

**Regular Meeting of Board of Directors  
New Mexico Lottery Authority  
January 14, 2019**

**MINUTES**

**Call to Order:** Board Chair Dan Salzwedel called the meeting to order at 1:04 p.m. and asked for a roll call. Present and constituting a quorum were: Amy Bailey, Aubrey McGowen, Dan Salzwedel, Sal Baragiola and Mark Koson via phone. John Kubiak and Paul Guerin absent.

Present from NMLA were; David Barden, Carolyn Cabell, Sylvia Jaramillo, Wendy Ahlm, Kevin Duda, Michael Boland, Karla Wilkinson and Wilma Atencio.

Also present were; Mary Stanford, promoted to General Manager with Intralot; Matthew Bone and Elizabeth Nunez with CliftonLarsonAllen, LLC.

**Approve Proposed Agenda:** D. Salzwedel entertained a motion to approve proposed agenda as presented. S. Baragiola made a motion to approve the proposed agenda; second by A. Bailey. Carried; 5-0.

**Approve Minutes of October 30, 2018 Board of Director's Meeting:** D. Salzwedel entertained a motion to approve the October 30<sup>th</sup> minutes. S. Baragiola commented that there was a lot of information provided at the last meeting and the complexity of it and wanted to thank the W. Atencio who did a good job in compiling the meeting minutes.

A. Bailey made a motion to approve the minutes; second by A. McGowen. Carried; 5-0.

**Public Comment:** None.

**REPORTS:**

**Finance Audit Committee:**

**FY 2018 Financial Audit – CliftonLarsonAllen:** S. Jaramillo introduced Matt Bone and Elizabeth Nunez from CliftonLarsonAllen, the Lottery's Independent Public Accountants, who will present the FY 2018 Financial Statements and Audit Report. Matt Bone provided a brief presentation on the released financial audit to the Board of Directors. M. Bone reported that the FY 2018 financial audit took place in August and the exit conference took place on October 10<sup>th</sup> with members of the Finance Audit committee and lottery management. The financial audit was submitted to the State Auditor on October 11<sup>th</sup> and released by the State Auditor's office on December 3, 2018 with a clean unmodified opinion on the financial statements. M. Bones stated that the financial results are consistent with the financial statements the lottery presents each month to the Board and overall the lottery has seen an increase from FY 2017 in its overall total net position (assets & liabilities), operating expenses, game expenses, operating income and a \$2 million increase to the lottery tuition fund. The lottery did see a decrease in its operating expenses.

M. Bone stated that a clean opinion is the highest level that an organization can receive. M. Bone stated that there were no difficulties encountered in performing the audit or working with management during and after the audit process. The audit was completed in accordance with auditing standards generally accepted in the USA and the standards applicable to financial audits contained in the Government Auditing Standards.

There was one non-compliance audit finding – Capital Asset Disposal. The non-compliance finding occurred when the lottery was in the process of trading in vehicles for newer vehicles and determined it

was more beneficial to sell the one vehicle than trading it in; however, there is a process that the lottery needed to follow by contacting the State Auditor's office at least 30 days prior to the disposition of that asset and that did not occur. The lottery was not in compliance with its Capital Asset Management Policy along with the audit rule. Lottery management will take corrective action by updating its Capital Asset Management policy to include new language on vehicle trade ins and approval by the Board of Directors. In addition, key personnel will review the Capital Asset Management Policy and ensure adequate procedures and approvals are in place prior to asset disposals.

M. Bone disclosed that the unclaimed prize fund (note 19 on page 43) had an increase of \$343 thousand to its fund from 2017 to 2018 - \$1,307,897 to \$1,651,204 and noted that the unclaimed prize fund have already been committed and continue to supplement prizes on instant games and continue to be a portion of the thirty percent return to the legislative lottery scholarship fund.

D. Salzwedel restated that the principal reason the increase in revenue is due to the significant jackpot run ups the lottery has had. M. Bone stated that is correct.

D. Salzwedel requested that the Financial Highlights on Page 4 of the FY 2018 Financial Statements be included in the meeting minutes.

#### **FINANCIAL HIGHLIGHTS**

- At the end of fiscal year 2018, the Lottery's total current assets increased by \$905,887, or 10.1%, whereas at the end of fiscal year 2017, the Lottery's total current assets decreased by \$1,808,427, or (16.8)%, in comparison to June 30th of each previous fiscal year.
- Compared to the end of the two preceding fiscal years, the Lottery's total current liabilities increased by \$981,638, or 10.9%, in fiscal year 2018, and decreased by \$2,752,050, or (23.4)%, in fiscal year 2017.
- In fiscal year 2018, total net ticket sales were \$134,029,109, an increase of \$7,987,845, or 6.3%, compared to the previous fiscal year. In fiscal year 2017, total net ticket sales were \$126,041,264, a decrease of \$28,303,504, or (18.3)%, compared to net sales of \$154,344,768 in fiscal year 2016.
- From the prior fiscal years, total game expenses increased by \$6,358,395, or 7.6%, in fiscal year 2018, and decreased by \$19,195,673, or (18.6)%, in fiscal year 2017.
- Total operating expenses increased by \$105,147, or 3.4%, in fiscal year 2018, and decreased by \$520,273, or (14.2)%, in fiscal year 2017, each in comparison to the previous fiscal year.
- Non-operating income (expense) decreased by \$13,824, (62.5)%, and \$2,100, (8.7)%, in fiscal years 2018 and 2017, respectively, compared to each preceding fiscal year.
- In fiscal year 2018, net income was \$40,486,983, an increase of \$1,488,524, or 3.8%, over fiscal year 2017's net income. Whereas, in fiscal year 2017, net income was \$38,998,459, a decrease of \$8,566,698, or (18.0)%, compared to the previous fiscal year's net income of \$47,565,157.
- Beginning July 1, 2007, the Lottery was required by the New Mexico Lottery Act to transmit at least twenty-seven percent of its gross revenues to the State of New Mexico and then at least 30% beginning in January 2009. In each fiscal year of 2018 and 2017, the Lottery transmitted 30.00% in net return to the State. In addition, in each of the last two fiscal years, the Lottery met the 30% required gross revenue return each month.
- Including the final transfer on July 31, 2018 of June 2018's net return; the Lottery has transferred \$778,934,897 to the State of New Mexico since the commencement of sales in April 1996.

D. Salzwedel complimented management and staff for its continued diligence and great job they continue to do in this process.

A. McGowen made a motion to approve the FY 2018 Financial Audit as presented; second by S. Baragiola. Carried; 5-0.

**Capital Asset Management Policy Revision:** D. Salzwedel reported that this item was reviewed and vetted at the Finance Audit committee. S. Jaramillo reported that the lottery is requesting approval for changes to the Capital Asset Management Policy to address the finding in the audit report, added language and substantive editorial changes. The changes are:

- Page 3, new language added to clarify property, plant and equipment and cleaned up some language in the policy.
- Page 6, removed tenant improvements, since we now own this building rather than leasing it and no longer have tenant improvements.
- Page 7, Trade-in, Transfer, or Disposal of Assets, the lottery has added the first sentence to the policy that now reads “New Mexico Lottery vehicles will only be traded in on the purchase of other vehicles, unless otherwise approved by the New Mexico Lottery Authority Board of Directors.”

D. Salzwedel asked that the major change was due to the request from the FY 2018 Financial audit. S. Jaramillo stated that was correct.

A. McGowen made a motion to approve the Capital Asset Management Policy as submitted; second by D. Salzwedel. Carried; 5-0.

**Financial Statements:** S. Jaramillo reported on the November 2018 financials. For November 2018, the New Mexico Lottery has returned more than \$3,031,000 to the Legislative Lottery Scholarship program. With this transfer, we have transferred nearly \$18.7 million to the scholarship fund. The lottery has met the statutorily required 30% return. However, for FY 2019 the lottery has used \$1,065,700 in unclaimed prize funds to meet the 30% return in 4 of the 5 months of the year. During the last 11 years and five months, we have used unclaimed prizes over 83.21% of the time to meet the mandated return (114 out of the 137 months) during this time. Without the unclaimed prize fund, the lottery would not have met the 30% mandate.

The net income for the fiscal year is \$3.5 million more than the FY 19 YTD budget or 23.32% more, but only \$2.2 million more than the same period in fiscal year 2018 – a 13.19% increase over last fiscal year. This increase in transfer is mainly due to sales from the \$1.5 billion Mega Millions jackpot in October and the sales from the \$687 million Powerball jackpot in October. Together it helped double sales for the month to \$21.8 million dollars.

With the transfer for November, we will have returned nearly \$800 million to the State of New Mexico for education. We are \$2.4 million short of this milestone, which we will make with December’s transfer in January.

Net instant ticket sales through November 2018 (after deducting prize, spoiled and stolen tickets) were approximately \$29.19 million, whereas YTD Net Instant Sales through last November were approximately \$29.2 million – a decrease of \$12,600 this year. Scratcher sales were flat compared to last year. Net Instant sales for the first five months surpassed the FY 19 YTD Budget by \$985,000.

Net drawing game sales for the first five months were approximately \$33 million. Net drawing sales ended approximately \$9.9 million more than the YTD 2019 Budget or 43.17%, but they were nearly \$7.3 million more than net drawing sales for the same five months in fiscal year 2018 or 28.26% more than the \$25.7 million drawing game sales in fiscal year 2018.

Powerball sales were nearly \$2.2 million less than last year while Mega Millions sales were nearly \$9.6 million more than last year.

In 2018, Powerball had two jackpots, one at \$245.6 million and the other at \$687 million. In 2017, the Powerball jackpot rose to \$758.7 million.

In 2018, there were two Mega Millions jackpots, one at \$543 million and in October we had the \$1.5 billion jackpot. In 2017, Mega Million only had one jackpot that reached \$393 million.

Powerball sales are still less than the YTD budget, but due to Mega Millions sales with the two jackpot run-ups, we have stayed well ahead of the YTD budget during the first five months.

Roadrunner Cash sales were nearly \$270,000 more than last year. Lotto America, which launched in November 2017, sold nearly \$1.5 million more this year, while Hot Lotto which ended in October 2017 is zero this year – a net difference between the two games of over a half-a-million dollar decrease (\$513,526). Pick 3 sales are nearly \$467,000 more than the YTD budget and \$93,000 more than last year.

The Pick 4 game has not yet launched.

Altogether, Total net sales for November 2018 were nearly \$62.2 million, which were \$10.7 million more than the FY 18 YTD Budget or 20.81% more and \$7.2 million more than last November or 13.21% more.

Total Game Expenses ended November at 119.57% of the YTD Budget—while total operating revenues ended at 120.83% of budget—tracking close to each other.

Total Operating expenses ended November at 3.60% of Gross Revenues. Each line item of Operating expenses for this fiscal year are being held as much as possible and are less than budgeted amounts.

D. Salzwedel asked if the revenues are substantially made up, due to Mega Millions. S. Jaramillo reported correct. S. Jaramillo reported that Powerball sales haven't reached budget yet, they're at 98%, while Mega Million sales are over budget because of the \$1.5 billion jackpot.

D. Salzwedel stated the new game Lotto America didn't perform at the same level as Hot Lotto. What was the timeframe of those two games. Both D. Barden and S. Jaramillo reported that Lotto America came in mid-year, so the numbers aren't going to match up. Hot Lotto ended with a jackpot that hadn't been hit in 2.5 years. The jackpot amount was transferred to Lotto America and soon after, the jackpot was hit. There have been a couple of jackpots hit for Lotto America. D. Barden reported that Hot Lotto was a change out game due to issues within Hot Lotto. It changed from a cash jackpot to an annuity-based jackpot for advertising purposes. S. Jaramillo reported as we see the jackpot grow for Lotto America, the sales will start going up.

D. Barden stated in theory, the billion-dollar jackpot occurs every 10-15 years, statistically speaking. The year before, we had 5 of the top jackpots we've ever had.

S. Baragiola stated that it is interesting to hear and see these strong numbers due to Mega Millions sales this year and to wonder what the numbers would be if we didn't have the jackpots. The lottery would be hurting. S. Jaramillo agreed and reported that when the lottery did the test period of increasing the prize payout, we did well and when we come back down from the higher prize payout, the sales are flat, and we count on the online jackpots to bring in those sales. However, jackpots are unpredictable and cannot be counted on to sustain sales. S. Baragiola stated this brings "jackpot fatigue" back to the forefront. D. Barden stated that the lottery tracks both jackpots and it takes roughly a \$500 million jackpot for players to start purchasing. MUSL is looking at an international game to add to its portfolio.

M. Koson wanted to comment on two items. 1. He's impressed with Roadrunner Cash sales – almost a 10% increase. 2. As we try to change our business model and why we need to change, the Instant ticket sales are always going to be stale unless we can change the prize payouts. You can see everything else going up and down thanks to the runups. The numbers aren't going to change and for the lottery to wait and see if there will be runups from year to year is not how you run a business.

D. Salzwedel concurred and stated that is not a good business model.

**Procurement Process Engagement:** D. Salzwedel reported that this item was reviewed and vetted at the Finance Audit committee meeting with a recommendation to approve. M. Boland reported that the CEO requested Internal Audit to review the lottery's procurement process and offer recommendations to enhance the efficiency and effectiveness of the process, which Internal Audit has done. Internal Audit has 5 recommendations to offer best practice recommendations/suggestions to enhance current controls or business practices. These recommendations/changes to the procurement process will significantly improve operations to better meet lottery goals and objectives while adhering to the general principles of the NM Procurement Code and coincide with the newly update Purchasing Policy.

D. Salzwedel reported the caps, credit cards and controls that are in place were discussed at the committee meeting. This initiative was brought forth by the CEO and the individuals involved will still maintain controls, integrity and responsibilities set forth by the procurement code. The process will be more fluid now.

A. McGowen made a motion to approve the Procurement Process Engagement as presented; second by D. Salzwedel. Carried; 5-0.

**NMLA Credit Cards and Expense Reports Review:** D. Salzwedel reported that this item was reviewed and vetted at the Finance Audit committee as well with a recommendation to approve. M. Boland reported that the NMLA Credit Cards and Expense Reports review is part of the FY 2019 Audit Plan and last tested in FY 2012 and a significant amount of time has passed that makes it worthy to review this process again. The objective was to ensure the credit cards are used according to company guidelines, credit cards are being turned in for processing according to guidelines, and that internal controls and accounting procedures regarding credit cards and expense reports are efficiently designed and operating effectively. Internal Audit is happy to report that there are no exceptions or recommendations. The process is tight; controls are in place and being managed well by the administration department. M. Boland reported that S. Jaramillo and her team do an impeccable job of controlling credit cards and processing them.

A. McGowen made a motion to approve the Procurement Process Engagement as presented; second by D. Salzwedel. Carried; 5-0.

**Financial Audit Services RFP:** D. Salzwedel reported this item was discussed at the committee meeting. D. Salzwedel advised that with a new administration in place there may be changes forthcoming which may or may not affect this request by Internal Audit. M. Boland reported that this is an information item only and reported that the lottery goes out to for RFP for Financial Audit Services every three years and in FY 2019, the lottery will issue an RFP for Financial Audit Services once we get approval from the State Auditor's office. M. Boland reported that the RFP will be issued sometime in late March and has requested two members of the Finance Audit committee to serve on evaluation committee. The evaluation will take place in May. An audit firm must be selected and approved by the State Auditor by June 1st.

D. Salzwedel reported that he and A. McGowen will volunteer and participate in the upcoming Financial Audit services RFP evaluation committee pending no changes to the Board of Directors.

**Other:** None.

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**CEO, David Barden:**

**Open Meetings Notice Resolution:** D. Barden reported that the Open Meetings Notice Resolution is a document that the lottery follows when conducting Board and Committee meetings in accordance with law and as dictated by the Open Meetings Act. This document needs to be adopted annually by the Board of Directors. D. Barden requested the Board to adopt this document.

D. Salzwedel entertained a motion to approve the Open Meetings Notice Resolution. S. Baragiola made a motion to approve the Open Meetings Notice Resolution as submitted; second by A. Bailey. Carried, 5-0.

**Marketing Update:** W. Ahlm presented a Marketing Presentation “Winning” and highlighted areas of media value, media plans, loyalty program, and the marketing/creative lottery team. This update was an update for Board members to see and hear the lottery’s marketing platform of what has transpired in the last year and what is in store in the upcoming months. Each year the marketing department is tasked with maximizing our media spend with cost savings, low or no-charge sports and added value elements. Over the last five years, the lottery has nearly doubled the value of its advertising dollars with cost savings and added value spots – increasing \$10 million spend to a value of more than \$19 million.

D. Salzwedel asked of the \$19 million that’s been saved, how much of that is in kind. W. Ahlm reported about \$8.9 million is free spots and cost savings. D. Salzwedel reported that is a good business model. The rest of the Board agreed.

S. Baragiola left meeting at 2:08 p.m.

**General Update - CEO:** D. Barden reported that he has been working with a colleague on some approaches for how you deal with your staff and what you do, your mindset and change. The biggest obstacle anybody encounters is change in business and some people are slow in coming along. D. Barden reported that his colleague shared some information regarding his approach and they both came up with 4 points for shared value.

1. DON’T lash out at a co-worker –EVER.
2. Remember, the proper game to play is the long game.
3. It is important to get along with everyone.
4. We need each person to actively get better every day.

And you need to think about your strategic mindset of what you’re doing. If we can change the approach a person takes in their mindset about projects, we can create fundamental change.

Another quote that D. Barden likes and adheres to is “Don’t let what you cannot do interfere with what you can do” by John Wooden.

D. Barden reported as we get into a new year, this is what he’s going to preach to his staff a quote from Fortune 500: “The manager administers, the leader innovates. The manager maintains, the leader develops. The manager relies on systems, the leader relies on people. The manager counts on controls, the leader counts on trust. The manger does things right, the leader does the right thing.” D. Barden reported that it is his job to push people into levels they’re not comfortable with to make them excel at their jobs and how we look at things. This year will be a year of Change!

D. Barden stated that in his office, on his white board he has written “Change is Inevitable” and in the business world and life this is a true statement. D. Barden stated that they all joked earlier about lottery heaven and the future is unknown at this time for the Board of Directors and possibly his position, but they have accomplished many things – they have saved a lot of money, put more money in the fund than would’ve been there - \$15 million more due to lottery’s advertising strategies that was mentioned in the presentation over the course of 5 years. One should never get comfortable; if you’re comfortable, then perhaps you should be doing something else. It’s the same thing for a lottery director – you have to think

how you can do it, how can you do it better and leave it better for the next generation. A leader has to think about where you're going and what you have to do along the way to get there. This brings us to the 30% mandate and the lottery working hard to eliminate it for the past 5 years; we may have a good chance this year. The lottery is going to be more accountable. As you know, the lottery is very fiscally prudent; we do a good job and S. Jaramillo's group does an excellent job. We have to step up and put more on the line to accomplish our goals. This is the year of change.

D. Barden provided the Board with an updated "Dollar" slide of where the money goes and pointed out the administrative costs from fiscal year to fiscal year and also noted that this slide shows that every time prizes go up, the dollars to the students go up.

D. Salzwedel thanked the CEO and appreciates what he has accomplished. And whatever happens with the Board, he and others that have been served for quite some time, have had a winning experience and enjoyed their time with the lottery.

A. Bailey stated that Wendy Alhm does an outstanding job. In the 8 years she has served on the Board, the marketing team has done a phenomenal job in moving the marketing, advertising and social media platforms in the right direction with great success.

M. Koson stated if there was a lottery hall of fame, David should be part of it. David does an amazing job, he's a great leader and he is proud of the CEO's efforts and thanked him for job well done.

A. McGowen stated you're only as good as your leader. The lottery has good people and a good leader.

D. Salzwedel thanked Carolyn, Sylvia and staff. S. Jaramillo thanked her staff.

**Other:** None.

**Announcements:** D. Salzwedel reported that Senator Candelaria will sponsor a legislative bill for the 2019 Session. D. Salzwedel also reported that John Kubiak has resigned. D. Salzwedel thanked the full Board for their continued support and work.

**Other Items:** None.

**Adjournment:** D. Salzwedel entertained a motion to adjourn. A. Bailey moved to adjourn the meeting; second by A. McGowen. Carried; 4-0. The meeting adjourned at 2:32 p.m.

  
 Dan Salzwedel, Chairman  
 Date: 4-2-19

  
 Amy Bailey, Secretary/Treasurer *VICE CHAIR*  
 Date: 4-2-19