic resources measurement focus 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 for drawing-style games is recognized based on the game characteristics. For drawing-style games where the prize expense is determinable only upon occurrence of the related draw, revenues for sold tickets are recognized when the related drawing occurs. Also, amounts collected from retailers in advance of the draw are recorded as unearned revenue and recognized once the drawing occurs.

Revenues for drawing-style games where both prize expense and the draw date are known prior to ticket sales occurring are recognized at the time of the sale.

Certain instant and drawing-style games include free ticket prizes that entitle the holder to exchange a winning ticket for another of equal value. The selling price of the game ticket awarded as a prize reduces ticket revenue when the related winning ticket is validated.

Lottery revenues are presented net of bad debt expense.

Net Position

Net position represents cumulative revenues less expenses and required beneficiary program payments in accordance with the Acts (see Notes 6 and 7). Net position includes funds invested in capital assets, restricted net position, and unrestricted net position.

Cash

Cash includes cash in banks, petty cash, and deposits on account in the State of Tennessee Local Government Investment Pool (LGIP) (see Note 2).

Notes to the Financial Statements (Continued)

Lottery Retailer Accounts Receivable

Lottery retailer accounts receivable represents gross lottery proceeds due from retailers, net of commissions due to and prizes paid by the retailers, and allowance for bad debt.

Lottery proceeds are collected weekly from retailer bank accounts established in trust for TEL. Amounts not collected upon the established collection date are deemed delinquent. Delinquent accounts are reviewed periodically by TEL management. Accounts outstanding more than 180 days from the most recent date of delinquency or date of last payment are considered doubtful. At June 30, 2023, the Allowance for Doubtful Accounts was \$227 thousand.

Capital Assets

Capital assets are stated at historical 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 three to seven 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 cost 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. TEL's general threshold for capitalization is assets valued at \$1,000 or greater.

In June 2017, the GASB issued Statement 87, *Leases*. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. TEL implemented this standard as of July 1, 2021.

Unearned Revenue

Funds collected from retailers for drawing-style game tickets sold in advance of the drawings are recorded as unearned revenue and recognized as revenue once the related drawing occurs.

Fidelity Fund

In accordance with Section 4-51-118(a), *Tennessee Code Annotated*, TEL retailers are assessed a one-time fidelity fund fee of \$50. 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 position. These funds may be used to cover losses incurred as a result of the nonfeasance, malfeasance, or misfeasance of TEL.

Notes to the Financial Statements (Continued)

retailers. During the year ended June 30, 2023, \$0 was used to cover losses incurred as a result of uncollected accounts of TEL retailers.

At the end of each fiscal year, fidelity funds exceeding \$500,000 may be treated as net proceeds from the TEL subject to deposit to the Lottery for Education account. As of the year ended June 30, 2023, there were no fidelity funds available for deposit as net proceeds.

Retailer Commissions and Incentives

Retailers receive a commission of 6.5% on all instant tickets settled and drawing-style tickets sold. In addition, retailers cashing *Cash 3* and *Cash 4* tickets receive an additional 1% for amounts cashed. Where commission has been paid to retailers for tickets sold prior to drawings, this fee is recorded as a prepaid expense until the related revenue is recognized.

TEL will pay an incentive of \$50,000 to a retailer who sells a single jackpot-winning ticket for *Powerball* or *Mega Millions*; however, if there are multiple *Powerball* or *Mega Millions* jackpot-winning tickets sold in Tennessee in a single drawing, the \$50,000 selling incentive will be divided proportionately (based on the number of winning tickets sold by each retailer) between or among the respective retailers.

TEL will pay a selling incentive of \$5,000 to a retailer who sells a winning *drawing-style game* whereby the prize is equal to or greater than \$1,000,000. However, if there are multiple *drawing-style game* jackpot-winning tickets sold in Tennessee in a single drawing, the \$5,000 selling incentive will be divided proportionately (based on the number of winning tickets sold by each retailer) between or among the respective retailers.

As of June 30, 2023, there was \$35,000 in selling incentives earned for the fiscal year.

Major Gaming Contractor Fees

TEL has contracted with two vendors, IGT Corporation and Scientific Games Inc. (SGI), for the majority of the gaming systems and supplies.

IGT operates the gaming network, which consists of over 5,000 instant and drawing-style retailer ticket terminals and associated software. Terms of this contract maintain the service fee rate of 1.1999% on the selling price of drawing-style tickets sold and on instant ticket activations, net of free tickets available as prizes, and in addition provide the platform for the loyalty program for players, including both Play It Again and VIP Rewards Program, through June 30, 2027.

Notes to the Financial Statements (Continued)

SGI prints, warehouses, and distributes the instant ticket games to retailers through June 30, 2027. In accordance with the contract, SGI will receive the negotiated fee of 0.8128% on the selling price of all instant ticket activations beginning July 1, 2021.

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 games is recognized based on a predetermined prize structure for each game in accordance with the approved game working papers when tickets are activated for sale. Gross prize expense for *Cash 3*, *Cash 4*, *Tennessee Cash*, *Daily Tennessee Jackpot*, and *Keno to Go!* is recognized based on historical payout experience when the related drawings occur.

Powerball and *Mega Millions* prizes are shared based on contributions made to the prize pool by all member lotteries of the Powerball Group and the Mega Millions Group of the Multi-State Lottery Association (MUSL). All *Powerball* and *Mega Millions* grand prizes won by players who purchase tickets in Tennessee are funded from pooled contributions by all participating lottery states. For *Powerball* and *Mega Millions*, the contributions are held by MUSL in trust for TEL and are paid, at the option of the prize winner, in either a lump sum or 30 annual payments. Lump-sum payments are discounted to present value, as calculated by MUSL for the *Powerball* game and by the Mega Millions Consortium Group for the *Mega Millions* game. There were no *Powerball* or *Mega Millions* jackpot winners in Tennessee for fiscal year 2023.

In November 2015, TEL began selling *Cash 4 Life*. *Cash 4 Life* prizes are based on a portion of gross revenue set aside for payment of prizes. The prize fund for any drawing is expected to be 55% of revenue but may be higher or lower based upon the number of winners at each prize level, as well as the funding required to contribute to the jackpot and second-level prize. Grand prizes won by Tennessee players are funded from pooled contributions by all participating lottery states. For fiscal year 2023, there were two first-level winners. There were no second-level prize winners in Tennessee for fiscal year 2023.

Lotto America, a drawing-style game, was launched in Tennessee in November 2017. The prize fund for any drawing is expected to be 50% of revenue but may be higher or lower based upon the number of winners at each prize level.

Unclaimed Prizes

Prizes not claimed within 90 days of the game-end date for instant games, and within 180 days of a game draw date for drawing-style games, are forfeited as unclaimed prizes.

Notes to the Financial Statements (Continued)

Budget

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

Use of Estimates

The preparation of financial statements in accordance 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

Advertising costs are expensed when the related advertising takes place, or the contract is non-cancelable when entered.

Nonoperating Revenues and Expenses

Revenues and expenses resulting from activities not directly associated with the sale of lottery tickets are reflected as nonoperating revenues and expenses.

Compensated Absences

Effective November 29, 2004, TEL implemented an attendance and leave policy allowing employees to earn vacation and sick leave during their employment. The corporation recognizes expenses for accrued but unused vacation leave for all employees who have completed one year of service. No such expense exists for accrued but unused sick leave. The estimated current portion of the compensated absences liability was \$770 thousand at June 30, 2023.

Employment Separation

On February 17, 2016, the board of directors approved a change in the separation pay policy. The revised policy allows for corporate officers hired prior to January 1, 2006, to continue accruing 40 hours of separation pay for each year of employment with TEL. Corporate officers hired January 1, 2006, and thereafter are granted 240 hours of leave in the event they are terminated without cause or upon retirement. After 6 years of employment in a corporate officer position, they shall accrue an

Notes to the Financial Statements (Continued)

additional 40 hours of severance pay for every year of employment. Such expense is accrued in the period it is earned. The TEL had \$745 thousand accrued for employment separation obligations at fiscal year-end June 30, 2023.

Note 2. Cash

A significant portion of TEL's deposits is in a financial institution that participates in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure. At June 30, 2023, bank balances of approximately \$2.6 million were insured by the bank collateral pool.

For the year ended June 30, 2023, the bank balance for the fidelity fund account was approximately \$56 thousand and was maintained in a demand deposit account that was insured by the Federal Deposit Insurance Corporation for up to a maximum of \$250,000.

TEL also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. TEL's deposits with the LGIP were approximately \$193.2 million at June 30, 2023. The LGIP is part of the State Pooled Investment Fund. The LGIP is measured at amortized cost. The fund is not rated by a nationally recognized statistical rating organization.

The fund's investment policy and required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

Note 3. Prize Annuity Obligations

The TEL offers games where the prize structure allows for specific prizes to be paid in a cash value or annuity option. In accordance with policy, TEL may enter into insurance annuity contracts in order to fund annuity prizes. All life insurance annuity contracts must be issued by companies that are financially rated "A" or better by a nationally recognized rating agency duly licensed, admitted, and authorized to transact business in the State of Tennessee.

Because the TEL cannot unilaterally change the beneficiary for the annuities that are purchased in order to satisfy the liability to the prize winner, and because it is the intent that the insurance

Notes to the Financial Statements (Continued)

companies make future installment payments directly to each prize winner named as the beneficiary of the annuity, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. The TEL would assume liability for future payments if the insurance companies were to default on their payments; however, this possibility is remote, and therefore no liability is recorded. The present value of future payments to be made to grand-prize winners by these insurance companies totaled approximately \$17,127,000 at June 30, 2023.

Note 4. Capital Assets

Capital assets consisted of the following as of June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance
Furniture and fixtures	\$ 798,000	\$ -	\$ -	\$ 798,000
Computer equipment	1,077,000	55,000	(2,000)	1,130,000
Vehicles	271,000	40,000	-	311,000
High mileage vehicles	1,729,000	169,000	-	1,898,000
Leasehold improvements	2,635,000	28,000	-	2,663,000
Communication equipment	662,000	27,000	-	689,000
Software	945,000	-	-	945,000
Gaming equipment	1,165,000	-	-	1,165,000
Total	9,282,000	319,000	(2,000)	9,599,000

Notes to the Financial Statements (Continued)

Less accumulated depreciation/amortization:

Furniture and fixtures	(795,000)	(2,000)	-	(797,000)
Computer equipment	(924,000)	(60,000)	2,000	(982,000)
Vehicles	(258,000)	(16,000)	-	(274,000)
High mileage vehicles	(1,571,000)	(163,000)	-	(1,734,000)
Leasehold improvements	(2,016,000)	(223,000)	-	(2,239,000)
Communication equipment	(642,000)	(8,000)	-	(650,000)
Software	(944,000)	(1,000)	-	(945,000)
Gaming equipment	(866,000)	(85,000)	-	(951,000)
Total	(8,016,000)	(558,000)	2,000	(8,572,000)

Capital assets, net	\$ 1,266,000	\$ (239,000)	\$ -	\$ 1,027,000
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Note 5. Leasing Arrangements

The TEL is a lessee for a series of noncancellable leases of office space for its headquarters and district offices.

In fiscal year 2022, TEL adopted GASB Statement 87 to account for all such leases. As such, the TEL recognizes a right to use asset and lease liability. The liability was initially measured at the present value of the payments expected to be made over the terms of the various leases for office space.

The TEL utilized the incremental borrowing rate of 3% based upon its banking partner's range of 3 to 5% if the TEL had to borrow funds to pay for such leases, which it currently does not. Certain leases contain provisions for scheduled rental increases and are renewable at the option of TEL.

The aggregate amortization schedule for the noncancellable lease liability for all leases of office space is as follows:

Notes to the Financial Statements (Continued)

Year Ending June 30	Principal	Interest	Total
2024	\$ 1,359,000	\$ 65,000	\$ 1,424,000
2025	1,156,000	25,000	1,181,000
2026	153,000	6,000	159,000
2027	93,000	2,000	95,000
2028	24,000	-	24,000
Total	\$ 2,785,000	\$ 98,000	\$ 2,883,000

Under GASB 87, a right to use asset is recognized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Right-to-use lease assets	\$ 5,375,000	\$ -	\$ -	\$ 5,375,000
Less accumulated depreciation/amortization:				
Right-to-use lease assets	(1,349,000)	(1,376,000)	-	(2,725,000)
Right-to-use lease assets, net	\$ 4,026,000	\$ (1,376,000)	\$ -	\$ 2,650,000

Note 6. Due to Lottery for Education Account

In accordance with the Act, all net proceeds of TEL are due to the Lottery for Education account. “Net proceeds” are 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 nonoperating.

Net proceeds and operating expenses for the Tennessee Education Lottery for the year ended June 30, 2023, are summarized as follows:

Notes to the Financial Statements (Continued)

Operating revenues:

Lottery ticket revenues (see Note 1)	\$ 2,102,323,000
Less instant/promotional tickets provided as prizes	(144,124,000)
Net lottery ticket revenues	1,958,199,000
Retailer service fees and other revenues	3,267,000
Total lottery proceeds	1,961,466,000

Operating expenses, as defined:

Gaming	1,449,212,000
Operating	21,096,000
Total operating expenses, as defined	1,470,308,000
Net proceeds before distribution of unrestricted net position	491,158,000

Nonoperating revenues and expenses

Interest revenues	5,343,000
Excess after school proceeds (Note 7)	896,000
Total nonoperating revenues and expenses	6,239,000
Net proceeds	\$ 497,397,000

Amount due to Lottery for Education account for year	\$ 497,397,000
Amount paid during year	(383,603,000)
Amount due to Lottery for Education account, end of year	\$ 113,794,000

All amounts due at the end of each fiscal year were deposited to the Lottery for Education account in July of the subsequent fiscal year.

Note 7. Due to After-School Programs Special Account

In accordance with the Act, at the end of each fiscal year, 100% of any unclaimed prize money is deposited in the After-School Programs special account; however, if the unclaimed prizes in any fiscal year total more than \$18 million, then the excess accrues to the Lottery for Education account.

The amounts due to the After-School Programs special account are derived from unclaimed prizes for instant games that have been officially closed and drawing-style games that have exceeded the 180-day claim period.

Notes to the Financial Statements (Continued)

Unclaimed prizes for instant games are estimated based upon historical percentages of actual unclaimed dollars at the time of game close and reconciliation at the end of the 90-day redemption period.

For drawing-style games, the actual unclaimed amounts are determined after the expiration of the related claim period for the draw.

For instant games, prizes not claimed within 90 days of the announced game-end date are forfeited as unclaimed prizes. For drawing-style games, prizes not claimed within 180 days of a game draw date are forfeited as unclaimed prizes.

For fiscal year 2023, unclaimed prizes were \$18,896,000, of which \$18 million is current and payable to the After-School Programs special account at June 30, 2023, and \$896 thousand is payable to the Lottery for Education account.

All amounts due at the end of each fiscal year were deposited to the After-School Programs special account in July of the subsequent fiscal year.

Note 8. Employee Benefits

Deferred Compensation

Effective September 22, 2003, TEL provided its employees with a deferred compensation plan created in accordance with *Internal Revenue Code*, Section 457 (the 457 Plan). The 457 Plan is available to all eligible employees at their option and 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. For the fiscal year ended June 30, 2023, employees contributed approximately \$581,056 to the 457 Plan.

The aggregate fair value of the plan assets was approximately \$9,193,000, net of administrative fees, as of June 30, 2023.

Defined Contribution Plan

Effective September 22, 2003, the TEL Board of Directors established a defined contribution plan in accordance with *Internal Revenue Code*, Section 401(a) [the 401(a) Plan]. Under the 401(a) Plan, all eligible employees receive compensation from TEL in the form of non-voluntary deferral to their individual 401(a) accounts as follows:

Notes to the Financial Statements (Continued)

1. contribution of 5% of employee's compensation;
2. matching contribution of 100% of the participant's contributions to the 457 Plan, up to the first 5% of the participant's compensation; and
3. changes to the plan must be approved by TEL's Board of Directors.

These contributions vest over a four-year period at a rate of 25% per year and are not available to participants until termination, retirement, death, or unforeseeable emergency. TEL expensed approximately \$949,214 to the 401(a) Plan on behalf of its employees for the year ended June 30, 2023.

In accordance with the 401(a) Plan, forfeitures of employer contributions may be used to offset plan administrative expenses and/or to reduce future contribution costs. As of June 30, 2023, forfeited amounts of approximately \$94,806 were used to offset employer contributions and plan administrative expenses.

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 a state or local government employer maintains must be held in trust for the exclusive benefit of plan participants and their beneficiaries. On October 31, 2022, TEL changed the custodian for both the 457 Plan and the 401(a) Plan from John Hancock Financial to Mass Mutual.

The aggregate fair value of the plan assets was approximately \$13,204,875, net of forfeitures and administrative fees, as of June 30, 2023.

As of June 30, 2023, the TEL's outstanding employer liability was \$24,000.

Note 9. Risk Management

Effective July 31, 2005, TEL became a member of the Risk Management Fund, an internal service fund of the State of Tennessee. The Risk Management Fund allocates the cost of providing claims servicing and claims payment by charging a premium to TEL based on a percentage of TEL's expected loss costs, which includes both experience and exposures. This Risk Management Fund provides general and automobile liability up to \$300,000 per person and \$1,000,000 per occurrence.

Additionally, 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, TEL

Notes to the Financial Statements (Continued)

maintains insurance from various other providers. At June 30, 2023, additional insurance coverage was provided at the following maximum amounts:

<u>Coverage</u>	
Employee Fidelity	\$ 500,000
Automobile/Property	1,000,000
Workers' Compensation	1,000,000
Employment Practices	1,500,000
General Liability/Umbrella	7,351,000

Over the past three fiscal years, in the ordinary course of business, TEL has filed insurance claims with both the risk pool and the commercial insurers. None of the related settlements exceeded the provided insurance coverage.

Note 10. Commitments and Contingencies

Legal – TEL is subject to litigation in the ordinary course of its business. Liabilities related to contingencies are recognized when a loss is probable and can be reasonably estimated. 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 TEL. Furthermore, as of the year ended June 30, 2023, management is not aware of any related liabilities.



JASON E. MUMPOWER
Comptroller

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

The Honorable Bill Lee, Governor
Members of the General Assembly
Board of Directors, Tennessee Education Lottery Corporation

We have audited the financial statements of the Tennessee Education Lottery Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Tennessee Education Lottery Corporation's basic financial statements, and have issued our report thereon dated October 30, 2023. 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tennessee Education Lottery Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tennessee Education Lottery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tennessee Education Lottery Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
October 30, 2023