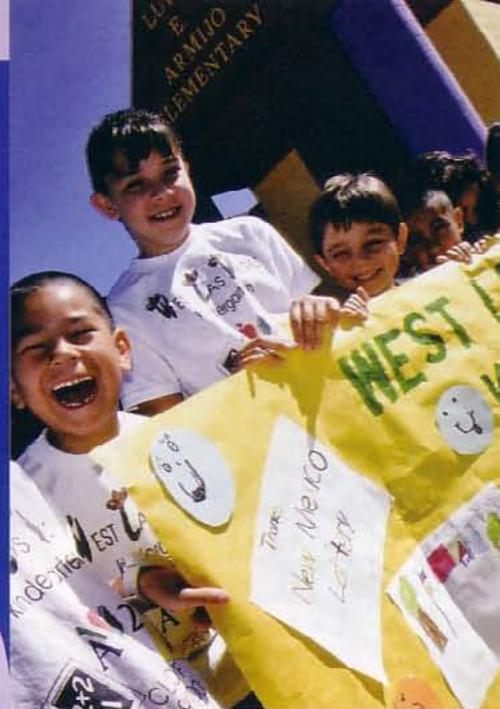


nmla 2000

new mexico lottery authority
annual report fy 2000



Benefitting New Mexico's Future



\$62.4m

in cash and prizes claimed by
new mexico lottery players

A Letter from the Chairman and the CEO

Once again, the people of New Mexico can be proud of their Lottery. Not only were there record sales for the fourth consecutive fiscal year but also, more importantly, there was a record return for public education.

Since the Lottery's debut in 1996 through the end of FY 2000, the Lottery transferred more than \$92.4 million to the New Mexico State Treasurer with 100 percent of those proceeds designated for educational programs. Of that, nearly \$54.1 million was earmarked for public school capital outlay. Through FY 2000, 42 school districts were assisted, and 11 more districts were added this calendar year. During the same period of time, almost \$38.3 million funded the Lottery Success Scholarship program. A record 10,015 students attended New Mexico colleges and universities during the 2000 spring semester with Lottery scholarships.

Also since the Lottery's inception through the end of FY 2000 winners claimed \$206.2 million in prizes. Lottery retailers earned

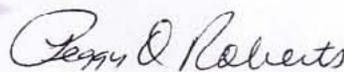
more than \$25 million in commissions during that same 4-year period.

The New Mexico Lottery's fourth full fiscal year of operations brought many opportunities. Staff members and retailers worked hand in hand to increase overall sales and educational proceeds. Fiscal year 2000 saw one Powerball jackpot over \$100 million; in FY 1999 there were two. The continued growth of the Lottery, especially its instant "scratcher" products, countered concerns that Lottery sales and revenues were down.

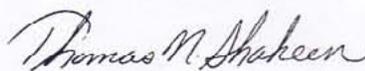
During calendar year 2000, the Lottery celebrated its first Powerball jackpot winner. This \$131 million event generated widespread and positive local, regional, national and international news coverage for the New Mexico Lottery and its educational beneficiaries. It will be discussed in detail in the Lottery's FY 2001 annual report.

The New Mexico Lottery Authority's goal: to steadily

increase our gross sales with the resulting record net profit to the State. This effort has carried over to FY 2001. The board of directors, management and staff are committed to an ongoing improvement of the Lottery's operation. Our pledge to you is continued development with professionalism and integrity of a quality product and one mission: benefitting New Mexico's future.



Peggy O. Roberts
Chair, Board of Directors



Thomas N. Shaheen
Chief Executive Officer



PEGGY O. ROBERTS,
CHAIR, BOARD OF DIRECTORS



THOMAS N. SHAHEEN,
CHIEF EXECUTIVE OFFICER

fy 2000



The Board of Directors

serving the lottery in fiscal years 2000-2001

The New Mexico Lottery's Board of Directors is a seven-member body appointed by the Governor, with confirmation by the State Senate. These dedicated citizens set policy and provide their advice and guidance to the lottery staff. They are volunteers, and are not compensated for their services.

As FY 2000 began, the membership included S. Bert Atkins of Alamogordo, an attorney in private practice; Gary Bratcher of Albuquerque, former New Mexico Secretary of Economic Development; Kathryn Cordova of El Prado, a college instructor and journalist; Claydean Elkins, Mayor of Jal; Steven J. Gabaldon, a Farmington business executive; former Lieutenant Governor Casey Luna of Belen; and, Peggy O. Roberts, an Albuquerque CPA.

Various changes occurred during FY 2000. Carlsbad business executive Karen Westall replaced Ms. Cordova, whose term expired.

Albuquerque attorney Cody Kelley was appointed to replace Lt. Gov. Luna, who resigned. And Henry Ulibarri, a Tierra Amarilla community activist and business executive, was appointed to replace Mr. Bratcher, who resigned to serve as interim Lottery Authority chief executive officer pending the selection of a permanent CEO.

Ms. Roberts was re-elected to chair the board, and Mr. Kelley was elected vice-chair.

According to New Mexico statutes, "The board shall provide the authority with the private-sector perspective of a large marketing enterprise and shall make every effort to exercise sound and prudent business judgment in its management and promotion of the lottery."

Among the board's responsibilities: adoption of rules, policies and procedures; maximizing net revenue for Lottery beneficiaries;

appointment of the Lottery's CEO; set and oversee the corporation's annual budget; conduct on-going studies of this and other lotteries to continually improve efficiency, profitability and security; prepare reports for the Legislature and the people of New Mexico; and, "pursue any and all other matters necessary, desirable or convenient for the efficient and effective operation of lottery games, the continued entertainment and convenience of the public and the integrity of the lottery."

Grace Sandoval of Albuquerque was thrilled to win a new Ford Mustang in a Lottery instant game bonus drawing. Hers was one of 11 trucks and cars awarded in Lottery games during FY 2000, helping raise additional sales and profits for New Mexico Education.

\$14.7m

distributed to build and renovate schools across New Mexico

Fiscal Year 2000 - The Year In Review

Fiscal year 2000 was, without a doubt, the New Mexico Lottery's most successful year to date. The organization's 63 employees and its 1,232 retailers worked together to meet and exceed all product sales goals. It was the Lottery's fourth full year of continued sales growth, and provided a record profit for New Mexico education.

SCRATCHERS

Once again, instant games provided the financial backbone for the Lottery. They represented nearly 65.8 percent of total sales, up from 52 percent the previous year. Even more impressive is the instant product's overall growth of 56 percent, the highest in North America.

During FY 00, 48 instant games were launched, ranging from \$1 to \$5 per ticket. This product generated more than \$72.8 million, up from \$46.6 million in FY 99. Players claimed nearly \$44 million in prizes.

FY 2000 marked the first full fiscal year selling \$5 instant games with prizes as high as \$50,000. The popularity was instantaneous.

Also back for the third year was the popular "Trucks & Bucks" game. More than 50,000 bonus drawing tickets were entered into the extended 2000 game, which spanned both FY 2000 and FY 2001. There were over \$2.6 million in "Trucks & Bucks" tickets sold in FY 2000 and the early part of FY 2001.

ON-LINE GAMES

Lotto-style games accounted for approximately 34.2 percent of total sales, or more than \$37.9 million.

Powerball

Powerball sales were strong, but dropped slightly from the previous fiscal year, which saw two large jackpot run-ups exceeding \$100 million. In FY 00, there was one. Powerball continued to attract not only large numbers of New Mexicans, but players from other states ... including adjoining non-Powerball states, or travelers just passing through. Total sales were over \$32 million for FY 00.

Although New Mexico did not have a Powerball jackpot winner during FY 00, there were 16 \$100,000 second prize winners, and 94

\$5,000 third prize winners, each of whom missed a multi-million dollar jackpot by just one number. Overall, New Mexico players claimed almost \$15.4 million in Powerball prizes.

Roadrunner Cash

For the third consecutive year, New Mexico's in-state cash lotto game was enhanced, responding to player feedback. The NMLA board authorized an increase in the number of drawings from four per week to six. The change occurred in the second quarter of the fiscal year with a resulting 15.4 percent sales increase for the full year, further expanding an already-loyal player base. Total sales were more than \$5.8 million for FY 00, up from slightly more than \$5 million in FY 1999.

There were 37 winners of the Roadrunner Cash \$15,000 top prize during FY 00, with a total of almost \$3.2 million in prizes claimed.



"I've been accepted to UNM Law."

MARISSA SERNA,
NMSU LAS CRUCES



State Fair board chair Tom Tinnin draws a winner during a Lottery bonus drawing at the Fair, one of the Lottery's many community sponsorship and promotional activities.

fy 2000



The New Mexico Lottery in the Community

events and sponsorships

Because Lottery proceeds benefit educational programs throughout New Mexico, the Lottery recommitted itself to strengthening its community presence through almost 100

special events, sponsorships and activities. In addition to reaching out and thanking the citizens of New Mexico for their support of the New Mexico Lottery and the educational programs we fund,

participation in community events and sponsorships affords us the opportunity to share information about how the lottery operates, as well as the products we sell.

Some of the many first-time and repeat sponsorships and/or promotional activities during FY 2000 included:

Clovis Music Festival	Curry County
Deming Great American Duck Race	Luna County
Expo in the Desert	Lea County
Indian National Finals Rodeo	Bernalillo County
Las Vegas Fourth of July Fiesta	San Miguel County
Mesilla Valley Fiesta/Cinco de Mayo	Doña Ana County
New Mexico State Fair	Bernalillo County
New Mexico State University Sports	Doña Ana County
Rodeo de Santa Fe	Santa Fe County
Summer Fun Tradeshow	San Juan County
University of New Mexico Sports	Bernalillo County

"The kids and staff take a lot of pride in this school. Before the Lottery started to build this school, this site had eight portables. Keep scratching, New Mexico, even if it doesn't itch!"

EDDIE ATENCIO,
ARMIJO ELEMENTARY-
WEST LAS VEGAS

\$7.6 m

in commissions and bonuses paid
to New Mexico Lottery retailers

Retailers and New Programs

There were 1,210 Lottery retailers at the beginning of FY 2000, a net increase of 24 from one year earlier. Over the course of the year, 62 were lost, mostly because of businesses that closed or merged due to non-Lottery related matters. That loss was offset by the addition of 84 new retailers, for a net gain of 22. The NMLA ended FY 2000 with 1,232 retailers.

Numerous retailer-related promotions were launched, both locally and statewide. These were designed to strengthen both player interest and retailer support. Retailers and their employees are eligible for the Lottery's new "GIFTS" (Great

Incentives For The Sale) program. This was patterned after similar successful programs by the well-established Nebraska and Oregon lotteries. Retailers earn points redeemable for premium items such as gift certificates, clothing and electronics. Points are based upon sales, performance, initiative and other demonstrated qualities.

Lottery sales representatives work with their retailers to host local promotional activities. Sometimes they are tied to a Lottery-wide campaign; other times they are geared to a community event, retailer anniversary or store opening.

All of these events generate visibility for the Lottery and help promote New Mexico's educational beneficiaries.

It is important to recognize the role played by NMLA retailers. After all, it is they who actually sell Lottery tickets. And every sale benefits New Mexico education. Their role is critical not just during routine activities or promotional events, but strategic changes. When Roadrunner Cash enhancements were made during FY 2000, adding two more nightly drawings, retailers worked in tandem with the Lottery to inform New Mexico players and explain the changes.



"The money they're spending on the Lottery scholarship is a very good investment in this state. If we didn't have the Lottery scholarships, many of the students would not be able to attend the University."

DR. JUAN FRANCO,
VICE PRESIDENT/
ADMINISTRATION,
NMSU LAS CRUCES

New Mexico's overall top retailer locations for FY 2000, by sales, were:

Independent

- 1 Sunland Park Grocery, Sunland Park
- 2 Peppers Grocery, Deming
- 3 McNutt Howdy's #10, Santa Teresa
- 4 Loaf 'N Jug, Raton
- 5 J.R.'s Country Store #508, Raton
- 6 Bullock's, Truth or Consequences

Chain

- 1 Stires Mini-Mart, Chaparral
- 2 Cigarette Outlet, Santa Teresa
- 3 John Brooks Supermarket, Albuquerque
- 4 Fast Stop #1, Truth or Consequences
- 5 Stires Supermarket, Chaparral
- 6 Circle K #1430, Moriarty

The Lottery also worked with retailers as part of its overall so-called Y2K (Year 2000 computer and technical) preparedness. The switch to calendar year 2000 was uneventful for the Lottery, its players, retailers and principal vendors.

fy 2000



Other Gaming

Per its charge from the Legislature's Lottery Oversight Committee (LOC), the Lottery Authority continues to monitor gaming at various levels.

During the first quarter of FY 2000 the Lottery presented the LOC and other elements of the Legislative and Executive branches of State Government findings of New Mexico's first highly-detailed and segmented study of statewide gaming practices. This information was also discussed during a subsequent meeting of the Legislative Finance Committee (LFC) in the second quarter of FY 2000. Conducted by the highly-respected Angus Reid research firm of Vancouver, British Columbia, more than 1,200 New Mexicans were polled about a variety of gaming practices.

According to the widely-publicized findings, New Mexicans spent an estimated \$886 million on various forms of gambling for the surveyed period, FY 1999. About 10 percent of that was spent on the Lottery.

Of the \$886 million in total gambling expenditures estimated by the Reid report, tribal casinos represented the largest portion, \$380 million, or about 43 percent. The data shows that respondents

spend more on casino gambling and slots than on the Lottery at all income levels.

The next largest segment was 27 percent, representing the \$235 million that New Mexicans spend annually outside the state at places such as Las Vegas or Laughlin, Nevada; Atlantic City, New Jersey; Colorado or river boat casinos; and, other venues. Another \$180 million, or 20 percent, was spent on bingo, charitable raffles, home and office sports pools, Internet gaming, and horse and dog racing.

The study did not reflect additional casino and video slot gambling at New Mexico race tracks and fraternal organizations, which became legal partway through the polling process at the beginning of FY 2000.

The Lottery continues to monitor many issues at the request of the LOC. One is the reduced, then increased, prize payout of Texas Lottery instant games. Another is the impact of video slot gaming on adjacent New Mexico Lottery retailers. A third is what, if any, impact New Mexico will feel when the Colorado Lottery begins its participation in the multi-state Powerball game. There is still no conclusive data for any of these

and research is still ongoing.

In FY 1999, data and analysis provided by GTECH showed a net loss of approximately \$1.42 million leaving New Mexico to play Texas instant and on-line games. While New Mexico continues to attract a growing number of Texans who cross state lines (primarily when Powerball jackpots rise), GTECH estimates the overall loss widened slightly for FY 2000, to \$1.8 million in cross-border sales from New Mexico. It should be noted that New Mexico still generated record Lottery sales and educational profits. Much of the previous analysis is still valid, according to GTECH:

1. *There is an economical affiliation with Texas for many of the New Mexicans who live near the state line; for instance, they do their "mall" and major purchase shopping in Texas*
2. *Texas media may be more prevalent in some markets*
3. *Players have a history of playing Texas Lottery games at Texas retailers*
4. *The Texas Lottery has strengthened its prize payouts for instant games, recapturing some of the market it had previously lost.*

"I'm going to be getting a job in a bio-tech company."

DESIREE HOOVER,
NMIMT SOCORRO

Front row, with husband Ben Hoover

"Keep playing, New Mexico. It's doing a lot of good."

BEN SILVA,
NMIMT SOCORRO

Back row pictured left to right, Dan Frazier, Kirk Blazek, David Tu and Ben Silva

\$110.6 m

in ticket sales for the new mexico lottery

Fiscal Year 2000

a financial overview

For the second year in a row the Lottery exceeded two crucial fiscal year goals: gross sales and net profit.

During FY 2000, the New Mexico Lottery Authority had total revenues of approximately \$110.6 million. A record profit of more than \$24.5 million was declared

for New Mexico education programs. About \$14.7 million was earmarked for the Public School Capital Outlay Fund. The remaining net revenues of \$9.8 million were allocated to the Lottery Tuition Fund. (The appropriation formula was changed by the 2000 Legislature to reflect a 50/50 beneficiary

split, effective July 1, 2000.)

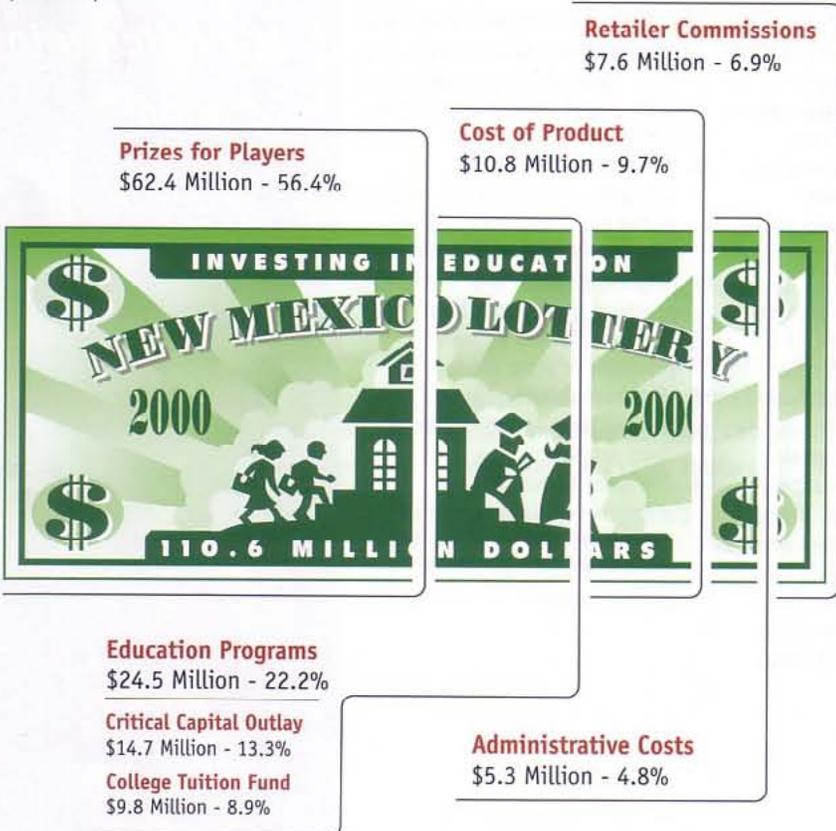
Revenues were \$21.4 million higher than the previous year and profits were nearly \$5 million greater than the previous year.

Our audited financial statements are found at the end of this report.



Where 110.6 Million in Ticket Sales Go

(rounded)



New Mexico native and former teacher Scotty Goff interviews Lottery Success Scholarship recipients and graduates for the Lottery's popular television commercials.

fy 2000



Problem Gambling

The New Mexico Lottery Authority has continued its proactive efforts to assist New Mexicans who may have a gambling problem or know someone who does. The NMLA signed a contract with the New Mexico Council on Problem Gambling (NMCPG) to support a toll-free help line. The NMLA has taken further steps to expand that program by printing the telephone number on all game tickets, point-of-sale and equipment such as play stations and signage at retail locations. As stated in last year's annual report, the toll-free number is also available from the Lottery's telephone call center and Internet web site. An informational brochure was also developed during FY 2000.

The help line is a link by which NMLA and NMCPG can assist problem gamblers and their families, providing both information and assistance for persons at risk or in need of treatment. Callers are referred by NMCPG personnel to resources in

local communities using a statewide resource directory of qualified treatment professionals.

This type of proactive effort by the NMLA began long before compulsive gambling issues were debated at the national level during FY 99. As has been the case in the past, the NMLA always refrains from targeting any audience based on ethnicity, gender or socio-economics. Bi-lingual information and advertising by the NMLA is aimed at residents 18 years of age or older.

The Lottery's guidelines clearly emphasize that the Lottery is entertainment, and should never replace a solid work ethic or savings. This message is continually reinforced in presentations to a variety of organizations across New Mexico. Additionally, field representatives periodically remind retailers that, while the Lottery is designed to be fun to play and win, responsible playing is essential.

The importance of the principal beneficiary, New Mexico education, is also reinforced.

The highly-detailed Angus Reid study also clearly negates the belief that lottery players in New Mexico and elsewhere are those who can least afford it. The report carefully segmented surveyed households by income, including those under \$25,000 and those under \$15,000. As presented to the LOC and LFC, the Angus Reid data showed that players are proportionately distributed across all income lines, and that New Mexicans with smaller incomes neither play more nor generate more dollars than other lottery players.

A TV production crew shoots footage for beneficiary commercials at Armijo Elementary in West Las Vegas. The TV crew traveled all over the state documenting the Lottery's success. Armijo Elementary is just one of many school projects made possible by New Mexico Lottery proceeds.

\$62.7m

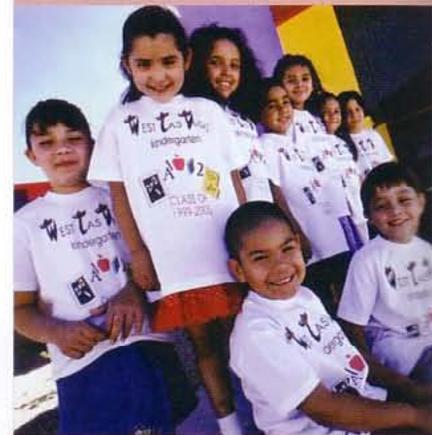
awarded from the
critical capital outlay fund

Capital Outlay FY 2000

School District	FY 2000 Awards	Cumulative Totals*	Projects
Alamogordo	\$ 181,818	\$ 289,577	Vocational Technology Building
Belen	303,030	1,556,358	Dennis Chavez, La Promesa and Gil Sanchez Elementary Schools
Bernalillo	333,333	2,396,004	Middle School and High School
Carrizozo	189,394	797,862	All schools in the district
Central	-----	538,793	Ojo Amarillo Elementary School
Clovis	-----	248,276	Gattis Junior High School
Cobre	-----	151,163	Central Elementary School
Deming	242,424	242,424	Chaparral Elementary School
Des Moines	333,333	999,382	Elementary School and High School
Dexter	242,424	2,172,792	Elementary School and Middle School
Española	303,030	1,557,767	Sombrillo Elementary School and Middle School
Estancia	242,424	2,700,447	Elementary School, High School, Library/Media Center, Cafeteria
Farmington	121,212	747,956	Piedra Vista High School
Fort Sumner	72,727	72,727	Home Economics Building
Gadsden	575,758	2,949,399	Chaparral, La Union & Riverside Elementary Schools, Chaparral Middle School
Gallup	272,727	1,825,602	Indian Hills, Mentmore and Turpen Elementary Schools
Grady	-----	15,000	Classrooms, Kilchen and Commons Areas
Grants	-----	1,172,364	New school site development, architectural and engineering design
Hagerman	263,636	803,031	High School, K-12 Multi-Purpose/Cafeteria
Hatch	30,303	2,806,695	Garfield Elementary, Rio Grande Elementary, New High School
Hondo	136,364	725,317	Hondo Elementary School, district wastewater treatment system
Jemez Mountain	-----	800,000	Middle/High School
Jemez Valley	363,636	1,141,375	Elementary School, High School
Lake Arthur	257,576	747,692	Elementary School, K-12 Multi-Purpose Facility
Las Cruces	303,030	1,754,213	Doña Ana, Highland and MacArthur Elementary Schools
Las Vegas City	454,545	2,263,400	Robertson High School, Legion Park cafeteria
Las Vegas West	424,242	3,230,457	Luis Armijo Elementary School, Old High School
Lordsburg	-----	733,702	Traylor Elementary School
Los Lunas	515,152	3,170,789	Daniel Fernandez and Raymond Gabaldon Intermediate Schools, Century and Los Lunas High Schools, Technical Vocational Academy
Magdalena	-----	370,000	K-12 Facility
Maxwell	181,818	300,352	Multi-purpose Classroom Building and Library
Mesa Vista	242,424	332,941	High School, counseling, health services and media centers



West Las Vegas High School students are among those who have received Lottery Success Scholarships.



Kindergarten students from West Las Vegas Armijo Elementary.

fy 2000



School District	FY 2000 Awards	Cumulative Totals*	Projects
Mora	\$ 303,030	\$ 1,357,684	Elementary School, Middle School
Moriarty	545,455	2,970,591	Route 66 Elementary, Edgewood Middle School
Mosquero	45,455	671,930	Elementary School, Cafeteria, Computer Lab, Agriculture/Vocational Building
Mountainair	59,091	170,729	Mountainair High School
Pecos	-----	1,001,293	Elementary School, Middle School, High School
Peñasco	242,424	1,400,028	Elementary School, Middle School, High School
Pojoaque	-----	100,000	High School
Questa	-----	115,498	Cerro Elementary
Raton	303,030	1,380,773	All five Elementary, Middle and High schools
Rio Rancho	121,212	1,139,055	Enchanted Hills, Northern Meadows and Puesta Del Sol Elementary Schools
Roy	-----	151,163	Roy Elementary School, Roy High School
San Jon	187,879	547,091	New Science Lab and Instructional TV Classrooms, Pre-school and kindergarten
Santa Rosa	-----	289,855	New Classrooms and Distance Learning Lab
Silver City	-----	377,907	Stout Elementary School
Socorro	203,030	2,362,272	San Antonio Elementary School, Zimmerly Elementary School
Springer	212,121	1,037,734	Springer Junior/Senior High School, Wilferth Elementary School, Portable Classrooms
Texico	-----	280,172	Elementary, Junior High and High School renovations
Tucumcari	757,576	2,957,571	New upper/lower Elementary School
Tularosa	363,636	1,161,050	New Intermediate School
Wagon Mound	-----	258,621	High School remodeling and renovation, including new roof
Zuni	69,701	3,321,305	New High School
TOTALS	\$10,000,000 (FY 2000)	\$62,666,179 (FY 97-01)	

Source: New Mexico Public School Capital Outlay Committee, 505-827-6560

Other funding sources for all Capital Outlay awards include the General Fund, Severance Taxes and General Obligation Bonds.

53 school districts now qualify for capital outlay assistance; 37 received Lottery-funded awards during FY 00.

*Cumulative totals represent awards from January and August 1997, and August 1998, 1999 and 2000; some FY '01 grants include funds generated during FY '00 combined with future '01 revenues.

Gallup is one of many communities benefitting from Lottery revenues. Gallup-McKinley County schools have received capital outlay awards. Public, private, parochial and BIA high school graduates, as well as GED graduates, have received Lottery Success Scholarships. And the local UNM-Gallup campus has received Lottery-funded financial aid for many scholarship recipients.

10,015

spring semester lottery success scholarships

Lottery Success Scholarships

spring semester 2000

Name of School	Students
Albuquerque Technical Vocational Institute	241
Clovis Community College	80
Eastern New Mexico University – Main Campus, Portales	713
Eastern New Mexico University – Roswell	107
Eastern New Mexico University – Ruidoso	15
Luna Vocational Technical Institute – Las Vegas*	20
Mesa Technical College – Tucumcari	32
New Mexico Junior College – Hobbs	219
New Mexico Highlands University – Las Vegas*	247
NM Institute of Mining and Technology – Socorro	238
New Mexico Military Institute – Roswell	23
New Mexico State University – Alamogordo	112
New Mexico State University – Carlsbad	117
New Mexico State University – Doña Ana	148
New Mexico State University – Grants	56
New Mexico State University – Main Campus, Las Cruces	2,816
Northern New Mexico Community College*	121
San Juan College – Farmington	219
Santa Fe Community College	141
University of New Mexico – Los Alamos	69
University of New Mexico – Gallup	56
University of New Mexico – Main Campus, Albuquerque	3,857
University of New Mexico – Taos	28
University of New Mexico – Valencia	200
Western New Mexico University – Silver City	140

TOTAL CAMPUSES 25* **TOTAL RECIPIENTS 10,015**

Appropriated by New Mexico Commission on Higher Education for the Lottery Success Scholarship Program Through FY 2000:

Fall '97	\$1,385,445	(2,192 students)
Spring '98	\$3,024,530	(5,087 students)
Fall '98	\$2,809,490	(4,139 students)
Spring '99	\$5,230,798	(7,802 students)
Fall '99	\$4,997,997	(6,402 students)
Spring '00	\$7,687,466	(10,015 students)

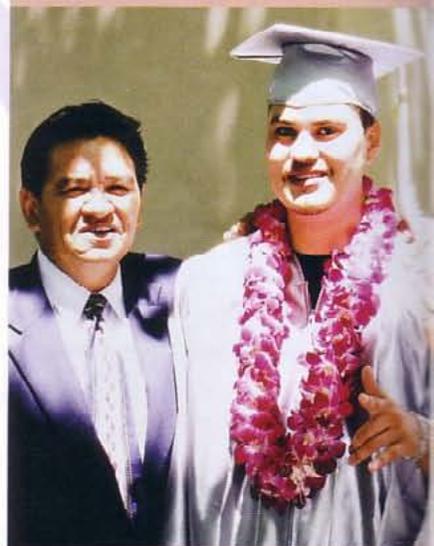
TOTAL \$25,135,726

*Some satellite campuses are reflected in the main campus information
Source: New Mexico Commission on Higher Education, 800-279-9777



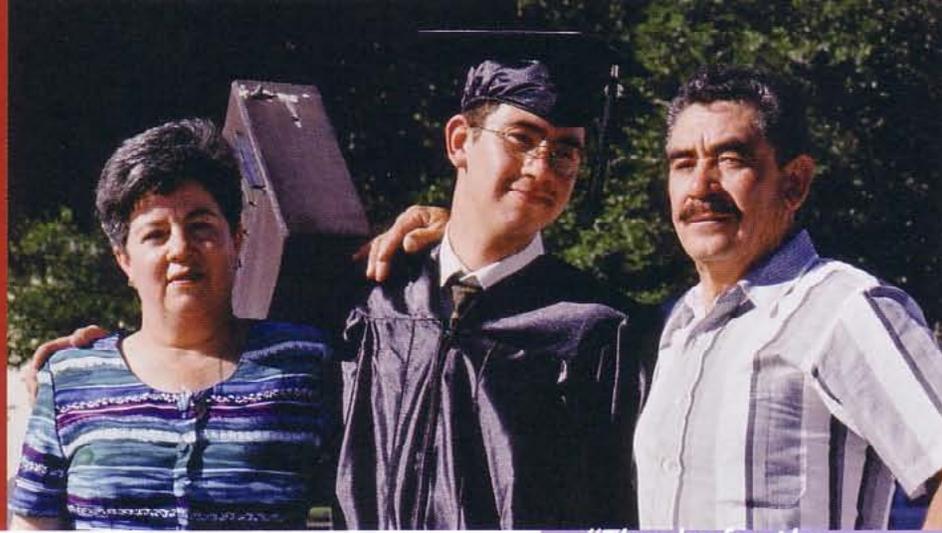
"I'm very thankful to all the people who participated in the Lottery."

TARA POHL,
NMHU LAS VEGAS



Mario Benevides, UNM,
with father Edward

fy 2000



High School Graduates

qualified for lottery success scholarships

County	Lottery Scholars	County	Lottery Scholars
Bernalillo	3,026	Mora	34
Catron	20	Otero	393
Chaves	221	Quay	76
Cibola	147	Rio Arriba	347
Colfax	75	Roosevelt	153
Curry	241	Sandoval	361
De Baca	15	San Juan	555
Doña Ana	1,084	San Miguel	187
Eddy	371	Santa Fe	680
Grant	222	Sierra	38
Guadalupe	21	Socorro	82
Harding	14	Taos	144
Hidalgo	32	Torrance	70
Lea	302	Union	28
Lincoln	87	Valencia	463
Los Alamos	214	GED, Home School, Other*	539
Luna	63	No Response	3
McKinley	185	TOTAL	10,493

Source: New Mexico Commission on Higher Education, 800-279-9777

This report was prepared using the institution-supplied student and student financial aid files. Because of different reporting methods by CHE to NMLA, some year-to-year data comparisons are inconsistent and should be resolved in FY 2001. Reporting CHE data does not include attrition, mid-semester transfers or other information that could affect expenses or savings.

Rio Rancho High School's first graduating class was in FY 1999; students received their first NMLA scholarships in the Spring 2000 semester; some Rio Rancho student data may be split between Bernalillo and Sandoval Counties

*Includes private, parochial, BIA and special State-assisted.

"Thanks for the support of the Lottery scholarship and thanks to all the people who buy Lottery tickets. Now I'm going to realize my dreams."

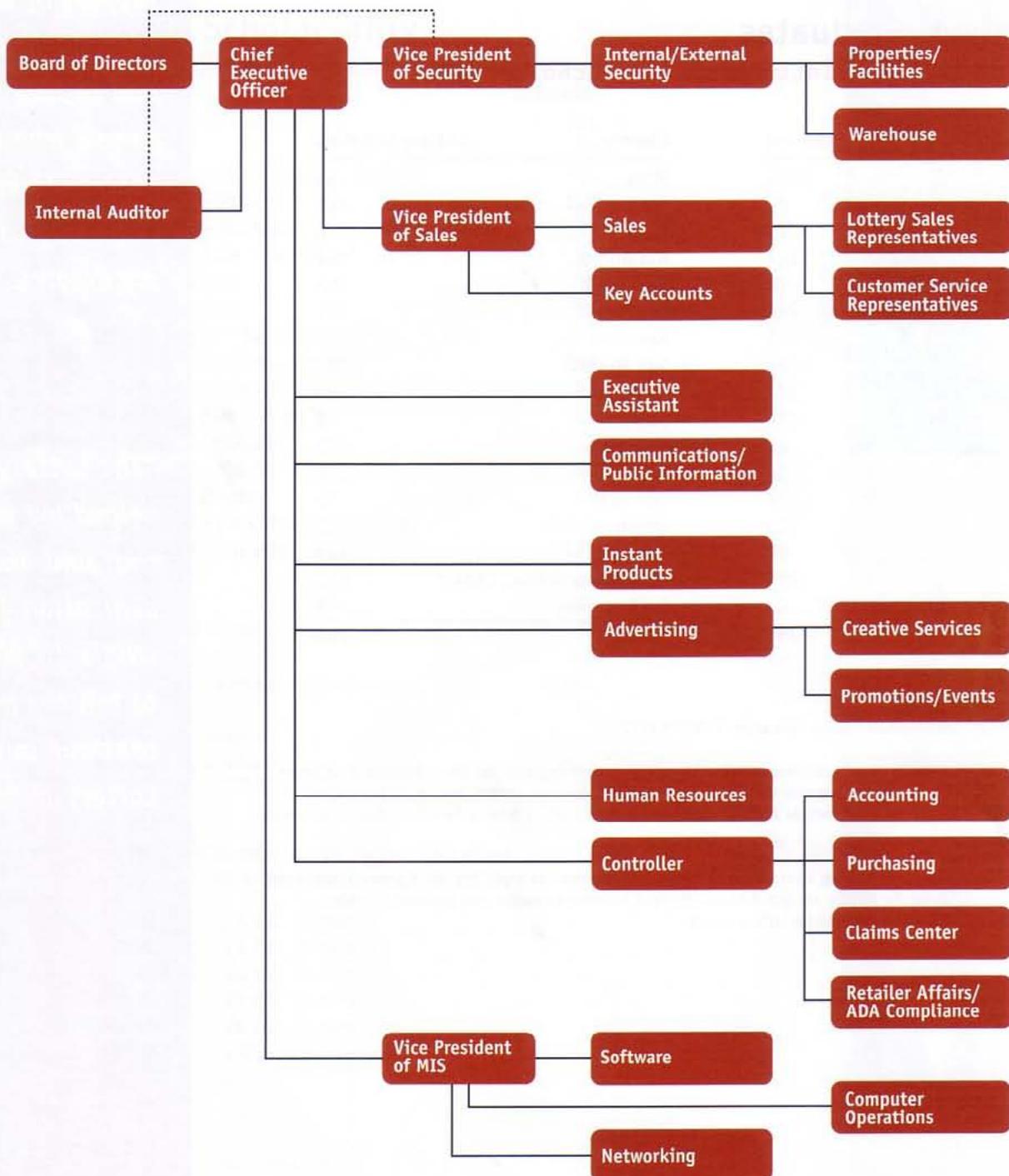
FREDDIE OLIVAS,
NMSU LAS CRUCES

"The Lottery has helped my son... that and his dedication [to his studies]. We want to tell the people to continue buying the Lottery tickets."

REGINALDO & BERTHA OLIVAS,
MESQUITE

Organizational Chart

the new mexico lottery team



fy 2000

Report of Independent Certified Public Accountants

board of directors, new mexico lottery authority

We have audited the accompanying balance sheets of the New Mexico Lottery Authority, as of June 30, 2000 and 1999, and the related statements of revenue and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the New Mexico Lottery Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally

accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the 2000 and 1999 financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Lottery Authority as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Atkinson & Co., Ltd.

ATKINSON & CO., LTD.
Albuquerque, New Mexico
August 25, 2000

Financial Statements

Financial Report

BALANCE SHEETS

(Dollars rounded)

	June 30 2000	June 30 1999
CURRENT ASSETS		
Cash	\$ 2,528,000	\$ 1,242,000
Accounts receivable (net of allowance for bad debts of \$150,000 in 2000 and \$165,000 in 1999)	677,000	3,448,000
Reserves on deposit	2,783,000	2,623,000
Inventory	650,000	352,000
Prepaid expenses	114,000	91,000
Total current assets	6,752,000	7,756,000
PROPERTY AND EQUIPMENT, NET	523,000	1,353,000
	\$ 7,275,000	\$ 9,109,000
CURRENT LIABILITIES		
Accounts payable	\$2,393,000	\$ 3,583,000
Prizes payable	1,545,000	1,919,000
Due to public school capital outlay	1,972,000	2,134,000
Due to lottery tuition fund	1,315,000	1,423,000
Total current liabilities	7,225,000	9,059,000
COMMITMENTS	-	-
RETAINED EARNINGS	50,000	50,000
	\$ 7,275,000	\$ 9,109,000

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

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars rounded)

Years Ended	June 30 2000	June 30 1999
Revenues		
Instant tickets	\$ 72,812,000	\$ 46,653,000
Powerball sales	32,091,000	35,843,000
Roadrunner Cash sales	5,869,000	5,083,000
Mega Match 4 sales	-	1,910,000
Retailer fees	9,000	13,000
Free, promo, spoiled, stolen tickets	(165,000)	(256,000)
Total revenues	110,616,000	89,246,000
Game Expenses		
Prize expense	62,378,000	46,716,000
Retailer commissions	7,609,000	5,935,000
On-line vendor fees	6,635,000	6,969,000
Advertising	2,040,000	2,060,000
Ticket printing	1,183,000	1,005,000
Shipping & postage	351,000	280,000
Promotions	276,000	364,000
Reserve Fund Expense	140,000	-
Drawing game	132,000	410,000
Game Membership	58,000	23,000
Total game expenses	80,802,000	63,762,000
Operating expenses		
Salaries & benefits	3,157,000	3,087,000
Leases & insurance	1,093,000	1,085,000
Depreciation and amortization	883,000	1,192,000
Utilities & maintenance	360,000	349,000
Materials & supplies	124,000	74,000
Professional fees	108,000	353,000
Travel	89,000	103,000
Other	59,000	70,000
Total operating expenses	5,873,000	6,313,000
Operating income	23,941,000	19,171,000
Non-operating income		
Interest income	334,000	272,000
Other income	261,000	171,000
Total non-operating income	595,000	443,000
Net income	24,536,000	19,614,000
Retained earnings at beginning of year	50,000	50,000
Distributions	(24,536,000)	(19,614,000)
Retained earnings at end of year	\$ 50,000	\$ 50,000

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

Financial Statements

STATEMENTS OF CASH FLOWS

(Dollars rounded)

Increase (Decrease) in Cash

Years Ended	June 30 2000	June 30 1999
Cash flows from operating activities		
Net income	\$ 24,536,000	\$ 19,614,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	883,000	1,192,000
Change in assets and liabilities		
Accounts receivable	2,771,000	(2,309,000)
Reserves on deposit	(160,000)	(26,000)
Inventory	(298,000)	321,000
Prepaid expenses	(23,000)	(10,000)
Accounts payable	(1,190,000)	433,000
Prizes payable	(374,000)	308,000
Net cash provided by operating activities	26,145,000	19,523,000
Cash flows from investing activities		
Purchases of property and equipment	(53,000)	(450,000)
Net cash used in investing activities	(53,000)	(450,000)
Cash flows from noncapital financing activities		
Distributions paid to state	(24,806,000)	(19,939,000)
Net cash used in noncapital financing activities	(24,806,000)	(19,939,000)
Increase (decrease) in cash	1,286,000	(866,000)
Cash balance at beginning of year	1,242,000	2,108,000
Cash balance at end of year	\$ 2,528,000	\$ 1,242,000

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

Notes to Financial Statements

June 30, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The New Mexico Lottery Authority (the Lottery) was established as an instrumentality of the state with the enactment of the New Mexico Lottery Act (the Act) on July 1, 1995. 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 Lottery commenced sales of instant tickets on April 27, 1996, and sale of on-line tickets on October 20, 1996.

2. Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected to follow all GASB pronouncements, and all Statements and Interpretations of the Financial Accounting Standards Board, Opinions of the Accounting Principles Board, Accounting Research Bulletins, and authoritative pronouncements of the American Institute of Certified Public Accountants (collectively representing the generally accepted private-sector accounting hierarchy). In instances where GASB guidance conflicts with private sector principles, the Lottery conforms to GASB.

3. Restricted Cash (rounded)

The Lottery is required by terms of its main office building lease agreement to deposit an amount equal to five months of rent in an interest-bearing escrow account. Accrued interest on the security deposit shall be paid in periodic payments every six months to the Lottery, beginning six months from the occupancy date. The amount of the security deposit shall be reduced every six months beginning six months from the occupancy date, by an amount equal to one month's monthly rent, until the security deposit equals the amount of one month's monthly rent which shall remain the required security deposit for the balance of the term. The

restricted cash is held in an escrow account at 3 percent interest. Restricted cash balances were \$21,000 and \$20,000 at June 30, 2000 and 1999, respectively.

4. 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. An allowance for doubtful accounts has been provided to recognize future uncollectible billings.

5. Reserves on Deposit (rounded)

On October 20, 1996, the Lottery began on-line ticket sales. The Lottery became a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. MUSL operates the POWERBALL® game. Each MUSL member sells on-line 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. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL® is 50% of each drawing period's sales. MUSL has included 2% of each drawing period's sales as part of each MUSL member's prize liability in prize reserve funds. MUSL has placed a \$77,000,000 cap on the prize reserve funds and once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. At June 30, 2000 and 1999, the Lottery's share of the POWERBALL® prize reserve was \$2,783,000 and \$2,623,000, respectively.

Grand prizes are paid out in 25 installments. Bonds at the discounted value of grand prize annuities are purchased by MUSL to fund all future installments and are held in trust. Maturities are staggered in order to provide adequate cash flow

Financial Statements

for each annual installment. MUSL is responsible for paying amounts owed to the grand prize winners. The assets and related liabilities are reflected in MUSL's financial statements and therefore are not reflected in the Lottery's financial statements.

6. Inventory

Inventory, which consists of lottery instant tickets for future use, is carried at the lower of cost or market using the specific identification method.

7. Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 2 to 5 years, except for leasehold improvements which are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, 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.

8. Revenue and Account Receivable Recognition

Lottery games are sold to the public by contracted retailers and directly by the Lottery. Revenue and accounts receivable are recognized when instant ticket packs are settled and retailers are billed for the tickets. Revenues and accounts receivable for on-line games are recognized when drawings are held.

9. Prizes

Prize expense for instant ticket and on-line games is recorded based on an estimate of the predetermined prize structure for each game.

10. Commissions

Retailers receive a commission of 6 percent on gross ticket sales and a 1 percent cashing commission on winning ticket validations for prizes under \$600. Occasionally, higher selling commissions are used on a promotional basis.

11. Advertising Costs

Advertising costs are expensed as incurred.

12. Income Taxes

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

13. Cash (rounded) and Concentrations of Credit Risk

At June 30, 2000, the Lottery's cash deposits were categorized to give an indication of the level of risk assumed by the Lottery. Category One includes cash on hand, deposits insured by federal depository insurance, or amounts collateralized with securities held by the Lottery or by its agent in the Lottery's name. Category Two includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Lottery's name. The Company maintains its cash balances in two principal financial institutions. The balances for demand deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each institution. Category Three represents uncollateralized deposits and bank balances collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Lottery's name.

	One	Category Two	Three	Carrying Amount	Bank Balance
Demand deposits	\$ 121,000	\$ -	\$ 2,402,000	\$ 2,523,000	\$ 2,563,000
Cash on hand	5,000	-	-	5,000	-
Total	\$ 126,000	\$ -	\$ 2,402,000	\$ 2,528,000	\$ 2,563,000

14. Insurance

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 has purchased commercial insurance to cover these risks.

15. Reserve Fund (rounded)

In accordance with the Act (see note A1), the Board of Directors has elected to set aside up to 2 percent of gross revenues into a reserve account. At June 30, 2000 and 1999, the amounts which had been set aside were \$140,000 and \$0 respectively. Of these amounts, \$140,000 has been expensed as of June 30, 2000.

16. Retained Earnings (rounded)

In accordance with the Act "the authority shall transmit all net revenues to the state treasurer who shall deposit sixty percent of the revenues in the Public School Capital Outlay Fund and forty percent in the Lottery Tuition Fund." As of August 1, 2000 and 1999, the Lottery transferred \$25,680,000 and \$20,010,000, respectively of net income for the periods ended June 30, 2000 and 1999 to the New Mexico State Treasurer. The Act also requires that "an amount up to two percent of the gross annual revenues shall be set aside as a Reserve Fund to cover bonuses and incentive plans for lottery retailers, special promotions for retailers, purchasing special promotional giveaways, sponsoring special promotional events, compulsive gambling rehabilitation and other purposes as the Board deems necessary to maintain the integrity and meet the revenue goals of the Lottery." Any Reserve Fund amounts not expended by fiscal year end for the above defined purpose will be transferred to the Lottery Tuition Fund, except that unexpended amounts up to \$50,000 can be retained by the Lottery for future defined expenditures.

17. 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 prizes are offset against projected prize expense to reflect actual prizes paid.

18. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment (rounded) at June 30, 2000 and 1999 consisted of:

	2000	1999
Data processing software	\$ 1,770,000	\$ 1,763,000
Data processing equipment	1,211,000	1,183,000
Tenant improvements	529,000	514,000
Vehicles	483,000	483,000
Furniture and fixtures	281,000	281,000
Equipment communications	243,000	243,000
Equipment warehouse	151,000	148,000
Equipment drawing	94,000	94,000
Equipment office	19,000	19,000
	4,781,000	4,728,000
Accumulated depreciation and amortization	(4,258,000)	(3,375,000)
Property and equipment, net	\$ 523,000	\$ 1,353,000

NOTE C - ALLOCATION OF NET INCOME (rounded)

	Net Income	Due to Public School Capital Outlay	Due to Lottery Tuition Fund	Reserve Fund	Retained Earnings
Balance at June 30, 1999	\$ 3,607,000	\$ 2,134,000	\$ 1,423,000	\$ -	\$ 50,000
Current year net income	34,416,000	14,779,000	9,814,000	-	-
Current year distributions	(24,800,000)	(14,884,000)	(9,922,000)	-	-
Balance at June 30, 2000	\$ 3,337,000	\$ 1,972,000	\$ 1,315,000	\$ -	\$ 50,000

NOTE D - RETIREMENT PLAN (rounded)

During Fiscal Year 2000 the Lottery terminated its section 457 deferred compensation plan. Also during Fiscal Year 2000 the Lottery modified and renamed the money purchase pension plan.

The 457 plan was terminated because it was determined by management that any savings achieved by deferral of earnings were overcome by the recognition of income when employees terminated employment and received their distribution.

The Money Purchase Pension Plan was renamed the New Mexico Lottery Employee Retirement Plan and the contribution rate was changed from 10% to 13.25% of eligible compensation. This new percentage was adopted to reflect the approximate cost the Lottery incurred in matching employees contributions at \$0.50 per dollar contributed in the former Section 457 plan. Lottery contributions are 100% vested when deposited monthly.

Financial Statements

In the fiscal year ended June 30, 1999 the Lottery recognized \$134,000 of pension expense for the Money Purchase Plan, net of \$63,000 of pension forfeitures on salaries of \$2,428,000. As of June 30, 1999, the entire expense amount has been paid.

In the fiscal year ended June 30, 2000 the Lottery recognized \$225,000 of pension expense for the Employee Retirement Plan, net of \$74,000 of pension forfeitures on salaries of \$2,664,000. As of June 30, 2000, the entire expense amount has been paid.

NOTE E - LEASES (rounded)

The Lottery has entered into operating leases for the rental of office and warehouse space, office equipment, vending machines and vehicles. Certain leases contain provisions for scheduled rental increases for inflationary purposes and are renewable at the option of the Lottery. Future minimum rental payments on non-cancelable leases with original terms of one year or more are scheduled as follows:

Year	Amount
2001	\$ 845,000
2002	804,000
2003	287,000
2004	395,000
Thereafter	735,000
	<u>\$ 3,066,000</u>

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

	Year Ending June 30,	
	2000	1999
Minimum rentals	\$ 851,000	\$ 995,000
Less: Sublease rentals	(90,000)	(86,000)
	<u>\$ 761,000</u>	<u>\$ 909,000</u>

NOTE F - COMMITMENT (rounded)

On June 27, 1996, the Lottery entered into the agreement for the On-line Gaming System (the GTECH Agreement) with GTECH Corporation (GTECH). The term of the agreement is seven years with renewal options for up to five additional one-year extensions.

The GTECH Agreement calls for GTECH to provide on-line gaming systems and services, and entitles the Lottery to certain liquidated damages upon the occurrence of defined incidences. On May 9, 2000, the Lottery and GTECH agreed to settle disputed liquidated damages in the amount of \$97,000 by cash payments to the Lottery by Gtech of approximately \$9,000 per week for 11 weeks starting May 15, 2000 through July 24, 2000.

NOTE G - LITIGATION SETTLEMENT

During 1997, the Lottery agreed to a settlement of certain litigation arising from the conduct of its operations. The agreement calls for the Lottery to make a cash payment to the plaintiffs which will be reimbursed by the Lottery's insurance. The agreement also requires the Lottery to expand its training and education of retailers on matters of the Americans with Disabilities Act. Management's estimates of amounts to be paid in excess of applicable insurance limits has been accrued as of June 30, 1997.

NOTE H - OTHER EXPENSES (rounded)

	2000	1999
Other	\$ 11,000	\$ 25,000
Publications and Subscriptions	7,000	7,000
Registrations and Memberships	27,000	30,000
Training	14,000	8,000
	<u>\$ 59,000</u>	<u>\$ 70,000</u>

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