

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, September 16, 2014

Commissioners in Attendance: Keith Ballentine, Chairman
David Kirby
Amy Ellis
Chris Shew
Jody Tyson
Courtney Crowder
AJ Daoud
Doug Baker (via conference call)

Commissioners not in Attendance: Alice Underhill

Staff in Attendance: Alice Garland
Caryl James
Bill Jourdain
Mike Suggs

The North Carolina Education Lottery Commission meeting was held Tuesday, September 16, 2014 at 9:45am, at NCEL headquarters, located at 2100 Yonkers Road, Raleigh, NC.

Chairman Ballentine called the meeting to order and reminded the Commission that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature.

Chairman Ballentine presented the minutes from the June 3, 2014 Commission meeting. Hearing no suggested changes, Commissioner Daoud made a motion to approve the minutes as written and Commissioner Kirby seconded. Chairman Ballentine also presented minutes from the August 12, 2014 Commission meeting. Commissioner Daoud made a motion to approve the minutes and Commissioner Kirby seconded. Both sets of minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the financial report for the month of June 2014 and the twelve months of fiscal year 2014. In the statement of net position, June 2014 ended with total assets of \$105.8 million, which included \$21.2 million in cash and \$56 million in annuity award investments. Accounts receivable totaled \$22.1 million, of which \$22 million represents nine (9) days of net receipts from the gaming system to be collected via electronic funds transfer in July.

Total liabilities of \$105.8 million included \$50.5 million in outstanding prize awards and vendor accounts payable, \$56 million in long term annuity prize awards payable, and \$4.5 million due to the Education Lottery Fund.

In the statement of revenues, expenses and changes in net position, operating revenue for the month of June 2014 totaled \$151.3 million. Tickets sales for the month of June 2014 totaled \$150.8 million as compared to \$141.6 million in June 2013, a 6.6% increase or \$9.3 million. Net revenue earned for education in the month of June 2014 totaled \$42.3 million, a 14.3% or \$5.4 million increase over June 2013.

Total operating revenue for the twelve (12) months of FY2014 totaled \$1.84 billion. Tickets sales for the twelve (12) months of FY2014 totaled \$1.839 billion, an 8.85% increase over the twelve (12) months of FY2013. FY2014 sales finished 11% or \$182 million ahead of the budget target. Total gaming expenses including player prizes, retailer commissions and incentives and gaming system services and licenses for the twelve (12) months of 2014 totaled \$1.296 billion or 70.2% of total revenue. NCEL operational expenses including salaries and fringe benefits, advertising and marketing and operational overhead totaled \$44.4 million or 2.4% of total revenue and \$2.6 million under our original approved operational fixed budget of \$47 million.

Net revenue earned for the Education Lottery Fund for the twelve (12) months of FY2014 totaled \$503.1 million or 27.2% of total revenue, an increase of \$24.6 million or 5.1% over FY2013.

In June 2014, the NCEL initiated two transfers totaling \$121.5 million to the Education Lottery Fund and brought the FY2014 cash transfer to the State of North Carolina to \$525.8 million. As of June 30, 2014 the total amount of funds transferred to the state since the Lottery's inception is \$3.42 billion.

In the statement of net position, July 2014 ended with total assets of \$149.5 million. That includes \$72.4 million in cash and \$56 million in annuity award investments. Accounts Receivables totaled \$14.22 million of which \$11.2 million represents five (5) days of net receipts from the gaming system to be collected via electronic funds transfer in August.

Total liabilities of \$149.2 million included \$43.1 million in outstanding prize awards and vendor accounts payable, \$56 million in long term annuity prize awards payable and \$43.7 million due to the Education Lottery Fund.

Total revenue for the one month of fiscal year 2015 totaled \$150.6 million. Ticket sales for the one (1) month of fiscal year 2015 totaled \$150.1 million, a 3.4% increase or \$5 million over the one (1) month of FY2014. Net revenue earned for the Education Lottery Fund for the one (1) month of FY2015 totaled \$39.1 million or 26% of total revenue.

Mike Suggs, Director of Internal Audit presented the Audit report. Mike reported there are currently two audits being conducted. The instant inventory audit is 95% completed and the Advertising audit is 25% completed. Recent finalized audits included a tax, instant ticket validation, draw ticket validation and a MIS continuous monitoring. All audits resulted in minor changes to improve controls and effectiveness. Upcoming audits include: draw game (which will

include Powerball and Mega Millions, as well as NC draw games), promotional items, cash, EFT, accounts receivable, and an ES privileges consulting engagement with Security.

Security Audit updates should be completed by the end of the calendar year. Solicitation for a new contract will go out in December. Delehanty Consulting is currently under contract to perform our bi-annual performance audit as required by statute. This will begin at the end of September and should conclude by the beginning of December. A draft should be available by the end of November.

The NCEL has received SOC1 and SOC2 reports from GTECH and they will perform a SOC2 audit on an annual basis – a requirement that is not in our current contract with GTECH.

The Internal Audit department is currently working to contract with a company to perform a quality assurance review of the NCEL, which is required by the North Carolina Council of Internal Auditing.

Operations and Personnel Report

Commissioner Tyson provided an update on the organizational study. The study should be completed and ready for presentation at the December meeting.

Commissioner Tyson presented information to the Commission regarding a minor change to the previously adopted revision to HR Policy 4.15 Attendance and Leave. During the August meeting, a change to this policy was presented to the Commission that would allow employees who work at least 80% of their time between 3:00pm and 8:00am to be eligible for a shift differential pay equal to 5% of hourly wages. The Operations and Personnel Committee recommended to the full Commission that the policy should reflect employees who work 50% of their hours outside of the normal business hours. Commissioner Daoud made a motion to accept the change and Commissioner Kirby seconded. The motion carried.

Executive Director's Report

Jaime King Fuquay, Director of Government Affairs presented the annual report on Responsible Gaming. Over the past year, the NCEL has invested a lot of time and energy into Responsible Gaming. Ms. Fuquay informed the Commission that within the past few days, the NCEL was notified that level 3 certification was achieved from the World Lottery Association (WLA). There are only four (4) other US lotteries that have achieved level 3 certification: California, Indiana, Illinois and Kentucky. North Carolina is the youngest lottery to achieve the level 3 certification.

The NCEL is in the process of training all NCEL employees in the area of Responsible Gaming. Retailers will be trained as a part of their contract renewal process. New retailers are being trained as a part of the new retailer in-person training. Both retailer trainings commenced on October 1st. The North American Association of State and Provincial Lotteries covered the cost for both the employee and retailer training videos. These videos were originally developed by the NCEL and evolved into a NASPL funded project, in which all state lotteries have been given the opportunity to personalize the training videos for their own state. North Carolina was the first state to utilize these training tools.

Smith Worth, Program Administrator at the NCDHHS, Division of Mental Health, Developmental Disabilities & Substance Abuse Services, provided the Commission with an annual report on the NC Problem Gambling Program.

Frank Suarez, Jr., Deputy Executive Director of Brand Management and Communications presented the marketing and advertising update. The Golden 7's ticket was launched during the first quarter of FY15 and has been very successful. To save costs and refresh the "First Tuesday" advertising, a new ad was developed utilizing footage from previous ads. As a result of the First Tuesday strategy, scratch-off tickets that debut on the first Tuesday continue to be a big success. Support for core games continues with the new ads featuring the "Bucks" series of tickets airing soon. Highly successful back scratch feature has returned and is appearing on the new "Break the Bank" ticket. Players enjoy this feature. The Papa John's tickets will launch in October. This is a new licensing venture for the NCEL and an industry first. In addition to cash prizes, players can win Papa John's pizza prizes, funded by Papa John's not the NCEL. All or Nothing is performing very well in the first few weeks. The Monopoly Millionaires Club offers three (3) ways to win. North Carolina will have a one-time draw for \$1 million when the game launches in the latter part of October to drive buzz, awareness and trial.

Events update: For the first time in NCEL history, the NCEL will have a booth at the NC State Fair and one of our retailers will sell tickets. The NCEL will be the title sponsor of Military Appreciation Day.

The Lucke-Zone now has 500,000 members, with over 350,000 active members and growing.

Alice Garland presented the Key Performance Indicators and contracts over \$90,000.

Being no further business, the meeting was adjourned.



W. Keith Ballentine, Chairman

12-2-14

Date