

A message from a few of New Mexico's biggest

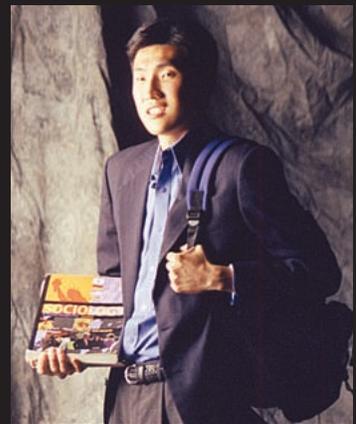
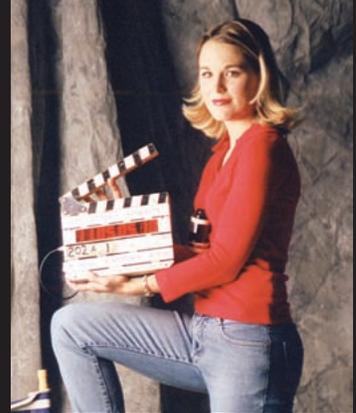
WINNERS:

"150 million Thank-Yous for playing!"

NEW MEXICO LOTTERY AUTHORITY
ANNUAL REPORT FY 2002



Benefitting New Mexico's Future



A MESSAGE FROM THE BOARD OF DIRECTORS

Serving the Lottery in Fiscal Year 2002



*The New Mexico Lottery Authority Board of Directors
for Fiscal Year 2002 (left to right); Dan Girand, Claydean Clai-
borne, Cody Kelley, Jill Gutierrez, William Bonds,
Karen Westall and Eugene Zamora.*

The New Mexico Lottery Authority's Board of Directors is a seven-member body appointed by the Governor and confirmed by the State Senate. We are citizen volunteers. Our role is to provide private sector perspective for a large marketing enterprise. It is also to exercise sound and prudent business judgment in the management and promotion of the Lottery. We appreciate this opportunity to again report to the people of New Mexico the results of the Lottery's accomplishments.

This year, the Lottery has adopted the revised and strengthened provisions of the Governmental Accounting Standards Board. Portions of a detailed Management's Discussion and Analysis are incorporated in this annual report; the complete document, as approved by the Board, has been provided to the Legislative and Executive branches of government, and is available from the New Mexico Lottery Authority (NMLA).

The board's mission is to maintain a Lottery that demonstrates the highest level of integrity, and one that players truly enjoy, while simultaneously and responsibly maximizing additional revenue for public education, as designated by the New Mexico Lottery Act. Our board and the NMLA staff have again accomplished those goals.

During FY '02, the membership included Claydean Claiborne, Mayor of Jal; Dan Girand of Roswell, a law enforcement veteran; Jill Gutierrez, a Las Cruces bank president; Cody Kelley, an Albuquerque attorney; Peggy O. Roberts, an Albuquerque CPA; and, Karen Westall, a Carlsbad business executive. At the beginning of the fiscal year, Ms. Roberts was re-elected to chair the board, and Ms. Claiborne was elected vice-chair. Ms. Roberts resigned in November 2001 and was replaced in December 2001 by William B. Bonds, a retired Albuquerque CPA. Eugene I. Zamora, an Albuquerque attorney, was also appointed in December to fill a position that had been vacant since January 2001. Following Ms. Roberts' resignation, the board elected Ms. Claiborne as chair, and Mr. Kelley as vice-chair.

The board's statutory responsibilities include: adoption of rules, policies and procedures; maximizing net revenue for Lottery beneficiaries; appointment of the Lottery's CEO; setting and oversight of the corporation's annual budget; conducting ongoing studies of this and other lotteries to continually improve efficiency, profitability and security; preparation of 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."

Once again, we are very pleased with, and proud of, the NMLA's achievements. Retailers, players, the NMLA staff and Lottery vendors worked in harmony to produce the most successful year in New Mexico Lottery Authority history.

Sincerely,

*The New Mexico Lottery Authority Board of Directors
for Fiscal Year 2002:*

Claydean Claiborne, Chair

Cody Kelley, Vice Chair

Jill Gutierrez, Secretary

Karen Westall, Treasurer

Dan Girand, Assistant Secretary-Treasurer

William Bonds, Member

Eugene Zamora, Member

BENEFITTING NEW MEXICO'S FUTURE

*A Letter from the CEO,
Thomas N. Shaheen*



On behalf of the New Mexico Lottery Authority, I am pleased to submit this annual report for Fiscal Year 2002.

Records are meant to be broken. This was a milestone fiscal year for the Lottery. It marked yet another year of not only record sales but of record return to our beneficiary, New Mexico education. The month of February brought about our second Powerball jackpot winner. Our flagship in-state online game, "Roadrunner Cash," set another record six-figure top prize. Instant "scratcher" games broke new ground.

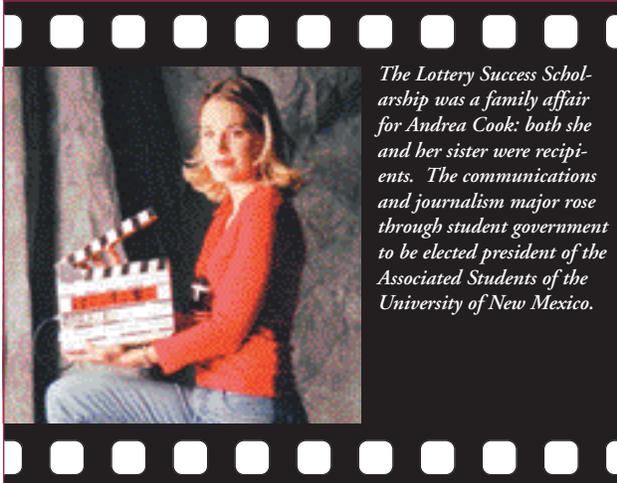
It was the sixth consecutive full year that gross sales increased, the sixth year that sales and cashing commissions for New Mexico businesses contracted as Lottery retailers have increased, and the third year in a row that profits (net revenues) set records. Gross sales in FY 2002 were just under \$134 million. Net profits for the Lottery Success Scholarship program were more than \$29.6 million.

Management continuously explores new operating efficiencies, as well as new methods to responsibly raise revenue for New Mexico education. Because the Lottery Authority has been charged by the Legislature to operate as a corporate organization in a quasi-governmental structure, the venture always improves. The Lottery's success relies on a collaborative effort involving players, retailers, vendors and staff, with oversight by the Legislature and a board of directors appointed by the Governor and confirmed by the State Senate. With low operating costs, a profit margin exceeding 20 percent, and more than half of every dollar spent returned to customers, the Lottery's success would, once again, certainly be enviable in the private sector.

"Benefitting New Mexico's Future" is more than just a slogan for the New Mexico Lottery Authority. A record year for us also meant a record number of college students receiving Lottery Success Scholarships. And that's perhaps the most important broken record of all.

Sincerely,

Thomas N. Shaheen,
CEO



The Lottery Success Scholarship was a family affair for Andrea Cook: both she and her sister were recipients. The communications and journalism major rose through student government to be elected president of the Associated Students of the University of New Mexico.

FISCAL YEAR 2002

The Year In Review



Ernest Martinez of Las Vegas represented New Mexico on "Powerball – The Game Show." He won \$5,000, and at-home contestants from across the state automatically won \$500 each.

If Fiscal Year 2001 was a year of spectacular firsts for the New Mexico Lottery, then Fiscal Year 2002 was one of continued growth, momentum and success. It was the Lottery's sixth year of record sales, and the third consecutive year of annual sales that exceeded \$110 million. It was also the third consecutive year of record-setting profits, along with eight-figure profits every full fiscal year of Lottery operations.

Players had more reasons to smile, as well: a second New Mexico Powerball jackpot, and record prize levels for scratchers, Roadrunner Cash and Pick 3.

Two months into the fiscal year, record-breaking weekly and monthly sales bolstered gross revenues when the Powerball jackpot surpassed \$295 million. Even without the huge Powerball jackpot, the New Mexico Lottery would have set records for fiscal year sales and profits.

Total product sales goals were again exceeded through a combined effort of 65 Lottery employees and a retailer network that averaged approximately 1,200 during the fiscal year. Once again, the Lottery's board of directors and management lowered administrative and operating costs, generating additional money for Lottery beneficiaries. These efficiencies included renegotiating or restructuring various contracts, potentially saving the Lottery millions of dollars over several years.

FY 2002 marked the last year that Lottery profits were used for capital outlay school construction and repairs. A statutory change by the 2001 New Mexico Legislature earmarked all Lottery net revenues for the Lottery Success Scholarship program (Lottery Tuition Fund), effective June 15, 2001. A final capital outlay award using remaining Lottery funds from FY 2001 was announced in FY 2002. All Lottery net revenues generated in FY 2002 were transferred to the Lottery Tuition Fund.

SCRATCHERS

Scratchers, or instant tickets, remain the largest single component of New Mexico Lottery total sales, nearly 60.6 percent. Gross sales increased by more than \$6.3 million over the previous year, generating almost \$81.2 million. Players have the opportunity to determine "instantly" whether a prize has been won. Some scratcher games also use the tickets as entry forms for second-chance drawings. Scratchers are available in a variety of play styles, prices and prize levels.

Instant games include a mix of licensed products and games created in-house. The licensed "Slingo" ticket broke \$3 sales records in its first four weeks. A New Mexico-themed "Lucky Luminarias" ticket was the Lottery's first \$10 instant game, and was popular not only because of its \$100,000 top prize, but a design worthy of a holiday gift. Also in FY 2002, the NMLA introduced a scratcher ticket tied to a television game show utilizing the Powerball brand. The "game show" scratcher ticket had a drawing feature that allowed players to become eligible to be a game show on-air contestant or an at-home player.

In all, 48 instant games were launched during FY '02, with prizes ranging from free tickets to \$100,000. In addition, some games had non-cash prizes such as pick-up trucks and motorcycles.

Overall, New Mexico players claimed more than \$51.4 million in scratcher prizes.

ONLINE GAMES

Computer-generated numbers game sales grew dramatically over the previous year, accounting for more than 39.4 percent of gross sales, or approximately \$52.8 million. Roadrunner Cash and Pick 3 drawings had their first full year of live televised drawings six nights each week, and Powerball results were televised immediately after each semi-weekly drawing. The drawings are televised on three CBS affiliates based in Albuquerque, Roswell and Durango/Farmington.

POWERBALL

Powerball continues to be New Mexico's traditional lotto-style game. During FY '02, players chose five numbers from 1 to 49, and then a Powerball from 1 to 42. Nine prize levels ranged from \$3 to jackpot annuities that were never below \$10 million. A twenty-third lottery, Pennsylvania, joined Powerball in the third quarter of FY '02.

New Mexico Powerball sales jumped more than 27 percent, in large part due to a near-record \$295 million jackpot during the first quarter of the fiscal year. This resulted in record overall weekly and monthly sales for the Lottery. The \$9.2 million Powerball sales increase provided a total of almost \$43.2 million for the game, representing 32.2 percent of Lottery sales.

Also buoying sales was New Mexico's second Powerball jackpot winner in as many years. A life-long Las Cruces resident won a \$32 million jackpot, choosing the nearly \$17.9 million lump-sum cash option. With local, regional and national media attention, the winner and her husband praised the Lottery Success Scholarship program. In addition to New Mexico's second Powerball jackpot, there were 19 \$100,000 second prize winning tickets sold in New Mexico, and 116 \$5,000 to \$25,000 third prize winners. A Powerball enhancement, "Power Play," grew in its first full fiscal year. The "Power Play" option allows players to multiply any Powerball prize except the jackpot up to five times. Overall, New Mexico players claimed more than \$25.5 million in Powerball prizes, including the jackpot.

ROADRUNNER CASH

Roadrunner Cash is sold only in New Mexico. Players choose five numbers from 1 to 31. There are three prize levels, one each for matching three of five, four of five and five of five numbers drawn.

Roadrunner Cash sales skyrocketed more than 57 percent, due primarily to a game restructuring which now provides for a rolling, rather than a fixed, top prize. Records were set during the second quarter, as the Roadrunner cash top prize broke the one-quarter million-dollar mark twice. Over the year there were 37 top prizewinners ranging from \$15,000 to \$270,000.

Overall Roadrunner Cash sales at almost \$8.2 million accounted for almost 6.1 percent of Lottery fiscal year sales. Players claimed almost \$3.9 million in Roadrunner Cash prizes.

PICK 3

Although only three different numbers are drawn for each game, Pick 3 offered seven different ways to win in FY '02, depending upon the combination of numbers chosen by players. Prizes ranged from \$40 upward to \$500.

During the fourth quarter Pick 3 featured a "MoneyBall" promotion, instantly doubling all prizes on certain nights. A Carlsbad man doubled four \$500 top prizes in one night, resulting in a record \$4,000 Pick 3 prize. Despite the promotion, Pick 3 sales slipped over 10 percent for the year, primarily due to the increase in Powerball and Roadrunner Cash playership. Pick 3 generated almost \$1.5 million, or 1.1 percent of overall sales, with more than \$703,000 claimed in Pick 3 prizes.



Isabell and Rafael Delgado of Las Cruces claimed New Mexico's second Powerball jackpot in February. Their \$17.9 lump-sum share of a \$32 million jackpot made them the largest single winners so far of a New Mexico Lottery prize.



Garbetti Rodrigues of Rio Rancho brought her best friend with her when she claimed a \$142,000 Roadrunner Cash prize. She bought just one \$1 quick pick ticket.

\$9.2 MILLION

*in commissions and bonuses paid to
New Mexico Lottery retailers*



Retailer John Waszak (l) of Frontier Mart in Corrales stands with his lottery sales representative, Kathy Romero (r) during an informational training and feedback session held for retailers at Lottery headquarters.



Lottery CEO Tom Shabeen (l) presented a \$50,000 ceremonial check to Pic Quik president Oscar Andrade (r) at Pic Quik #14 in Las Cruces. A \$32 million jackpot Powerball winning ticket was sold at that store in February 2002.

There were 1,227 authorized Lottery retailers at the beginning of FY 2002, a net decrease of five from one year earlier. Over the course of the fiscal year there were 107 new retailers added and 149 retailers removed, for a net loss of 42 retailers. The reduction in retailers was due primarily to non-Lottery related matters such as store closures, mergers or ownership changes. The NMLA ended FY 2002 with 1,185 authorized retailers.

Retailers play a vital role for the Lottery, in large part due to dedication, innovation and hard work on their parts. They are instrumental not only selling tickets, but also helping educate others, including distribution of proactive brochures and messages to warn the public about various scams preying on the elderly, as well as information about responsible gaming and how New Mexicans can qualify for the Lottery Success Scholarship.

During the first quarter of the fiscal year, a major grocery chain with 43 remaining locations statewide continued in bankruptcy, resulting in the sale or closing of many locations. Because of the economic conditions in the State and elsewhere in the U.S., several other Lottery retailers filed for bankruptcy protection, resulting in reorganization, sale or closure. In each case the Lottery worked closely with the affected retailers to protect sales and revenues. Although some of the individual locations did not re-open, no area was left without a Lottery retailer, and overall Lottery sales were not adversely impacted. Many other Lottery retailers stepped in to help fill any void.

In addition to one-on-one retailer contacts by the Lottery's field representatives, the Lottery conducted on-site group meetings for retailers within a given geographic area. The purpose was to not only inform retailers of new products and programs, but also to listen to their ideas for continuously strengthening the Lottery.

Retailers again played an important role as the Lottery set records. Most Lottery retailers have been "charter" associates, selling games and answering players' questions since the very beginning. Through sales and cashing commissions, plus winning ticket incentives, NMLA retailers earned more than \$9.2 million in compensation during the fiscal year, a \$1.2 million increase over the previous year. This includes a \$50,000 bonus paid for selling the Lottery's second winning Powerball jackpot ticket to Las Cruces-based Pic Quik.

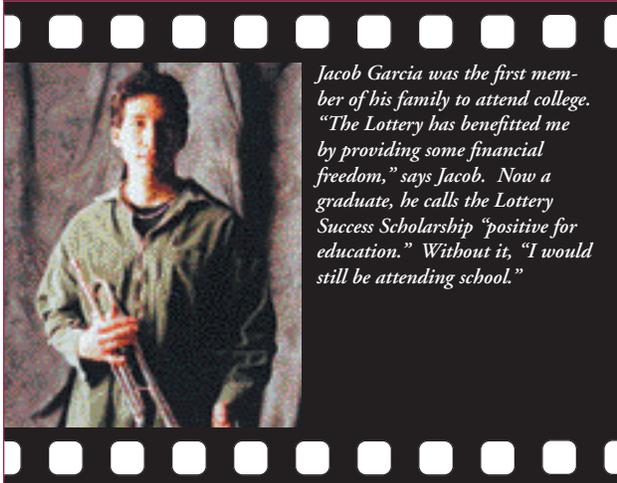
New Mexico's overall top retailer locations for FY 2002, by sales, were:

1. Cigarette Outlet, *Santa Teresa*
2. McNutt Howdy's #10, *Santa Teresa*
3. Stires Minimart, *Chaparral*
4. Sunland Park Grocery, *Sunland Park*
5. Town & Country #150, *Texico*
6. Stires Supermarket, *Chaparral*
7. John Brooks Supermarket #1, *Albuquerque*
8. Circle K #379, *Albuquerque*
9. Food Jet #1, *Carlsbad*
10. Peppers Supermarket, *Deming*

The ten largest chains, representing overall sales rankings, are:

1. Allsup's Convenience Stores
2. Giant Industries
3. Circle K Corporation
4. Diamond Shamrock
5. Town & Country
6. Southwest Convenience Stores (7-Eleven Franchise)
7. Brewer Oil
8. Albertson's Food & Drug
9. Phillips Petroleum
10. Chevron Redi-Mart

Note: Phillips Petroleum, Circle K and Conoco now have the same parent company; Chevron and Texaco now have the same parent company; Mobil and Exxon now have the same parent company; local retailers may be corporate or independent properties.



Jacob Garcia was the first member of his family to attend college. "The Lottery has benefitted me by providing some financial freedom," says Jacob. Now a graduate, he calls the Lottery Success Scholarship "positive for education." Without it, "I would still be attending school."

OTHER DEVELOPMENTS

The New Mexico Lottery's sixth year of serving the State brought a number of changes



A broken-down car with 300,000 miles didn't keep a Gallup silversmith from showing up for a chance to win a pick-up truck prize package worth nearly \$43,000. Neil Paquin beat out nine other finalists and almost 38,000 entrants from across the state to win a new 2002 Ford F-150 XLT 4x4, the grand prize in the New Mexico Lottery's popular "Trucks & Bucks 4" game.

Following action during the 2001 session of the New Mexico Legislature, FY '02 marked the first full year in which all Lottery profits were earmarked for the Lottery Success Scholarship program. This follows several years during which Lottery profits were divided 60 percent / 40 percent for the public school capital outlay and Lottery tuition funds, respectively, and later split equally between the two programs.

Using remaining funds from FY '01, the State Department of Education made one final series of capital outlay awards during FY '02, assisting with school construction and repair. The Lottery's contribution to the capital outlay program remains fixed at more than \$66.5 million. With 100 percent of Lottery net proceeds now being transferred to the Lottery Tuition Fund, FY '02 totals represented \$29.6 million for the year, a cumulative \$81.4 million for the scholarship program, and almost \$148 million through the fiscal year for combined education programs.

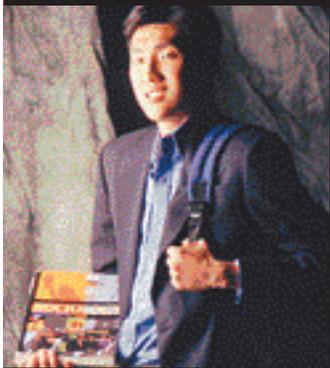
Bank of America's contract for financial services was extended for an additional year thru May 2003. Atkinson & Company Ltd. Certified Public Accountants received a new financial audit contract for one year through June 2003, as a result of a competitive bid. The drawing audit contract with Atkinson & Company was extended for one year through June 30, 2003.

The Lottery's management continued to improve efficiency. During the first quarter, the sales and marketing divisions were again combined under one vice president. In the third quarter, the Lottery approved a new contract with online services vendor GTECH, saving more than \$1 million this year, and nearly another \$1.5 million each year through the life of the contract in 2008. And in the fourth quarter, the Lottery awarded a new contract to Kilmer & Kilmer, its advertising agency since Lottery inception, at a substantially reduced rate following an intensive competitive bidding process.

For the second year in a row, the New Mexico Lottery Authority continued its participation in the New Mexico Problem Gambling Alliance. This informal consortium of several organizations and agencies was formed to explore gaming issues and serve as a focal point for the evaluation of resources directed to the prevention of problem gaming, as well as the treatment and assistance options for current problem gamblers. Three goals of this Alliance are Awareness, Education and Treatment.

Primary activities for the organization were to increase public awareness of problem gambling issues through preparation for Problem Gambling Awareness Week.

In addition, the Lottery continued its "Play it Safe" and "Please Play Responsibly" messages in both print and broadcast advertising. The Lottery also maintained its fiscal support of the New Mexico Council on Problem Gambling and its toll-free help line accessible from anywhere in New Mexico 24 hours-per-day.



"This scholarship has planted a seed that could embark many individuals on prosperous avenues," says sociology and Spanish major Jason Cabbage. He sees the goal of all Lottery Success Scholarship students to graduate from college, but said that it's still positive for New Mexicans who don't receive a degree yet still have some college education.



Nedra Brown's lab coat is more than just a photo prop. She was a chemical engineering major at New Mexico Tech University. The Lottery Success Scholarship allowed her to pursue a scientific education at one of the nation's premier research institutions.

THE LOTTERY IN THE COMMUNITY

Events and Sponsorships



State Veterans' Service Commission director Michael D'Arco (l) shows a television photographer a contribution to help patients at New Mexico's two State-operated veterans' nursing homes. The contribution was made by the Lottery's largest instant ticket printer, Oberthur Gaming Technologies, with no lottery funds, on behalf of the Lottery's popular veterans'-themed Beetle Bailey scratcher game.

The Lottery continued to expand its presence at special events statewide during the fiscal year. These included college as well as semi-professional athletic sponsorships, community activities, retailer support and scratcher promotions, covering every aspect of community involvement and activities. These events helped promote not only the Lottery, but also its goal of benefitting education. Citizens, players and non-players had the opportunity to learn first-hand about both the use of Lottery proceeds in their communities and Lottery products. This could be seen at Eastern New Mexico University as Lottery Success Scholarship recipients took the field for the first time for a halftime presentation during a Lottery-sponsored football game. Each was recognized for representing more than 20,000 students to benefit from Lottery scholarships.

Each event/promotion is a culmination of the efforts of all departments within the Lottery, not only in the preparation, but also in the execution. This gives the entire staff the opportunity to meet those individuals that the Lottery has helped over the years.

Some of the many first-time and repeat sponsorships and/or promotional activities during FY 2002 included:

- Albuquerque Summerfest
- Eastern New Mexico University Athletics, *Portales*
- Great American Duck Race, *Deming*
- Hawgfest, *Carlsbad*
- Monster Jam, *Albuquerque*
- National Intercollegiate Rodeo, *Hobbs*
- New Mexico Scorpions professional hockey team
- New Mexico State University Athletics, *Las Cruces*
- Ninth Annual Chili Cook-Off, *Carlsbad*
- Numerous County Fairs across the state
- Numerous local radio remotes promoting lottery games and the Lottery Success Scholarship
- Route 66 Anniversary, *Albuquerque*
- Route 66 Anniversary, *Santa Rosa*
- University of New Mexico Athletics, *Albuquerque*
- Western New Mexico University Athletics, *Silver City*
- Whole Enchilada Fiesta, *Las Cruces*

\$134 MILLION

In Ticket Sales for the New Mexico Lottery

FISCAL YEAR 2002: A FINANCIAL OVERVIEW

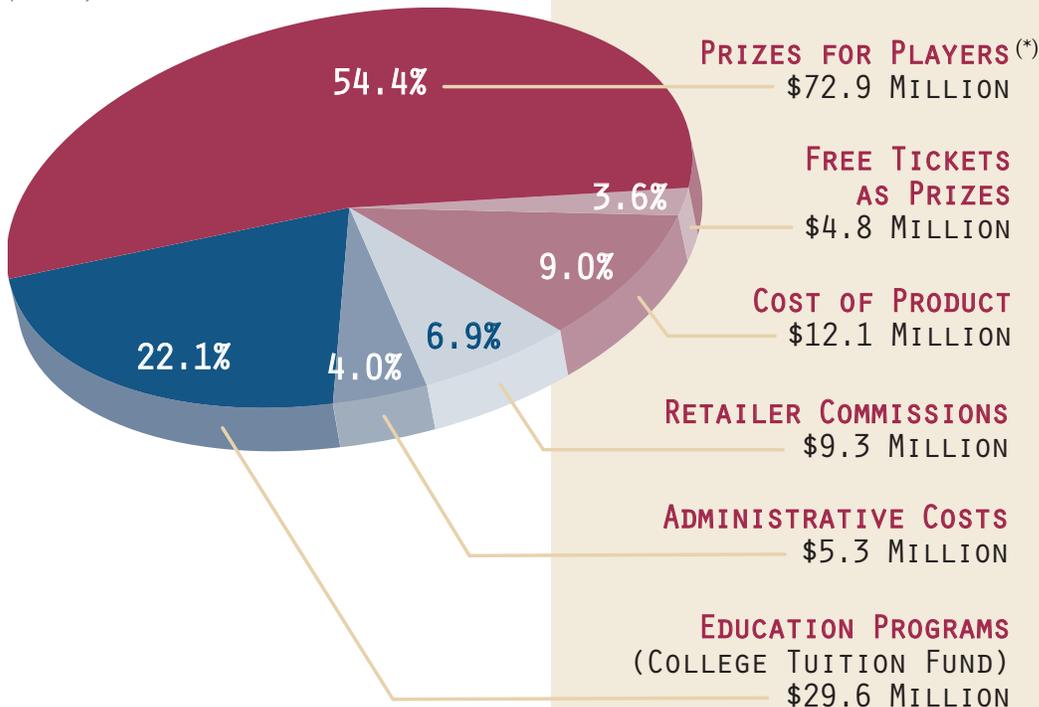
The Lottery celebrated its sixth anniversary and began its seventh year of business exceeding expectations. For the third consecutive year, both gross sales and net profits surpassed goals and set records.

During FY 2002, gross revenues totaled approximately \$134 million. A record profit of over \$29.6 million was reported for New Mexico education programs. All Lottery net proceeds were earmarked for the Lottery Tuition Fund, which finances the Lottery Success Scholarship program.

Revenues were more than \$18.4 million higher than the previous year, and profits for education were \$3.7 million higher than the previous year.

The NMLA's audited financial statements are found at the end of this report.

WHERE \$134 MILLION IN
TICKET SALES GO
(rounded)



(*) Does not reflect the \$17.9 million lump-sum payment to the winner of the \$32 million Powerball jackpot; Powerball top prizes are funded separately through the Multi-State Lottery Association (MUSL)

11,001

Spring Semester Lottery Success Scholarships

NAME OF SCHOOL	STUDENTS	TOTAL AWARDS
		FALL '97- SPRING '02
Albuquerque Technical Vocational Institute	508 ☐	\$ 644,979
Clovis Community College	64	151,861
Eastern New Mexico University–Main Campus, Portales	717 ☐	3,345,337
Eastern New Mexico University–Roswell	123	281,790
Eastern New Mexico University–Ruidoso	24 ☐	28,023
Luna Community College–Las Vegas ^(*)	0	27,150
Mesalands Community College–Tucumcari ^(**)	29	72,460
New Mexico Highlands University–Las Vegas ^(*)	262	1,191,683
New Mexico Institute of Mining and Technology–Socorro	295 ☐	1,551,346
New Mexico Junior College–Hobbs	98	220,938
New Mexico Military Institute–Roswell	18	65,096
New Mexico State University–Alamogordo	124 ☐	308,638
New Mexico State University–Carlsbad	104	323,814
New Mexico State University–Doña Ana	181 ☐	476,122
New Mexico State University–Grants	37	110,910
New Mexico State University–Main Campus, Las Cruces	3,166 ☐	19,182,172
Northern New Mexico Community College–Española & El Rito ^(*)	65	232,977
San Juan College–Farmington	186	295,380
Santa Fe Community College	114	287,622
University of New Mexico–Main Campus, Albuquerque	4,471 ☐	29,573,550
University of New Mexico–Gallup	67	164,658
University of New Mexico–Los Alamos	78 ☐	166,730
University of New Mexico–Taos	16	56,053
University of New Mexico–Valencia (Los Lunas)	114	356,012
Western New Mexico University–Silver City	140 ☐	621,169
Total Campuses 25^(*)	Total Recipients 11,001	\$59,736,470 <i>since inception^(****)</i>

Appropriated by New Mexico Commission on Higher Education for the Lottery Success Scholarship Program Through FY 2002

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	5,001,758	(6,406 students)
Spring '00	7,686,596	(10,014 students)
Fall '00	6,773,605	(7,611 students)
Spring '01	8,849,941	(10,429 students)
Fall '01	8,369,092	(8,181 students)
Spring '02	10,605,209 ^(****)	(11,001 students)

Total \$59,736,464

(*) Some satellite campuses are reflected in the main campus information

(**) LCC was formerly known as Luna Vocational Technical Institute

(***) MCC was formerly known as Mesa Technical College

(****) \$6 difference due to overall decimal point rounding, and is statistically insignificant

☐ Reflects record LSS enrollment for the Spring '02 semester

Source: New Mexico Commission on Higher Education,
800-279-9777 / www.nmche.org

22,452

High School Graduates Have Received Lottery Success Scholarships Since Inception

Lottery Success Scholarship Program Student Count By County from Fall 1997–Spring 2002

COUNTY	ATTENDED COLLEGE ⁽¹⁾	TOTAL GRADS ⁽²⁾	TOTAL AWARDS
Bernalillo	6,552	1,212	\$ 21,048,484
Catron	44	9	120,957
Chaves	731	127	1,470,699
Cibola	304	93	705,607
Colfax	143	17	409,886
Curry	621	161	1,180,407
De Baca	37	4	76,458
Dofia Ana	2,322	472	6,898,748
Eddy	816	157	1,809,694
Grant	454	80	1,228,283
Guadalupe	42	7	101,503
Harding	30	6	93,135
Hidalgo	69	11	198,315
Lea	711	172	845,681
Lincoln	213	46	517,836
Los Alamos	415	66	1,227,996
Luna	168	32	434,183
McKinley	566	97	1,203,378
Mora	76	5	184,705
Otero	786	205	1,996,721
Quay	175	22	353,808
Rio Arriba	719	175	1,635,834
Roosevelt	382	73	863,965
San Juan	1,142	311	2,342,666
San Miguel	397	42	937,153
Sandoval	887	103	2,548,839
Santa Fe	1,563	240	3,926,571
Sierra	90	10	253,760
Socorro	160	34	431,632
Taos	319	65	783,486
Torrance	163	26	428,709
Union	57	7	149,138
Valencia	943	185	2,238,567
Other(*)	164	18	213,548
No Response	191	12	433,213
TOTAL:	22,452⁽⁴⁾	4,302	\$ 59,293,565⁽³⁾

• This report was prepared using the institution-supplied student and student financial aid files; Rio Rancho High School's first graduating class was in FY 1999; students received their first NMLA scholarships in the Spring 2000 semester; some student data may be split between Bernalillo and Sandoval Counties

• (*) Refers to New Mexico students who graduated from a Texas or Arizona high school under an agreement with the State Department of Education and Arizona residents on the Navajo Reservation who qualify for Lottery Success Scholarships

• Student count is cumulative and includes all students that were awarded a Lottery Success Scholarship at any time; a majority of these students are still enrolled. Graduates and degrees may include duplicates if a student attained more than one degree – i.e., a student received an Associates degree and continued for a Bachelors degree; degrees include bachelors, associate, certificate and professional; several graduate students are also included, because their Lottery scholarships applied to undergraduate tuition that was part of their simultaneous graduate programs

• (1) Based on data submitted by institutions

• (2) Graduates so far; non-graduates may still be enrolled, may no longer be on LSS, or may have left the institution

• (3) This figure will always differ from the transfer amounts shown on the previous page, because official reconciliation and adjustments between CHE and the various institutions

• (4) Some students may be counted more than once because of transfers or other factors, according to CHE

Source: New Mexico Commission on Higher Education, 800-279-9777 / www.nmche.org

\$66.5 MILLION

Transferred to the Public School Capital Outlay Fund Since Inception

FY 2002 School District	Awards	Cumulative Totals (*)	Projects
Alamogordo	\$ 22,481	\$ 312,058	District-wide fire alarms; Vocational Technology Building
Belen	\$ 84,304	\$1,640,662	Belen High School; Dennis Chavez, La Promesa and Gil Sanchez Elementary Schools
Bernalillo	\$ 48,709	\$2,444,713	Middle School and High School
Bloomfield	\$ 10,866	\$ 10,866	District-wide mechanical improvements
Carrizozo	\$ 18,734	\$ 816,596	All schools in the district
Central	\$ 74,937	\$ 613,730	Nizhoni and Ojo Amarillo Elementary Schools
Cloudcroft	\$ 56,203	\$ 56,203	High school classroom construction
Clovis	\$112,406	\$ 360,682	Gattis Junior High and Clovis High Schools
Cobre	\$ 44,962	\$ 196,125	Central Elementary School; District-wide code improvements
Deming	-----	\$ 242,424	Chaparral Elementary School
Des Moines	\$ 28,101	\$1,027,483	Elementary School and High School
Dexter	\$ 33,722	\$2,206,514	Elementary School and Middle School; Early childhood and full-day kindergarten
Elida	\$ 67,444	\$ 67,444	Build new High School wing; remodel Elementary School
Española	\$112,406	\$1,670,173	Sombrillo Elementary School and Middle School
Estancia	-----	\$2,700,447	Elementary School, High School, Library/Media Center, Cafeteria
Farmington	\$ 37,469	\$ 785,425	Piedra Vista High School; Farmington High School
Fort Sumner	-----	\$ 72,727	Home Economics Building
Gadsden	\$284,762	\$3,234,161	Full-day kindergartens; Chaparral, La Union & Riverside Elementary Schools, Chaparral Middle School
Gallup-McKinley	\$303,496	\$2,129,098	Indian Hills, Mentmore, Navajo and Turpen Elementary Schools; Tohatchi Middle School; Pueblo Pintado High School planning
Grady	\$ 28,101	\$ 43,101	Re-roofing, electrical and mechanical upgrades; Classrooms, Kitchen and Commons Areas
Grants-Cibola	\$224,812	\$1,397,176	New Laguna-Acoma school site development, architectural and engineering design
Hagerman	\$ 44,962	\$ 847,993	High School classrooms and labs, K-12 Multi-Purpose/Cafeteria
Hatch	\$206,078	\$3,012,773	Garfield Elementary, Rio Grande Elementary, New High School
Hondo	-----	\$ 725,317	Hondo Elementary School, district wastewater treatment system
Jemez Mountain	\$ 59,950	\$ 859,950	ADA compliance, life/safety improvements, new Elementary School planning, Middle/High School
Jemez Valley	\$ 33,722	\$1,175,097	Elementary School, High School
Lake Arthur	-----	\$ 747,692	Elementary School, K-12 Multi-Purpose Facility
Las Cruces	\$ 67,444	\$1,821,657	Doña Ana, Highland and MacArthur Elementary Schools, Las Cruces High School
Las Vegas City	\$ 41,216	\$2,304,616	Los Niños Elementary, Robertson High School, Legion Park Cafeteria
Las Vegas West	\$127,393	\$3,357,850	Luis Armijo Elementary School, High School
Logan	\$ 17,236	\$ 17,236	Construct vocational facility
Lordsburg	\$ 52,456	\$ 786,158	Taylor Elementary School; Full-day kindergarten
Los Lunas	\$119,900	\$3,290,689	Daniel Fernandez and Raymond Gabaldon Intermediate Schools, Los Lunas Middle School, Century and Los Lunas High Schools, Technical Vocational Academy

Continued-

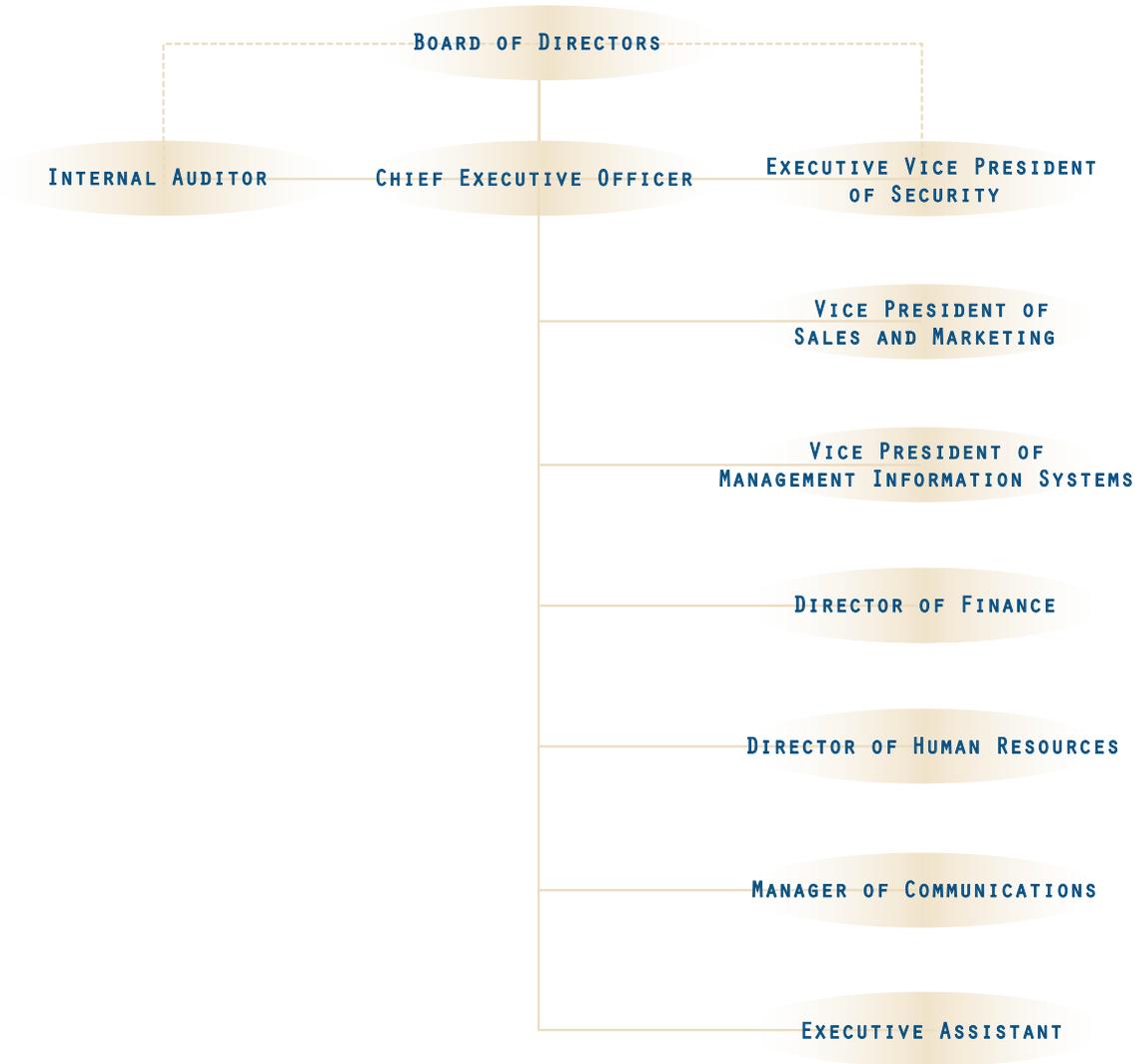
Loving	\$74,937	\$ 74,937	Middle School classrooms, restrooms and support facilities
Magdalena	-----	\$ 370,000	K-12 Facility
Maxwell	\$ 10,117	\$ 310,469	Multi-purpose Classroom Building and Library
Mesa Vista	\$ 22,481	\$ 355,422	High School, counseling, health services, media centers, special education facilities and emergency infrastructure
Mora	\$ 31,099	\$1,388,783	Elementary School, Middle School
Moriarty	\$ 93,672	\$3,064,263	Full-day kindergarten classrooms, Route 66 Elementary, Edgewood Middle School
Mosquero	\$ 6,370	\$ 678,300	Elementary School, Cafeteria, Computer Lab, Agriculture/Vocational Building
Mountainair	\$ 29,226	\$ 199,955	Gymnasium, classroom addition, Mountainair High School
Pecos	\$ 33,722	\$1,035,015	Elementary School, Middle School, High School, Cafeteria planning
Peñasco	\$ 31,848	\$1,431,876	Elementary School, Middle School, High School, Vocational building
Pojoaque	\$213,571	\$ 313,571	High School
Portales	\$ 93,672	\$ 93,672	Junior High School classrooms and restrooms
Questa	-----	\$ 115,498	Cerro Elementary
Raton	\$127,393	\$1,508,166	Columbian, Keamy and Longfellow Elementary School, Raton Middle School, Raton High School
Rio Rancho	\$104,912	\$1,243,967	Enchanted Hills, Northern Meadows and Puesta Del Sol Elementary Schools
Roy	-----	\$ 151,163	Roy Elementary School, Roy High School
Ruidoso	\$ 44,962	\$ 44,962	Complete auditorium, classroom addition and renovation at High School
San Jon	\$ 26,228	\$ 573,319	Renovations and life-safety improvements, New Science Lab and Instructional TV Classrooms, Pre-school and kindergarten
Santa Rosa	\$ 97,418	\$ 387,273	New Classrooms and Distance Learning Lab, High School renovations
Silver City	\$101,165	\$ 479,072	Stout Elementary School
Socorro	\$ 86,178	\$2,448,450	San Antonio Elementary School, Zimmerly Elementary School; Socorro High School
Springer	\$ 44,962	\$1,082,696	Springer Junior/Senior High School, Wilferth Elementary School, Portable Classrooms, Miranda Center; Full-day kindergarten
Texico	-----	\$ 280,172	Elementary, Junior High and High School renovations
Tucumcari	-----	\$2,957,571	New upper/lower Elementary School
Tularosa	\$ 63,697	\$1,224,747	Elementary School; New Intermediate School
Vaughn	\$ 29,975	\$ 29,975	Life/safety and ADA improvements at the gymnasium
Wagon Mound	\$ 63,697	\$ 322,318	Elementary School life-safety improvements, High School remodeling and renovation, including new roof
Zuni	\$ 63,697	\$3,385,002	New High School, A:Shiwi Elementary and Zuni Middle Schools

TOTALS **\$3,859,271 (FY '02)** **\$66,525,450 (FY 97-02)**

- Other funding sources for all Capital Outlay awards include the General Fund, Severance Taxes and General Obligation Bonds
 - 61 school districts have qualified for capital outlay assistance while Lottery revenues were used; 51 received Lottery-funded awards during FY 02, including eight for the first time
 - (*)= Cumulative totals represent awards from January and August 1997, and August 1998, 1999 and 2000, and October 2001; October 2001 awards made in FY '02 include Lottery revenues generated during the Lottery's FY '01
 - Although most Lottery net profits were transferred for capital outlay projects through June 15, 2001, unused funds were allocated by the State for one final Capital Outlay Council Lottery-funded award for FY 2002
 - Because of a change in State statutes, the Lottery no longer transfers a portion of its profits to the Public School Capital Outlay Council
- Source: New Mexico Public School Capital Outlay Council, 505-827-6560

ORGANIZATIONAL CHART

New Mexico Lottery Authority



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
New Mexico Lottery Authority

We have audited the accompanying statements of net assets of the New Mexico Lottery Authority, as of June 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets 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 auditing standards generally accepted in the United States of America. 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Lottery Authority, as of June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A2 to the basic financial statements, the Lottery adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments as of July 1, 2001. This results in a change in the format and content of the basic financial statements.

The other required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The New Mexico Lottery Authority has not presented in this annual report the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.”

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
September 6, 2002

STATEMENTS OF NET ASSETS

(dollars rounded)

June 30,	2002	2001
CURRENT ASSETS		
Cash	\$ 2,146,000	\$ 543,000
Accounts receivable <i>(net of allowance for doubtful accounts)</i>	1,021,000	914,000
Reserves on deposit	2,544,000	2,608,000
Inventory	428,000	556,000
Prepaid expenses	136,000	125,000
Total current assets	6,275,000	4,746,000
PROPERTY AND EQUIPMENT, NET	568,000	483,000
Total assets	\$ 6,843,000	\$ 5,229,000
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 2,446,000	\$ 2,375,000
Prizes payable	2,343,000	956,000
Due to public school capital outlay	-	424,000
Due to lottery tuition fund	2,004,000	1,424,000
Total current liabilities	6,793,000	5,179,000
COMMITMENTS	-	-
NET ASSETS - RESTRICTED	\$ 50,000	\$ 50,000

(The accompanying notes are an integral part of these financial statements)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(dollars rounded)

Years ended June 30,	2002	2001
REVENUES		
Instant ticket sales	\$ 81,170,000	\$ 74,863,000
Powerball sales	43,159,000	33,973,000
Roadrunner Cash sales	8,151,000	5,168,000
Pick 3 sales	1,491,000	1,665,000
Retailer fees	23,000	9,000
Free tickets	(4,830,000)	(2,555,000)
Promotional, spoiled, stolen tickets	(88,000)	(123,000)
Total revenues	129,076,000	113,000,000
GAME EXPENSES		
Prize expense	72,892,000	62,647,000
Retailer commissions	9,238,000	7,996,000
On-line vendor fees	7,455,000	6,933,000
Advertising	1,860,000	2,088,000
Ticket printing	1,318,000	1,199,000
Promotions	440,000	490,000
Shipping and postage	404,000	393,000
Reserve Fund expense	295,000	120,000
Game membership	158,000	55,000
Drawing game	144,000	134,000
Total game expenses	94,204,000	82,055,000
OPERATING EXPENSES		
Salaries and benefits	3,555,000	3,239,000
Leases and insurance	1,155,000	1,121,000
Utilities and maintenance	329,000	403,000
Depreciation and amortization	272,000	503,000
Professional fees	122,000	199,000
Materials and supplies	91,000	83,000
Other	77,000	70,000
Travel	73,000	80,000
Total operating expenses	5,674,000	5,698,000
OPERATING INCOME	29,198,000	25,247,000
NON-OPERATING INCOME		
Interest income	207,000	457,000
Other income	199,000	211,000
Total non-operating income	406,000	668,000
NET INCOME	29,604,000	25,915,000
Net assets – Restricted, beginning of year	50,000	50,000
Distributions	(29,604,000)	(25,915,000)
Net assets – Restricted, end of year	\$ 50,000	\$ 50,000

(The accompanying notes are an integral part of these financial statements)

STATEMENTS OF CASH FLOWS

(dollars rounded)

Years ended June 30,	2002	2001
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and free, spoiled, and stolen ticket credits	\$ 119,732,000	\$ 104,767,000
From MUSL	5,060,000	61,378,000
Cash payments:		
To prize winners and related taxes	(76,565,000)	(124,614,000)
To suppliers of goods or services	(14,219,000)	(13,176,000)
To employees for services and related taxes	(2,855,000)	(2,840,000)
Net cash provided by operating activities	31,153,000	25,515,000
Cash flows from investing activities		
Purchases of property and equipment	(271,000)	(455,000)
Receipts of interest	63,000	207,000
Receipts of rent	106,000	102,000
Net cash used in investing activities	(102,000)	(146,000)
Cash flows from noncapital financing activities		
Distributions paid to state	(29,448,000)	(27,354,000)
Net cash used in noncapital financing activities	(29,448,000)	(27,354,000)
NET INCREASE (DECREASE) IN CASH	1,603,000	(1,985,000)
Cash at beginning of year	543,000	2,528,000
Cash at end of year	\$ 2,146,000	\$ 543,000
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	\$ 29,198,000	\$ 25,247,000
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	272,000	503,000
Interest on MUSL Unreserved Account	144,000	250,000
Credits received from vendors	9,000	18,000
Net changes in assets and liabilities:		
Accounts receivable	(107,000)	(237,000)
Reserves on Deposit	64,000	175,000
Inventory	128,000	94,000
Prepaid expenses	(11,000)	(11,000)
Accounts payable and other liabilities	71,000	(18,000)
Lawsuit liability	84,000	91,000
Accrued capital purchases	(86,000)	(8,000)
Prizes payable	1,387,000	(589,000)
Net cash provided by operating activities	\$ 31,153,000	\$ 25,515,000

(The accompanying notes are an integral part of these financial statements)

NOTES TO FINANCIAL STATEMENTS

June 30, 2002 and 2001

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 sales 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 accounting principles generally accepted in the United States of America.

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 the United States of America). In instances where GASB guidance conflicts with private sector principles, the Lottery conforms to GASB.

As of the year ended June 30, 2002, the Lottery has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (Statement). Certain significant changes in the statements include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Lottery's overall financial position and results of operations.
- Statements of Cash Flow using the direct method.
- A schedule of property and equipment providing an analysis of the changes in capital assets.
- A Budgetary Comparison Schedule providing an analysis of the Lottery's results of its operations as they relate to the original and any revised budgets.

3. Restricted Cash (Rounded)

The Lottery was required by the 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 is paid monthly to the Lottery. The amount of the security deposit was reduced every six months, beginning six months from the occupancy date, by an amount equal to one month's rent until the security deposit equaled the amount of one month's rent, which will remain the required security deposit for the balance of the term. The restricted cash is held in an escrow account at 1 percent interest. Restricted cash balances were \$22,000 at June 30, 2002 and 2001, respectively.

4. Accounts Receivable (Rounded)

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 of \$141,000 and \$149,000, for June 30, 2002 and 2001, respectively, has been provided to recognize future uncollectible billings.

5. Reserves on Deposit (Rounded)

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating state lotteries. MUSL operates the POWERBALL® game and POWERBALL® The Game Show for the Lottery.

Each MUSL member sells POWERBALL® 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, 2002 and 2001, the Lottery's share of the POWERBALL® prize reserve was \$2,544,000 and \$2,608,000, respectively. A winner of a POWERBALL® grand prize may select that the prize be paid at the cash value of the prize or as an annuity. A grand prize

annuity is paid out in 25 installments. Bonds at the discounted value of grand prize annuity are purchased by MUSL to fund all future installments and are held in trust. Bond 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 the grand prizewinner.

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. The Lottery capitalizes all property and equipment that have a cost greater than \$1,000 and an expected useful life of more than one year. 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 for instant tickets are recognized when 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% on gross ticket sales and a 1% cashing commission on winning ticket validations for prizes under \$600.

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, 2002, 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. 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. The Company maintains its cash balances in one financial institution. The balances for demand deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000 for this financial institution. The Lottery does not believe it is exposed to any significant credit risk with respect to its cash balances.

	Category			Carrying Amount	Bank Balance
	One	Two	Three		
Demand Deposits	\$100,000	\$ -	\$2,036,000	\$2,136,000	\$2,211,000
Cash on hand	10,000	-	-	10,000	-
Total	\$110,000	\$ -	\$2,036,000	\$2,146,000	\$2,211,000

Ten customers represented 44% of sales and accounts receivable in the year ended, and as of, June 30, 2002.

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)

The Act (see note A1) 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." Accordingly, the Board of Directors has elected to set aside up to 2% of gross revenues into the reserve account. At June 30, 2002 and 2001, the amounts that had been set aside and expended were \$295,000 and \$120,000, respectively

16. Net Assets – Restricted (Rounded)

In accordance with the Act the Lottery shall transmit all net revenues to the state treasurer. Originally the Act has required the state treasurer to deposit the revenues into two funds (the Funds), the Public School Capital Outlay Fund and the Lottery Tuition Fund. At the inception of the Lottery, the Act required that sixty percent of the revenues were allocated to the Public School Capital Outlay Fund and forty percent to the Lottery Tuition Fund. Effective July 1, 2000 the allocation to each fund was changed per the Act to fifty percent for each of the Funds. Effective June 15, 2001 the Act changed the allocation to one hundred percent to

the Lottery Tuition Fund. As of August 1, 2002 and 2001 the Lottery has transferred \$29,604,000 and \$25,915,000, respectively, for the periods ended June 30, 2002 and 2001 to the New Mexico State Treasurer. Any Reserve Fund amounts not expended by fiscal year end for the defined purposes (see note 15) will be transferred to the Lottery Tuition Fund, except for unexpended amounts up to \$50,000, which 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 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.

19. Shipping and Handling Costs

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

20. Comprehensive Income

For the years ended June 30, 2002 and 2001, the Lottery had no changes in equity that constituted components of other comprehensive income.

21. Reclassifications

Due to the implementation of GASB 34, certain 2001 amounts have been reclassified to conform with 2002 presentation.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment (rounded) at June 30, 2002 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Data processing software	\$ 1,770,000	\$ 27,000	\$ -	\$ 1,797,000
Data processing equipment	1,520,000	35,000	-	1,555,000
Tenant improvements	545,000	103,000	-	648,000
Vehicles	483,000	171,000	(140,000)	514,000
Furniture & Fixtures	281,000	-	-	281,000
Equipment:				
Communications	243,000	-	-	243,000
Drawing	232,000	10,000	-	242,000
Warehouse	151,000	-	-	151,000
Office	19,000	24,000	-	43,000
	5,244,000	370,000	(140,000)	5,474,000
Accumulated depreciated	(4,761,000)	(272,000)	127,000	(4,906,000)
Property and Equipment, net	\$ 483,000	\$ 98,000	\$(13,000)	\$ 568,000

Property and equipment (rounded) at June 30, 2001 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Data processing software	\$ 1,770,000	\$ -	\$ -	\$ 1,770,000
Data processing equipment	1,211,000	309,000	-	1,520,000
Tenant improvements	529,000	16,000	-	545,000
Vehicles	483,000	-	-	483,000
Furniture & Fixtures	281,000	-	-	281,000
Equipment:				
Communications	243,000	-	-	243,000
Drawing	94,000	138,000	-	232,000
Warehouse	151,000	-	-	151,000
Office	19,000	-	-	19,000
	4,781,000	463,000	-	5,244,000
Accumulated depreciated	(4,258,000)	(503,000)	-	(4,761,000)
Property and Equipment, net	\$ 523,000	\$ (40,000)	\$ -	\$ 483,000

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, 2001	\$ 1,898,000	\$ 424,000	\$ 1,424,000	\$ -	\$ -
Current year net income	29,604,000	-	29,604,000	-	-
Current year Transfers	(29,448,000)	(424,000)	(29,024,000)	-	-
Balance at June 30, 2002	\$ 2,054,000	\$ -	\$ 2,004,000	\$ -	\$ 50,000

NOTE D - RETIREMENT PLAN (rounded)

The Lottery contributes 13.25% of compensation for eligible employees to the New Mexico Lottery Employee Retirement Plan. Lottery contributions are 100% vested when deposited monthly.

For the periods ended June 30, 2002 and 2001 the Lottery recognized \$342,000 and \$314,000 of pension expense for the Employee Retirement Plan on eligible compensation of \$2,581,000 and \$2,370,000. Except for the June 2002 and June 2001 contributions, the entire pension expense amounts had been paid to the plan by June 30, 2002 and 2001, respectively. June's pension contributions were made in July 2002 and 2001, respectively.

NOTE E - CREDIT AGREEMENT

The Lottery entered into an unsecured credit agreement with Bank of America in May 2001. The agreement provides an overdraft protection facility for the Lottery's operating bank account in the amount of \$1,000,000, with an interest rate at the Bank of America's Prime Rate, 4.75% and 6.75% at June 30, 2002 and 2001, respectively. For the periods ended June 30, 2002 and 2001, the Lottery had no outstanding borrowings against the line. The line matures in May 2003.

NOTE F - LEASES (rounded)

The Lottery has entered into operating leases for

the rental of office and warehouse space, and vending machines. Rent expense was \$971,000 and \$974,000 for the years ending June 30, 2002 and 2001, respectively. Certain leases contain provisions for scheduled rental increases for inflationary purposes and are renewable at the option of the Lottery. In August 2002, the Lottery renegotiated its leases for office and warehouse space. The leases were extended for an additional seven years at the same lease amounts that will be paid for the final year of the original lease in 2006. Future minimum rental payments on non-cancelable leases with original terms of one year or more are scheduled as follows:

Year	Amount
2003	\$ 682,000
2004	693,000
2005	672,000
2006	319,000
2007	314,000
2008-2013	2,091,000
	<u>\$ 4,771,000</u>

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

	2002	2001
Minimum rentals	\$ 949,000	\$ 952,000
Less: Sublease rentals	(97,000)	(93,000)
	<u>\$ 852,000</u>	<u>\$ 859,000</u>

NOTE G - COMMITMENT (rounded)

On June 27, 1996, the Lottery entered into an agreement for the On-line Gaming System (the GTECH Agreement) with GTECH Corporation (GTECH). The term of the agreement was for seven years from the Acceptance Day of November 20, 1996 with renewal options for up to five additional one-year extensions or any combination of extensions not exceeding five years. Effective as of February 24, 2002, the Lottery and GTECH agreed to extend the GTECH Agreement until November 20, 2008.

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.

During FY 2002, the Lottery and GTECH agreed to settle various disputed liquidated damages in the total amount of \$9,000.

NOTE H - LITIGATION SETTLEMENT

During 1997, the Lottery agreed to a settlement of certain litigation arising from the conduct of its operations. The agreement called for the Lottery to make cash payments to the plaintiffs that were to be reimbursed by the Lottery's insurance. The agreement also required the Lottery to expand its training and education of retailers on matters of the Americans with Disabilities Act. Management's estimate of amounts to be paid in excess of applicable insurance limits was accrued as of June 30, 1997.

NOTE I - OTHER EXPENSES

(rounded)

Other expenses at June 30, consisted of:

	2002	2001
Registrations & memberships	\$ 27,000	\$ 32,000
Other	25,000	20,000
Training	22,000	15,000
Publications & subscriptions	3,000	3,000
	<u>\$ 77,000</u>	<u>\$ 70,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

Budget Comparison Schedule

(Years ended June 30, dollars rounded)

	2002				2001		
	Original Budget	Revised Budget	Actual	Variance with Revised Budget	Original Budget	Actual	Variance with Original Budget
Revenues							
Instant ticket sales	\$ 75,700,000	\$ 76,000,000	\$ 81,170,000	\$ 5,170,000	\$76,836,000	\$ 74,863,000	\$ (1,973,000)
Powerball sales	32,500,000	42,600,000	43,159,000	559,000	30,066,000	33,973,000	3,907,000
Roadrunner Cash sales	6,440,000	5,700,000	8,151,000	2,451,000	5,654,000	5,168,000	(486,000)
Pick 3 sales	1,560,000	1,400,000	1,491,000	91,000	2,750,000	1,665,000	(1,085,000)
Retailer fees	4,000	19,000	23,000	4,000	4,000	9,000	5,000
Free tickets	(4,000,000)	(4,500,000)	(4,830,000)	(330,000)	(1,796,000)	(2,555,000)	(759,000)
Promotional, spoiled, stolen tickets	(204,000)	(219,000)	(88,000)	131,000	(244,000)	(123,000)	121,000
Total revenues	112,000,000	121,000,000	129,076,000	8,076,000	113,270,000	113,000,000	(270,000)
Total game expenses	83,177,000	89,548,000	94,204,000	4,656,000	82,602,000	82,055,000	(547,000)
Total operating expenses	6,503,000	6,551,000	5,674,000	(877,000)	6,404,000	5,698,000	(706,000)
Operating income	22,320,000	24,901,000	29,198,000	4,297,000	24,264,000	25,247,000	983,000
Total non-operating income	398,000	398,000	406,000	8,000	385,000	668,000	283,000
Net income	\$ 22,718,000	\$ 25,299,000	\$ 29,604,000	\$ 4,305,000	\$24,649,000	\$ 25,915,000	\$ 1,266,000

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