



WYOMING LOTTERY CORPORATION

Board Minutes

April 23, 2015

BOARD MEETING – QUARTERLY MEETING
Best Western Dunmar Inn – Evanston, WY

Board Members Present:

Brian Gamroth-Chairman, Mark Macy-Vice Chairman, Erin Taylor-Secretary, Gerry Marburger-Treasurer, Dave Bonner, Sandi Chitwood, Jim Griffin, Ross Newman, and Jim Whalen.

Board Members Absent:

Staff Members Present:

Jon Clontz-CEO, Louise Plata-COO, Donna Dittimore-CFO, David Stevens-Security Manager, Justin Ballard-Sr. Research Analyst, Kayla Runkel-Product Marketing/Retail Specialist, and Alisha Pineda – Player Services/Administrative Assistant.

Guests:

Tom Kitts – GLI, Representative Jaggi, Michelle Panos – Governor’s Office, Representative Piiparinen.

Chairman Gamroth called the meeting to order at 9:07 a.m. with a roll call of board members and welcomed guests. Quorum was present. Motion made by Treasurer Gerry Marburger to approve the minutes with amendments from the January 27, 2015 meeting. The amendments were:

- On page 8, changed the word seize to cease.
- On page 6, under Problem Gambling section, changed the sentence to read debit/credit cards are not allowed.

The motion seconded by Board Member Sandi Chitwood and the motion passed by a unanimous 9/0 vote.

CEO Executive Update:

- Total Sales
 - The total sales from August 24, 2014 to April 21, 2014 is \$13,311,000.00
 - Powerball is \$7.8 Million.
 - Mega Millions is \$4.1 Million.
 - Cowboy Draw is \$1.3 Million.
 - Sales have declined recently in all three games and Powerball sales has experienced a decline throughout the country.
 - As a matter of routine to maintain sales, we have made sure our in-store marketing materials are maintained. The Lottery Service Representatives are

working with retailers on upselling. WE also implemented a buy one get one free Cowboy Draw ticket to boost sales.

- Lottery has direct competitors in a more assertive way that were not present before.
- Average weekly sales total is \$348,000.00 is above average weekly sales projections.
 - Projections were to average \$300,000 per week.
 - Lottery is doing everything that is reasonable and appropriate to make sure to keep an eye on sales and keep sales as a major forefront focus.
- Retailers
 - As of April 21, 2015, retailers have realized \$810,000 back through the retailer base as a result of their six percent (6%) sales commission and one percent (1%) validation commission.
 - This is a positive economic impact that sales are having across the state as well as a positive impact to the retailers.
 - The current retailer count is 441 active retailers, 1 pending and 1 in transfer.
 - We are currently five retailers less than previously reported.
 - One lost due to concerns the manager had regarding theft. It was an internal employee issue indirectly with lottery.
 - Another lost due to a saturation issue. Retailer had two stores with lottery equipment and lottery team tried to work with him on market strategy and selling and he decided that it was not doing the business as he had hoped and asked the equipment be removed.
 - Three had applied and gone through primary checks and were given the green light to participate in selling lottery products pending background investigation and they did not pass, as a result they were removed from our retailer list.
 - Lottery continues to accept and review lottery applications and expects final retailer count to be up to 450.
- Senate File 130
 - A bill proposed to formally add a statutory report out to the Travel, Recreational, Wildlife and Cultural Resources Committee (TRW).
 - Before legislation came forward, Wyoming Lottery Corporation has been voluntarily reporting to TRW.
 - This is in addition to Governor's Office, Department of Audit and the Interim Revenue Committee, that were previously required by statute, be given quarterly reports.
 - Four rounds of quarterly reports have been given to each of these agencies. Most have been done in person and a formal presentation has been given with provided materials to each agency.
 - Materials provided include report-out booklets, PowerPoint presentations and handouts.

- Next round of reports will be sent in paper form as requested and a formal presentation is not required.
- Audit
 - McGee, Hearne & Paiz will be conducting an audit starting in June. This will be the second third-party internal audit conducted by them.
 - This audit report is made available to the agencies that statute requires Lottery to report to.
 - This first audit outcome was positive and it is also available.
- Judiciary Committee Meeting
 - Wyoming Lottery was on the agenda for the Interim Judiciary Committee Meeting in Riverton, WY.
 - CEO was accompanied by COO-Louise Plata, Chairman Brian Gamroth, Treasurer Gerry Marburger, Board Member Jim Whalen and Lottery attorney Matthew Kaufman.
 - Wyoming Pari-Mutuel Commission was also on the agenda to report.
 - Lottery CEO was asked to be available after he reported to answer general gaming questions the committee may have after other entities report. Was also asked to attend other Interim Judiciary Committee meetings.
 - Lottery provided a lengthy PowerPoint presentation to the committee which was reviewed and approved by the Executive Members of the Wyoming Lottery Board.
 - The presentation was well prepared and accompanied by solid research and supported by facts.
 - Questions that were asked to CEO by individual committee members were answered on the spot and were general questions regarding retailers, sales and projections, etc.
 - Also in attendance were members of the Pari-mutuel Commission, Association of Music Operators of Wyoming (AMOW), tribal representatives, members from the problem gambling community and bingo play.
 - AMOW is an association with electronic dart machines, jukeboxes, etc., and they are feeling the impact of the Off Track Betting (OTB) machines by having to remove their machines out of establishments to make room for the OTB machines. They made a significant public comment after the pari-mutuel report.
 - The Judiciary Committee is looking at the totality of gaming in Wyoming.
- Legislative Update
 - Continuing to meet with as many legislators as possible to share updates about the lottery.
 - CEO has met with Senator Von Flattern, Senator Esquibel, Senator Christensen, and Representative Esquibel before the Judiciary Committee Meeting.

- These meetings were beneficial to have candid discussions regarding competition and other areas of concern.
- Governor
 - CEO had a meeting with Governor Matt Mead and gave an updated progress report.
 - Governor was very positive with the progress of the Lottery and seem to be pleased with how the Lottery progress and with the fact that it was carefully built, especially the consumer protection and security measures that have been implemented with technology, problem gambling and working with Department of Health.
 - The Governor did stress to the CEO that Lottery needs to maintain current focus and course of action and continue to build security, as we have, around any new games and continue to make the integrity of the technology, the Lottery and gaming system the number priority.
 - Chairman Gamroth and Vice Chairman Macy continue to communicate with the Governor's office often. This is the main source of communication between the Governor and the Lottery.
- Communication Strategy
 - CEO has asked for continued help from Laura Lewis and Jody Levine, Intralot Lobbyists.
 - This will consist on building a medium range strategy with Senators and Representatives across the state.
 - Will try to stay ahead of discussions for future Interim Judiciary Committee Meetings and beyond.

Financial Reports

- Quarter 3 Reports
 - Balance Sheet
 - Current assets: Cash available, Secondary Prize Fund amount, Prize Fund amount, Petty Cash, Restricted Fidelity Fund, Billing Deposit, prepaid insurance, prepaid gaming expenses, retailer accounts receivable, fixed assets and accumulated depreciation.
 - Secondary Prize Fund consists of 8.18% of sales that is set aside to fund the next jackpot. This is calculated into the 68% payout.
 - Total assets are \$1.1 Million.
 - Liability
 - Accounts payable is at \$48,000 which are expenses that were incurred to launch Cowboy Draw and now the invoices are becoming due.
 - Prize pool liability on low tier prizes on Powerball and Mega Millions, which are prizes due to the player, until they expire, that have not claimed their prize.

- Unclaimed prize money will be set aside and up to \$200,000 will be transferred to Department of Health to create treatment programs and policies for Problem Gambling.
 - Expired tickets
 - Players have 180 days after the draw to claim their prize.
 - Ticket stock at the beginning of sales was printed with one year to claim prize. This will be honored and has since been corrected.
 - Tickets sold between August 2014 and October 2014 will be honored to be claimed.
 - Actual expiration from November 2014, when corrected ticket stock was implemented, will be May 2015.
- Loan
 - As of March 31, 2015 the loan balance is \$1.7 Million.
- Revenue
 - Lottery has unearned revenues in the amount of \$427,880. These are gaming revenues we have received for future draws. It becomes revenue one the draw has happened.
 - Players can purchase up to 20 future draws and those sales do not become revenue until the draw happens.
 - As of March 31, 2015, Cowboy Jackpot was \$422,000.
- Federal Gambling Withholding
 - Any players who win \$5001 and over, 25% is withheld from winnings and transferred to the Internal Revenue Service (IRS).
 - Winnings over \$100,000 are remitted to the IRS the next day.
 - Winnings lower than \$100,000 are due to the IRS by the 15th of the following month unless otherwise determined by the IRS.
- Department of Family Services (DFS)
 - Any player who is in arrears on Child Support, those amounts are withheld from the winnings and transferred to DFS.
- Liabilities total \$3,073,000.
 - Retained earnings total -\$1.2 Million which is due to paying the loan which brings the current liabilities are at \$1.1 Million.
- Profit and Loss
 - Incoming revenues between January 2015 and March 2015 were \$5,003,000. \$6 Million was budgeted and were a little under on revenue but it is attributed to the Powerball and Mega Millions jackpots getting hit numerous times.
 - Sales are generated based on jackpot growth.
 - Other revenues are generated by the addition of new retailers.
 - Total costs of goods sold is \$3,939,000. \$4 Million was budgeted for this and it is under because it follows the cash.

- Total gross profit (operating revenues) between January 2015 and March 2015 was \$1.389 Million which 25% down from the \$1.8 Million that was budgeted.
- Expenses are right on track and are at 100% of what was budgeted for business expenses.
- Contracted services has used \$867,000 and \$1.4 Million was budgeted.
- Facilities and equipment is a negative number because these were transferred into Fixed Assets.
- Daily Operations has used \$24,000 and \$28,000 was budgeted.
- Personnel Salaries were \$237,000 and \$244,000 was budgeted.
- Net Ordinary Income totaled \$267,000.
- Interest on the loan was paid in the amount of \$9,233.
- Actual net income was \$258,000 which is less than the \$404,000 that was budgeted.

Motion made by Dave Bonner to accept the Quarter 3 Profit and Loss Sheet and Balance Sheet as presented by the Chief Financial Officer. Motion seconded by Treasurer Gerry Marburger and motion passed by a unanimous 9/0 vote.

Financial Projection

- Budget for Fiscal Year 2015
 - Revenues were budgeted up to \$18.5 Million.
 - Actual revenue, up to March 31, 2015 is \$11 Million.
 - Projected revenue for remainder of the year, is \$7 Million in the 4th Quarter and will bring revenues to \$18,729,000.
 - Costs of Goods Sold was budgeted at \$12.8 Million and is at \$8 Million.
 - Projected for Quarter 4 is \$5.2 Million.
 - Final projection will be \$13,342,000.
 - Net operating income for end of the year will be \$5.3 million and \$5.7 was budgeted.
 - Expenses are in line. These include new IT systems, marketing efforts and startup of new game. Budgeted \$1.3 Million, used \$954,000 up through 3rd Quarter. \$351,000 is remaining for 4th Quarter and will but us slightly under budgeted expenses.
 - Total received from Operations, because of Costs of Goods Sold, will be down \$288,000.
 - Loan interest will be paid in the amount of \$37,000 which will leave in arrears of \$325,000.
 - Began the year with \$1.2 Million that was drawn from the loan.
 - Up to March, \$784,000 has been paid on the loan principal.
 - \$441,000 is budgeted to pay on the loan by the end of the year which will total \$1.2 Million.
 - This will leave the year with -\$337,000 as projected.

- With the amount projected on the loan payoff will be in June 2016, which remains the same as before.
- Administrative Costs
 - Against revenues they are at 10%.
 - Against operating costs, they are at 32%.

Audit Engagement

- Internal Controls audit will begin in June.
- Operations audit will begin in August.
- Finally audit report encompassing everything will be available at the end of September.

Marketing

- Cowboy Draw
 - Launched a buy one get one free (BOGO) promotion on April 22, 2015.
- Powerball/Mega Millions
 - These games are not performing to expectations because of the jackpot rolls.
 - Powerball has not increased over \$80 Million in the last eight (8) weeks.
 - Mega Millions is finally on a roll and continues to increase.
 - 32% of revenues are generated from these two (2) games.
 - Promotion Concepts to increase players.
 - Every Nth
 - Every 100th Cowboy Draw ticket sold, player gets a Powerball/Mega Millions ticket for free, for example.
 - Looking at the cost and that the return on investment will be there.
 - Other options would be to be entered into a separate drawing. For example, every Nth ticket gets entered into a second chance drawing.
- All or Nothing
 - Expected target date to launch on Monday, September 14, 2015.
 - Daily draw game, Monday through Friday, with a capped jackpot of \$100,000.
 - Multiple winners can win the jackpot. If three (3) or more players win, the game becomes pari-mutuel. Total payout will not exceed \$200,000.
 - Players will pick eleven (11) numbers out of twenty-two (22).
 - If all 11 numbers match they win the jackpot.
 - If 0 numbers match they win the jackpot.

Motion presented by Board Member Dave Bonner to resolve into executive session to consider proprietary information. Motion was seconded by Board Member Sandi Chitwood and motion passed unanimously with a 9/0 vote.

The regular board meeting resumed and was called into session at 3:00 p.m.

Old Business

- Nothing Outstanding

New Business

- Motions to Approve
 - Authority to Transfer Funds
 - Motion presented by Vice Chair Macy, under this language, to approve the Board Chairman, Treasurer, Chief Executive Officer, Chief Operations Office and the Chief Financial Officer the authority to transfer funds from the line of credit into the Operating Fund. The approval includes the procedures as described by the Chief Financial Officer whereas, the CFO would be responsible for the operational transfers and only in extenuating circumstances as described in procedures, delegation of this activity would be applicable.
 - Motion seconded by Treasurer Gerry Marburger and motion passed with a unanimous 8/0 vote.
 - Administrative Rules
 - Motion presented by Treasurer Gerry Marburger that the Lottery update made to the Cowboy Draw Administrative Rules as described. The updates allow players more information regarding the rules of game play and specify regarding the opportunities of winning.
 - Motion seconded by Board Member Dave Bonner and motion passed with a unanimous 8/0 vote.
 - Internal Policies
 - Motion presented by Secretary Erin Taylor to delegate authority to the CEO of the Wyoming Lottery Corporation for approving Internal Policies as presented.
 - Motion seconded by Vice Chair Macy and motion passed with a unanimous 8/0 vote.
 - WLC Guiding Principles & Policies Handbook
 - Motion presented by Board Member Sandi Chitwood to accept the changes as presented in the Wyoming Lottery Corporation's Guiding Principles and Policies handbook.
 - Motion was seconded by Treasurer Gerry Marburger and motion passed with a unanimous 8/0 vote.
- Anonymous Letter Response
 - An anonymous letter written regarding alleged conflict of interest on the part of Secretary Erin Taylor, disclosed by Secretary Erin Taylor, was fully discussed in the light of the WLC's comprehensive conflict of interest policy and the Board determined it to be of no merit.

Board Member Ross Newman joined the call at this time.

- Board Meeting Scheduling
 - Special Board Meeting set for the afternoon on June 15, 2015 at 1:00 p.m.
 - The meeting will be set in Casper, but can attend by teleconference if need be.
 - This duration of this meeting should be about an hour and a half.

Motion presented by Chairman Gamroth to adjourn meeting. Motion to adjourn was seconded by Board Member Jim Whalen. Meeting was adjourned at 3:14 p.m.