

**Finance Committee
Special Meeting Minutes**

Held on
Thursday, February 18, 2016 at 1:00 p.m.

at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Committee Members: Patrick Birney, Chairperson of the Finance Committee (teleconference); Bob Morgan (teleconference); Kia Floyd (teleconference); and Jim Farrell (teleconference)

Board Members: Frank Farricker, Chairman of the Board (teleconference)

Staff Members: Anne Noble, President & CEO; Lana Glovach (teleconference); Paul Granato; Michael Hunter; Diane Patterson; Chelsea Turner; Cynthia Hadden; and Lila Call.

Call to Order: Mr. Birney called the meeting to order at 1:02 p.m.

I. Approval of Minutes:

On motion made by Mr. Farrell and seconded by Mr. Morgan, the minutes of the November 4, 2015 meeting were unanimously approved.

II. Review of Financial Statements for the Period ended December 31, 2015:

Mr. Granato began the meeting with an overview of the second quarter financials. Mr. Granato reported that the Lottery experienced the best quarter ever with \$299.9 million in sales.

Mr. Granato presented the following highlights:

Highlights - For 3 months ended December 31, 2015 (*Prior Year and Budget Comparison*):

- Total sales estimates (unaudited results are used throughout this report), for the quarter were \$299.9 million, an increase of \$12.1 million or 4.2% over the same period prior year and up \$8.5 million, or 2.9% compared to budget.
- This was the best quarter ever in terms of sales revenue which was attributed, in part, to low gas prices, great weather, and an excellent holiday portfolio of instant games. The largest contributors to overall sales performance were the

instant ticket portfolio and daily 3 / 4 games.

- Instant ticket sales totaled \$189.3 million in the second quarter compared to \$174.5 for the same period a year earlier, and up \$17.0 million compared to budget.
- The Daily 3/4 games sales totaled \$63.0 million in revenue, an increase of \$5.9 million from prior year and \$5.7 million compared to budget. That revenue equates to a 10% increase for the four daily game group from prior year and budget.
- The overall prize expense for the quarter totaled \$184.0 million, up \$4.2 million or 2.4% from this time last year, and up \$3.8 million or 2.1% compared to budget.
- Instant ticket prizes were significant to the overall prize total with \$130.4 million, up \$10.7 million from prior year and \$3.8 million compared to budget.
- The daily games saw a modest decrease awarding \$28.4 million in prizes, down \$400k from the prior year and \$100k from budget.
- Retailer Commissions for the quarter were \$16.7 million, exceeding the prior year by \$600k or 3.5%, and exceeding budget by \$100k or 0.8%.
- Vendor fees paid to Scientific Games were \$2.7 million during the quarter, matching the prior year and budget.
- Marketing and advertising expenses totaled \$2.8 million, down \$200k from last year and \$1.6 million below budget. The budget assumptions included a January launch of Keno now scheduled for April 6, 2016, due primarily to the timing and receipt of the memorandum of agreement, between the tribes and OPM.
- Production expenses totaled \$1.7 million, up \$200k compared to the prior year and flat to budget.
- Overall cost of sales totaled \$207.9 million, up \$4.9 million compared to last year and \$2.4 million compared to budget.
- Operating expenses for the quarter totaled \$5.5 million, up \$356k from last year which was primarily a result of wage and fringe benefit increases year over year. Salaries and benefits were up \$300k from the prior year. Other operating expenses were \$722k, an increase of \$49k from prior year. Depreciation was \$89.7k for the quarter which was down \$5.7k from prior year, and bad debt expense was \$69.8k up \$11.9k from prior year. Total operating expenses saw a decrease of \$279k compared to budget.
- General Fund transfers totaled \$87.3 million for the quarter, which is \$7.9 million ahead of the previous year, and \$8.5 million ahead of budget.

Highlights – For 6 months ended December 31, 2015 (*Prior Year and Budget Comparison*):

- Total sales were \$591.2 million, an increase of \$31.5 million or 5.6% over the same period prior year and up \$21.3 million, or 3.7% compared to budget.
- Instant ticket sales led the group with \$366.7 million for the six-month period compared to \$335.2 million for the same period a year earlier, and up \$334.8

million compared to budget. These equate to 9.4% ahead of the prior year and 9.5% ahead of budget.

- The Daily 3/4 games sales totaled \$124.3 million in revenue, which is an increase of \$11.7 million from prior year and up \$11.2 million compared to budget. That revenue equates to a 10% increase for the Daily 3 / 4 game group from prior year and budget.
- The prize expense for the six-month period totaled \$373.3 million, which was up \$28.3 million or 8.2% from this time last year, and up \$19.9 million or 5.6% compared to budget.
- Leading the pack again was the instant ticket portfolio with \$252.7 million in prizes awarded, up \$22.5 million from prior year and \$24.4 million compared to budget.
- The daily games awarded \$64.7 million in prizes, up \$13.0 million from the prior year and up \$8.7 from budget.
- Retailers earned a total of \$33.0 million in commissions thru December, which is \$1.7 million or 5.6% higher from prior year and up \$700k or 2.3% from budget.
- Vender fees paid to Scientific Games were \$5.5 million for the first six-months, up \$400k from prior year and up \$100k from budget.
- Marketing and advertising expenses totaled \$5.4 million thru December, which was down \$400k from the prior year and \$1.9 million below budget.
- Production expenses totaled \$4.4 million, flat to prior year and up \$500k to budget. This is, in part, attributed to the timing of instant game production.
- Overall cost of sales totaled \$421.6 million, which was up \$29.9 million compared to the prior year thru December, and up \$19.4 million compared to budget.
- Operating expenses for the six-month period totaled \$11.1 million, which was up \$569k from last year primarily a result of wage and fringe benefit increases year over year. Salaries and benefits were up approximately \$500k from the prior year, while other operating expenses were essentially flat compared to the prior year.
- Total operating expenses were \$635k below budget, due to fewer new hires and unexpected vacancies. Other operating expenses were lower by approximately \$100k resulting in a delay in the purchase of certain computer equipment, while we assess our technology needs.
- General Fund transfers totaled \$158.7 million thru December 31, which was up \$2.8 million from the previous year, and up \$5.1 million compared to budget.

There was discussion about the impact of the record-breaking Powerball jackpot for the third quarter, and predictions about future Powerball sales, vacancies, and bad debt.

There was some discussion about Keno. Ms. Noble explained the security and integrity of the Keno game takes precedence in the timing of the launch. The Lottery anticipates some variance in Keno related expenses such as advertising, marketing, recruitment, operational and equipment expenses, and hiring needs.

III. Executive Session:

On motion made by Mr. Farrell, seconded by Mr. Morgan, and unanimously approved, the Committee moved into Executive Session to discuss:

- Attorney/Client Communications Re:
 - FOIA

Ms. Noble, Ms. Patterson, Mr. Hunter, Ms. Glovach, Mr. Granato, and Ms. Turner were invited to stay for the Executive Session. The Committee reconvened in regular session at 1:50 p.m. Mr. Birney stated that no votes or actions took place during Executive Session.

IV. Old Business:

None.

V. New Business:

Mr. Granato reported on the status of the financial software system conversion. He explained that this will likely be pushed out to the first or second quarter of next year since both the Finance and IT Departments are focused on Keno.

There was some discussion about expenses to date on the project which have been modest.

VI. Adjournment:

On motion made by Mr. Farrell and seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 1:52 p.m.

Respectfully Submitted,

By: Paul A. Granato
Chief Financial Officer
Connecticut Lottery Corporation