

North Carolina Education Lottery Commission Meeting

Meeting Minutes
Tuesday, June 2, 2015

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

Commissioners not in Attendance: Alice Underhill

Staff in Attendance: Alice Garland
Jaime King Fuquay
Bill Jourdain
Frank Suarez, Jr.
Mike Suggs
Quan Kirk

The North Carolina Education Lottery Commission meeting was held Tuesday, June 2, 2015 at 9:30am, 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 also announced that roll would be called. Executive Director Alice Garland read the language in the Lottery statute regarding quorum and Teri Riddle called the roll. All Commissioners answered roll call except Commissioner Underhill.

Chairman Ballentine presented the minutes from the March 10, 2015 Commission meeting. Hearing no suggested changes, Commissioner Kirby made a motion to approve the minutes as written and Commissioner Shew seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the proposed FY15 operating budget for approval by the Commission. There were a few minor adjustments from what was presented at the May 2015 budget work session. After a brief discussion, Commissioner Tyson made a motion to approve the budget and Commissioner Kirby seconded. The Commission voted unanimously to approve the budget.

Mr. Jourdain also presented the financial reports for April 2015. In the statement of net position, April 2015 ended with total assets of \$163.9 million which included \$79 million in cash and \$61 million in annuity award investments. Accounts receivables totaled \$14.8 million, of which \$13.9 million in net receipts from the gaming system to be collected via electronic funds transfer in May and \$2.6 million from multi-state prize funds owed to the NCEL from MUSL for NC prizes won in Mega Millions and Powerball.

Total liabilities of \$163.9 million included \$54 million in outstanding prize awards and vendor accounts payable, \$61 million in long term annuity prize awards payable and \$42.9 million due to the Education Lottery Fund.

In the statement of revenues, expenses and changes in net position, operating revenue for the month of April 2015 totaled \$171.5 million. Tickets sales for the month of April totaled \$171.2 million, a 3.69% increase over the same time last year. Net revenue earned for education in April 2015 totaled \$43 million, a 0.47% increase over the same time last year.

Total operating revenue for the first ten (10) months of fiscal year 2015 totaled \$1.64 billion. Tickets sales for the first ten (10) months of fiscal year 2015 totaled \$1.637 billion; a 7.1% increase over the first ten (10) months of FY2014.

Net revenue earned for the Education Lottery fund for the ten (10) months of FY15 totaled \$428 million or 26.1% of total revenue, an increase of \$8.1 million over FY14. The total new revenue number through April 2015 is running -0.53% or \$2.3 million behind our FY15 budget target.

During the month of April, the NCEL transferred \$140 million to the Education Lottery fund. This transfer represented net earnings for the third quarter of FY15. This brings the total net proceeds transferred to the State of North Carolina since inception, to \$3.8 billion.

Mr. Mike Suggs, Director of Internal Audit, presented the internal audit reports:

- The MIS continuous monitoring audit is approximately 60% complete
- The HR, Payroll and Recruitment Audit has been completed
 - Minor risk items found – recommended changes have been put into place
- The Security Audit has been completed
 - Security camera concerns have been addressed and no audio is active on the cameras
 - Five (5) risk items were discovered and new procedures have been put into place
- Open Action items
 - Fourteen (14) of the last twenty-eight (28) audit recommendations have been completed
- Quality Assurance Review
 - Most items will be closed prior to the December 2015 Commission meeting
 - Internal Audit procedures book is being created
- Security Audit RFQ Update
 - The RFQ for the security audit was recently posted. The vendor will be selected soon and the required audit will be performed during the current calendar year
- Upcoming Audit Engagements
 - Prize Validation
 - Retailer Services and Retailer Licenses
 - Enterprise risk assessment

Operations and Personnel Report

Commissioner Jody Tyson provided information about amending NCEL policy: 4.20 - No Purchase, No Play, No Win. He asked Quan Kirk, General Counsel, to explain the policy in detail. Following an explanation of the policy, Commissioner Tyson made a motion to accept the changes and Commissioner Crowder seconded. The motion passed.

Commissioner Tyson shared that Caryl James, Director of Human Resources, would be retiring on June 30. He thanked her for her dedication and service to the NCEL and the state of NC. He announced that a new HR Director has been named. Marbet Cuthbert will begin transitioning into the position on June 15th.

Executive Director's Report

Frank Suarez, Deputy Executive Director of Brand Management and Communications presented the Brand Management quarterly report:

- New advertising agency staff introduced from the Mullen Lowe Group
- “One-off” has improved sales of Pick 3 and Pick 4
- Trucks and Bucks series of tickets launched in April and has provided incremental sales growth
- Money Mayhem series of tickets launched in May and have performed very well
- Easy Match promotion will begin in June called “EZ Double Days”
- Lucke-Zone membership has increased to 581,259 members - 75 million tickets entered into Lucke-Rewards
- FY16 game plan highlights
 - Monthly launch strategy to continue
 - Refresh First Tuesday campaign
 - \$30 Ticket with \$10 million top prize
 - “Bucks” core games refresh
 - Drive trial and awareness with draw game promotions
 - Allocate funds to support jackpot awareness all year long
 - Support Powerball with game changes, ongoing brand advertising and game promotions
 - Refresh Cash 5 with game changes that will drive renewed interest
 - Launch a new draw game with a new positioning within the portfolio

Jaime King Fuquay, Director of Government Affairs provided a Legislative update:

- The House approved \$22.2 billion budget
 - Lottery funding for Teacher Assistants to continue but not the level provided in FY15
 - \$2 million to ALE
 - Limits number of NCEL regional offices to Seven (7)
 - A budget amendment was offered on the House floor by Rep. Rick Glazier that would require state agencies to disclose how lottery dollars are distributed. This language was originally included in HB109 – Lottery Clarification Act (2015) and HB 156 – Honest Lottery Act (2013/14). The amendment passed unanimously.
 - 2% salary increase for state employees and five (5) days of annual leave
- Senate to release budget proposal next week
- HB30 Keeping Lottery Winners Confidential
 - Failed to pass the House Judiciary III committee

Alice Garland, Executive Director, presented the Executive update:

- \$520 Million return to education update
 - Unclaimed prize money will go towards goal
 - Monopoly game created gap
 - Other games and promotions added to generate revenue

Alice Garland presented the Key Performance Indicators and contracts over \$90,000. She also announced that the most recent annual report has drawn compliments from other lotteries.

Being no additional business, the meeting was adjourned.

W. Keith Ballentine
W. Keith Ballentine, Chairman

9/22/15
Date