

**NEW MEXICO LOTTERY AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015 and 2014**

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

New Mexico Lottery Authority

**OFFICIAL ROSTER**

June 30, 2015

**BOARD OF DIRECTORS**

Dr. Dan Salzwedel	Chairman
Mark Koson	Vice Chairman
John Kubiak, CPA	Secretary/Treasurer
Amy Bailey, Esq.	Asst. Secretary/Treasurer
Claude Austin	Member
Salvatore Baragiola	Member
Dr. Paul Guerin	Member

**OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY**

David M. Barden, Esq.	Chief Executive Officer
Sylvia A. Jaramillo, CPA	Chief of Staff/Director of Administration
J. Vince Torrez	Executive Vice President for Security
Karla Wilkinson	Director of Gaming Products
Evelyn McKnight	Director of Human Resources
Wendy Ahlm	Director of Marketing
David Ramirez	Director of MIS
Pam Poteat	Director of Sales

## **ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY**

As per the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, the New Mexico Lottery Authority (the Lottery) is governed by a seven-member Board of Directors (Board or Directors), who provide the Lottery with the private-sector perspective of a large marketing and sales enterprise in order to maximize revenues for the Legislative Lottery Scholarship.

The Directors are residents of New Mexico appointed by the Governor with the advice and consent of the Senate. The Directors are prominent persons in their businesses or professions and geographically represent the State of New Mexico. No more than four Directors are from any one political party. The Directors receive no compensation for their services, but are reimbursed for approved expenses incurred in the conduct of the Lottery's business. Each Director is subject to a background check and investigation to determine his/her fitness for the office. At least one Director has five years of experience as a law enforcement officer, one Director is an attorney admitted to practice in New Mexico, and one Director is a Certified Public Accountant certified in New Mexico. The Directors serve for a five-year term, but can be reappointed by the Governor. The Board selects a Chairman, a Vice-Chairman, a Secretary/Treasurer, and an Assistant-Secretary/Treasurer each fiscal year. The Chairman also appoints a Chairman and two Directors for each of the three standing committees of the Board; the Finance/Audit Committee, the Security/Operations Committee, and the Personnel Committee. The Directors appoint the Chief Executive Officer (CEO) and prescribe his qualifications, duties and salary, and with the recommendation and assistance of the CEO, employ an Executive Vice President for Security and an Internal Auditor. The Directors meet at least once each quarter, and more often as needed. At their meetings the Directors:

- adopt, amend, or repeal rules, policies and procedures necessary for the operation of the Lottery;
- approve, disapprove, amend, or modify the original budget for the succeeding fiscal year and any revised budget during a fiscal year;
- review and discuss current financial information and the Lottery's performance to the approved budget for the fiscal year;
- approve or disapprove all procurements over seventy-five thousand dollars and the resulting award of contracts;
- approve the financial audit contract after (or pending) Office of the State Auditor (State Auditor) approval, hold an audit exit conference with the independent public accountants (IPA) at an executive session of the Board or in the Finance/Audit Committee, and at an open meeting accept the fiscal year audit following release by the State Auditor and presentation by the IPA;
- listen to and discuss Lottery updates on sales, games, issues, etc.;
- review, discuss, and accept internal audit reports; and
- discuss, and when necessary, approve or disapprove other matters that should properly come before the Directors in their fiduciary duty for the efficient and effective operation, profitability, integrity, and security of the Lottery.

## **ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED**

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees.

The Administration Division, under the direction of the Chief of Staff/Director of Administration, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; retailer accounts receivable and debt collection; capital asset accounting; game accounting; payroll and benefit accounting, payment, and review; and tax reporting and payment. In addition, the division provides financial reporting, disclosure, and compliance with generally accepted accounting practices and budget compilation, including the quarterly and annual financial reporting of revenues, expenses, and net revenues to the State of New Mexico; the financial audit and related compilation of financial statements, related notes, and the Management's Discussion and Analysis (MDA) for the fiscal year; the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year and the final proposed budget by division for Board of Directors' approval. Furthermore, the division is responsible for the procurement of materials and services; claims center payment of prizes and sales of tickets; and accounts payable. The warehouse component of the Administration Division is responsible for the packing and shipment of the Lottery's instant scratcher tickets and for the maintenance and shipping of Lottery premium and point of sale items. The division is also responsible for the management of building and grounds maintenance and vehicle fleet operations and maintenance. In addition, the management of the lottery's network is overseen by the Administration division.

Gaming Products, under the direction of the Director of Gaming Products, manages and monitors the instant and on-line products, including such areas as game launches, game endings, and performance analysis using several key performance measures. In addition, Instant ticket printing and on-line services contracts are managed by the Director of Gaming Products.

The Human Resources Division, under the direction of the Director of Human Resources, oversees the development and implementation of human resources policies, programs and services, including recruitment, selection, retention, legal compliance, employee benefits, employee insurance reconciliation, employee relations, employment practices and procedures, employee communications and employee events.

The Internal Audit Department, under the direction of the Internal Auditor, conducts and coordinates comprehensive audits for all aspects of the Lottery as spelled out in the New Mexico Lottery Act. Audits are carried out pursuant to an annual audit plan that is approved by the Board of Directors and as may be requested by the CEO.

**ORGANIZATIONAL DIVISIONS  
OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED**

The Marketing Division, under the direction of the Director of Marketing, is responsible for implementing, managing and administering the activities associated with marketing the Lottery and its products, including advertising, television drawings, promotions and special events. This entails creating and producing multi-media advertising campaigns, in-store point of sale materials and player and retailer publications; as well as negotiating and overseeing the Lottery's participation in a number of statewide promotions and special events. In addition, within the Marketing Division is communications, which is responsible for all aspects of corporate communications including creating news releases and responding to requests for information by the public and the media.

The Management Information Systems (MIS) Division, under the direction of the Director of MIS, performs all the activities associated with the systems and data processing functions of the Lottery, including instant ticket transaction processing, back office functionality, order and distribution systems, financial applications, retailer network support, game management, monitoring of game activities and draw game vendors, and providing data and analysis to divisions.

The Sales Division, under the direction of the Director of Sales, is responsible for developing and implementing all sales activities and programs for the Lottery, including retailer visits, customer relationship management, ticket sales, inventory management, point of sales material distribution, retailer recruitment, retailer installations, promotional and event participation and preparation, as well as maximizing sales initiatives.

The Security Division, under the direction of the Executive Vice President for Security, statutorily as a law enforcement agency is responsible for administering, enforcing and ensuring compliance with the security provisions of the New Mexico Lottery Act. The division conducts backgrounds of all prospective employees, lottery retailers, lottery vendors and lottery contractors. It also supervises ticket verification and conducts second chance drawings when the prize amount is more than \$5,000. The division functions as liaison among the Attorney General's Office, District Attorney Offices and law enforcement agencies in general. It is also responsible for building and employee security and safety.

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
New Mexico Lottery Authority  
and  
Mr. Timothy Keller  
New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the State of New Mexico Lottery Authority (Lottery), a component unit of the State of New Mexico, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statements and the schedules of percentage return to the State of New Mexico presented as supplementary information in the accompanying financial statements as of and for the years ended June 30, 2015 and 2014, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control.

Board of Directors  
New Mexico Lottery Authority

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the Lottery as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the budgetary comparison statements and schedules of percentage return to the State of New Mexico for the years ended June 30, 2015 and 2014 in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, on pages 4 through 26, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Board of Directors  
New Mexico Lottery Authority

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The budgetary comparison statements and schedules of percentage return to the State of New Mexico are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison statements and schedules of percentage return to the State of New Mexico are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison statements and schedules of percentage return to the State of New Mexico are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 20, 2015

## New Mexico Lottery Authority

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis of the New Mexico Lottery Authority (Lottery), offers readers of the Lottery's financial statements a narrative overview and analysis of the financial activities of the Lottery for the fiscal years ended June 30, 2015 and 2014 with comparative numbers for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements, which begin on page 26.

#### FINANCIAL HIGHLIGHTS

- At the end of fiscal years 2015 and 2014, the Lottery's total current assets decreased by \$4,430,614, a 29% drop, and increased by \$971,072, a 6.8% increase, in comparison to June 30<sup>th</sup> of each previous fiscal year.
- Compared to the end of the two preceding fiscal years, the Lottery's total liabilities decreased by \$1,928,668, (12.2)% at the end of fiscal year 2015 and increased by \$902,613, 6.0% at the end of fiscal year 2014.
- In fiscal year 2015, total net ticket sales were \$137,016,723, an increase of \$1,014,119, a 0.7% increase from the prior year. In fiscal year 2014, total net ticket sales were \$136,002,604, a decrease of \$5,755,918, (4.1)%, compared to total net ticket sales of \$141,758,522 in fiscal year 2013.
- From the prior fiscal years, total game expenses increased by \$1,276,204, or 1.4%, in fiscal year 2015, while total game expenses decreased by \$3,441,051, or (3.7)%, in fiscal year 2014.
- Total operating expenses decreased by \$182,933 or (3.5)%, in fiscal year 2015, whereas operating expenses increased by 3.2% or \$160,483 in fiscal year 2014, each in comparison to the previous fiscal year.
- Non-operating income (expense) decreased by \$5,704, (17.6)%, and by \$14,659, (31.2)%, in fiscal year 2015 and 2014, respectively, compared to each preceding fiscal year.
- Net income in fiscal year 2015 was \$41,121,221, a decrease of \$87,329, or a 0.2% decrease, compared to the previous fiscal year. Net income in fiscal year 2014 was \$41,208,550, a decrease of \$2,476,131, a (5.7)% decrease, compared to the previous fiscal year's net income of \$43,684,681. 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 fiscal year 2015, the Lottery transmitted 30.00% in net return to the State, while in fiscal year 2014, the Lottery transmitted 30.09% in net return to the State. 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, 2015 of June 2015's net revenues (net income); the Lottery has transferred \$654,556,298 to the State of New Mexico since the commencement of sales in April 1996.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery was established in 1995 as a public body, politic and corporate, separate and apart from the State of New Mexico and constituting a governmental instrumentality and, therefore, is accounted for as such, reporting all of the Lottery's assets and liabilities using the accrual basis of accounting, much like any private-sector business entity. Since the Lottery is a component unit of the State, the Lottery's financial statements are incorporated into the State of New Mexico's Comprehensive Annual Financial Reports.

This report consists of four parts—the Management's Discussion and Analysis (this section), the basic financial statements, including the notes to the financial statements; required supplementary information, the Budgetary Comparison Statements, and supplementary information, the Schedules of Percentage Return to the State of New Mexico.

**Financial Statements.** The Statements of Net Position on Page 26 and the Statements of Revenues, Expenses, and Changes in Net Position on page 27 report the Lottery's assets, liabilities, revenues and expenses in comparative format for fiscal year 2015 and fiscal year 2014. The Statements of Cash Flows on pages 28 and 29 report the sources and uses of cash for fiscal years 2015 and 2014. The Statements of Fiduciary Net Position on page 30 and Statements of Changes in Fiduciary Net Position on page 31 report the balances and activity of the Lottery's Retirement Plans for fiscal years 2015 and 2014.

**Notes to Financial Statements.** The Notes to Financial Statements on pages 32 to 52 provide additional information that is essential for a full understanding of the financial statements and provide more detailed data.

**Budgetary Comparison Statements.** The Budgetary Comparison Statements on page 53 show the variances between the budgets and actual Lottery performance.

**Schedules of Percentage Return to the State of New Mexico.** The Schedules of Percentage Return to the State of New Mexico on page 54 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2015 and 2014 in compliance with the New Mexico Lottery Act.

To assess the Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in the components of assets and liabilities as set forth in the Statements of Net Position; in changes in total revenues, game expenses, operating expenses, non-operating income (expense) and net income as set forth in the Statements of Revenues, Expenses, and Changes in Net Position; and in the sources and uses of cash as set forth in the Statements of Cash Flows.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS**

**Total Net Position**

At the end of fiscal years 2015 and 2014, the Lottery's net position was \$267,000.

**Total Assets**

Table 1  
Total Assets

	2015	2014	2013	Increase (Decrease) \$ Change 2014 to 2015	Increase (Decrease) % Change 2014 to 2015	Increase (Decrease) \$ Change 2013 to 2014	Increase (Decrease) % Change 2013 to 2014
Cash and cash equivalents	\$ 5,515,045	\$ 10,280,672	\$ 9,340,237	\$ (4,765,627)	-46.4%	\$ 940,435	10.1%
Accounts receivable, (net of allowance for doubtful accounts)	1,586,110	1,326,831	1,371,427	259,279	19.5	(44,596)	(3.3)
Reserves on deposit	3,420,292	3,431,968	3,405,568	(11,676)	(0.3)	26,400	0.8
Inventory	162,024	122,891	36,964	39,133	31.8	85,927	232.5
Prepaid expenses	156,355	108,078	145,172	48,277	44.7	(37,094)	(25.6)
<b>Total current assets</b>	<b>10,839,826</b>	<b>15,270,440</b>	<b>14,299,368</b>	<b>(4,430,614)</b>	<b>(29.0)</b>	<b>971,072</b>	<b>6.8</b>
Capital assets, net	3,329,832	827,886	629,345	2,501,946	302.2	198,541	31.5
<b>Total assets</b>	<b>\$ 14,169,658</b>	<b>\$ 16,098,326</b>	<b>\$ 14,928,713</b>	<b>\$ (1,928,668)</b>	<b>-12.0%</b>	<b>\$ 1,169,613</b>	<b>7.8%</b>

Compared to each prior fiscal year, the Lottery's cash and cash equivalents decreased by \$4,765,627 at the end of fiscal year 2015, a 46.4% drop, while it increased at the end of fiscal year 2014 by \$940,435 or 10.1%, respectively. The changes in cash and cash equivalents relate mainly to changes in accounts receivable, accounts payable and prizes payable at the end of each fiscal year compared to the prior fiscal year. In fiscal year 2015, the change is also due to a payment on June 26, 2015 on the purchase of the Lottery's corporate offices and warehouse, which had previously been leased.

Accounts receivable from the Lottery's retailers are collected weekly each Thursday through electronic bank transfers. Receivables are equal to sales by retailers net of any prizes paid by the retailers and any commissions earned, less the allowance for bad debts and plus any miscellaneous receivables from any other source. Accounts receivable increased by \$259,279,

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Assets - Continued**

19.5%, at the end of fiscal year 2015, while accounts receivable decreased by \$44,596, (3.3)%, in fiscal year 2014. The changes in accounts receivable at the end of each fiscal year compared to the previous fiscal year 2014 is due to the difference in sales and related prize payments and commissions that had not yet been collected since the last bank EFT sweep in each respective fiscal year. In addition, the decrease in accounts receivable at the end of fiscal year 2014 is partially due to having significantly higher multi-draw sales at the end of the fiscal year that were for drawings included in fiscal year 2015 sales compared to the multi-draw sales at the end of fiscal year 2013 that were for drawings included in fiscal year 2014 sales. These multi-draw sales were adjusted into the fiscal year in which the drawings were held.

The Lottery has amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as required by the Powerball® (Powerball), Hot Lotto® (Hot Lotto), Mega Millions® (Mega Millions), and Monopoly Millionaires' Club® game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts in both fiscal years 2015 and 2014 of a decrease of \$11,676 and an increase of \$26,400, respectively, were caused by the receipts of interest earned and other income on the deposits with MUSL; payments of game expenses; changes to the Mega Millions, Hot Lotto, and Monopoly Millionaires' Club reserve accounts, as required by the Mega Millions, Hot Lotto, and Monopoly Millionaires' Club game rules; and the re-balancing of the Powerball reserve accounts.

The inventory balance at the end of both fiscal years 2015 and 2014 increased by \$39,133, a 31.8% increase, and \$85,927, a 232.5% increase, respectively. The Lottery has agreements signed in March 2010 and amended in March 2014, with its primary instant ticket printer, whereby the tickets printed are owned by the vendor with the Lottery having an obligation to pay for the tickets when the tickets are sold. Therefore, these tickets are not included in the Lottery's inventory. But, under an agreement signed with a secondary instant ticket printer in March 2010 and amended in March 2014, the Lottery began purchasing the instant tickets printed by this vendor. The Lottery has accounted for games printed under this agreement as ticket inventory using the specific identification method at the lower of cost or market. At the end of each of the two fiscal years 2015 and 2014, the Lottery had remaining inventory purchased under this agreement of \$112,102 and \$65,460 for thirteen and seven games, respectively in each year. In addition, at the end of fiscal years 2015 and 2014, the Lottery had inventory of \$1,732 and \$2,309, respectively, for a promotional instant game purchased. Included in inventory, the Lottery also had merchandise prizes at the end of each fiscal year of \$48,190 and \$55,122, respectively, for summer second chance drawing promotions.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Assets – Continued**

The changes in capital assets in fiscal years 2015 and 2014 are attributable to \$2,847,624 and \$387,046 in capital asset purchases and \$298,547 and \$188,505 in depreciation, for the two fiscal years, respectively. At the end of fiscal year 2015, the Lottery purchased its corporate offices and warehouse. The facility had been advertised for sale in December 2013 at \$3,900,000. After many months, the Lottery was able to purchase the building at \$2,700,000 or approximately two-thirds of the original asking price and at a price under the appraised market value of the facility. The purchase of the facility will provide substantial cost savings to the Lottery in comparison to the previous lease costs.

As part of the agreement with INTRALOT, Inc. to provide an updated on-line gaming system, the Lottery installed and implemented a new internal control system (ICS) in fiscal year 2009. The cost of the ICS is included in the fixed fee paid to the vendor as a percentage of net sales.

The Lottery has accounted for this transaction as a capital lease and, therefore, the ICS cost of \$43,600 is reflected in capital assets. The related liability for the ICS is included in the current portion of capital lease obligation (\$2,595 and \$6,229 at June 30, 2015 and 2014, respectively) and in the noncurrent portion of capital lease obligation (\$0 and \$2,595 at June 30, 2015 and 2014, respectively).

As part of the facility lease agreements signed in 2002 and 2012, the landlord paid for \$29,975 and \$51,858 in tenant improvements for the Lottery's corporate offices and warehouse in fiscal years 2013 and 2012, respectively. The Lottery had capitalized \$72,543 as tenant improvements with a related deferred liability, while the remaining purchases of tenant improvements totaling \$9,290 were expensed because the items purchased did not meet the \$5,000 threshold for capitalization. When the Lottery purchased its corporate offices and warehouse, the remaining capital lease obligation of \$60,724 for tenant improvements was retired as part of the purchase transaction. Therefore, at the end of fiscal year 2015, both the current and long-term obligation for the tenant improvements became zero on the books of the Lottery. In fiscal year 2014, \$7,835 was included in the current portion of capital lease obligation and \$60,724 was included in the noncurrent portion of capital lease obligation.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Liabilities**

Table 2  
Total Liabilities

	2015	2014	2013	Increase (Decrease) \$ Change 2014 to 2015	Increase (Decrease) % Change 2014 to 2015	Increase (Decrease) \$ Change 2013 to 2014	Increase (Decrease) % Change 2013 to 2014
<b>Current Liabilities</b>							
Accounts payable and other current liabilities	\$ 1,537,100	\$ 2,145,418	\$ 1,977,904	\$ (608,318)	-28.4%	\$ 167,514	8.5%
Current portion of note payable	223,123	-	-	223,123	-	-	-
Current portion of capital lease obligation	2,595	14,064	14,064	(11,469)	(81.5)	-	-
Prizes payable	8,110,042	10,552,075	9,355,989	(2,442,033)	(23.1)	1,196,086	12.8
Due to Lottery Tuition Fund	3,052,921	3,056,450	3,503,374	(3,529)	(0.1)	(446,924)	(12.8)
<b>Total current liabilities</b>	<b>12,925,781</b>	<b>15,768,007</b>	<b>14,851,331</b>	<b>(2,842,226)</b>	<b>(18.0)</b>	<b>916,676</b>	<b>6.2</b>
<b>Noncurrent portion of note payable</b>							
	976,877	-	-	976,877	-	-	-
<b>Noncurrent portion of capital lease obligation</b>							
	-	63,319	77,382	(63,319)	(100.0)	(14,063)	(18.2)
<b>Total long-term liabilities</b>	<b>976,877</b>	<b>63,319</b>	<b>77,382</b>	<b>913,558</b>	<b>1,442.8</b>	<b>(14,063)</b>	<b>(18.2)</b>
<b>Total liability:</b>	<b>\$ 13,902,658</b>	<b>\$ 15,831,326</b>	<b>\$ 14,928,713</b>	<b>\$ (1,928,668)</b>	<b>-12.2%</b>	<b>\$ 902,613</b>	<b>6.0%</b>

Accounts payable and other current liabilities decreased by \$608,318 or (28.4)% at the end of fiscal year 2015, while in fiscal year 2014 accounts payable and other current liabilities increased by \$167,514 or 8.5%. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to five vendors for advertising, the on-line gaming system, instant ticket printing fees, and the lottery's share of prizes payable to MUSL for Powerball, Hot Lotto, and Mega Millions. Sales amounts and advertising placed during the last few weeks of each fiscal year will generally determine the amounts owed at the end of each fiscal year to these vendors and whether that amount is higher or lower than in the prior fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Liabilities - Continued**

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw game and instant game prizes, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2015, prizes payable decreased by \$2,442,033 or (23.1)%, while at the end of fiscal year 2014 prizes payable increased by \$1,196,086 or 12.8%. These differences relate to the changes of prizes payable on individual Lottery games between the fiscal years as a result of sales in each fiscal year and prizes not yet claimed. In addition, in fiscal year 2015, due to the slump in drawing game sales throughout the year, the Lottery had to use unclaimed prizes to supplement the prizes in scratcher (instant ticket) games in order to sustain the growing scratcher sales and to enable it to meet the 30% return to the Legislative Lottery Scholarship Fund each month.

At the end of fiscal years 2015 and 2014, \$3,052,921 and \$3,056,450, respectively, of net revenues for the month of June were due to the Lottery Tuition Fund. These funds were transferred to the New Mexico State Treasurer by the end of July of each year.



New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

**Net Ticket Sales and Prize Expense**

Table 3  
Net Ticket Sales and  
Prize Expense

2015	Net Ticket Sales	Prize Expense
Instant tickets	\$ 79,956,236	\$ 45,678,174
Powerball	27,722,571	13,861,367
Mega Millions	11,161,262	5,580,632
Roadrunner Cash	6,240,297	3,737,198
Hot Lotto	5,997,386	2,998,693
Pick 3	4,621,530	2,742,610
Quicksters	742,509	473,980
Monopoly Millionaires' Club	421,020	426,006
Lucky Numbers Bingo	153,912	93,665
Total	\$ 137,016,723	\$ 75,592,325
2014	Net Ticket Sales	Prize Expense
Instant tickets	\$ 69,804,813	\$ 39,624,564
Powerball	34,027,555	16,983,374
Mega Millions	13,410,732	6,704,090
Roadrunner Cash	8,592,684	5,266,316
Hot Lotto	5,700,311	2,907,024
Pick 3	3,828,187	2,208,335
Quicksters	638,322	366,543
Total	\$ 136,002,604	\$ 74,060,246
2013	Net Ticket Sales	Prize Expense
Instant tickets	\$ 69,886,435	\$ 40,283,399
Powerball	46,734,439	23,332,651
Mega Millions	8,078,050	4,027,633
Roadrunner Cash	6,767,906	4,016,276
Hot Lotto	5,933,935	2,959,006
Pick 3	3,492,915	1,973,715
Quicksters	864,842	475,878
Total	\$ 141,758,522	\$ 77,068,558
\$ Increase (decrease) from FY 2014 to FY 2015	\$ 1,014,119	\$ 1,532,079
% Increase (decrease) from FY 2014 to FY 2015	0.7%	2.1%
\$ (decrease) from FY 2013 to FY 2014	\$ (5,755,918)	\$ (3,008,312)
% (decrease) from FY 2013 to FY 2014	(4.1)%	(3.9)%

New Mexico Lottery Authority

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

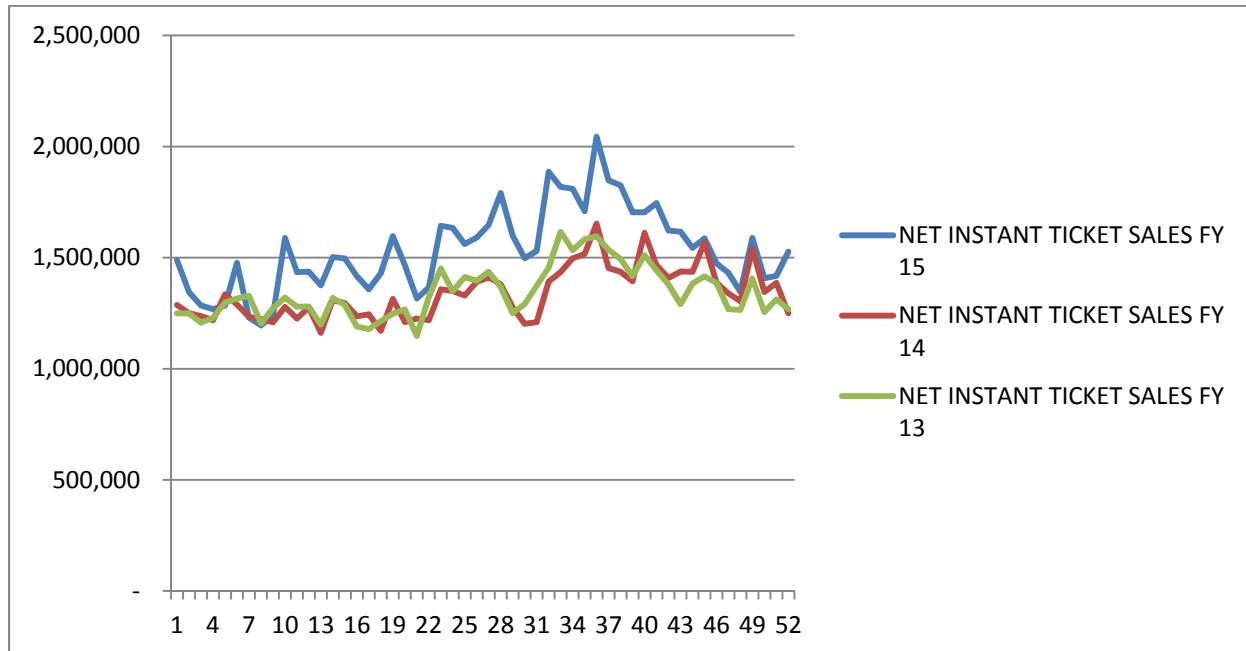
**FINANCIAL ANALYSIS – CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

Table 3 provides net ticket sales and prize expense for each lottery game for fiscal years 2015, 2014, and 2013. In fiscal year 2015 net sales and the related prize expense increased for instant ticket sales, Hot Lotto, Pick 3, and Quicksters, while Powerball, Mega Millions and Roadrunner Cash net sales and the related prize expense decreased. The new games Monopoly Millionaires’ Club and Lucky Numbers Bingo were added and produced sales of \$575,000. In fiscal year 2014 net sales and the related prize expense increased for Mega Millions, Roadrunner Cash and Pick 3, while net sales and the related prize expense decreased for instant tickets, Powerball, Hot Lotto, and Quicksters. The last quarter of fiscal year 2014 reflects a 4.66% growth in net instant sales due to a comprehensively planned instant ticket sales strategy, including using unclaimed prizes to supplement the prizes in instant ticket games, launching instant games on the first Tuesday of the month, using plans for retailers to place instant tickets into the dispensers and self-service lottery terminals and increasing the visibility of instant tickets by using on-counter dispensers. This strategy continued into fiscal year 2015 and provided over ten million dollars, a 14.5% increase, to net instant ticket sales.

***Net Ticket Sales***

***NET INSTANT TICKET SALES – FYs 2015, 2014, & 2013***



New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

In both fiscal years 2015 and 2014, the Lottery has continued to use the customer relationship management (CRM) system for placing instant game tickets at retailer locations. The Lottery's customer service representatives continue to place calls each week to each retailer location, review the inventory at each location with the retailer, and place orders continually as needed based on the inventory turnover at each location. In fiscal year 2015, forty-four new instant ticket games were launched – 13 - \$1, 10 - \$2, 7 - \$3, 11 - \$5, 2 - \$10 and 1 - \$20 price point games—3 less \$3 games, 1 more \$5, and 3 less \$10 game than in fiscal year 2014. In fiscal year 2014, forty-nine new instant ticket games were launched - 13 - \$1, 10 - \$2, 10 - \$3, 10 - \$5, 5 - \$10 and 1 - \$20 price point games—3 less \$1 games, 4 more \$3, 1 more \$5 and 2 more \$10 game than in fiscal year 2013. In fiscal year 2015, the Lottery launched 19 games with free (prize) tickets and 25 games without prize tickets, while in fiscal year 2014, the Lottery launched 17 games with free (prize) tickets and 32 games without prize tickets. Net instant ticket sales for every month in fiscal year 2015 surpassed the net instant ticket sales for each month in fiscal year 2014. Net instant ticket sales for 5 months, including the last three months of the year, were higher than for the comparable month in fiscal year 2013. Fiscal year 2015 ended the year with nearly eighty million dollars in net instant ticket sales, bringing the net instant sales closer to the record setting \$91.27 million from fiscal year 2007 by \$11.27 million or a 12.3% difference. In fiscal year 2014 the difference to net instant ticket sales in fiscal year 2007 was \$21.57 million or a 23.6% difference. Without this \$10.2 million increase in instant ticket sales in fiscal year 2015, the Lottery would have returned over three million dollars less to the Legislative Lottery Scholarship fund.

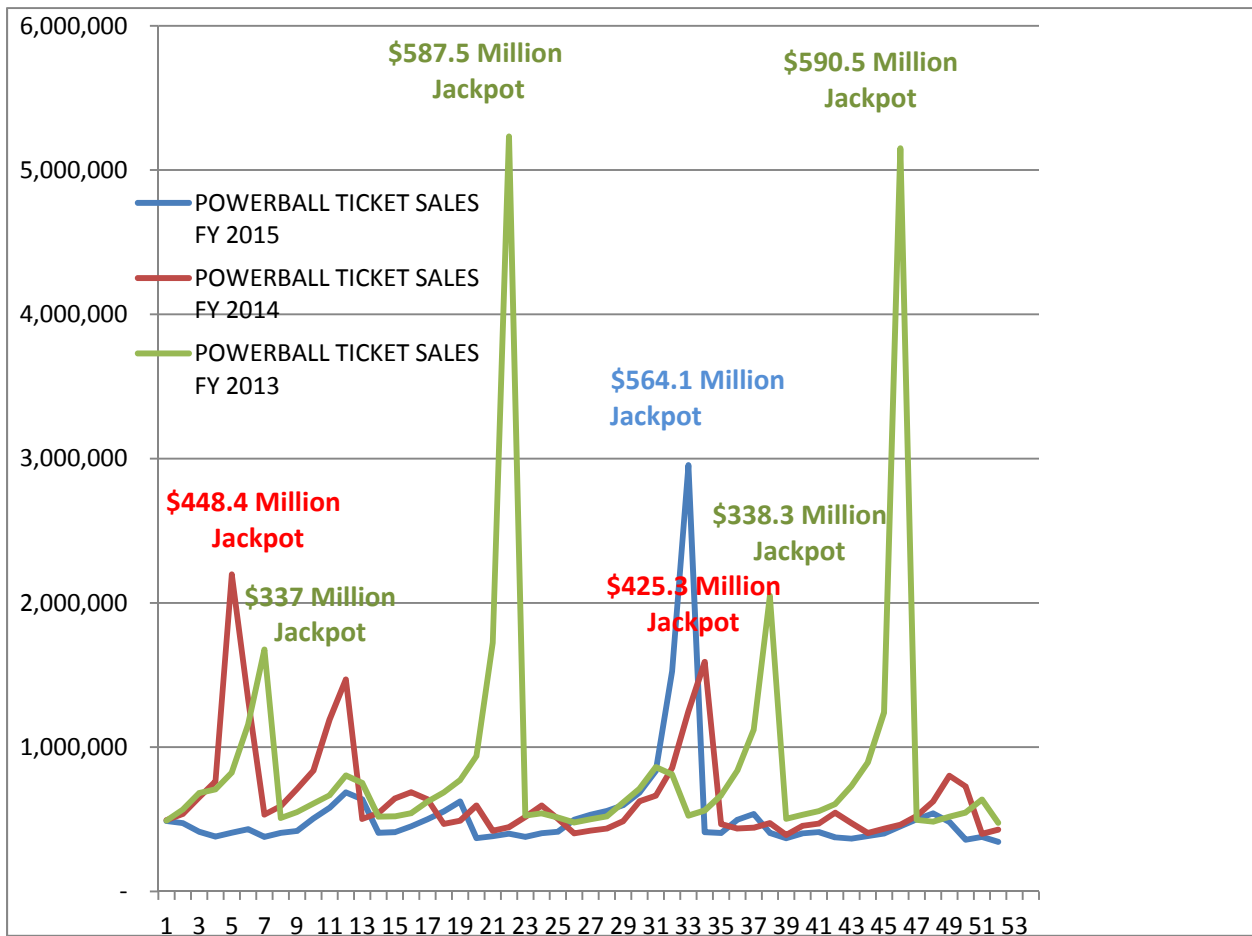
**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

**POWERBALL TICKET SALES – FYs 2015, 2014, & 2013**



Powerball sales are driven by the advertised jackpot and over the years the jackpot that will influence the casual players into buying a jackpot ticket keeps growing. In fiscal year 2015, there were 14 jackpot run-ups with the largest jackpot being \$564.1 million when it was won in February 2015. Other jackpots that grew to over one-hundred million during the year before being won were \$228.5, \$202.6, \$188.9, \$136.0, and \$124.9 million. Eight other jackpots were less than \$90 million when won. Having only one note-worthy jackpot in fiscal year 2015 caused sales to be \$6.3 million less than in fiscal year 2014, (18.5)% less. Nationally, Powerball sales were 17.2% less in fiscal year 2015 than in fiscal year 2014.

In fiscal year 2014, there were 11 jackpot run-ups with the highest jackpot being \$448.4 million in August 2013 with another jackpot of \$425.3 million in February 2014. Other

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

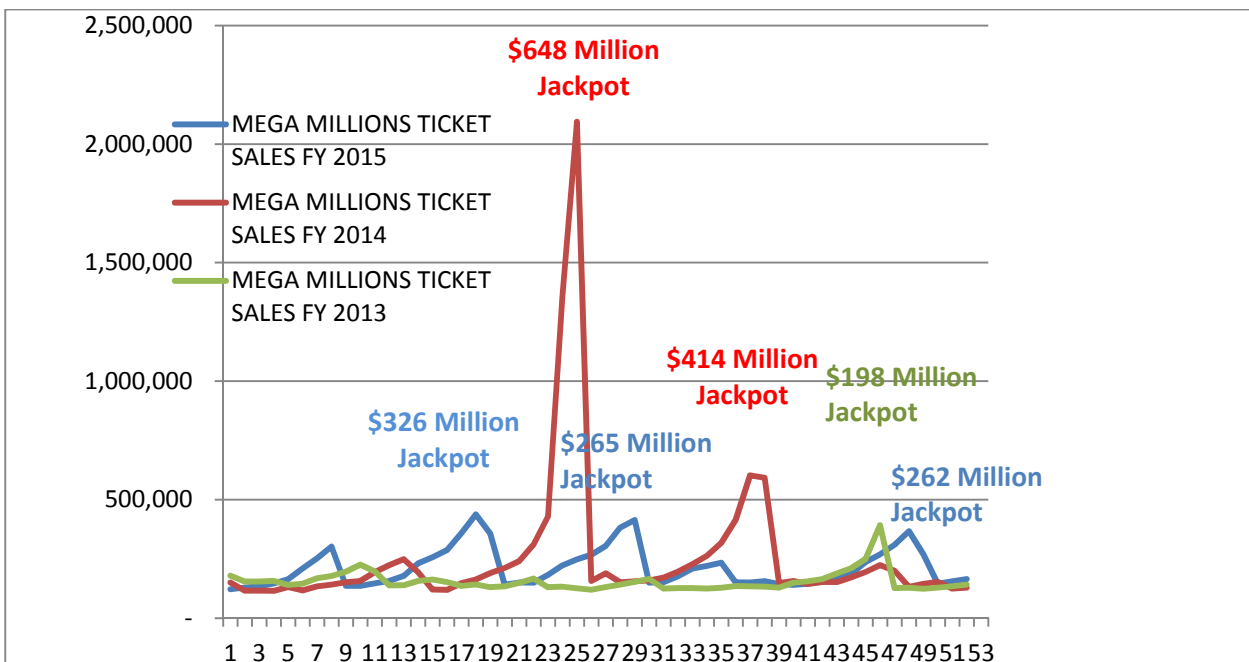
***Net Ticket Sales – Continued***

jackpots reached \$399.4, \$259.8, \$213.4, \$148.8, \$130.3, and \$122.9 million with three other jackpots that were less than \$100 million when won. While three jackpots surpassed or were nearly \$400 million when won, not having the “super jackpots” of nearly six hundred million dollars caused sales in fiscal year 2014 to be more than \$12.7 million less than in fiscal year 2013.

In fiscal year 2013, there were 15 jackpots with the highest jackpot for the year being \$590.5 million with another jackpot of \$587.5 million closely following. There were also other jackpots that each reached \$338.3, \$337.0, \$217.2, \$202.1, and \$131.5 million and eight jackpots that were \$50.0 million or less when they were won. Having a \$2 price point for a full year and the four jackpots that surpassed the \$300 million mark helped Powerball achieve net sales that were nearly \$13 million higher than in fiscal year 2012.

Due to Powerball jackpots not growing to “super jackpots” and sales decreasing in the last two fiscal years, Powerball will be changing starting on October 4, 2015. The game will now be a five (5) out of sixty-nine (69) plus one (1) out of twenty-six (26) lottery game instead of a five (5) out of fifty-nine (59) plus one (1) out of thirty-five (35) lottery game. In addition, a 10X multiplier will be added when the Grand Prize Jackpot is \$150 million or less, the Match 4 plus one prize will increase to \$50,000 from \$10,000 currently, and there will be better overall odds of winning a prize of 1:24.87 compared to 1:31.85 currently.

**MEGA MILLIONS TICKET SALES – FYs 2015, 2014, & 2013**



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

Mega Millions' sales are also driven by the jackpot amount. In fiscal year 2015, there were 6 jackpots that were won by players; the largest jackpot was \$326 million, followed by a \$265 million, a \$262 million, a \$180 million, a \$125 million and a \$58 million jackpot. Due to the lack of huge jackpots in the year, fiscal year 2015 closed with sales being \$2.25 million, (16.8)%, less than the previous fiscal year.

In fiscal year 2014, the highest jackpot for Mega Millions was \$648 million at the time it was won in December 2013 followed by a \$414 million jackpot in March 2014. There were also two jackpots of \$189 million and \$149 million and 8 jackpots of less than \$80 million. The December 2013 jackpot brought in approximately four million dollars of incremental sales during the last few drawings while the jackpot was growing. Due to the large jackpots, Mega Millions closed the year with \$5.3 million in net sales over the prior fiscal year; a 66% increase in net sales.

In fiscal year 2013, the highest jackpot won was \$198.0 million followed by another jackpot of \$120.0 million. Twelve other jackpots were won in fiscal year 2013 that were \$89 million or less. With Powerball having such large jackpots in fiscal year 2013 and Mega Millions staying relatively low, Mega Millions net sales dropped by over \$6 million dollars or 43.3%.

Similar to the Powerball and Mega Millions games, Roadrunner Cash sales are driven by the jackpot (top) prize amount. In fiscal year 2015 there were four jackpot run-ups that exceeded \$200,000 with the largest being \$275,000; six jackpots exceeded \$100,000 and seven jackpots were \$67,000 or less. With so few jackpots growing to over \$200,000, Roadrunner cash net sales ended the year \$2.35 million, (27.4)%, less than the previous fiscal year.

In fiscal year 2014, Roadrunner Cash had a record setting jackpot of \$890,000. During that month, Roadrunner Cash sales grew by approximately \$1.5 million. There also was one jackpot that rose to \$385,000 and another jackpot that rose to \$307,000 with two other jackpots growing to \$265,000 and \$220,000 before being won; twelve other jackpots were \$160,000 or less. Fiscal year 2014 ended with Roadrunner Cash net sales being \$1.8 million dollars more than the prior fiscal year.

In fiscal year 2013, the Roadrunner Cash jackpot rose to \$320,000 in August 2012 and to \$430,000 in December 2012, plus two other times during the year to jackpots greater than \$150,000. Sixteen other jackpots were less than \$150,000 before being won during the fiscal year.

The MUSL game, Hot Lotto, is another smaller national jackpot game offered by the Lottery. Sales for this game also track with the jackpot. In fiscal year 2015, the Hot Lotto jackpot started the year at \$8.56 million and was won in September 2014. It started again at \$1 million dollars and grew all year until it was won on July 1, 2015 at \$9.85 million. Fiscal year

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

2015's net sales ended the year \$297,000, 5.2%, ahead of the previous fiscal year. Fiscal year 2014 started with the Hot Lotto jackpot at approximately \$6.9 million. The jackpot grew until it was won by a New Mexico Lottery player on August 3, 2013 when it was \$7.3 million. Following this win, the jackpot climbed to nearly \$2 million when it was won in October and then begin climbing again at that time, ending the year at just over \$8.1 million. In fiscal year 2013, Hot Lotto started fiscal year with a jackpot of just over \$1 million and grew to \$1.4 million before being won in July 2012. It then climbed to \$9.4 million in January before it was won. The jackpot then continued to rise from \$1 million until year end, where it ended the year at nearly \$6.9 million. These changing jackpots reflect on net sales during each fiscal year.

With a mid-day drawing adding additional sales for the full fiscal year, Pick 3 ended fiscal year 2015 more than \$793,000, 20.7%, ahead of fiscal year 2014. Pick 3 net sales had increased in fiscal year 2014 by \$335,271. In early June 2014, the Lottery added a mid-day drawing. This mid-day drawing provided sales of approximately \$4,700 for each mid-day draw and provided nearly \$90,000 in additional sales in June 2014. Pick 3 net sales in fiscal year 2013 decreased by \$141,889 or 3.9%. Pick 3 remains a core game for the Lottery bringing in steady monthly average net sales; in fiscal year 2015 of approximately \$400,000 each month.

A new game, Quicksters, was started on March 25, 2012. Quicksters are instant-win games, similar to instant ticket games, but produced by the same lottery sales terminals as draw game tickets and with no scratching needed to reveal the prizes. The first game offered was Super 7s. This game provided \$453,448 in net sales for fiscal year 2012. In fiscal year 2013, five new Quickster games were added producing \$864,842 in net sales for the fiscal year. In fiscal year 2014, Quickster net sales were \$638,000 and in fiscal year 2015, Quicksters net sales were \$742,509, a 16.3% increase.

On November 9, 2014, the Lottery introduced a new game, Lucky Numbers Bingo. Lucky Numbers Bingo is a draw game that offers two ways to play and two ways to win either through the Bingo numbers or through your Lucky Numbers. Lucky Numbers Bingo produced \$153,912 in net sales in fiscal year 2015.

The Lottery also started a national game, Monopoly Millionaires' Club, on October 19, 2014, which was a five dollar draw game with a weekly drawing, promotional drawings for a trip to Las Vegas, NV to be on an associated TV game show. This national game was played until December 26, 2014, when it was ended nationally due to its overall performance.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Prize Expense***

Prize expense for the draw games of Powerball, Mega Millions and Hot Lotto is based on the overall prize payout per the game design, while prize expense for Roadrunner Cash, Pick 3, Quicksters and Lucky Numbers Bingo is determined by the prizes won each month for each drawing or game. The prize expense for the Monopoly Millionaires' Club game was based on the actual cost of the prizes for the period that it was played. The prizes included in the prize structure for each instant game printed determine prize expense for instant games. In general, prize expense increases or decreases from year-to-year relative to the increases or decreases in sales for each Lottery product and the prize structures of the games.

In fiscal years 2015 and 2014, the prize payout increased by approximately 2.74% and 1.09%, respectively, prior to the application of unclaimed prizes.

At the end of the claim period for each game, unclaimed prizes for the Lottery's instant games and draw games are paid into the "Prize Fund," in accordance with the New Mexico Lottery Act. These unclaimed prizes from the Lottery's prize fund have been used to supplement the prizes in instant and draw games and for second chance drawings and, therefore, reduce the prize expense for Lottery products and help the Lottery to maximize its sales and its return to education. In fiscal year 2015, unclaimed prizes were used each month in the fiscal year to supplement prizes in order to meet the 30% required return.

***Prize Tickets***

In fiscal years 2015, tickets provided as prizes (prize or free tickets) claimed for instant games increased by \$244,721, 11.67%, while in fiscal year 2014 tickets provided as prizes decreased by \$383,110 or 15.45%. Prize tickets are placed in the prize structure of the game in lieu of the breakeven prizes. Prize tickets give a player a prize of another instant game ticket of the same price point as the instant ticket that had the winning prize ticket. Each fiscal year, the Lottery has continued to study the market to determine the optimum quantity of prize tickets to place in its instant ticket games in order to optimize its instant ticket sales.



New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Game Expenses**

Table 4  
Game Expenses

	2015	2014	2013	Increase (Decrease) \$ Change 2014 to 2015	Increase (Decrease) % Change 2014 to 2015	Increase (Decrease) \$ Change 2013 to 2014	Increase (Decrease) % Change 2013 to 2014
Prize expense	\$ 75,592,325	\$ 74,060,246	\$ 77,068,558	\$ 1,532,079	2.1%	\$ (3,008,312)	(3.9)%
Retailer							
commissions	8,941,265	8,782,855	9,153,204	158,410	1.8	(370,349)	(4.0)
On-line vendor							
fees	2,193,183	2,177,205	2,269,623	15,978	0.7	(92,418)	(4.1)
Advertising	2,174,697	2,267,772	2,263,221	(93,075)	(4.1)	4,551	0.2
Ticket vendor							
fees	1,265,885	1,188,107	1,158,028	77,778	6.5	30,079	2.6
Other game							
expenses	717,183	1,132,149	1,136,751	(414,966)	(36.7)	(4,602)	(0.4)
Total game							
expenses	\$ 90,884,538	\$ 89,608,334	\$ 93,049,385	\$ 1,276,204	1.4%	\$ (3,441,051)	(3.7)%

The changes in retailer commissions for fiscal years 2015 and 2014 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.52% and 6.46% of gross revenues for the two years, respectively. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets, cashing Lottery prizes and for selling a jackpot/grand prize for Powerball, Mega Millions or Hot Lotto, for selling a match 5 prize for Powerball or Mega Millions, and for selling a jackpot prize of more than \$100,000 for Roadrunner Cash.

Since November 21, 2008, the on-line vendor fee has been a fixed percentage of net sales, plus applicable gross receipts taxes, with no additional terminal fees. The on-line fee increases or decreases as draw game and instant ticket net sales increase or decrease. The changes in the on-line vendor fees for the two fiscal years are consistent with the changes in draw game and instant ticket net sales in fiscal years 2015 and 2014 and are equivalent to 1.60% of gross revenues for the two years.

Advertising money is expended to market the Lottery and its products to the public and to inform the public about the games that are available, the jackpot and top prize amounts for the draw games, to provide security tips and gambling awareness for our players and benefit messages to New Mexico students and their families, and to keep the lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.59% and 1.67% of gross revenues, respectively, for fiscal years 2015 and 2014 and stayed

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Game Expenses - Continued**

within the Lottery Board approved budgets of \$2,400,000 and \$2,300,000, respectively, for each fiscal year. In fiscal year 2015, the advertising dollars were maximized by purchasing advertising for the entire year at the beginning of the year. The annual buys added value to the advertising budget of over \$900,000 dollars of additional advertising without any added cost.

In fiscal years 2010 the Lottery signed a new contract with its primary ticket printer effective in March of that year. Under this contract, the instant tickets are owned by the vendor with the Lottery expensing the cost to ticket vendor fees and paying for the tickets as a percentage of net instant sales when the tickets are sold. In addition, in March 2010, the Lottery signed a contract with a secondary printer, whereby the Lottery would be purchasing the tickets printed. These tickets are included in inventory with the cost of the tickets being recorded as ticket vendor fees as the tickets are consigned to retailers. Both of these contracts were extended for four additional years in March 2014. In addition, in both fiscal year 2015 and 2014, the cost for any licensing fees or special printing costs are also included in ticket vendor fees. The ticket vendor fees for both fiscal year 2015 and 2014 are .92% and .87% of gross revenues and are consistent with net instant ticket sales for each fiscal year.

Included in other game expenses are promotions, retailer equipment, shipping and postage, responsible gaming, game membership, and drawing game expenses. Fiscal year 2015 reflects a decrease of \$414,966 or (36.7)% and fiscal year 2014 reflects a decrease of \$4,602 or (0.4) %. While in fiscal year 2014, the Lottery had purchased electronic jackpots for its retailers, in fiscal year 2015 there were no further purchases of these products, thus, bringing retailer equipment down by nearly \$250,000. In addition, in fiscal year 2015, the in-house lottery drawings for Roadrunner Cash and Pick 3 were automated at the end of October, thus, saving nearly \$66,000 during the rest of the fiscal year in this line item expense. Further, in fiscal year 2015, promotions were reduced by nearly \$87,000 and shipping and postage was reduced by \$23,500, which was offset by an increase of \$23,000 in MUSL game membership fees mainly due to the new game, Monopoly Millionaires' Club. In fiscal year 2014, this change is primarily due to achieving savings in the cost of shipping of instant games to retailers; savings in the cost of responsible gaming, game membership and drawing game expenses offset by the cost to purchase more cost effective electronic jackpot signs to replace eight year old signs at retailer locations. The new signs will have no communication costs and will replace signs that have cost over \$25,000 in annual communication expense.

New Mexico Lottery Authority

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Operating Expenses**

Table 5  
Operating Expenses

	2015	2014	2013	Increase (Decrease) \$ Change 2014 to 2015	Increase (Decrease) % Change 2014 to 2015	Increase (Decrease) \$ Change 2013 to 2014	Increase (Decrease) % Change 2013 to 2014
Salaries, wages, and benefits	\$ 3,485,280	\$ 3,726,941	\$ 3,614,032	\$ (241,661)	(6.5)%	\$ 112,909	3.1%
Leases and insurance	435,550	423,932	514,990	11,618	2.7	(91,058)	(17.7)
Utilities and maintenance	410,518	448,166	439,041	(37,648)	(8.4)	9,125	2.1
Other operating expenses	<u>726,249</u>	<u>641,491</u>	<u>511,984</u>	<u>84,758</u>	<u>13.2</u>	<u>129,507</u>	<u>25.3</u>
Total operating expenses	<u>\$ 5,057,597</u>	<u>\$ 5,240,530</u>	<u>\$ 5,080,047</u>	<u>\$ (182,933)</u>	<u>(3.5)%</u>	<u>\$ 160,483</u>	<u>3.2%</u>

Operating expenses are made up of salaries, wages and benefits, utilities and maintenance, leases and insurance, and other operating expenses, which include depreciation and amortization, professional fees, materials and supplies, travel, and other expenses. In fiscal year 2015, operating expenses were reduced by nearly 183,000 or 3.5%, while in fiscal year 2014, the Lottery’s operating expenses increased by nearly \$160,500 or 3.2%.

In fiscal year 2015, salaries, wages, and benefits were reduced by nearly \$242,000 or 6.5%. At the end of fiscal year 2014, the Lottery employed 57 individuals, while at the end of fiscal year 2015, the Lottery employed 51 individuals. During fiscal year 2015, a restructuring of departments took place where jobs were combined and positions were changed or eliminated through attrition. In addition, during open enrollment in December 2014, the benefits offered for health insurance coverage were changed by increasing the co-pays and out-of-pocket amounts paid by employees to bring the premiums to a more reasonable level and the percentage amounts of the premiums that the Lottery paid for employee and dependent coverage were decreased - for employees the Lottery increased the portion paid to 90% of the premium instead of 75% of the premium, but decreased the amount paid for dependents to approximately 50% of the premium instead of the 75% of the premium that it had always paid. In a full year, this change in the percentages paid for employee and dependent premiums was projected to save over \$48,000 a year. There were also other cost savings in utilities and maintenance and in materials and supplies, which were offset by increases for depreciation and for professional fees.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Operating Expenses – continued**

In fiscal year 2014, salaries, wages and benefits increased due to the \$165,000 contractual severance payments for the former CEO, whose contract was terminated and increases in professional fees and depreciation for replacement equipment. These costs were offset by cost savings on the new lease of over \$90,000.

**Non-Operating Income**

Non-operating income decreased in both fiscal years 2015 and 2014. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2015 or 2014.

**Non-Operating Expense**

Due to the purchase of the Lottery's corporate offices and warehouse at the end of fiscal year 2015, a small amount of interest expense was accrued on the Lottery's books.

**Net Income**

	<u>Total Operating Revenues</u>	<u>Net Income</u>
Fiscal Year 2015	<u>\$ 137,036,703</u>	<u>\$ 41,121,221</u>
Fiscal Year 2014	<u>\$ 136,025,057</u>	<u>\$ 41,208,550</u>
Fiscal Year 2013	<u>\$ 141,767,097</u>	<u>\$ 43,684,681</u>
Increase (Decrease) from FY 2014 to FY 2015	<u>\$ 1,011,646</u>	<u>\$ (87,329)</u>
% Increase (Decrease) from FY 2014 to FY 2015	<u>0.7%</u>	<u>(0.2)%</u>
(Decrease) from FY 2013 to FY 2014	<u>\$ (5,742,040)</u>	<u>\$ (2,476,131)</u>
% (Decrease) from FY 2013 to FY 2014	<u>(4.1)%</u>	<u>(5.7)%</u>

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Income - Continued**

Effective July 1, 2007, the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, was changed to require the Lottery to transmit at least twenty-seven percent of its gross revenues to the State Treasurer until December 31, 2008 and at least thirty percent of its gross revenues thereafter. In fiscal years 2015 and 2014, the Lottery transmitted its net income each month, totaling \$41,121,221 and \$40,941,550, respectively. The gross revenue percentage return for fiscal year 2015 was 30.00%, while for fiscal year 2014 it was 30.09%; a lower percentage return in fiscal year 2015, but a higher dollar amount to the Legislative Lottery Scholarship Fund. The Lottery was able to meet the 30% gross revenue percentage returns each month in both fiscal years.

The changes in net income for fiscal years 2015 and 2014 were related to the changes in sales for the Lottery's games during the two years netted against savings in the cost of the product and operating expenses during the two fiscal years.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Budgetary Comparison**

	2015				
	Original Budget	Final Budget	Actual	Variance with Final Budget	% Variance with Final Budget
Total operating revenues	\$ 142,800,000	\$ 138,037,000	\$ 137,036,703	\$ (1,000,297)	(0.7)%
Total game expenses	94,130,000	91,244,000	90,884,538	(359,462)	(0.4)
Total operating expenses	5,846,000	5,399,000	5,057,597	(341,403)	(6.3)
Operating income	42,824,000	41,394,000	41,094,568	(299,432)	(0.7)
Total non-operating income (expense)	24,000	24,000	26,653	2,653	11.1
Net income before transfers to Lottery Tuition Fund	<u>\$ 42,848,000</u>	<u>\$ 41,418,000</u>	<u>\$ 41,121,221</u>	<u>\$ (296,779)</u>	(0.7)%
	2014				
	Original Budget	Final Budget	Actual	Variance with Final Budget	% Variance with Final Budget
Total operating revenues	\$ 131,400,000	\$ 135,303,000	\$ 136,025,057	\$ 722,057	0.5%
Total game expenses	86,280,000	89,031,000	89,608,334	577,334	0.6
Total operating expenses	5,716,000	5,698,000	5,240,530	(457,470)	(8.0)
Operating income	39,404,000	40,574,000	41,176,193	602,193	1.5
Total non-operating income	24,000	25,000	32,357	7,357	29.4
Net income before transfers to Lottery Tuition Fund	<u>\$ 39,428,000</u>	<u>\$ 40,599,000</u>	<u>\$ 41,208,550</u>	<u>\$ 609,550</u>	1.5%

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Budgetary Comparison - Continued**

In fiscal year 2015, the original budget was revised to reflect better performance in sales for instant tickets, Mega Millions, Hot Lotto, and Pick 3 and to reduce Powerball, Roadrunner Cash, Monopoly Millionaires' Club, Lucky Numbers Bingo and Quicksters sales. The net sales budget was reduced by \$4,766,000, which was made up of a \$5.0 million increase for instant tickets, a \$3.0 million increase for Mega Millions, a \$1.0 million increase for Hot Lotto, and \$400,000 increase for Pick 3 sales, but was reduced by \$8.0 million for Powerball, \$500,000 for Roadrunner Cash, \$2,579,000 for Monopoly Millionaires' Club, \$3,250,000 for Lucky Numbers Bingo, and \$725,000 for Quicksters, as well as a reduction for tickets provided as prizes of \$700,000 and for spoiled stolen and promotional tickets of \$188,000. Game expenses were reduced by nearly \$2.9 million and operating expenses were reduced by \$447,000. The final return remained at 30% with these changes.

Fiscal year 2015 ended with net instant ticket sales out-performing the revised budget by nearly \$2.3 million and net Pick 3 sales exceeding the revised budget by \$22,000. All the other games did not meet the revised budget; Powerball was short of the revised budget by over \$2.2 million and Mega Millions by over \$838,000. Once again not having any significant jackpot run-ups during the year kept Powerball from meeting either the original budget or the revised budget. Without the increased performance for instant tickets sales, this would have been a dismal fiscal year for sales and the return to the Legislative Lottery Scholarship Fund would have been approximately \$3 million less. All in all, because of the instant ticket sales performance, gross revenues ended the fiscal year at 99.28% of the revised budget, game expenses at 99.61% of the revised budget, operating expenses at 93.68% of the revised budget, and net income at 99.28% of the revised budget.

In fiscal year 2014, the original budget was revised because Mega Millions, Roadrunner Cash and Pick 3 sales were performing better than forecast and thus sales for these games were increased. Instant, Hot Lotto, and Quickster sales were reduced because of poor performance during the first half of the fiscal year. Powerball was left at the same budget amount in anticipation of a jackpot run-up in the last few months of the fiscal year. The sales budget was increased by \$3,903,000, which was made up of a \$4.0 million increase for Mega Millions, a \$1.6 million increase for Roadrunner Cash, and a \$300,000 increase for Pick 3 offset by a decrease of \$1.5 million for instants, a decrease of \$500,000 for Hot Lotto, and a \$400,000 decrease for Quicksters, along with a decrease of \$400,000 for tickets provided for prizes, a \$1,000 increase to spoiled, stolen, and promotional tickets, and a \$4,000 increase for retailer fees. Game expenses remained at approximately 65% of the budget and operating expenses were reduced by \$18,000. With these changes, net income was increased by \$1,171,000; still remaining at 30%.

In fiscal year 2014, actual net sales exceeded the revised budget by more than \$691,000. Net instant sales were \$2.0 million more than the revised budget and Mega Millions sales were \$1.4 million more than the revised budget. Roadrunner Cash, Hot Lotto, Pick 3 and Quicksters superseded the revised budget by \$202,000, \$707,000, \$134,000 and \$40,000, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Budgetary Comparison - Continued**

But, Powerball sales were less than the revised budget by over \$3.8 million. Total operating revenues ended the year at 100.53% of the revised budget; game expenses ended the fiscal year at 100.65% of the revised budget, tracking right in line with operating revenues. Operating expenses ended the year at 91.97% of the revised budget, with all budget line items finishing the year at less than the revised budget; in total less than the revised budget by \$457,470. Net return to the Legislative Lottery Scholarship fund was \$342,550 more than the revised budget amount at 100.84% of budget; generating a return of 30% of gross revenues.

**Requests for Additional Financial Information**

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the Lottery's retailers, vendors, creditors, and other interested parties with a general overview of the financial position of the Lottery as of June 30, 2015 and 2014, and results of its operations, cash flows, variances from budgets, and percentage return to the state for the years then ended and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Administration at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.



New Mexico Lottery Authority

**STATEMENTS OF NET POSITION**

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,515,045	\$ 10,280,672
Accounts receivable (net of allowance for doubtful accounts)	1,586,110	1,326,831
Reserves on deposit	3,420,292	3,431,968
Inventory	162,024	122,891
Prepaid expenses	<u>156,355</u>	<u>108,078</u>
Total current assets	10,839,826	15,270,440
<b>CAPITAL ASSETS, NET</b>	<u>3,329,832</u>	<u>827,886</u>
Total assets	<u><u>\$ 14,169,658</u></u>	<u><u>\$ 16,098,326</u></u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 1,537,100	\$ 2,145,418
Current portion of note payable	223,123	-
Current portion of capital lease obligation	2,595	14,064
Prizes payable	8,110,042	10,552,075
Due to Lottery Tuition Fund	<u>3,052,921</u>	<u>3,056,450</u>
Total current liabilities	<u>12,925,781</u>	<u>15,768,007</u>
<b>LONG-TERM LIABILITIES</b>		
Noncurrent portion of note payable	976,877	-
Noncurrent portion of capital lease obligation	<u>-</u>	<u>63,319</u>
Total long-term liabilities	<u>976,877</u>	<u>63,319</u>
Total liabilities	<u><u>\$ 13,902,658</u></u>	<u><u>\$ 15,831,326</u></u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 2,129,832	\$ 827,886
Unrestricted (deficit)	<u>(1,862,832)</u>	<u>(560,886)</u>
Total net position	<u><u>\$ 267,000</u></u>	<u><u>\$ 267,000</u></u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Years ended June 30,

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$ 79,956,236	\$ 69,804,813
Powerball sales	27,722,571	34,027,555
Mega Millions sales	11,161,262	13,410,732
Roadrunner Cash sales	6,240,297	8,592,684
Hot Lotto sales	5,997,386	5,700,311
Pick 3 sales	4,621,530	3,828,187
Quickster sales	742,509	638,322
Monopoly Millionaires' Club sales	421,020	-
Lucky Numbers Bingo sales	153,912	-
Net ticket sales	<u>137,016,723</u>	<u>136,002,604</u>
Retailer fees	19,980	22,453
Total operating revenues	<u>137,036,703</u>	<u>136,025,057</u>
<b>GAME EXPENSES</b>		
Prize expense	75,592,325	74,060,246
Retailer commissions	8,941,265	8,782,855
On-line vendor fees	2,193,183	2,177,205
Advertising	2,174,697	2,267,772
Ticket vendor fees	1,265,885	1,188,107
Shipping and postage	312,134	335,679
Promotions	134,190	221,036
Retailer equipment	96,816	345,786
Responsible gaming	69,998	83,050
Game membership	66,895	43,718
Drawing game	37,150	102,880
Total game expenses	<u>90,884,538</u>	<u>89,608,334</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	3,485,280	3,726,941
Leases and insurance	435,550	423,932
Utilities and maintenance	410,518	448,166
Depreciation and amortization	298,547	188,505
Professional fees	232,028	186,035
Materials and supplies	77,233	135,260
Travel	66,160	61,980
Other	52,281	69,711
Total operating expenses	<u>5,057,597</u>	<u>5,240,530</u>
<b>OPERATING INCOME</b>	<u>41,094,568</u>	<u>41,176,193</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	16,373	18,753
Other income	10,516	13,604
Interest expense	(236)	-
Total non-operating income	<u>26,653</u>	<u>32,357</u>
Net income before transfers	41,121,221	41,208,550
Transfers to Lottery Tuition Fund	<u>41,121,221</u>	<u>40,941,550</u>
Change in net position	-	267,000
Net position at beginning of year	<u>267,000</u>	<u>-</u>
Net position at end of year	<u>\$ 267,000</u>	<u>\$ 267,000</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**STATEMENTS OF CASH FLOWS**

Years ended June 30, 2015 and 2014

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 127,841,627	\$ 127,279,025
From MUSL - Hot Lotto jackpot	-	10,992,481
Cash payments:		
To prize winners and related taxes	(67,726,913)	(68,225,640)
To MUSL	(10,307,445)	(15,631,001)
To suppliers of goods or services	(8,767,859)	(8,748,786)
To employees for services and related taxes	<u>(2,844,830)</u>	<u>(3,027,629)</u>
Net cash provided by operating activities	<u>38,194,580</u>	<u>42,638,450</u>
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(41,124,750)</u>	<u>(41,388,474)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(1,819,538)	(308,479)
Principal paid on capital debt	-	-
Interest paid on capital debt	-	-
Principal payments under capital lease	<u>(27,657)</u>	<u>(14,063)</u>
Net cash used by capital and related financing activities	<u>(1,847,195)</u>	<u>(322,542)</u>
Cash flows from investing activities		
Receipts of interest	11,464	12,319
Other	<u>274</u>	<u>682</u>
Net cash provided by investing activities	<u>11,738</u>	<u>13,001</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(4,765,627)	940,435
Cash and cash equivalents at beginning of year	<u>10,280,672</u>	<u>9,340,237</u>
Cash and cash equivalents at end of year	<u>\$ 5,515,045</u>	<u>\$ 10,280,672</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**STATEMENTS OF CASH FLOWS - CONTINUED**

Years ended June 30, 2015 and 2014

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,094,568	\$ 41,176,193
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	298,547	188,505
Vendor's non-cash transactions	163,353	(54,357)
Interest on MUSL unreserved account	2,353	2,919
Net changes in assets and liabilities:		
Accounts receivable	(253,811)	36,823
Reserves on deposit	27,331	(26,400)
Inventory	(39,133)	(85,927)
Prepaid expenses	(48,277)	37,094
Accounts payable and other liabilities	(608,318)	167,514
Prizes payable	(2,442,033)	1,196,086
	<u>                    </u>	<u>                    </u>
Net cash provided by operating activities	<u>\$ 38,194,580</u>	<u>\$ 42,638,450</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**STATEMENTS OF FIDUCIARY NET POSITION**

	June 30, 2015			June 30, 2014		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 377,891	\$ 1,606	\$ 379,497	\$ 669,043	\$ -	\$ 669,043
Marketable securities and other investments	4,806,858	101,743	4,908,601	4,683,748	-	4,683,748
Contribution receivable	9,611	-	9,611	8,423	-	8,423
Total assets	<u>\$ 5,194,360</u>	<u>\$ 103,349</u>	<u>\$ 5,297,709</u>	<u>\$ 5,361,214</u>	<u>\$ -</u>	<u>\$ 5,361,214</u>
<b>NET POSITION</b>						
Pension plan participants' benefits	<u>\$ 5,194,360</u>	<u>\$ 103,349</u>	<u>\$ 5,297,709</u>	<u>\$ 5,361,214</u>	<u>\$ -</u>	<u>\$ 5,361,214</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

Years ended:

	June 30, 2015			June 30, 2014		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
<b>ADDITIONS</b>						
Investment earnings	\$ 296,627	\$ 2,726	\$ 299,353	\$ 885,971	\$ -	\$ 885,971
Employer contributions	342,629	101,917	444,546	344,457	-	344,457
Total additions	<u>639,256</u>	<u>104,643</u>	<u>743,899</u>	<u>1,230,428</u>	<u>-</u>	<u>1,230,428</u>
<b>DEDUCTIONS</b>						
Investment losses	97,577	1,294	98,871	-	-	-
Distributions to participants	707,122	-	707,122	637,906	-	637,906
Other activity	1,411	-	1,411	-	-	-
Total deductions	<u>806,110</u>	<u>1,294</u>	<u>807,404</u>	<u>637,906</u>	<u>-</u>	<u>637,906</u>
Change in net position	(166,854)	103,349	(63,505)	592,522	-	592,522
Net position - beginning	<u>5,361,214</u>	<u>-</u>	<u>5,361,214</u>	<u>4,768,692</u>	<u>-</u>	<u>4,768,692</u>
Net position - ending	<u>\$5,194,360</u>	<u>\$103,349</u>	<u>\$5,297,709</u>	<u>\$5,361,214</u>	<u>\$ -</u>	<u>\$5,361,214</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting Entity

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement 14 (as amended by GASB *Statement 61*) consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

With the enactment of the New Mexico Lottery Act (the Act) on July 1, 1995, the New Mexico Lottery Authority (the Lottery) was created as a public body, politic and corporate, separate and apart from the State of New Mexico and constituting a governmental instrumentality of the state. The Lottery was created and organized for the purpose of establishing and conducting the Lottery to provide revenues for the public purposes designated by the Act. The New Mexico Lottery was organized as an independent business enterprise separate from state government, self-sustaining and self-funded, without need for state revenues or resources and subject to oversight, audit, and accountability by public officials and agencies. However, since there is a financial benefit to the State's institutions of higher education, which are part of the State, the Lottery is considered a component unit of the State of New Mexico. The Lottery has no component units.

The Lottery commenced sales of instant tickets on April 27, 1996, and sales of draw game tickets on October 20, 1996.

2. Basis of Presentation

The financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation – Continued

Two Fiduciary Funds are used to account for assets held in a trustee capacity for Lottery employees. The Lottery's two fiduciary funds are a money purchase pension plan trust fund, the "New Mexico Lottery Authority Retirement Plan" and a section 457(b) pension plan trust fund, the "New Mexico Lottery Authority 457(b) Plan".

The pension trust funds per Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position and Note D reflect the activities of the New Mexico Lottery Authority Retirement Plans pursuant to a trust agreement with Verisight Trust Company in fiscal year 2015 and formerly with Wells Fargo bank prior to August 2014. The trustee holds, invests and distributes the assets of the Plan for the benefit of the Plan participants, subject to the overall direction of the Lottery in its capacity as plan administrator.

The Lottery distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with the Lottery's principal ongoing operations. The principal operating revenues of the Lottery are sales of instant and draw game tickets. The Lottery also recognizes retailer fees for connecting new retailers to the system as operating revenues. Operating expenses include the costs related to sales, administrative expenses required to manage and operate the Lottery, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2015 and 2014 there were no restricted resources.

3. Budgets and Budgetary Accounting

Each year Lottery management prepares a budget in conformity with GAAP for the succeeding fiscal year. The Lottery's budget is not legally binding. The budget is presented by management to the Lottery's board of directors for review, amendment, and approval prior to the beginning of the next fiscal year. Any revisions to this budget during the fiscal year are approved by the Lottery's board of directors. The Lottery's financial statements are reviewed at each regular board of directors' meeting. Performance in relation to the budget is presented and discussed during these meetings.



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Lottery considers cash and cash equivalents to be cash on hand, demand deposits, time deposits with an original maturity of ninety days or less, and overnight repurchase agreements.

5. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. At June 30, 2015 and 2014, an allowance for doubtful accounts of \$31,540 and \$34,315, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2015 and 2014, ten retail customers (513 and 503 retailer locations) represented 61% and 60% of sales for each year, respectively, and 65% and 62% of accounts receivable for each year, respectively.

6. Reserves on Deposit

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating lotteries. MUSL currently operates the POWERBALL® (Powerball), Hot Lotto® (Hot Lotto) and Mega Millions® (Mega Millions) games for the Lottery. The Lottery sells Powerball, Hot Lotto and Mega Millions game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability for each game. Lesser prizes are paid directly to the winners by each member lottery. The prize pools for Powerball and Hot Lotto are 50% of each game's drawing period's sales after the prize pool accounts and prize reserve accounts are funded to the amounts set by the MUSL product group. The prize pool for Mega Millions is up to 55% of each drawing period's sales after the prize reserve accounts are funded to the amounts set by the MUSL product group, but may be higher or lower based upon the number of winners at each prize level, as well as the funding required to meet a guaranteed Annuity Grand Prize. In fiscal year 2015, MUSL also operated Monopoly Millionaires' Club Game from October 19, 2014 to December 26, 2014 when the game was ended.

MUSL has established prize reserve accounts for the games it operates. These prize reserve accounts are funded out of the prize pools for the games until the accounts reach amounts set by the MUSL product groups for each game. Once the prize reserve funds exceed these designated maximums, the excess becomes part of the grand prize pool. The prize reserve funds serve as contingency reserves to protect MUSL and the party lotteries from the MUSL Board of Directors. Any amounts remaining in the prize pool accounts or prize reserve account when the MUSL product group declares the end of a game shall be returned to the

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Reserves on Deposit - Continued

lotteries participating in the accounts after the end of all claim periods of all selling lotteries or may be carried forward to a replacement game.

As of October 1, 2014, the Powerball prize reserve deduction was set to begin at two percent (2%) when the annuity jackpot, as determined after sales are known, exceeds \$120 million, and four percent (4%) when the annuity jackpot, as determined after sales are known, exceeds \$250 million. Prior to this time, MUSL included 2% of the Lottery's Powerball drawing period's sales in two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA), until the Lottery's share in both the PRA and SPRA were fully funded. The maximum amounts designated by the MUSL Powerball product group for the PRA is \$80 million and for the SPRA is \$40 million for all member lotteries. At June 30, 2015 and 2014, the Lottery's share in the Powerball PRA was \$1,046,525 and \$1,150,023, respectively, and in the SPRA was \$455,011 and \$500,010, respectively. Both Powerball reserve funds were fully funded at the end of June 2015 and 2014, respectively.

MUSL includes up to 3% of the Lottery's Hot Lotto drawing period's sales, depending on the annuitized value of the Grand Prize, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Hot Lotto PRA balance at nine million dollars for all party lotteries. At June 30, 2015 and 2014, the Lottery's share in the Hot Lotto PRA was \$654,465 and \$655,418, respectively. The Hot Lotto PRA was fully funded at the end of June 2015 and 2014, respectively.

MUSL may include an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales into the Mega Millions Prize Reserve Account (PRA). The MUSL product group has set the maximum PRA balance at \$45 million for all party lotteries. At June 30, 2015 and 2014 the Lottery's share in the Mega Millions PRA was \$463,953 and \$514,756, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of June 2015 and 2014.

As of June 30, 2015, MUSL holds \$4,257 in a reserve account for the Monopoly Millionaires' Club Game. This amount is expected to be refunded or used for another MUSL game within the next year.

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2015 and 2014, the Lottery's share of the unreserved fund was \$796,081 and \$611,761, respectively.

A winner of a Powerball grand prize or Mega Millions grand prize may select that the prize be paid at the cash value of the prize or as an annuity. For both, Powerball and Mega

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Reserves on Deposit – Continued

Millions, the grand prize annuity is paid out in 30 graduated annual installments over 29 years. Government securities at the discounted value of the grand prize annuity are purchased to fund all future installments and are held in trust. Maturities are staggered in order to provide adequate cash flow for each annual installment. These assets and related liabilities are reflected in MUSL's financial statements and therefore are not reflected in the Lottery's financial statements. MUSL is responsible for transferring the cash or the annuity installment amounts to the member lottery prior to the payment to any grand prize winner. Currently, the Lottery is not paying any prize winner any annuity prize payments.

As of May 12, 2013, the Hot Lotto advertised grand prize is paid as a withholdings taxes paid single, cash payment prize where the estimated advertised grand prize is grossed up to include federal and state tax withholdings and the prize winner receives the net prize after tax withholdings.

7. Inventory

The Lottery entered into an agreement with its primary instant ticket printer, whereby the printer retains title to the instant ticket inventory until the instant tickets are sold. Under this agreement, the Lottery pays the vendor a fee based on a fixed percentage of the net instant tickets sold; net instant tickets sold represents instant ticket sales less prize, spoiled, stolen, and promotional tickets. In addition, the Lottery signed an agreement with a secondary instant ticket printer, whereby the Lottery purchases and owns the tickets printed. These tickets are carried at the lower of cost or market using the specific identification method. At the end of fiscal years 2015 and 2014, the Lottery was distributing games printed under the two agreements. As of June 30, 2015 and 2014, \$113,834 and \$67,769, respectively, of instant tickets are included in inventory. For each year respectively, \$48,190 and \$55,122 of merchandise prizes for second chance drawings are also included in inventory.

8. Capital Assets

Capital assets, which include land, buildings, works of art, data processing software and hardware, tenant improvements, vehicles, furniture and fixtures, intellectual property, and equipment, are stated at cost net of any accumulated depreciation. The Lottery capitalizes all assets that have a cost greater than \$5,000 and an expected useful life of more than one year. Land and works of art, which have a perpetual or undeterminable life, are not depreciated. The building will be depreciated over its effective useful life of thirty-eight years with a residual value of ten percent. Tenant improvements are amortized over five

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

8. Capital Assets- Continued

years or the remaining lease term, whichever is shorter, and intellectual property is amortized over the remaining life at the time of acquisition or at the time of development. For all other capital assets placed into service on or after July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 4 to 10 years. For any assets placed into service prior to July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 2 to 5 years. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

9. Revenue and Accounts Receivable Recognition

Lottery games are sold to the public by contracted retailers and directly by the Lottery. Revenues and accounts receivable for instant tickets are recognized when packs are settled and retailers are billed for the tickets. Revenues and accounts receivable for all draw games are recognized when drawings are held, except for Quicksters, where the revenues and accounts receivable are recognized at the time the tickets are sold. Accounts receivable are stated at their net realizable value and their past due status is based upon contractual terms.

The following is a summary of total operating revenues that are comprised of instant and draw game ticket sales and the related prize, spoiled, stolen, and promotional tickets, which are netted into the applicable game sales on the financial statements; plus any retailer fees and related bad debts that are shown as a contra revenue account in total operating revenues.

	2015	2014
OPERATING REVENUES		
Instant ticket sales	\$ 82,340,495	\$ 71,961,184
Powerball sales	27,722,733	34,065,150
Mega Millions sales	11,161,264	13,418,660
Roadrunner Cash sales	6,240,297	8,599,410
Hot Lotto sales	5,997,386	5,709,957
Pick 3 sales	4,673,406	3,831,547
Quickster sales	742,510	639,311
Monopoly Millionaires' Club sales	421,020	-
Lucky Numbers Bingo sales	153,912	-
Less tickets provided as prizes	(2,340,965)	(2,096,244)
Less spoiled, stolen, and promotional tickets	(95,335)	(126,371)
Net ticket sales	137,016,723	136,002,604
Retailer fees	19,980	22,453
Bad debts	-	-
Total operating revenues	\$ 137,036,703	\$ 136,025,057

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Prizes

Prize expense for instant, Powerball, Mega Millions, and Hot Lotto games is recorded based on an estimate of the predetermined prize structure for each game. Prize expense for Roadrunner Cash, Pick 3, Quickster, and Lucky Numbers Bingo games is recorded based on the actual prizes won for each game. The prize expense for Monopoly Millionaires' Club was the actual cost of the prizes.

11. Commissions

Retailers receive a commission of 6% on gross ticket sales and a 1% cashing commission on winning ticket validations for prizes up to \$600.

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

The Lottery is exempt from Federal and New Mexico income taxes. Accordingly, no provision for income taxes has been made.

14. Custodial Credit Risk and Interest Rate Risk

At June 30, 2015 and 2014, respectively, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at this financial institution.

Custodial credit risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Lottery's deposits may not be returned to it. The Lottery does not have a deposit policy for custodial credit risk. The Lottery limits its custodial risk for its cash and requires collateral in an amount greater than or equal to 50% of any deposit not insured by Federal Insuring Agencies. A greater amount of collateral is required when the Lottery determines it is prudent. Collateral must meet State of New Mexico "Security of Public Money" standards and be held in the third party safekeeping.

Custodial credit risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds, external investment pools, and securities underlying reverse repurchase

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

14. Custodial Credit Risk and Interest Rate Risk - Continued

agreements are not exposed to custodial credit risk. The Lottery does not have an investment policy for custodial credit risk.

The Lottery's custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery's investments are made in overnight repurchase agreements. Investments are made through a local financial institution and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by the Government.

Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico "Security of Public Money" standards and be held in third party safekeeping. As of June 30, 2015 and 2014, the Lottery's bank balances of \$5,558,081 and \$10,372,837, respectively, were exposed to custodial credit risk as follows:

	<u>2015</u>	<u>2014</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank's trust department in the Bank's name	-	-
Collateral held by the pledging bank's trust department in the Lottery's name	<u>5,558,081</u>	<u>10,372,837</u>
	<u>\$ 5,558,081</u>	<u>\$ 10,372,837</u>

Interest Rate Risk – Investments. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery does not have a specific policy to limit its exposure to interest rate risk.

At June 30, 2015 and 2014, the Lottery had overnight yield repurchase agreements with one-day maturities.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Bank Accounts

At June 30, 2015:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase Agreement	Wells Fargo Bank, NA	\$ 5,558,081
Operating account – checking	Wells Fargo Bank, NA	<u>-</u>
Total amount deposited in bank		5,558,081
Less: FDIC coverage		<u>-</u>
*Total uninsured funds – deposits and overnight repurchase agreement		<u><u>\$ 5,558,081</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 5,669,242
* Total pledged security		<u>(5,669,243)</u>
Amount under (over) requirement at June 30, 2015		<u><u>\$ (1)</u></u>
*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3128MJTQ3 (fair market value \$5,343,685), matures November 01, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.		
Cash and cash equivalents per bank at June 30, 2015		\$ 5,558,081
Less reconciling items--outstanding checks		<u>( 50,986)</u>
Reconciled cash in bank at June 30, 2015		5,507,095
Cash in vault		<u>7,950</u>
Total cash and cash equivalents per Statements of Net Position		<u><u>\$ 5,515,045</u></u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Bank Accounts - Continued

At June 30, 2014:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase Agreement	Wells Fargo Bank, NA	\$ 10,372,772
Operating account - checking	Wells Fargo Bank, NA	<u>65</u>
Total amount deposited in bank		10,372,837
Less: FDIC coverage		<u>(65)</u>
*Total uninsured funds - deposits and overnight repurchase agreement		<u>\$ 10,372,772</u>
102% pledged collateral requirement per statute for repurchase agreement		\$10,580,227
* Total pledged security		<u>(10,580,228)</u>
Amount under (over) requirement at June 30, 2014		<u>\$ (1)</u>
*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 36179NTE8 (fair market value \$9,839,187), matures November 1, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery Authority.		
Cash and cash equivalents per bank at June 30, 2014		\$ 10,372,837
Less reconciling items--outstanding checks		<u>( 103,865)</u>
Reconciled cash in bank at June 30, 2014		10,268,972
Cash in vault		<u>11,700</u>
Total cash and cash equivalents per Statements of Net Position		<u>\$ 10,280,672</u>



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

16. Risk Management

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery purchases commercial insurance to cover these risks. The amount of coverage has not been exceeded by claims in the last three years.

17. Shipping and Handling Costs

Shipping and handling costs associated with inventory distribution are expensed as incurred and included in game expenses.

18. Net Position

Net position represents the difference between all other elements in a statement of financial position and should be displayed in the applicable components of net investment in capital assets, restricted and unrestricted.

*Net Investment in Capital Assets* – consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvement of those assets.

*Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The Lottery does not have a restricted component of net position.

*Unrestricted* – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. In May 2014, the New Mexico Lottery Authority Board executed a resolution to establish contingency reserves from operating expenses for the sole purpose of allowing the New Mexico Lottery Authority to successfully carry out the provision of the New Mexico Lottery Act.

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes have been applied against prize expense to supplement prizes in the Lottery's games and to promotions to increase sales.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

20. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

21. Compensated Absences Payable

Annual leave and sick leave are accrued at rates specified by the Lottery’s Leave Policy. Annual leave is awarded based on the employee’s years of lottery service, leave status, and employment status (full-time or part-time) and sick leave is awarded at 3.7 hours biweekly for full-time employees. The maximum number of annual leave hours that full-time employees may carry over and retain in their annual leave bank varies from 80 hours for an employee with less than 5 years of service up to a maximum of 320 hours for an employee with fifteen or more years of service. The maximum number of sick leave hours that a full-time employee may carry over from year-to-year is 480 hours. Part-time employees receive leave and carry-over and retain leave in their leave banks based on their percentage of employment. Upon separation from service, employees with at least one year of service will be compensated for their annual leave balance, not to exceed the maximum annual leave bank based on their years of service. Accrued sick leave hours will not be paid to an employee upon separation from service. During the years ended June 30, 2015 and 2014, the following changes occurred in the compensated absences liabilities:

<u>Balance July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2015</u>
\$ 207,240	\$ 23,304	\$ (25,256)	\$ 205,288
<u>Balance July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2014</u>
\$ 227,709	\$ 22,471	\$ (42,940)	\$ 207,240

The balances of compensated absences payable are reported on the Statements of Net Position in accounts payable and other current liabilities. The portion of accrued compensated absences due after one year is not material and, therefore is not presented separately.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

22. Long-term Liabilities

During the years ended June 30, 2015 and 2014, the following changes occurred in long-term obligations:

	<u>Balance July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Note payable	\$ -	\$1,200,000	\$ -	\$1,200,000	\$ 223,123
Capital leases	77,383	-	(74,788)	2,595	2,595
	<u>\$ 77,383</u>	<u>\$1,200,000</u>	<u>\$ (74,788)</u>	<u>\$1,202,595</u>	<u>\$ 225,718</u>
	<u>Balance July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Capital leases	<u>\$ 91,446</u>	<u>\$ -</u>	<u>\$ (14,063)</u>	<u>\$ 77,383</u>	<u>\$ 14,064</u>

A promissory note payable to Wells Fargo Bank, NA for the purchase of the building used as the Lottery's facility and warehouse was issued on June 26, 2015. Principal and interest payments are due monthly on the 26<sup>th</sup> day of the month. The note bears interest at 3.6% and matures on June 26, 2020. The outstanding balance at June 30, 2015 is \$1,200,000, of which \$223,123 is due within one year. Upon the purchase of the Lottery's corporate offices and warehouse, the remaining capital lease obligation of \$60,724 was retired as part of the purchase transaction.

23. Debt Service Requirements for Note Payable

Debt service requirements on note payable as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 223,123	\$ 39,838	\$ 262,961
2017	231,139	31,822	262,961
2018	239,718	23,243	262,961
2019	248,616	14,346	262,962
2020	257,404	5,127	262,531
	<u>\$ 1,200,000</u>	<u>\$ 114,376</u>	<u>\$ 1,314,376</u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

24. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities are comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 764,598	\$ 798,344
Accrued liabilities, vendors*	433,567	985,907
Accrued liabilities, retailers*	21,500	24,000
Accrued payroll, and payroll taxes and benefits	112,147	129,927
Compensated absences	<u>205,288</u>	<u>207,240</u>
	<u>\$ 1,537,100</u>	<u>\$ 2,145,418</u>

\* The Lottery has accrued an estimated amount of services delivered by its vendors and deposits for its retailers as of June 30, 2015 and 2014, respectively.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE B – CAPITAL ASSETS**

Capital assets at June 30, 2015 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Land	\$ -	\$ -	\$ 730,000	\$ -	\$ 730,000
Works of Art	-	-	6,850	-	6,850
Building	-	-	1,975,163	-	1,975,163
Data processing software	2,430,865	(307,183)	70,000	-	2,193,682
Data processing equipment	861,982	(134,027)	60,805	(29,950)	758,810
Equipment - Security and disaster recovery	638,837	(3,215)	-	-	635,622
Vehicles	452,284	-	-	-	452,284
Furniture and fixtures	230,767	-	-	-	230,767
Intellectual property	179,073	-	-	-	179,073
Equipment – communications	266,174	(110,473)	4,806	-	160,507
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	49,508	-	-	-	49,508
Equipment - drawing	106,800	(71,328)	-	-	35,472
Tenant improvements	425,850	(845)	-	(425,005)	-
Obsolete capital assets	165,112	627,071	-	(82,731)	709,452
Capital assets	<u>5,878,426</u>	<u>-</u>	<u>2,847,624</u>	<u>(537,686)</u>	<u>8,188,364</u>
Building	-	-	-	-	-
Data processing software	(2,412,702)	307,183	(6,601)	-	(2,112,120)
Data processing equipment	(789,759)	134,027	(44,232)	29,950	(670,014)
Equipment - Security and disaster recovery	(529,822)	3,215	(30,790)	-	(557,397)
Vehicles	(276,184)	-	(81,513)	-	(357,697)
Furniture and fixtures	(230,767)	-	-	-	(230,767)
Intellectual property	(37,050)	-	(24,700)	-	(61,750)
Equipment – communications	(118,635)	110,473	(21,763)	-	(29,925)
Equipment - warehouse	(68,266)	-	(1,586)	-	(69,852)
Equipment - office	(49,508)	-	-	-	(49,508)
Equipment - drawing	(14,921)	71,328	(66,457)	-	(10,050)
Tenant improvements	(357,814)	845	(20,905)	377,874	-
Obsolete capital assets	<u>(165,112)</u>	<u>(627,071)</u>	<u>-</u>	<u>82,731</u>	<u>(709,452)</u>
Accumulated depreciation	<u>(5,050,540)</u>	<u>-</u>	<u>(298,547)</u>	<u>490,555</u>	<u>(4,858,532)</u>
Capital assets, net	<u>\$ 827,886</u>	<u>\$ -</u>	<u>\$ 2,549,077</u>	<u>\$ (47,131)</u>	<u>\$ 3,329,832</u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE B - CAPITAL ASSETS - CONTINUED**

Capital assets at June 30, 2014 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Data processing software	\$ 2,411,528	\$ -	\$ 19,337	\$ -	\$ 2,430,865
Data processing equipment	830,528	-	31,454	-	861,982
Equipment - Security and disaster recovery	635,807	(18,170)	21,200	-	638,837
Vehicles	493,280	-	67,284	(108,280)	452,284
Tenant improvements	425,850	-	-	-	425,850
Furniture and fixtures	230,767	-	-	-	230,767
Intellectual property	179,073	-	-	-	179,073
Equipment - communications	118,635	-	147,539	-	266,174
Equipment - drawing	116,478	-	100,232	(109,910)	106,800
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	49,508	-	-	-	49,508
Obsolete capital assets	214,784	18,170	-	(67,842)	165,112
Capital assets	<u>5,777,412</u>	<u>-</u>	<u>387,046</u>	<u>(286,032)</u>	<u>5,878,426</u>
Data processing software	(2,411,528)	-	(1,174)	-	(2,412,702)
Data processing equipment	(753,529)	-	(36,230)	-	(789,759)
Equipment - Security and disaster recovery	(519,227)	18,170	(28,765)	-	(529,822)
Vehicles	(317,390)	-	(67,074)	108,280	(276,184)
Tenant improvements	(337,190)	-	(20,624)	-	(357,814)
Furniture and fixtures	(230,767)	-	-	-	(230,767)
Intellectual property	(12,350)	-	(24,700)	-	(37,050)
Equipment - communications	(118,635)	-	-	-	(118,635)
Equipment - drawing	(116,478)	-	(8,353)	109,910	(14,921)
Equipment - warehouse	(66,681)	-	(1,585)	-	(68,266)
Equipment - office	(49,508)	-	-	-	(49,508)
Obsolete capital assets	<u>(214,784)</u>	<u>(18,170)</u>	<u>-</u>	<u>67,842</u>	<u>(165,112)</u>
Accumulated depreciation	<u>(5,148,067)</u>	<u>-</u>	<u>(188,505)</u>	<u>286,032</u>	<u>(5,050,540)</u>
Capital assets, net	<u>\$ 629,345</u>	<u>\$ -</u>	<u>\$ 198,541</u>	<u>\$ -</u>	<u>\$ 827,886</u>

Included in data processing software, data processing equipment and tenant improvements are \$43,600 and \$115,143 in assets reported as capital leases at June 30, 2015 and 2014, respectively. For each fiscal year, there was \$14,063 in related amortization on these assets. Upon the purchase of the Lottery's corporate offices and warehouse, the remaining capital lease obligation of \$60,724 for tenant improvements was retired as part of the purchase transaction.

Land and works of art are non-depreciable assets.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE C - ALLOCATION OF NET INCOME/TRANSFERS TO LOTTERY TUITION FUND**

	Net Income	Due to Lottery Tuition Fund	Net Position
	_____	_____	_____
Balance at June 30, 2014	\$ 3,056,450	\$ 3,056,450	\$ -
Current year net return	41,121,221	41,121,221	-
Current year transfers	(41,124,750)	(41,124,750)	-
Balance at June 30, 2015	<u>\$ 3,052,921</u>	<u>\$ 3,052,921</u>	<u>\$ -</u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least thirty percent of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2015 and 2014, the Lottery has transferred \$41,121,221 and \$40,941,550, respectively, for the years ended June 30, 2015 and 2014 to the New Mexico State Treasurer.

**NOTE D - RETIREMENT PLAN**

Plan Descriptions and Funding

Money Purchase Pension Plan

All of the Lottery's eligible employees participate in a plan provided by the Lottery pursuant to the New Mexico Lottery Act (Chapter 6, Article 24 NMSA 1978). The Lottery is the administrator of the Plan, which is a defined contribution money purchase pension plan. Benefit terms, including contribution requirements are established and may be amended by the Lottery's Board of Directors. The plan provides for retirement benefits to plan members and their beneficiaries. The benefit that a plan member will receive when eligible will depend on the contributions to the member's individual account, actual earnings or losses on investments of those contributions, and any fees that are assessed to the member's account. Sixty-nine and sixty-two current and former employees of the Lottery were participants in the plan at the end of fiscal years 2015 and 2014, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE D - RETIREMENT PLAN - CONTINUED**

Plan Descriptions and Funding- Continued

Money Purchase Pension Plan - Continued

Wells Fargo Bank was the trustee for the plan until August 15, 2014. At a Lottery Board of Directors' meeting on May 6, 2014, the Board by an adopted resolution removed Wells Fargo Bank as the trustee of the retirement plan and appointed Verisight Trust Company (c/o Verisight, Inc.) as the new trustee for the retirement plan (the "New Mexico Lottery Authority Retirement Plan") to be effective as of the date the money purchase pension plan retirement assets were transferred to or deposited at Verisight Trust Company. The retirement assets were liquidated by Wells Fargo Bank as of August 15, 2014 and transferred to Verisight Trust Company. With the appointment of Verisight Trust Company, the Lottery Board also elected to allow new employees to enter the retirement plan on their date of hire. Previously, employees became eligible to participate in the money purchase pension plan when they had completed six months of services. At that time, contributions started on the first day of the quarter coinciding with or next following the date in which the employee satisfied the eligibility requirement. The money purchase pension plan allows employees to self-direct their investments into any of the forty-one investment funds. Previously as trustee for the money purchase pension plan, Wells Fargo Bank had provided twenty-eight investment funds for employees to self-direct their funds.

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2015 and 2014, the Lottery recognized \$342,629 and \$344,457 of pension expense for the plan on eligible compensation of \$2,585,879 and \$2,599,675, respectively. There were no forfeitures of employee balances for the years ended June 30, 2015 and 2014, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years have been paid to the plan by June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, the Lottery recognized a contribution liability of \$9,611 and \$8,423, respectively, for contributions owed on compensation earned, but not paid, for the last few days of each fiscal year.

457(b) Plan

At the May 6, 2014 Board of Directors' meeting, the Board adopted a Section 457(b) Plan, (the "New Mexico Lottery Authority 457(b) Plan") that allows both pre-tax and Roth (after tax) contributions by employees for their retirement up to applicable annual Internal Revenue Code limits. The 457(b) plan became effective with the payroll ended on August 2, 2014. Verisight Trust Company was also appointed the trustee for the 457(b) plan. This new plan,



New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE D - RETIREMENT PLAN - CONTINUED**

Plan Descriptions and Funding- Continued

457(b) Plan - Continued

like the money purchase pension plan, allows employees to self-direct their investments into any of the forty-one investment funds. Thirty-nine current and former employees were participants in the plan at the end of fiscal year 2015. All amounts withheld from employee compensation for Section 457(b) contributions have been paid to the plan by June 30, 2015.

The balances and activity of the Plan as of and for the years ended June 30, 2015 and 2014 are presented in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plan.

**NOTE E - CREDIT AGREEMENT**

In July 2012, the Lottery entered into an agreement with Wells Fargo Bank effective May 15, 2012 for an automatic unsecured overdraft line of credit sweep in the amount of \$4,000,000 with a variable interest rate, which was 3.25% as of June 30, 2015 and 2014, respectively. This line matured on May 14, 2015, May 14, 2014, and May 14, 2013 and was renewed for another year under the same terms and conditions each year.

For the years ended June 30, 2015 and 2014, the Lottery had no outstanding borrowings against the line-of-credit.

**NOTE F - LEASES**

In June 2012, the Lottery executed a new lease for its corporate office and warehouse space. The new lease commenced on July 1, 2012 and cancelled the remaining nine months of the 2002 lease extension. The new lease was for ten years and nine months, ending on March 31, 2023. The Lottery had the option to extend the new lease for five additional years until March 31, 2028.

Rent expense was \$284,132 and \$293,530 for the years ended June 30, 2015 and 2014, respectively.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE F - LEASES - CONTINUED**

Following is a schedule of the composition of net rental expense for all long-term operating leases for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Minimum rentals	\$ 276,965	\$ 280,165
Less: Subleases	<u>-</u>	<u>-</u>
	<u>\$ 276,965</u>	<u>\$ 280,165</u>

On June 26, 2015, the Lottery purchased the building housing its corporate offices and warehouse from NMLB, LLC. With this purchase transaction, the June 2012 lease was terminated.

As part of the 2002 lease extension with NMLB, LLC, the Lottery had received \$50,000 in 2012 to be used for tenant improvements to the facility. In addition, as part of the 2012 lease, the Lottery had received \$1,858 in 2012 and \$29,975 in fiscal year 2013 for tenant improvements to the facility. The Lottery had recorded the \$81,833 as tenant improvements with a related deferred liability to be amortized over the life of the lease using the straight-line method. Upon the purchase of the Lottery's corporate offices and warehouse, the remaining capital lease obligation of \$60,724 was retired as part of the purchase transaction.

As part of the agreement with INTRALOT, Inc., to provide an updated on-line gaming system, the Lottery installed and implemented a new internal control system (ICS) in fiscal year 2009. The cost for the ICS is included in the fixed fee paid to the vendor as a percentage of net sales. The Lottery has accounted for this transaction as a capital lease. The ICS cost was projected over the initial term of the contract of seven years and has been capitalized on the books of the Lottery at the present value of this cost, as determined with a discount rate of 4%.

Years ending June 30:

2016	<u>3,432</u>
Total minimum payments	3,432
Less the amount representing interest	<u>(837)</u>
Present value of net minimum payments	<u>\$ 2,595</u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

**NOTE G - COMMITMENT**

Effective on November 15, 2007, the Lottery entered into an agreement with INTRALOT, Inc., a Georgia-based company, to provide an updated on-line gaming system for a total of seven years. The system includes the supply, installation, maintenance, service, and operation of a communication network, lottery terminals and peripheral equipment for the Lottery's existing and future retailers, ticket scanners to enable players to check their tickets for prizes, self-service ticket vending machines that sell both instant and draw game tickets, a disaster recovery and business continuity facility, and various employees to operate the system and provide sales and marketing support to the Lottery. The transition to this new on-line gaming system took place on November 16, 2008. Since November 21, 2008, the on-line vendor fee has been fixed at 1.5% of net sales, plus the applicable gross receipts tax.

**NOTE H - OTHER EXPENSES**

Other expenses at June 30 consisted of:

	<u>2015</u>	<u>2014</u>
Registrations and memberships	\$ 23,165	\$ 23,912
Other	19,274	29,336
Training	7,223	12,015
Publications and subscriptions	<u>2,619</u>	<u>4,448</u>
	<u>\$ 52,281</u>	<u>\$ 69,711</u>

New Mexico Lottery Authority

**SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON STATEMENTS**

Years ended June 30, 2015 and 2014

	2015				2014			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Operating revenues								
Instant ticket sales	\$ 71,893,000	\$ 77,664,500	\$ 79,956,236	\$ 2,291,736	\$ 68,893,000	\$ 67,797,000	\$ 69,804,813	\$ 2,007,813
Powerball sales	37,859,200	29,939,000	27,722,571	(2,216,429)	37,851,500	37,850,000	34,027,555	(3,822,445)
Mega Millions sales	8,994,900	11,999,500	11,161,262	(838,238)	7,989,800	11,989,000	13,410,732	1,421,732
Roadrunner Cash sales	6,992,800	6,499,000	6,240,297	(258,703)	6,791,300	8,391,000	8,592,684	201,684
Hot Lotto sales	4,988,800	5,999,500	5,997,386	(2,114)	5,493,000	4,993,000	5,700,311	707,311
Pick 3 sales	4,195,700	4,599,500	4,621,530	22,030	3,395,700	3,694,000	3,828,187	134,187
Quickster sales	1,498,500	774,500	742,509	(31,991)	998,700	598,000	638,322	40,322
Monopoly Millionaires' Club sales	2,992,800	421,000	421,020	20	-	-	-	-
Lucky Numbers Bingo sales	3,396,300	149,500	153,912	4,412	-	-	-	-
Net ticket sales	142,812,000	138,046,000	137,016,723	(1,029,277)	131,413,000	135,312,000	136,002,604	690,604
Retailer fees	12,000	15,000	19,980	4,980	11,000	15,000	22,453	7,453
Bad debts	(24,000)	(24,000)	-	24,000	(24,000)	(24,000)	-	24,000
Total operating revenues	142,800,000	138,037,000	137,036,703	(1,000,297)	131,400,000	135,303,000	136,025,057	722,057
Total game expenses	94,130,000	91,244,000	90,884,538	(359,462)	86,280,000	89,031,000	89,608,334	577,334
Total operating expenses	5,846,000	5,399,000	5,057,597	(341,403)	5,716,000	5,698,000	5,240,530	(457,470)
Operating income	42,824,000	41,394,000	41,094,568	(299,432)	39,404,000	40,574,000	41,176,193	602,193
Total non-operating income (expense)	24,000	24,000	26,653	2,653	24,000	25,000	32,357	7,357
Net income before transfers to Lottery Tuition Fund	\$ 42,848,000	\$ 41,418,000	\$ 41,121,221	\$ (296,779)	\$ 39,428,000	\$ 40,599,000	\$ 41,208,550	\$ 609,550

New Mexico Lottery Authority

**SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF PERCENTAGE RETURN TO THE STATE OF NEW MEXICO**

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$ 79,956,236	\$ 69,804,813
Powerball sales	27,722,571	34,027,555
Mega Millions sales	11,161,262	13,410,732
Roadrunner Cash sales	6,240,297	8,592,684
Hot Lotto sales	5,997,386	5,700,311
Pick 3 sales	4,621,530	3,828,187
Quickster sales	742,509	638,322
Monopoly Millionaires' Club sales	421,020	-
Lucky Numbers Bingo sales	153,912	-
Net ticket sales	<u>137,016,723</u>	<u>136,002,604</u>
Retailer fees	19,980	22,453
Bad debts	-	-
Total operating revenues	<u>137,036,703</u>	<u>136,025,057</u>
<b>NON-OPERATING INCOME</b>		
Interest income	16,373	18,753
Other income	10,516	13,604
Total non-operating income	<u>26,889</u>	<u>32,357</u>
<b>GROSS REVENUES</b>	<u>137,063,592</u>	<u>136,057,414</u>
<b>GAME EXPENSES</b>		
Prize expense	75,592,325	74,060,246
Retailer commissions	8,941,265	8,782,855
On-line vendor fees	2,193,183	2,177,205
Advertising	2,174,697	2,267,772
Ticket vendor fees	1,265,885	1,188,107
Shipping and postage	312,134	335,679
Promotions	134,190	221,036
Retailer equipment	96,816	345,786
Responsible gaming	69,998	83,050
Game membership	66,895	43,718
Drawing game	37,150	102,880
Total game expenses	<u>90,884,538</u>	<u>89,608,334</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	3,485,280	3,726,941
Leases and insurance	435,550	423,932
Utilities and maintenance	410,518	448,166
Depreciation and amortization	298,547	188,505
Professional fees	232,028	186,035
Materials and supplies	77,233	135,260
Travel	66,160	61,980
Other	52,281	69,711
Operational Reserve Fund expense	-	267,000
Total operating expenses	<u>5,057,597</u>	<u>5,507,530</u>
<b>OPERATING INCOME</b>	<u>41,094,568</u>	<u>40,909,193</u>
<b>NON-OPERATING EXPENSE</b>		
Interest expense	236	-
Total non-operating expense	<u>236</u>	<u>-</u>
<b>NET INCOME</b>	<u>\$ 41,121,221</u>	<u>\$ 40,941,550</u>
<b>GROSS REVENUE PERCENTAGE RETURN</b>	<u>30.00%</u>	<u>30.09%</u>

New Mexico Lottery Authority

**EXIT CONFERENCE**

For the Year Ended June 30, 2015

An exit conference was held at the New Mexico Lottery Authority on October 20, 2015. The following individuals participated:

Name	Title
<i>New Mexico Lottery Authority Finance/Audit Committee</i>	
<b>Dr. Dan Salzwedel</b>	<b>Board Chair</b>
<b>Mark Koson</b>	<b>Board Vice-Chair and Finance/Audit Committee Chairman</b>
<b>John Kubiak, CPA</b>	<b>Board Secretary/Treasurer</b>
<i>New Mexico Lottery Authority Employees</i>	
<b>David M. Barden, Esq.</b>	<b>Chief Executive Officer</b>
<b>Sylvia Ann Jaramillo, CPA</b>	<b>Chief of Staff/Director of Administration</b>
<b>Michael Boland, CPA</b>	<b>Internal Auditor</b>
<i>Moss Adams LLP</i>	
<b>Amy Carter, CPA</b>	<b>Audit Senior Manager</b>
<b>Corrine Zajac-Clarkson</b>	<b>Auditor in-charge</b>
<b>Jaime Rumbaoa</b>	<b>IT Senior Manager</b>

**Financial Statement Preparation**

The New Mexico Lottery Authority's financial statements, notes, and management's discussion and analysis have been prepared by the New Mexico Lottery Authority's accountants.