

NEW MEXICO LOTTERY AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2019 and 2018



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New Mexico Lottery Authority

OFFICIAL ROSTER

June 30, 2019

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Dr. Paul Guerin	Member
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Note: John Kubiak, CPA, served as a New Mexico Lottery Authority Board of Directors' Member until November 2018.

OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY

The Lottery was established in 1995 as a public body, politic and corporate, separate and apart from the State of New Mexico. As per the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, the New Mexico Lottery Authority (the Lottery) is governed by a seven-member Board of Directors (Board or Directors), who provide the Lottery with the private-sector perspective of a large marketing and sales enterprise to maximize revenues for the Lottery Tuition Fund.

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

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees. Within the Executive Division, the Chief Operating Officer serves as the organization's chief of staff and directly oversees the activities of the Information Technology Department and the Chief Procurement Officer. The division is also designated as the Lottery's Central Purchasing Office.

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

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

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED

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

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

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

The Information Technology Department, under the direction of the Information Technology Administrator, oversees all the activities associated with the systems and data processing functions of the Lottery, including financial applications, testing of new games, products, functions, and related reporting, monitoring of game activities, and providing data and analysis to divisions. In addition, the management of the Lottery's network is overseen by the Information Technology Department.

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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Mexico Lottery Authority
Mr. Brian S. Colón
New Mexico State Auditor
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority, a component unit of the State of New Mexico, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the New Mexico Lottery Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
New Mexico Lottery Authority
and Mr. Brian S. Colón
New Mexico State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico Lottery Authority's basic financial statements. The Schedule of Percentage Return to the State of New Mexico is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Board of Directors
New Mexico Lottery Authority
and Mr. Brian S. Colón
New Mexico State Auditor

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, on our consideration of the New Mexico Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of New Mexico Lottery Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Mexico Lottery Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 9, 2019

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis of the New Mexico Lottery Authority (Lottery) offers readers of the Lottery's financial statements a narrative overview and analysis of the financial activities of the Lottery for the fiscal years ended June 30, 2019 and 2018 with comparative numbers for the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements, which begin on page 28.

FINANCIAL HIGHLIGHTS

- At the end of fiscal years 2019 and 2018, the Lottery's total current assets increased by \$1,202,401, an increase of 12.2%, and \$905,887, an increase of 10.1%, in comparison to June 30th of each previous fiscal year.
- At the end of fiscal year 2019, the Lottery's total current liabilities decreased by \$315,657, a decrease of 3.2%, whereas at the end of fiscal year 2018, the Lottery's total current liabilities increased by \$981,638, an increase of 10.9%, in comparison to the respective previous fiscal years.
- In fiscal year 2019, total net ticket sales were \$143,630,735, an increase of \$9,601,626, a 7.2% increase, compared to the previous fiscal year. In fiscal year 2018, total net ticket sales were \$134,029,109, an increase of \$7,987,845, a 6.3% increase, compared to net sales of \$126,041,264 in fiscal year 2017.
- From the prior fiscal years, total game expenses increased by \$4,989,608, a 5.5% increase, in fiscal year 2019 and increased by \$6,358,395, a 7.6% increase, in fiscal year 2018.
- Total operating expenses increased by \$350,307, a 10.8% increase, in fiscal year 2019 and \$105,147, a 3.4% increase, in fiscal year 2018, each in comparison to the previous fiscal year.
- Non-operating income (expense) increased by \$16,770, a 202.4% increase, and decreased by \$13,824, a 62.5% decrease, in fiscal years 2019 and 2018, respectively, compared to each preceding fiscal year.
- In fiscal year 2019, net income was \$44,790,939, an increase of \$4,303,956, a 10.6% increase, over fiscal year 2018's net income. In fiscal year 2018, net income was \$40,486,983, an increase of \$1,488,524, a 3.8% increase, compared to the previous fiscal year's net income of \$38,998,459.
- Beginning July 1, 2007, the Lottery was required by the New Mexico Lottery Act to transmit at least twenty-seven percent of its gross revenues to the State of New Mexico and then at least 30% beginning in January 2009. In each fiscal year of 2019 and 2018, the Lottery transmitted 30.00% in net return to the State. In addition, in each of the last two fiscal years, the Lottery met the 30% required gross revenue return each month.
- Including the final transfer on July 31, 2019 of June 2019's net return; the Lottery has transferred \$822,044,836 to the State of New Mexico since the commencement of sales in April 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Financial Statements. The Statements of Net Position on Page 28 and the Statements of Revenues, Expenses, and Changes in Net Position on page 29 report the Lottery's assets, liabilities, revenues and expenses in comparative format for fiscal year 2019 and fiscal year 2018. The Statements of Cash Flows on pages 30 and 31 report the sources and uses of cash for fiscal years 2019 and 2018. The Statements of Fiduciary Net Position on page 32 and Statements of Changes in Fiduciary Net Position on page 33 report the balances and activity of the Lottery's Retirement Plans for fiscal years 2019 and 2018.

Notes to Financial Statements. The Notes to Financial Statements on pages 34 to 55 provide additional information that is essential for a full understanding of the financial statements and provide more detailed data.

Schedules of Percentage Return to the State of New Mexico. The Schedules of Percentage Return to the State of New Mexico on page 56 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2019 and 2018 in compliance with the New Mexico Lottery Act.

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

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS

Total Net Position

At the end of fiscal years 2019 and 2018, the Lottery's net position was \$4,620,000 and \$2,939,000, respectively.

Total Assets

	2019	2018	2017	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018
Cash and cash equivalents	\$ 6,026,545	\$ 4,931,472	\$ 4,660,713	\$ 1,095,073	22.2%	\$ 270,759	5.8%
Accounts receivable, (net of allowance for doubtful accounts)	1,167,846	1,252,217	736,905	(84,371)	(6.7)	515,312	69.9
Reserves on deposit	3,584,556	3,347,517	3,217,539	237,039	7.1	129,978	4.0
Inventory	153,037	105,906	188,110	47,131	44.5	(82,204)	(43.7)
Prepaid expenses	137,373	229,844	157,802	(92,471)	(40.2)	72,042	45.7
Total current assets	11,069,357	9,866,956	8,961,069	1,202,401	12.2	905,887	10.1
Capital assets, net	3,228,892	3,323,396	3,228,247	(94,504)	(2.8)	95,149	2.9
Total assets	\$ 14,298,249	\$ 13,190,352	\$ 12,189,316	\$ 1,107,897	8.4%	\$ 1,001,036	8.2%

Compared to each prior fiscal year, the Lottery's cash and cash equivalents increased by \$1,095,073, a 22.2% increase, and \$270,759, a 5.8% increase, at the end of fiscal years 2019 and 2018. The changes in cash and cash equivalents each year relate mainly to changes in accounts receivable, accounts payable, prizes payable and net position at the end of each fiscal year compared to the prior fiscal year. At the end of fiscal year 2019, the increase was primarily due to a decrease in prizes payable as well as an increase in the Lottery's net position at the end of the year, while at the end of fiscal year 2018, cash had increased due to the increase in prizes payable along with the Lottery's net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets - Continued

Accounts receivable from the Lottery's retailers are collected each Thursday through electronic bank transfers. Receivables are equal to sales net of any prizes paid by the retailers and any commissions earned; less the allowance for bad debts plus any miscellaneous receivables from any other source. The accounts receivable balance at the end of fiscal year 2019 was \$84,371 less than in fiscal year 2018, a 6.7% decrease. This change in accounts receivable at the end of fiscal year 2019 compared to fiscal year 2018 is primarily due to the cumulative amount due at the end of fiscal year 2019 for higher sales in the last eight days of the fiscal year combined with higher prizes and commissions being paid during this time compared to the cumulative amount due in fiscal year 2018 for sales less prizes and commission paid during the last seven days of the fiscal year. The accounts receivable balance at the end of fiscal year 2018 was \$515,312 greater than in fiscal year 2017, a 69.9% increase. This change in accounts receivable compared to the previous year is due to having approximately \$560,000 more in sales during the last week of June 2018 in comparison to the last week in fiscal year 2017.

The Lottery has amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as required by the Powerball® (Powerball), Hot Lotto® (Hot Lotto), Mega Millions® (Mega Millions), and Lotto America® (Lotto America) game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts of increases of \$237,039, a 7.1% increase, and of \$129,978, a 4.0% increase, in fiscal years 2019 and 2018, respectively, were caused by the receipts of interest earned on the deposits with MUSL; payments of game expenses; changes to the Powerball, Mega Millions, Hot Lotto, and Lotto America reserve accounts, as required by the MUSL game rules; and the re-balancing of the reserve accounts.

The inventory balance at the end of fiscal year 2019 increased by \$47,131, a 44.5% increase, while it decreased by \$82,204, a 43.7% decrease, in fiscal year 2018. Under an agreement signed with a secondary instant ticket printer in March 2010 and amended in March 2014, the Lottery began purchasing instant tickets printed by this vendor. The Lottery accounted for games printed under this agreement as ticket inventory using the specific identification method at the lower of cost or market. At the end of fiscal year 2019, the Lottery no longer had any instant ticket inventory printed under this contract, while in fiscal year 2018, the Lottery had remaining inventory purchased under this agreement of \$102,607 for fourteen games. In addition, at the end of fiscal years 2019 and 2018, the Lottery had inventory of \$3,037 and \$3,299, respectively, for one promotional instant game. Also, in fiscal year 2019, the Lottery had paid for ten prizes of \$150,000 that will be awarded in fiscal year 2020 that were reflected as prize inventory.

The changes in capital assets in fiscal years 2019 and 2018 are primarily attributable to \$117,865 and \$294,087 in capital asset purchases and \$212,369 and \$196,580 in depreciation, for the two fiscal years, respectively.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities

Table 2
Total Liabilities

	2019	2018	2017	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018
Current liabilities							
Accounts payable and other current liabilities	\$ 2,027,759	\$ 1,904,502	\$ 1,979,997	\$ 123,257	6.5%	\$ (75,495)	(3.8)%
Current portion of note payable	257,456	248,614	239,717	8,842	3.6	8,897	3.7
Prizes payable	4,249,203	4,808,213	3,748,021	(559,010)	(11.6)	1,060,192	28.3
Due to Lottery							
Tuition Fund	3,143,831	3,032,577	3,044,533	111,254	3.7	(11,956)	(0.4)
Total current liabilities	9,678,249	9,993,906	9,012,268	(315,657)	(3.2)	981,638	10.9
Long-term liabilities							
Noncurrent portion of note payable	-	257,446	506,048	(257,446)	(100.0)	(248,602)	(49.1)
Total liabilities	\$ 9,678,249	\$ 10,251,352	\$ 9,518,316	\$ (573,103)	(5.6)%	\$ 733,036	7.7%

Accounts payable and other current liabilities increased by \$123,257, a 6.5% increase, in fiscal year 2019, while the accounts decreased in fiscal year 2018 by \$75,495, a 3.8% decrease. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to five vendors for advertising, the on-line gaming system, instant ticket printing, and the Lottery's share of prizes payable to MUSL for Powerball, Lotto America, and Mega Millions. Sales during the last weeks of each fiscal year and advertising incurred, but not billed, will generally determine the amounts owed at the end of each fiscal year to these vendors and whether that amount is higher or lower than in the prior fiscal year.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw game and instant games, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2019, prizes payable decreased by \$559,010, a decrease of 11.6%, while at the end of fiscal year 2018, prizes payable increased by \$1,060,192, a 28.3% increase.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities - Continued

These differences relate to the changes of prizes payable on individual Lottery games between the fiscal years as a result of sales in each fiscal year and prizes not yet claimed. In addition, in both fiscal years 2019 and 2018, the Lottery used unclaimed prizes to enable it to meet the 30% return to the Lottery Tuition Fund and to supplement the prizes in scratcher (instant ticket) games to maximize sales in eleven and ten of the twelve months in each fiscal year, respectively. The unclaimed prize fund balance was \$1,945,665 and \$1,651,204 at the end of fiscal years 2019 and 2018, respectively.

At the end of fiscal years 2019 and 2018, respectively, \$3,143,831 and \$3,032,577 of net revenues for the month of June were due to the Lottery Tuition Fund. These funds were transferred to the New Mexico State Treasurer by the end of July of each year.

The Lottery reflected a current portion of a note payable of \$257,456 and \$248,614 for fiscal years 2019 and 2018, respectively, and a noncurrent portion of a note payable of \$257,446 for fiscal year 2018. These amounts represented the amounts owed to a local bank for financing the purchase of the Lottery's corporate offices and warehouse, which the Lottery purchased at the end of fiscal year 2015. At the end of fiscal years 2019 and 2018, respectively, the note payable totaled \$257,456 and \$506,060. The note will be fully paid in June 2020.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Sales by Type and Return to the Lottery Tuition Fund for the Previous Ten Fiscal Years

Table 3
Net Sales by Type and Return to the Lottery Tuition Fund for the Previous Ten Fiscal Years

Fiscal Year	Total Net Instant Ticket Sales	%	Total Net Draw Game Sales	%	Gross Revenues*	Return to the Lottery Tuition Fund	\$ Change to the Lottery Tuition Fund Return	% Change to the Lottery Tuition Fund Return	Powerball (PB) and Mega Millions (MM) Highest Jackpots in the Fiscal Year (M=Million; B=Billion)
2010	\$78,420,660	55%	\$ 65,165,762	45%	\$143,605,807	\$43,608,826			\$261.6M PB \$266M MM
2011	\$ 75,763,425	56%	\$ 59,777,610	44%	\$135,576,661	\$ 41,307,290	\$ (2,301,536)	-5.3%	\$221.7M PB \$355M MM
2012	\$ 68,736,331	51%	\$ 65,051,021	49%	\$133,855,535	\$ 41,328,743	\$ 21,453	0.1%	\$336.4M PB \$656M MM
2013	\$ 69,886,435	49%	\$71,872,087	51%	\$141,814,113	\$43,684,681	\$ 2,355,938	5.7%	\$590.5M PB \$198M MM
2014	\$ 69,804,813	51%	\$ 66,197,791	49%	\$136,057,414	\$ 40,941,550	\$ (2,743,131)	-6.3%	\$448.4M PB \$648M MM
2015	\$79,956,236	58%	\$ 57,060,487	42%	\$137,063,592	\$41,121,221	\$ 179,671	0.4%	564.1M PB \$326M MM
2016	\$83,105,873	54%	\$71,238,895	46%	\$154,402,802	\$46,324,157	\$ 5,202,936	12.7%	\$1.586B PB \$202M MM
2017	\$ 72,398,832	57%	\$53,642,432	43%	\$126,111,773	\$37,835,459	\$ (8,488,698)	-18.3%	\$487M PB \$536.3M MM
2018	\$ 72,291,175	54%	\$ 61,737,934	46%	\$134,055,256	\$ 40,218,983	\$ 2,383,524	6.3%	\$758.7M PB \$533M MM
2019	\$74,941,122	52%	\$68,689,613	48%	\$143,690,224	\$43,109,939	\$ 2,890,956	7.2%	\$768.4M PB \$1.537B MM

* - Gross Revenues also include any non-operating income.

Four fiscal years with the highest return to the Lottery Tuition Fund and the type of net sales contributing to the high return.

Fiscal year with the lowest return to the Lottery Tuition Fund in the previous ten fiscal years and the related decreases in net sales.

Fiscal Year with substantial growth in net instant ticket sales due to a pilot program where the prize payout was increased starting in the last quarter of fiscal year 2014 and continuing until fiscal year 2016.

Effective July 1, 2007, the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, was changed to require the Lottery to transmit at least twenty-seven percent of its gross revenues to the State Treasurer until December 31, 2008 and at least thirty percent of its gross revenues thereafter. In fiscal years 2019 and 2018, the Lottery transmitted a 30 percent return each month, totaling \$43,109,939 and \$40,218,983, respectively.

The changes in net income for fiscal years 2019 and 2018 were related to the changes in sales for the Lottery's games during the two years netted against savings in the cost of the product and operating expenses during the two fiscal years, which will be further reviewed in the following pages of this Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Sales by Type and Return to the Lottery Tuition Fund for the Previous Ten Fiscal Years – Continued

Table 3 reflects the previous ten years of both net sales by the type of games and the return to the Lottery Tuition Fund. Each fiscal year reflects at least a 30% return on the gross revenues for that fiscal year. The four fiscal years 2010, 2013, 2016, and 2019 (highlighted in yellow) are the years with the highest return to the Lottery Tuition Fund in the Lottery's twenty-four fiscal years. Fiscal year 2019 had the fourth highest return of \$43.1 million to the Lottery Tuition Fund. This return was primarily due to the increase in net instant ticket sales, as well as the increase in Mega Millions ticket sales for the fiscal year compared to fiscal year 2018. With an increase of 1.36% in the instant ticket prize payout to 61.37%, along with strategically selecting the price points and the type of games being introduced into the sales mix each month, the Lottery was able to produce \$2.65 million in additional net instant ticket sales. Fortunately, the Mega Millions jackpot also increased to the game's record setting \$1.537 billion in October 2018 and along with other large jackpots during the year produced nearly \$9.4 million in additional Mega Millions sales in fiscal year 2019 compared to fiscal year 2018.

The table also shows three other fiscal years with high returns to the Lottery Tuition Fund. In fiscal year 2010, the third highest return of \$43.6 million was primarily due to \$78.4 million in net instant ticket sales. In that fiscal year, the prize payout on instant tickets was 62.52%. This payout was a higher instant ticket prize payout than the instant ticket prize payout for the four subsequent fiscal years. The lower instant ticket payout in the next few years caused net instant ticket sales to continue to decline until fiscal year 2015 (highlighted in blue) when the instant ticket prize payout was increased to 63.75% and net instant ticket sales increased to nearly \$80 million. These higher instant ticket sales returned an additional three million dollars to the Lottery Tuition Fund; thus, returning a total of \$41.1 million to the fund instead of only a \$38.1 million return which would have occurred without the increase in net instant ticket sales.

In fiscal year 2013, the second highest return of nearly \$43.7 million was primarily due to \$71.9 million in draw game sales; net instant ticket sales had continued to fall to \$69.9 million mainly due to a low instant ticket prize payout of 58.94%. In that year, Powerball sales were \$46.7 million due to two large record-setting jackpots at that time; a \$590.5 million jackpot and a \$587.5 million jackpot and due to the change to a \$2.00 price point during the prior fiscal year.

Fiscal year 2016's return of \$46.3 million is the highest return to the Lottery Tuition Fund. This return is primarily attributable to net instant ticket sales continuing to increase to \$83.1 million due to an instant ticket prize payout of 63.29% and to Powerball sales of \$43.3 million primarily due to the record-setting Powerball jackpot of \$1.586 billion.

Fiscal year 2017 (highlighted in green) in Table 3 is the fiscal year with the lowest return to the Lottery Tuition Fund of \$37.8 million during this ten-year period. In fiscal year 2017, the prize payout on instant tickets was dropped by 2.54% to 60.75% because the Lottery could no longer sustain a higher instant ticket prize payout and still return 30% to the Lottery Tuition Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Sales by Type and Return to the Lottery Tuition Fund for the Previous Ten Fiscal Years – Continued

With the lowering of the instant ticket prize payout in fiscal year 2017, net instant ticket sales dropped by \$10.7 million. In addition, after the record-setting Powerball jackpot of \$1.586 billion in fiscal year 2016, Powerball sales dropped by nearly \$17 million contributing to draw game sales decreasing by \$17.6 million compared to the previous fiscal year. Without both high net instant ticket sales and net draw game sales, the return to the Lottery Tuition Fund decreased by nearly \$8.5 million, (18.3)%, compared to the previous fiscal year.

In summary, for three of the four highest returns during the Lottery's twenty-four fiscal year history, net instant ticket sales greatly contributed to the returns for those fiscal years along with the net draw game sales. Prize payout for net ticket instant sales in these three fiscal years were higher than the average instant ticket prize payout during this ten-year period and produced higher net instant ticket sales and as a result a higher return to the Lottery Tuition Fund. In fiscal year 2017, the prize payout on net instant ticket was reduced from the prior fiscal year by 2.54% and net instant ticket sales dropped by \$10.7 million, (12.9)%, and along with a reduction in net draw game sales, produced a return to the Lottery Tuition Fund of nearly \$8.5 million less than in the previous fiscal year; \$3.2 million of this fiscal year 2017 decrease to the return is directly attributable to the \$10.7 million decrease in net instant ticket sales. Overall, this table illustrates that the Lottery could achieve higher net instant ticket sales and therefore, a higher-dollar return to the Lottery Tuition Fund each fiscal year by implementing higher prize payouts in instant games. Instant ticket sales should be the foundation for year-over-year sales growth for the Lottery with high jackpots for draw games adding incremental sales.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense

Table 4
Net Ticket Sales and Prize Expense

2019	Net Ticket Sales	Prize Expense
Instant ticket	\$ 74,941,122	\$ 41,349,332
Powerball	26,926,003	13,543,102
Mega Millions	22,539,843	11,313,822
Roadrunner Cash	7,293,605	4,340,822
Pick 3	5,476,632	3,176,915
Lotto America	4,462,937	2,091,983
Pick 4	1,060,208	607,997
Fast Play (Formerly Quicksters)	859,871	572,334
Lucky Numbers Bingo	70,514	44,067
Total	<u>\$ 143,630,735</u>	<u>\$ 77,040,374</u>
2018	Net Ticket Sales	Prize Expense
Instant ticket	\$ 72,291,175	\$ 40,734,467
Powerball	29,611,869	14,961,648
Mega Millions	13,159,344	6,602,007
Roadrunner Cash	7,652,785	4,678,220
Pick 3	5,624,439	3,294,600
Lotto America	2,810,197	1,340,379
Hot Lotto	1,973,815	945,267
Fast Play (Formerly Quicksters)	785,565	510,662
Lucky Numbers Bingo	119,920	75,228
Total	<u>\$ 134,029,109</u>	<u>\$ 73,142,478</u>
2017	Net Ticket Sales	Prize Expense
Instant ticket	\$ 72,398,832	\$ 38,861,016
Powerball	26,329,419	13,164,850
Mega Millions	9,655,935	4,886,749
Roadrunner Cash	7,141,187	4,362,676
Pick 3	5,364,936	3,151,910
Hot Lotto	4,294,146	2,195,738
Fast Play (Formerly Quicksters)	741,067	488,009
Lucky Numbers Bingo	115,742	73,202
Total	<u>\$ 126,041,264</u>	<u>\$ 67,184,150</u>
\$ Increase from FY 2018 to FY 2019	<u>\$ 9,601,626</u>	<u>\$ 3,897,896</u>
% Increase from FY 2018 to FY 2019	<u>7.2%</u>	<u>5.3%</u>
\$ Increase from FY 2017 to FY 2018	<u>\$ 7,987,845</u>	<u>\$ 5,958,328</u>
% Increase from FY 2017 to FY 2018	<u>6.3%</u>	<u>8.9%</u>

Note: Instant ticket sales are net of tickets provided as prizes, stolen, and promotion tickets; Powerball, Mega Millions, Roadrunner Cash, Pick 3, Lotto America, Pick 4, Hot Lotto, Fast Play, and Lucky Numbers Bingo sales are net of spoiled and promotional tickets.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Table 4 provides net ticket sales and prize expense for each Lottery game for fiscal years 2019, 2018, and 2017. In fiscal year 2019, net instant ticket sales and the related prize expense increased compared to fiscal year 2018. Net sales and the related prize expense increased for Mega Millions, Lotto America, and Fast Play in fiscal year 2019, while they decreased for Powerball, Roadrunner Cash, and Pick 3. The game, Pick 4, was started in February 2019, while the game, Lucky Numbers Bingo, was ended in March 2019. Net sales for instant tickets decreased in fiscal year 2018 compared to fiscal year 2017. Additionally, in fiscal year 2018 net sales and the related prize expense increased for Powerball, Mega Millions, Roadrunner Cash, Pick 3, Fast Play, and Lucky Numbers Bingo. The Hot Lotto game ended in October 2017 and the Lotto America game started in November 2017; sales for the two games combined exceeded the sales for Hot Lotto in the previous fiscal year.

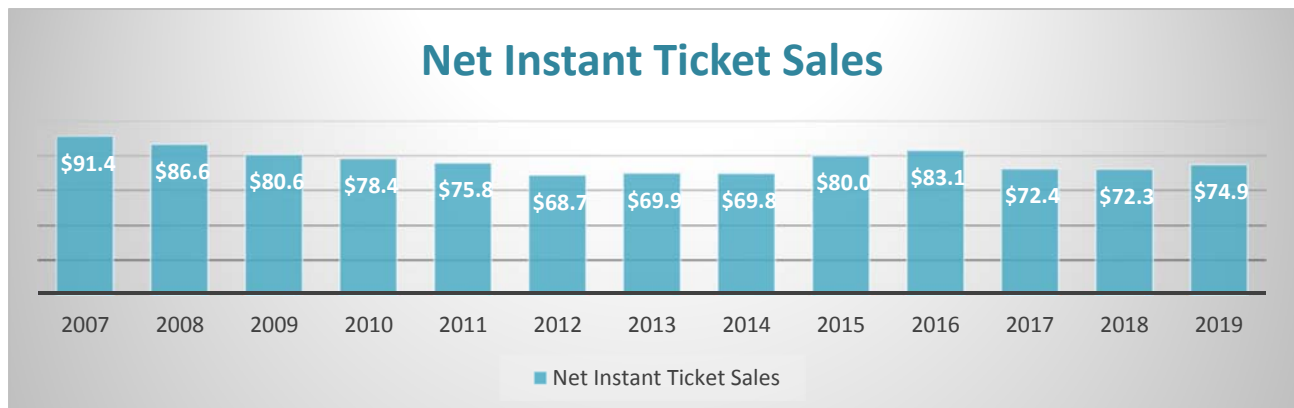
Net Ticket Sales

In fiscal year 2019, net instant ticket sales were \$74.9 million, a \$2.6 million increase, or a 3.7% increase, over the previous fiscal year. Whereas, in fiscal year 2018, net sales for instant tickets were \$72.3 million compared to \$72.4 million in fiscal year 2017, a decrease of over \$100,000, a decrease of .15%.

In fiscal year 2019, net draw game sales were nearly \$68.7 million, an increase of nearly \$7 million, or an 11.3% increase over the previous fiscal year. While, in fiscal year 2018, net draw game sales were \$61.7 million, compared to \$53.6 million in fiscal year 2017, an increase of \$8.1 million, or a 15.1% increase.

Overall, net sales increased by \$9.6 million, an increase of 7.2%, in fiscal year 2019 and increased by nearly \$8 million, an increase of 6.3% in fiscal year 2018.

NET INSTANT TICKET SALES – FYs 2007 Through 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

As reflected in the Net Instant Ticket Sales graph, sales begin rebounding in fiscal year 2015 and fiscal year 2016 toward the \$91.4 million net instant ticket sales for fiscal year 2007. Net instant sales increased in fiscal year 2016 by \$3.1 million, a 3.9% increase, and by \$10.2 million, a 14.5% increase in fiscal year 2015. Fiscal year 2016 ended the year with over \$83.1 million in net instant ticket sales, still \$8.3 million less than the fiscal year 2007 record-setting net instant ticket sales of \$91.4 million. Fiscal year 2015 ended the year with nearly \$80 million in net instant ticket sales. The increases in instant ticket sales in those fiscal years added approximately seven million additional dollars to the Lottery Tuition Fund for those two fiscal years combined.

Unfortunately, in fiscal years 2018 and 2017, the Lottery was forced to substantially reduce supplemental funding of instant ticket prize payouts to meet the statutory mandated return of 30%. The Lottery reduced the prizes in instant ticket games and could not afford to launch a \$20 instant ticket game causing net instant sales in fiscal year 2017 to fall by \$10.7 million or 12.9% and by an additional \$100,000 in fiscal year 2018. This reduction in net instant ticket sales caused the return to the Lottery Tuition Fund to be nearly \$6.5 million less in combined return for fiscal years 2018 and 2017.

In fiscal year 2019, net instant ticket sales increased to \$74.9 million primarily due to bringing prize payout in instant games up to 61.37%. The increase in net instant ticket sales was \$2.65 million, a 3.7% increase. Whereas, the \$1, \$2, and \$3 price point net sales decreased by more than \$3.6 million in FY 2019, the \$5 and \$10 price point net sales increased by more than \$6.3 million.

The Lottery has continued to use the customer relationship management (CRM) system for placing instant game tickets at retailer locations. The Lottery's customer service representatives have continued placing calls each week to retailer locations, reviewing the inventory at the location with the retailer, and placing orders as needed based on the inventory turnover at each location. In fiscal year 2019, forty-six new instant ticket games were launched – 12 - \$1, 7 - \$2, 7 - \$3, 11 - \$5, 9 - \$10 and 0 - \$20 games – 1 more \$1, 4 less \$2, 2 more \$3, 4 more \$5, 5 more \$10 games than in fiscal year 2018. In fiscal year 2018, thirty-eight new instant ticket games were launched – 11 - \$1, 11 - \$2, 5 - \$3, 7 - \$5, 4 - \$10 and 0 - \$20 – 1 more \$1, 2 more \$2, 1 less \$3, 4 less \$5, and 3 less \$10 than in fiscal year 2017. In fiscal year 2019, the Lottery launched 23 games with free (prize) tickets and 23 games without prize tickets while in fiscal year 2018, the Lottery launched 20 games with prize tickets and 18 games without prize tickets.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

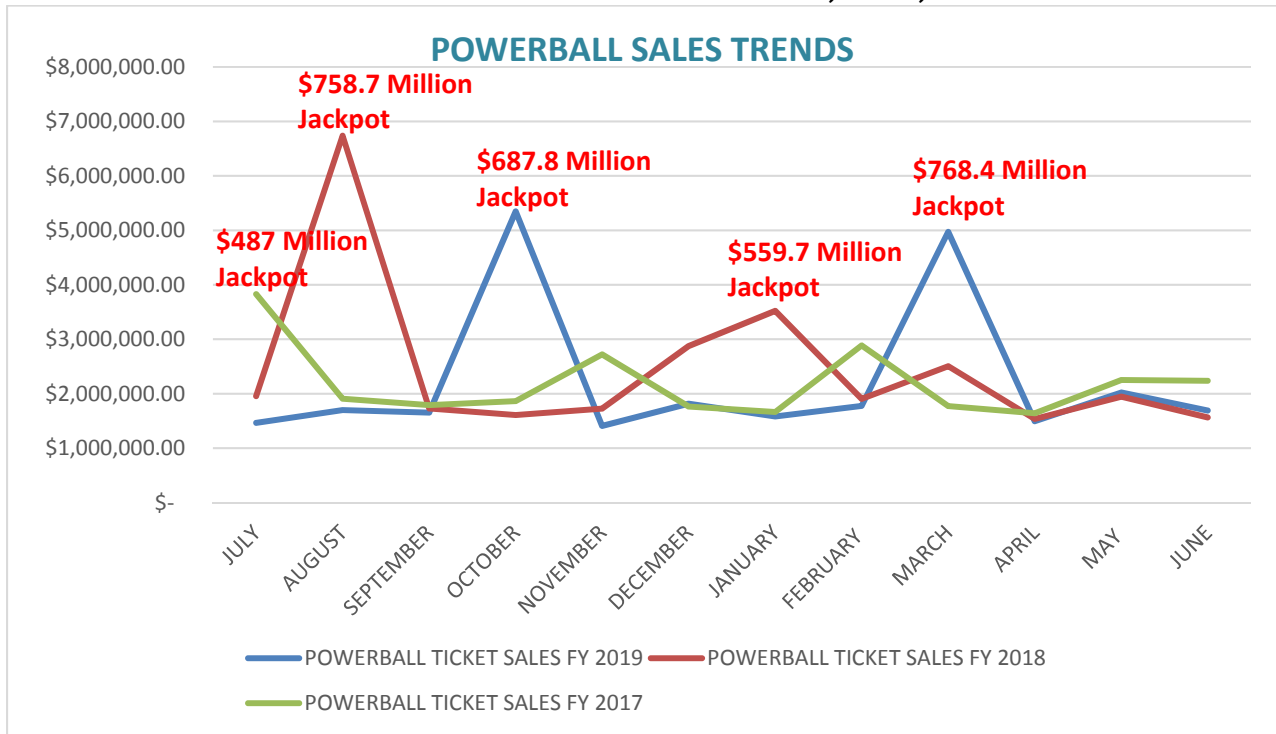
FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Higher draw game sales generally occur when the jackpots start climbing. Unfortunately, the Lottery has no influence over the amount that jackpots will grow and cannot predict when jackpot run-ups will happen. In some fiscal years, the jackpots will roll to extremely high jackpots, such as in fiscal year 2019 for Mega Millions where the jackpot climbed to \$1.537 billion and in fiscal year 2016 for Powerball where the jackpot climbed to \$1.586 billion, and in those fiscal years, the net draw game sales were higher than normal and the return to the Lottery Tuition Fund was higher than in most fiscal years. But in some fiscal years, even with close to half-a-billion-dollar jackpots, net draw game sales do not grow, as was the case in fiscal year 2017 where Powerball grew to \$487 million and Mega Millions grew to \$536.3 million.

POWERBALL TICKET SALES – FYs 2019, 2018, & 2017



Powerball sales are driven by the advertised jackpot. As time passes, the jackpot that will influence the casual players into buying a jackpot ticket keeps growing. Fiscal year 2019 included a \$687.8 million jackpot in October 2018, a \$768.4 million jackpot in March 2019 and a \$344.6 million jackpot that ended on June 1, 2019, along with a \$245.6 million jackpot and a \$298.3 million jackpot during the fiscal year. Powerball ended the fiscal year with nearly \$2.7 million less sales than in fiscal year 2018, a 9.1% decrease in sales.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

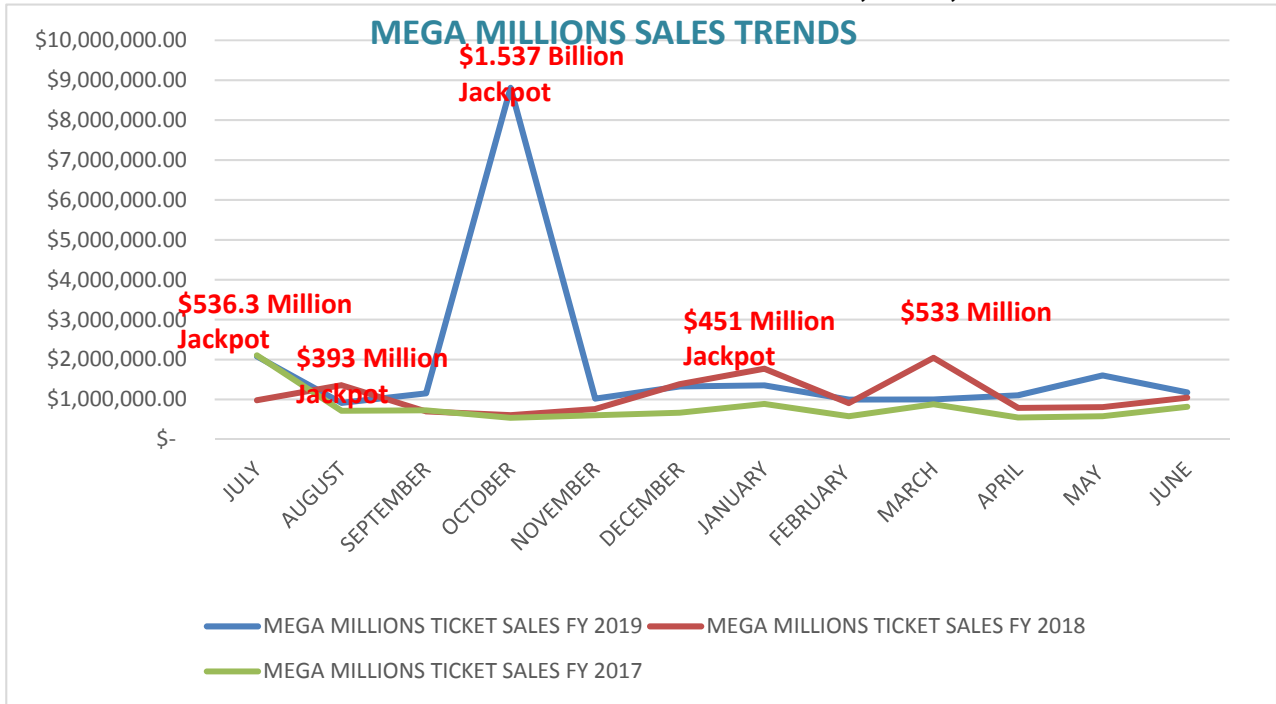
Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Powerball Ticket Sales –Continued

Fiscal year 2018 started off in August 2017 with a \$758.7 million jackpot followed by a \$559.7 million jackpot in January, a \$456.7 million jackpot in March, and a \$315.3 million jackpot in May along with three jackpots of \$133.2 million, \$191.1 million, and \$150.4 million and one smaller jackpot of \$55.9 million during the rest of the fiscal year. During the months with jackpot run-ups, sales grew for Powerball. Due to these jackpot run-ups, Powerball ended the year nearly \$3.3 million ahead of fiscal year 2017 or with a 12.5% increase in sales in fiscal year 2018.

MEGA MILLIONS TICKET SALES – FYs 2019, 2018, 2017



Mega Millions sales are also driven by the jackpot amount and the game has also been experiencing jackpot fatigue, where players keep looking for bigger and bigger jackpots before they buy a ticket. Fortunately, in fiscal year 2019 Mega Millions had a \$1.537 billion jackpot in October 2018, as well as a \$543 million jackpot in July 2018 and a \$522 million jackpot in June 2019, along with a \$437 million jackpot, a \$273 million jackpot, and a \$50 million jackpot. Due to the jackpots in the fiscal year, Mega Millions ended fiscal year 2019 nearly \$9.4 million ahead of the previous fiscal year, a 71.3% increase.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Mega Millions Ticket Sales -Continued

Fiscal year 2018 had its first jackpot run-up in August 2017 with a \$393 million jackpot followed by a \$451 million jackpot in January, a \$533 million jackpot in March along with two jackpots of \$105 and \$142 million and one jackpot of \$42 million. Mega Millions ended the year \$3.5 million ahead of fiscal year 2017 or 36.3% ahead; this increase in sales may be attributable to both the jackpots during the year, as well as the game being changed to a two-dollar price point on October 28, 2017.

Other Draw Game Ticket Sales

Like Powerball and Mega Millions games, Roadrunner Cash sales are driven by the jackpot (top) prize amount. In fiscal year 2019, the top prizes climbed to \$402,000, \$373,000, \$360,000, \$350,000, \$320,000, and \$270,000 with three prizes over \$132,000 and one prize of \$27,000. Since no prize rose to much more than \$400,000 sales for the fiscal year decreased by more than \$359,000, a 4.7% decrease, to nearly \$7.3 million in sales.

In fiscal year 2018, the top prize climbed to \$633,000, \$350,000, \$349,000, and \$333,000 along with a top prize of \$205,000, five top prizes over 138,000 and two top prizes that were less than \$62,000. Sales for the fiscal year of nearly \$7.7 million surpassed the fiscal year 2017 sales by nearly \$512,000, or 7.2%.

Pick 3 sales had continued to grow in fiscal year 2018 by more than \$259,000, a 4.8% increase, to more than \$5.6 million. But, in fiscal year 2019, sales decreased by nearly \$148,000, a 2.6% decrease, to nearly \$5.5 million in sales. Pick 3 has remained a core game for the Lottery bringing in steady monthly average net sales; in fiscal year 2019 ranging from \$394,000 to \$502,000 each month and in fiscal year 2018 ranging from \$431,000 to \$529,000 each month.

In fiscal year 2019, Pick 3 sales were impacted an average of \$50,000 per month when a similar style game, Pick 4, was started in February 2019. Pick 4 added over a one-million dollars to sales for the fiscal year.

Lotto America is a game that started in November 2017 after Hot Lotto ended. Lotto America started with a special \$15 million jackpot that grew to \$22.8 million before being won in March 2018. The jackpot started at \$2 million at that time and grew to \$4.38 million and was again won in May 2018. Lotto America sales were \$2.8 million for fiscal year 2018. The jackpot grew from May 2018 and all through fiscal year 2019 without being won. Finally, in July 2019 when the jackpot was \$21.6 million it was won. Fiscal year 2019 sales were \$1.65 million more than in the previous fiscal year, 58.8% more, and ended the year at \$4.46 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Other Draw Game Ticket Sales-Continued

The MUSL game Hot Lotto is another smaller national jackpot game that was offered by the Lottery. Sales for this game also track with the jackpot. The game Hot Lotto ended on October 28, 2017 without any jackpots being won in fiscal year 2018 and with a jackpot of just over \$12 million when the game ended. Sales for Hot Lotto during these four months in fiscal year 2018 were nearly \$2 million.

Fast Play (formerly Quicksters) are instant-win games, similar to instant ticket games, but produced by the same Lottery sales terminals as draw game tickets and with no scratching needed to reveal the prizes. In fiscal year 2019, Fast Play sales increased by \$74,000 to nearly \$860,000, a 9.5% increase, while in fiscal year 2018, Fast Play net sales increased by \$44,000 to \$786,000, a 6% increase, over the previous fiscal year.

The final game that was offered in fiscal year 2019 was Lucky Numbers Bingo. Lucky Numbers Bingo is a draw game that offered two ways to play and two ways to win either through the Bingo numbers or through the Lucky Numbers. In March 2019 Lucky Numbers Bingo was ended. At that time, sales were just over \$70,500 for the fiscal year. Lucky Number Bingo sales were nearly \$120,000 for fiscal year 2018.

Prize Expense

Prize expense for the draw games of Powerball, Mega Millions, Lotto America, and Hot Lotto is based on the overall prize payout per the game design, while prize expense for Roadrunner Cash, Pick 3, Pick 4, Fast Play, and Lucky Numbers Bingo is determined by the prizes won each month for each drawing or game. The prizes included in the prize structure for each instant game printed determine prize expense for instant games. In general, prize expense increases or decreases from year-to-year relative to the increases or decreases in sales for each Lottery product and the prize structures of the games.

In fiscal years 2019 the overall prize payout increased by approximately .53%, while in fiscal year 2018, the prize payout decreased by approximately .79%, prior to the application of unclaimed prizes. The increase in fiscal years 2019 is partially attributable to an increase of 1.36% on instant games, while in fiscal year 2018 the decrease is primarily due to a lowering of prize payout on instant games by .74%, both years compared to the previous fiscal years. Each of these changes in prize payout contributed to the changes in net instant ticket sales for each year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Expense – Continued

At the end of the claim period for each game, unclaimed prizes for the Lottery's instant games and draw games are paid into the "Prize Fund," in accordance with the New Mexico Lottery Act. These unclaimed prizes from the Lottery's prize fund have been used to meet the 30% return most months by supplementing the prizes in instant and draw games and for second chance drawings and, thereby, reducing the prize expense for Lottery products, which in turn has helped the Lottery maximize its sales and its return to education. Unclaimed prizes were used to supplement prizes to meet the 30% return in fiscal year 2019 and 2018 for eleven and ten months in each fiscal year, respectively. In the last twelve years, unclaimed prizes have been used 84% of the time to meet the mandated percentage return to the Lottery Tuition Fund; without the unclaimed prizes, the return percentage would not have been met. \$43.7 million in unclaimed prizes have been transferred to the Lottery Tuition Fund in the one-hundred forty-four (144) months since the beginning of fiscal year 2008.

Prize Tickets

In fiscal year 2019, tickets provided as prizes (prize or free tickets) claimed for instant games decreased by \$126,000, or (5.5)%, while in fiscal year 2018, prize tickets claimed for instant games increased by nearly \$51,000, an increase of 2.3%. Prize tickets are generally placed in the prize structure of the game in lieu of the breakeven prizes. Prize tickets give a player a prize of another instant game ticket of the same price point as the instant ticket that had the winning prize ticket. Each fiscal year, the Lottery continues to analyze what the optimum quantity of prize tickets should be to be able to optimize its instant ticket sales.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 5
Game Expenses

	2019	2018	2017	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018
Prize expense	\$ 77,040,374	\$ 73,142,478	\$ 67,184,150	\$ 3,897,896	5.3%	\$ 5,958,328	8.9%
Retailer							
commissions	9,287,586	8,693,661	8,196,191	593,925	6.8	497,470	6.1
On-line vendor							
fees	5,172,755	4,863,896	4,612,157	308,859	6.4	251,739	5.5
Advertising	1,958,039	1,768,393	2,126,939	189,646	10.7	(358,546)	(16.9)
Ticket vendor							
fees	1,181,407	1,246,929	1,172,844	(65,522)	(5.3)	74,085	6.3
Other game							
expenses	657,085	592,281	656,962	64,804	10.9	(64,681)	(9.8)
Total game							
expenses	\$ 95,297,246	\$ 90,307,638	\$ 83,949,243	\$ 4,989,608	5.5%	\$ 6,358,395	7.6%

The changes in retailer commissions for fiscal years 2019 and 2018 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.46% and 6.49% of gross revenues for each year, respectively. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets, cashing Lottery prizes and for selling a jackpot/grand prize for Powerball, Mega Millions, Lotto America, or Hot Lotto, for selling a match 5 prize for Powerball or Mega Millions, and for selling a jackpot prize of more than \$100,000 for Roadrunner Cash.

Since November 21, 2008, the on-line vendor fee has been a fixed percentage of net sales, plus applicable gross receipts taxes, with no additional terminal fees as in previous agreements. The on-line fee increases or decreases as net draw game and instant ticket sales increase or decrease. Effective November 22, 2015, the Lottery entered into an agreement for on-line vendor services following the issuance of a Request for Proposals in May 2015. Only one of the three on-line vendors provided a proposal for these services. The system includes the supply, installation, maintenance, service, and operation of a communication network; a new back office accounting system; new lottery terminals and peripheral equipment for the Lottery's existing and future retailers; ticket scanners to enable players to check their tickets for prizes; self-service ticket vending machines that sell both instant and draw game tickets; disaster recovery services; and various employees to operate the system and provide sales and marketing support to the Lottery. For fiscal years 2019 and 2018, the changes in the on-line vendor fees for the two fiscal years are consistent with the changes in net draw game and instant ticket sales for the fiscal years along with the increase in the vendor contract pricing as of November 2015 and are equivalent to 3.60% and 3.63% of gross revenues for the two years, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses – Continued

Advertising money is expended to market the Lottery and its products to the public and to inform the public about the games that are available, the jackpot and top prize amounts for the draw games; to provide security tips and gambling awareness for our players, and benefit messages to New Mexico students and their families; and to keep the lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.36% and 1.32% of gross revenues, respectively, for fiscal years 2019 and 2018 and stayed within the Lottery Board approved budgets of \$2,000,000 and \$2,026,000, respectively, for each fiscal year. In fiscal year 2019 and 2018, the advertising dollars were again maximized by purchasing advertising for the entire year at the beginning of the year. In fiscal years 2019 and 2018, the annual buys and cost savings provided an estimated \$2.4 million and \$2.1 million, respectively, of additional advertising without any added cost.

In fiscal year 2010 the Lottery signed a new contract with its primary ticket printer effective in March of that year. Under this contract, the instant tickets are owned by the vendor with the Lottery expensing the cost to ticket vendor fees and paying for the tickets as a percentage of net instant sales when the tickets are sold. In addition, in March 2010, the Lottery signed a contract with a secondary printer, whereby the Lottery would be purchasing the tickets printed. These tickets were included in inventory with the cost of the tickets being recorded as ticket vendor fees as the tickets were consigned to retailers. Both contracts were extended for four additional years in March 2014. In March 2018, the Lottery signed a new contract with its primary vendor; again, paying for the tickets as a percentage of net instant sales when the tickets are sold. In addition, in both fiscal year 2019 and 2018, the cost for any licensing fees or special printing costs are also included in ticket vendor fees. The ticket vendor fees for fiscal year 2019 are .82% of gross revenues, while in fiscal year 2018 ticket vendor fees are .93% of gross revenues.

Included in other game expenses are shipping and postage, retailer equipment, promotions, responsible gaming, and game membership expenses. Fiscal year 2019 reflects an increase of \$64,804, a 10.9% increase, while fiscal year 2018 reflects a decrease of \$64,681, a decrease of 9.8%. This increase in fiscal year 2019 was primarily due to shipping and postage increasing as a result of a small increase in the contractual cost together with more packs of instant tickets being shipped because of higher instant ticket sales, as well as purchasing additional ticket dispensers and retailer equipment. In fiscal year 2018, retailer equipment expense was reduced because play stations were not purchased as they had been in fiscal year 2017. In addition, in fiscal year 2018 there was a reduction in the cost of events and promotions by more than \$20,000.

New Mexico Lottery Authority

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 6
Operating Expenses

	2019	2018	2017	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018
Salaries, wages, and benefits	\$ 2,701,925	\$ 2,453,339	\$ 2,350,058	\$ 248,586	10.1%	\$ 103,281	4.4%
Utilities and maintenance	255,174	238,869	223,841	16,305	6.8	15,028	6.7
Leases and insurance	111,427	114,425	113,646	(2,998)	(2.6)	779	0.7
Other operating expenses	519,280	430,866	444,807	88,414	20.5	(13,941)	(3.1)
Total operating expenses	<u>\$ 3,587,806</u>	<u>\$ 3,237,499</u>	<u>\$ 3,132,352</u>	<u>\$ 350,307</u>	10.8%	<u>\$ 105,147</u>	3.4%

Operating expenses are made up of salaries, wages and benefits, utilities and maintenance, leases and insurance, and other operating expenses, which include depreciation and amortization, professional fees, materials and supplies, travel, and other expenses. In fiscal year 2019, operating expenses increased by \$350,307, or 10.8%, while in fiscal year 2018, operating expenses increased by \$105,147, or 3.4%.

In the last five years, the Lottery has reduced its staffing from fifty-six employees with salary, wages, and benefits of \$3.73 million for fiscal year 2014 downward to thirty-four employees in fiscal year 2019 with salary, wages, and benefits of \$2.70 million. This change represents 22 fewer employees and a one million dollar change in this expense from fiscal year 2014 to fiscal year 2019, a 27.5% change. This decrease in staffing has provided a savings to the Lottery of approximately \$2.5 million during the last five years. Fiscal year 2019 started with thirty-three employees and ended with thirty-four employees. Four employees were hired, and three employees terminated their employment. In addition, during the year, positions were re-shuffled in order to achieve organizational continuity for the Lottery. An average 3% salary and wage increase was provided to employees during the fiscal year. These position changes and the employee salary and wage increase together with the related payroll taxes and benefits for the changes, as well as increases to the cost of premiums for health insurance contributed to the increase in salaries, wages, and benefits compared to the prior fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Operating Expenses - Continued

The increase in operating expenses in fiscal year 2018 was due to changes in salaries, wages, and benefits as a result of also re-shuffling of positions during the year together with increases in the cost of premiums for health insurance.

In addition, operating expenses have been reduced since fiscal year 2015 because the Lottery purchased its corporate offices and warehouse in June 2015 and has been able to save an average of \$200,000 per fiscal year in expenses.

Non-Operating Revenues

Non-operating revenues increased in fiscal year 2019, while they decreased in fiscal years 2018. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2019 or 2018.

Non-Operating Expense

Due to the purchase of the Lottery's corporate offices and warehouse in fiscal year 2015, there was interest expense on the loan used to finance the purchase of the facility of \$14,233 and \$23,136 in fiscal years 2019 and 2018, respectively.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison

Table 7
Budgetary Comparison

	2019				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 129,488,000	\$ 136,754,000	\$ 143,650,935	\$ 6,896,935	5.0%
Total game expenses	86,523,000	91,868,000	95,297,246	(3,429,246)	3.7
Total operating expenses	<u>4,112,000</u>	<u>3,869,000</u>	<u>3,587,806</u>	<u>281,194</u>	(7.3)
Operating income	38,853,000	41,017,000	44,765,883	3,748,883	9.1
Total non-operating income (expense)	<u>(3,000)</u>	<u>20,000</u>	<u>25,056</u>	<u>5,056</u>	25.3
Net income before transfers to Lottery Tuition Fund	<u>\$ 38,850,000</u>	<u>\$ 41,037,000</u>	<u>\$ 44,790,939</u>	<u>\$ 3,753,939</u>	9.1%
	2018				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 124,488,000	\$ 127,890,000	\$ 134,023,834	\$ 6,133,834	4.8%
Total game expenses	83,386,000	86,035,000	90,307,638	(4,272,638)	5.0
Total operating expenses	<u>3,734,000</u>	<u>3,483,000</u>	<u>3,237,499</u>	<u>245,501</u>	(7.0)
Operating income	37,368,000	38,372,000	40,478,697	2,106,697	5.5
Total non-operating income (expense)	<u>(14,000)</u>	<u>4,000</u>	<u>8,286</u>	<u>4,286</u>	107.2
Net income before transfers to Lottery Tuition Fund	<u>\$ 37,354,000</u>	<u>\$ 38,376,000</u>	<u>\$ 40,486,983</u>	<u>\$ 2,110,983</u>	5.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison – Continued

In fiscal year 2019, the original annual budget was revised to reflect the sales performance for the Lottery's games. Mega Millions was increased by \$11 million or 104.8%, Roadrunner Cash was increased by \$.5 million or 7.1%, Pick 3 was increased by 1 million or 22.2%, while Powerball was decreased by \$4.5 million or (15.8)% and Pick 4 was decreased by \$.7 million or 38.9%; instant tickets remained the same. Overall net ticket sales were increased by \$7.27 million or 5.6%. Game expense line items that are directly affected by sales were increased due to the increases in sales with these costs staying close to the percentage they had been in the original budget. Advertising was reduced by \$350,000 or 14.9%. The overall change to game expenses was 6.2%. All operating expenses were reduced except for materials and supplies, which increased minimally by \$8,000. The largest reduction in operating expenses was to salaries, wages, and benefits which was reduced by \$130,000 or 4.4%. Overall operating expenses were reduced by \$243,000 or 5.9%. With the changes in the revised budget, the return was increased by nearly \$2.2 million or 5.6% more to the Lottery Tuition Fund.

Fiscal year 2019 ended with net sales outperforming the final (revised) budget by nearly \$6.9 million, a 5.0% increase. Instant sales were \$2.4 million or 3.4% more than the budget, Powerball sales were \$2.9 million or 12.2% more, Mega Millions sales were 1 million or 4.8% more, and Lotto America sales were \$763,000 or 20.6% more, while Roadrunner Cash, Pick 3, Pick 4, and Fast Play sales did not meet the budget; the Lucky Numbers Bingo game ended in March 2019. Directly affected by sales, which surpassed the budget by 5.0%, game expenses were over the budget by only 3.7%. Operating expenses were less than the budget at 92.7% of budget.

In fiscal year 2018, the original annual budget was revised to reflect the better performance in sales for some of the draw games; Powerball was increased by \$1 million or 3.6%, Mega Millions was increased by \$1.5 million or 15.8%, Roadrunner Cash was increased by \$150,000 or 2.2%, Lotto America was increased by \$1 million or 50%, Pick 3 was increased by \$300,000 or 5.9%, and Fast Play (formerly Quicksters) was increased by \$300,000 or 75%. Instant ticket sales were reduced by \$500,000 or (0.7)% and the related tickets provided as prizes were reduced by \$300,000 or (10.7)%. Hot Lotto was reduced by \$50,000 since it ended in October 2017 and did not quite reach its budgetary goal. The Miss/Match game sales were reduced to zero since the game was not launched in fiscal 2018. Overall, there was an increase of \$3.4 million in net ticket sales or an increase of 2.7%. Game expenses were reduced, but remained close in percentage to what they had been in the fiscal year 2018 original annual budget. All operating expenses were reduced except for materials and supplies which increased minimally by \$4,000. Salaries, wages, and benefits were reduced by \$118,000 or (4.4)%, professional fees by \$66,000 or (33.0)%, and travel was reduced by \$25,000 or (46.3)%. All in all, operating expenses were reduced by \$251,000 or (6.7)%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison - Continued

Fiscal year 2018 ended with net instant ticket sales surpassing the final (revised) budget by nearly \$2.4 million, Powerball by \$612,000, Mega Millions by nearly \$2.2 million, Roadrunner Cash by \$803,000, Pick 3 by nearly \$225,000, Hot Lotto by nearly \$24,000, Fast Play (Quicksters) by \$86,000, and Lucky Numbers Bingo by \$10,000, while Lotto America did not meet its budget by \$189,000. Overall, net sales surpassed the final budget by more than \$6.1 million. Directly affected by sales, which surpassed the budget by 4.8%, game expenses were over the budget by a comparable 5%. Operating expenses were less than the final budget by 0.7%.

Requests for Additional Financial Information

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the Lottery's retailers, vendors, creditors, and other interested parties with a general overview of the financial position of the Lottery as of June 30, 2019 and 2018, and results of its operations, cash flows, and percentage return to the state for the years then ended and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Administration at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

New Mexico Lottery Authority

STATEMENTS OF NET POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,026,545	\$ 4,931,472
Accounts receivable (net of allowance for doubtful accounts)	1,167,846	1,252,217
Reserves on deposit	3,584,556	3,347,517
Inventory	153,037	105,906
Prepaid expenses	<u>137,373</u>	<u>229,844</u>
Total current assets	11,069,357	9,866,956
CAPITAL ASSETS, NET	<u>3,228,892</u>	<u>3,323,396</u>
Total assets	<u>\$ 14,298,249</u>	<u>\$ 13,190,352</u>
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 2,027,759	\$ 1,904,502
Current portion of note payable	257,456	248,614
Prizes payable	4,249,203	4,808,213
Due to Lottery Tuition Fund	<u>3,143,831</u>	<u>3,032,577</u>
Total current liabilities	9,678,249	9,993,906
LONG-TERM LIABILITIES		
Noncurrent portion of note payable	<u>-</u>	<u>257,446</u>
Total liabilities	<u>\$ 9,678,249</u>	<u>\$ 10,251,352</u>
NET POSITION		
Net investment in capital assets	\$ 2,971,436	\$ 2,817,336
Unrestricted surplus	<u>1,648,564</u>	<u>121,664</u>
Total net position	<u>\$ 4,620,000</u>	<u>\$ 2,939,000</u>

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

New Mexico Lottery Authority

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Instant ticket sales	\$ 74,941,122	\$ 72,291,175
Powerball sales	26,926,003	29,611,869
Mega Millions sales	22,539,843	13,159,344
Roadrunner Cash sales	7,293,605	7,652,785
Pick 3 sales	5,476,632	5,624,439
Lotto America sales	4,462,937	2,810,197
Pick 4 sales	1,060,208	-
Fast Play sales	859,871	785,565
Lucky Numbers Bingo sales	70,514	119,920
Hot Lotto sales	-	1,973,815
Net ticket sales	<u>143,630,735</u>	<u>134,029,109</u>
Retailer fees	20,200	18,725
Bad debts	-	(24,000)
Total operating revenues	<u>143,650,935</u>	<u>134,023,834</u>
GAME EXPENSES		
Prize expense	77,040,374	73,142,478
Retailer commissions	9,287,586	8,693,661
On-line vendor fees	5,172,755	4,863,896
Advertising	1,958,039	1,768,393
Ticket vendor fees	1,181,407	1,246,929
Shipping and postage	327,190	301,705
Retailer equipment	111,435	82,067
Promotions	105,324	95,114
Responsible gaming	70,000	70,750
Game membership	43,136	42,645
Total game expenses	<u>95,297,246</u>	<u>90,307,638</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	2,701,925	2,453,339
Utilities and maintenance	255,174	238,869
Depreciation and amortization	212,369	196,580
Professional fees	135,867	109,552
Leases and insurance	111,427	114,425
Other	84,313	55,016
Materials and supplies	67,005	60,638
Travel	19,726	9,080
Total operating expenses	<u>3,587,806</u>	<u>3,237,499</u>
OPERATING INCOME	<u>44,765,883</u>	<u>40,478,697</u>
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(14,233)	(23,136)
Interest income	25,893	18,662
Other income	13,396	12,760
Total non-operating income	<u>25,056</u>	<u>8,286</u>
Net income before transfers	44,790,939	40,486,983
Transfers to Lottery Tuition Fund	<u>43,109,939</u>	<u>40,218,983</u>
Change in net position	1,681,000	268,000
Net position at beginning of year	<u>2,939,000</u>	<u>2,671,000</u>
Net position at end of year	<u>\$ 4,620,000</u>	<u>\$ 2,939,000</u>

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

New Mexico Lottery Authority

STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 134,447,720	\$ 124,774,633
Cash payments:		
To prize winners and related taxes	(64,777,539)	(60,271,147)
To MUSL	(12,821,845)	(11,811,139)
To suppliers of goods or services	(10,183,102)	(9,673,756)
To employees for services and related taxes	<u>(2,212,251)</u>	<u>(1,981,833)</u>
Net cash provided by operating activities	<u>44,452,983</u>	<u>41,036,758</u>
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(42,998,685)</u>	<u>(40,230,939)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(117,865)	(291,729)
Principal paid on capital debt	(248,604)	(239,705)
Interest paid on capital debt	<u>(14,357)</u>	<u>(23,256)</u>
Net cash used by capital and related financing activities	<u>(380,826)</u>	<u>(554,690)</u>
Cash flows from investing activities		
Receipts of interest	8,205	6,870
Other	<u>13,396</u>	<u>12,760</u>
Net cash provided by investing activities	<u>21,601</u>	<u>19,630</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,095,073	270,759
Cash and cash equivalents at beginning of year	<u>4,931,472</u>	<u>4,660,713</u>
Cash and cash equivalents at end of year	<u>\$ 6,026,545</u>	<u>\$ 4,931,472</u>

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

New Mexico Lottery Authority

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 44,765,883	\$ 40,478,697
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	212,369	196,580
Vendors' non-cash transactions	(17,564)	(11,672)
Interest on MUSL unreserved account	17,688	11,792
Net changes in assets and liabilities:		
Accounts receivable	84,371	(555,540)
Reserves on deposit	(219,351)	(77,958)
Inventory	(47,131)	82,204
Prepaid expenses	92,471	(72,042)
Accounts payable and other liabilities	123,257	(75,495)
Prizes payable	<u>(559,010)</u>	<u>1,060,192</u>
Net cash provided by operating activities	<u>\$ 44,452,983</u>	<u>\$ 41,036,758</u>

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

New Mexico Lottery Authority

STATEMENTS OF FIDUCIARY NET POSITION

Years ended June 30, 2019 and 2018

	2019			2018		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 98,153	\$ -	\$ 98,153	\$ 92,851	\$ -	\$ 92,851
Marketable securities and other investments	5,933,528	723,644	6,657,172	5,315,301	558,510	5,873,811
Contribution receivable	36,632	4,193	40,825	35,879	4,607	40,486
Total assets	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>
NET POSITION						
Held in Trust for Pension plan participants' benefits	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>

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

New Mexico Lottery Authority

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years ended June 30, 2019 and 2018

	2019			2018		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ADDITIONS						
Net Gain in fair value of investments	\$ 43,141	\$ 12,267	\$ 55,408	\$ 351,547	\$ 37,156	\$ 388,703
Dividends	322,089	29,665	351,754	244,137	18,393	262,530
Employer contributions	272,426	-	272,426	263,628	-	263,628
Employee contributions	-	122,788	122,788	-	146,664	146,664
Total additions	<u>637,656</u>	<u>164,720</u>	<u>802,376</u>	<u>859,312</u>	<u>202,213</u>	<u>1,061,525</u>
DEDUCTIONS						
Distributions to participants	13,208	-	13,208	184,421	3,640	188,061
Other activity	166	-	166	1,280	255	1,535
Total deductions	<u>13,374</u>	<u>-</u>	<u>13,374</u>	<u>185,701</u>	<u>3,895</u>	<u>189,596</u>
Change in net position	624,282	164,720	789,002	673,611	198,318	871,929
Net position - beginning	<u>5,444,031</u>	<u>563,117</u>	<u>6,007,148</u>	<u>4,770,420</u>	<u>364,799</u>	<u>5,135,219</u>
Net position - ending	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

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

2. Basis of Presentation

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation – Continued

The pension trust funds per Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position and Note D reflect the activities of the New Mexico Lottery Authority Retirement Plans pursuant to a trust agreement in fiscal year 2015 with Verisight Trust Company, which merged with Newport Group and is now known as the Newport Group. The trustee holds, invests and distributes the assets of the Plan for the benefit of the Plan participants, subject to the overall direction of the Lottery in its capacity as plan administrator.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2019 and 2018 there were no restricted resources.

3. Budgets and Budgetary Accounting

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

4. Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. At June 30, 2019 and 2018, an allowance for doubtful accounts of \$39,545 and \$35,545, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2019 and 2018, ten retail customers (486 and 493 retailers) represented 63% of sales for each year, and 59% and 68% of accounts receivable for each year, respectively.

6. Reserves on Deposit

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating lotteries. MUSL currently operates the POWERBALL® (Powerball), Lotto America® (Lotto America) and Mega Millions® (Mega Millions) games for the Lottery. MUSL operated Hot Lotto® (Hot Lotto) until October 2017, when sales for the game were ended. The Lottery sells Powerball, Hot Lotto, Lotto America, and Mega Millions game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability for each game. Lesser prizes are paid directly to the winners by each member lottery. The prize pools for Powerball, Hot Lotto, and Lotto America are approximately 50% of each game's drawing period's sales after the prize pool accounts and prize reserve accounts are funded to the amounts set by the MUSL product group. The prize pool for Mega Millions is up to 55% of each drawing period's sales after the prize reserve accounts are funded to the amounts set by the MUSL product group, but may be higher or lower based upon the number of winners at each prize level, as well as the funding required to meet a guaranteed annuity grand prize.

MUSL has established prize reserve accounts for the games it operates. These prize reserve accounts are funded out of the prize pools for the games until the accounts reach amounts set by the MUSL product groups for each game. Once the prize reserve funds exceed these designated maximums, the excess becomes part of the grand prize pool. The prize reserve funds serve as contingency reserves to protect MUSL and the party lotteries from unforeseen prize liabilities. The money in these reserve funds is used at the discretion of the MUSL Board of Directors. Any amounts remaining in the prize pool accounts or prize reserve account when the MUSL product group declares the end of a game shall be returned to the lotteries participating in the accounts after the end of all claim periods of all selling lotteries, carried forward to a replacement game, or otherwise expended in a manner at the election of the individual members of the Product Group in accordance with jurisdiction statute.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Reserves on Deposit – Continued

As of October 1, 2013, the Powerball prize reserve deduction was set to begin at two percent (2%) when the annuity jackpot, as determined after sales are known, exceeds \$120 million, and four percent (4%) when the annuity jackpot, as determined after sales are known, exceeds \$250 million. Powerball has two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA). The maximum amounts designated by the MUSL Powerball product group for the PRA is \$80 million and for the SPRA is \$40 million for all member lotteries. At June 30, 2019 and 2018, the Lottery's share in the Powerball PRA was \$817,931 and \$849,363, respectively, and in the SPRA was \$365,218 and \$347,853, respectively. The PRA was fully funded at the end of fiscal years 2019 and 2018. The SPRA required an additional \$13,658 to be fully funded at the end of 2019 and an additional \$45,051 to be fully funded at the end of 2018.

Hot Lotto ended on October 28, 2017. Until that time, MUSL included up to 3% of the Lottery's Hot Lotto drawing period's sales, depending on the annuitized value of the Grand Prize, into a Prize Reserve Account (PRA). The MUSL product group had set the maximum Hot Lotto PRA balance at \$9 million for all party lotteries. At June 30, 2019 and 2018, the Lottery's share in the Hot Lotto PRA was \$553,815. The date for the return of any Hot Lotto PRA balance following the game's ending had not been determined by the MUSL Board of Directors at the end of fiscal year 2019.

MUSL may include an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales into the Mega Millions Prize Reserve Account (PRA). The MUSL product group increased the maximum PRA balance in October 2017 from the previous maximum amount of \$45 million to \$100 million for all party lotteries. At June 30, 2019 and 2018 the Lottery's share in the Mega Millions PRA was \$904,309 and \$617,243, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of June 2019, but had not met its requirement of \$937,309 as of June 30, 2018.

The game Lotto America began on November 12, 2017. MUSL includes up to 4% of the Lottery's Lotto America drawing period's sales, depending on the annuitized value of the Grand Prize, as determined after sales are known, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Lotto America PRA balance at \$12 million for all party lotteries. At June 30, 2019 and 2018, the Lottery's share in the Lotto America PRA was \$204,222 and \$64,735, respectively. The Lotto America PRA had not met its requirements of \$712,093 and \$773,612 as of June 30, 2019 and 2018, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Reserves on Deposit – Continued

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2019 and 2018, the Lottery's share of the unreserved fund was \$739,061 and \$914,508, respectively.

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

Starting on May 12, 2013, the Hot Lotto advertised grand prize had been paid as a withholding taxes paid single, cash payment prize where the estimated advertised grand prize was grossed up to include federal and state tax withholdings and the prize winner received the net prize after tax withholdings.

7. Inventory

Since 2010, the Lottery has entered into various agreements with its primary instant ticket printers, whereby the printers have retained title to the instant ticket inventory until the instant tickets are sold. Under these agreements, the Lottery pays the printer a fee based on a fixed percentage of the net instant tickets sold; net instant tickets sold represents instant ticket sales less prize, spoiled, stolen, and promotional tickets. In addition, the Lottery signed an agreement in 2010 with a secondary instant ticket printer, whereby the Lottery purchased and owns the tickets printed. These tickets are carried at the lower of cost or market using the specific identification method. At the end of fiscal years 2019 and 2018, the Lottery was distributing games printed under the various agreements. As of June 30, 2019 and 2018, \$3,037 and \$105,906, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2019 and 2018, there was \$150,000 and zero in prize inventory, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Capital Assets

Capital assets, which include land, building, works of art, data processing software and hardware, building improvements, land improvements and infrastructure, vehicles, furniture and fixtures, intellectual property, and equipment, are stated at cost net of any accumulated depreciation. The Lottery capitalizes all assets that have a cost greater than \$5,000 and an expected useful life of more than one year. Land and works of art, which have a perpetual or undeterminable life, are not depreciated. The building will be depreciated over its effective useful life of thirty-eight years with a residual value of ten percent. Significant building improvements are amortized over the remaining life of the building at the time of purchase of the improvement or if insignificant over 7 years; and intellectual property is amortized over the remaining life at the time of acquisition or at the time of development. For all other capital assets placed into service on or after July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 4 to 10 years. For any assets placed into service prior to July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 2 to 5 years. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

9. Revenue and Accounts Receivable Recognition

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Revenue and Accounts Receivable Recognition – Continued

	2019	2018
OPERATING REVENUES		
Instant ticket sales	\$ 77,145,653	\$ 74,650,523
Powerball sales	26,926,071	29,612,236
Mega Millions sales	22,539,925	13,159,364
Roadrunner Cash sales	7,293,625	7,652,809
Pick 3 sales	5,476,686	5,624,468
Lotto America sales	4,462,941	2,810,226
Pick 4 sales	1,060,209	-
Fast Play sales	859,877	785,584
Lucky Numbers Bingo sales	70,514	119,920
Hot Lotto sales	-	1,973,831
Less tickets provided as prizes	(2,181,719)	(2,307,754)
Less spoiled, stolen, and promotional tickets	(23,047)	(52,098)
Net ticket sales	143,630,735	134,029,109
Retailer fees	20,200	18,725
Bad debts	-	(24,000)
Total operating revenues	\$ 143,650,935	\$ 134,023,834

10. Prizes

Prize expense for instant, Powerball, Mega Millions, Lotto America and Hot Lotto games is recorded based on an estimate of the predetermined prize structure for each game. Prize expense for Roadrunner Cash, Pick 3, Pick 4, Fast Play, and Lucky Numbers Bingo games is recorded based on the actual prizes won for each game.

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Custodial Credit Risk and Interest Rate Risk

At June 30, 2019 and 2018, respectively, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at this financial institution.

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

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

The Lottery’s custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery’s investments are made in overnight repurchase agreements. Investments are made through a local financial institution and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by Government Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico “Security of Public Money” standards and be held in third party safekeeping. As of June 30, 2019 and 2018, the Lottery’s balances of \$6,065,541 and \$4,997,545, respectively, were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the bank’s name	-	-
Collateral held by the pledging bank’s trust department in the Lottery’s name	<u>6,065,541</u>	<u>4,997,545</u>
	<u>\$ 6,065,541</u>	<u>\$ 4,997,545</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Custodial Credit Risk and Interest Rate Risk – Continued

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

At June 30, 2019 and 2018, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2019:

Description	Bank	Balance per Bank
Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 6,065,541
Operating account – checking	Wells Fargo Bank, NA	3,524
Total amount deposited in bank		6,069,065
Less: FDIC coverage		(3,524)
*Total uninsured funds – deposits and overnight repurchase agreement		<u>\$ 6,065,541</u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 6,186,852
* Total pledged security		<u>(6,186,852)</u>
Amount under (over) requirement at June 30, 2019		<u>\$ -</u>

*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3128MJTQ3 (cost \$5,885,880), matures November 01, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts - Continued

Cash and cash equivalents per bank at June 30, 2019	\$ 6,069,065
Less reconciling items--outstanding checks	<u>(52,520)</u>
Reconciled cash in bank at June 30, 2019	6,016,545
Cash in vault	<u>10,000</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 6,026,545</u></u>

At June 30, 2018:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 4,997,545
Operating account - checking	Wells Fargo Bank, NA	<u>-</u>
Total amount deposited in bank		4,997,545
Less: FDIC coverage		<u>-</u>
*Total uninsured funds - deposits and overnight repurchase agreement		<u><u>\$ 4,997,545</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 5,097,496
* Total pledged security		<u>(5,097,496)</u>
Amount under (over) requirement at June 30, 2018		<u><u>\$ -</u></u>

*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3128MJTQ3 (cost \$4,968,758), matures November 01, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2018	\$ 4,997,545
Less reconciling items--outstanding checks	<u>(76,873)</u>
Reconciled cash in bank at June 30, 2018	4,920,672
Cash in vault	<u>10,800</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 4,931,472</u></u>

16. Risk Management

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

17. Shipping and Handling Costs

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

18. Net Position

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

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Net Position – Continued

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

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes have been applied against prize expense to supplement prizes in the Lottery's games and to promotions to increase sales. As of June 30, 2019 and 2018, the Lottery had unclaimed prizes in the amount of \$1,945,665 and \$1,651,204, respectively, reported as prizes payable that had not yet been applied against prize expense. The \$1,945,665 and \$1,651,204, respectively, in the unclaimed prize fund have already been committed and continue to supplement the prizes on instant games that have been printed and that are offered for sale. Any unclaimed prizes will continue to be a portion of the thirty percent return to the Lottery Tuition Fund.

20. Use of Estimates in Preparation of Financial Statements

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

21. Compensated Absences Payable

Annual leave and sick leave are accrued at rates specified by the Lottery's Business and Operational Policy. Annual leave is awarded based on the employee's lottery and governmental years of service, leave status, and employment status (full-time or part-time) and sick leave is awarded at 3.7 hours biweekly for full-time employees. The maximum number of annual leave hours that full-time employees may carry over and retain in their annual leave bank varies from 80 hours for an employee with less than 5 years of service up to a maximum of 320 hours for an employee with fifteen or more years of service. The maximum number of sick leave hours that a full-time employee may carry over from year-to-year is 480 hours. Part-time employees receive leave and carry over and retain leave in their leave banks based on their percentage of employment.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Compensated Absences Payable – Continued

Upon separation from service, employees with at least one year of service will be compensated for their annual leave balance, not to exceed the maximum annual leave bank based on their years of service. Accrued sick leave hours will not be paid to an employee upon separation from service. During the years ended June 30, 2019 and 2018, the following changes occurred in the compensated absences liabilities:

<u>Balance</u> <u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2019</u>
\$ 176,640	\$ 19,934	\$ (5,048)	\$ 191,526

<u>Balance</u> <u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2018</u>
\$ 165,910	\$ 17,838	\$ (7,108)	\$ 176,640

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

22. Long-term Liabilities

During the years ended June 30, 2019 and 2018, the following changes occurred in long-term obligations:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Note payable	\$ 506,060	\$ -	\$ (248,604)	\$ 257,456	\$ 257,456

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Note payable	\$ 745,765	\$ -	\$ (239,705)	\$ 506,060	\$ 248,614

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Long-term Liabilities – Continued

A promissory note payable to Wells Fargo Bank, NA for the purchase of the building used as the Lottery’s facility and warehouse was issued on June 26, 2015. The note is secured by the real property purchased, commonly known as 4511 Osuna Rd NE Albuquerque, NM. Principal and interest payments are due monthly on the 26th day of the month. The note bears interest at 3.6% and matures on June 26, 2020. The outstanding balance at June 30, 2019 and 2018 is \$257,456 and \$506,060, of which \$257,456 and \$248,614 is due within one year, respectively.

Upon default, the Bank may declare the entire unpaid principal balance under the note and all accrued unpaid interest immediately due. In addition, the Bank may impose a default rate of interest equal to the pre-default interest rate plus four percent per annum.

23. Debt Service Requirements for Note Payable

Debt service requirements on note payable as of June 30, 2019, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 257,456	\$ 5,129	\$ 262,585

24. Accounts Payable and Other Current Liabilities

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

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ 1,007,212	\$ 1,352,858
Accrued liabilities, vendors*	657,459	200,709
Accrued liabilities, retailers*	11,500	7,500
Accrued payroll, and payroll taxes and benefits	160,062	166,795
Compensated absences	191,526	176,640
	<u>\$ 2,027,759</u>	<u>\$ 1,904,502</u>

* The Lottery has accrued an estimated amount of services delivered by its vendors and deposits for its retailers as of June 30, 2019 and 2018, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2019 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Building	1,975,163	-	-	-	1,975,163
Data processing software	2,193,682	(2,098,452)	-	(1,195)	94,035
Data processing equipment	685,064	(365,564)	9,415	(13,425)	315,490
Equipment - Security and disaster recovery	736,419	(55,659)	60,922	(41,626)	700,056
Vehicles	168,157	-	-	-	168,157
Furniture and fixtures	232,265	(1,826)	-	(6,026)	224,413
Intellectual property	179,073	-	-	-	179,073
Equipment - communications	160,507	-	-	-	160,507
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	29,018	(1,975)	-	(1,160)	25,883
Building improvements	299,070	-	47,528	-	346,598
Land improvements & infrastructure	23,133	-	-	-	23,133
Obsolete capital assets	854,505	2,523,476	-	(21,047)	3,356,934
Capital assets	<u>8,350,930</u>	<u>-</u>	<u>117,865</u>	<u>(84,479)</u>	<u>8,384,316</u>
Building	(140,340)	-	(46,780)	-	(187,120)
Data processing software	(2,145,103)	2,098,452	(7,718)	1,195	(53,174)
Data processing equipment	(600,002)	365,564	(21,432)	13,425	(242,445)
Equipment - Security and disaster recovery	(620,054)	55,659	(32,711)	41,626	(555,480)
Vehicles	(104,423)	-	(27,562)	-	(131,985)
Furniture and fixtures	(225,120)	1,826	(2,906)	6,026	(220,174)
Intellectual property	(135,849)	-	(24,700)	-	(160,549)
Equipment - communications	(95,216)	-	(21,764)	-	(116,980)
Equipment - warehouse	(71,174)	-	-	-	(71,174)
Equipment - office	(22,638)	1,975	(2,126)	1,160	(21,629)
Building improvements	(12,982)	-	(23,128)	-	(36,110)
Land improvements & infrastructure	(128)	-	(1,542)	-	(1,670)
Obsolete capital assets	<u>(854,505)</u>	<u>(2,523,476)</u>	<u>-</u>	<u>21,047</u>	<u>(3,356,934)</u>
Accumulated depreciation	<u>(5,027,534)</u>	<u>-</u>	<u>(212,369)</u>	<u>84,479</u>	<u>(5,155,424)</u>
Capital assets, net	<u>\$ 3,323,396</u>	<u>\$ -</u>	<u>\$ (94,504)</u>	<u>\$ -</u>	<u>\$ 3,228,892</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019 and 2018

NOTE B – CAPITAL ASSETS – CONTINUED

Capital assets at June 30, 2018 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Building	1,975,163	-	-	-	1,975,163
Data processing software	2,193,682	-	-	-	2,193,682
Data processing equipment	702,932	(17,868)	-	-	685,064
Equipment - Security and disaster recovery	701,267	-	35,152	-	736,419
Vehicles	210,932	-	34,306	(77,081)	168,157
Furniture and fixtures	232,265	-	-	-	232,265
Intellectual property	179,073	-	-	-	179,073
Equipment - communications	160,507	-	-	-	160,507
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	29,018	-	-	-	29,018
Building improvements	97,574	-	201,496	-	299,070
Land improvements & infrastructure	-	-	23,133	-	23,133
Obsolete capital assets	836,637	17,868	-	-	854,505
Capital assets	<u>8,133,924</u>	<u>-</u>	<u>294,087</u>	<u>(77,081)</u>	<u>8,350,930</u>
Building	(93,560)	-	(46,780)	-	(140,340)
Data processing software	(2,137,386)	-	(7,717)	-	(2,145,103)
Data processing equipment	(596,998)	17,868	(20,872)	-	(600,002)
Equipment - Security and disaster recovery	(587,079)	-	(32,975)	-	(620,054)
Vehicles	(153,096)	-	(26,050)	74,723	(104,423)
Furniture and fixtures	(222,738)	-	(2,382)	-	(225,120)
Intellectual property	(111,149)	-	(24,700)	-	(135,849)
Equipment - communications	(73,452)	-	(21,764)	-	(95,216)
Equipment - warehouse	(71,174)	-	-	-	(71,174)
Equipment - office	(20,512)	-	(2,126)	-	(22,638)
Building improvements	(1,896)	-	(11,086)	-	(12,982)
Land improvements & infrastructure	-	-	(128)	-	(128)
Obsolete capital assets	<u>(836,637)</u>	<u>(17,868)</u>	<u>-</u>	<u>-</u>	<u>(854,505)</u>
Accumulated depreciation	<u>(4,905,677)</u>	<u>-</u>	<u>(196,580)</u>	<u>74,723</u>	<u>(5,027,534)</u>
Capital assets, net	<u>\$ 3,228,247</u>	<u>\$ -</u>	<u>\$ 97,507</u>	<u>\$ (2,358)</u>	<u>\$ 3,323,396</u>

Land and works of art are non-depreciable assets.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE C - TRANSFERS TO LOTTERY TUITION FUND/THIRTY PERCENT RETURN

	Due to Lottery Tuition Fund
	<hr/>
Balance at June 30, 2017	\$ 3,044,533
Prior year 30% return	40,218,983
Prior year transfers	<hr/> (40,230,939)
Balance at June 30, 2018	\$ 3,032,577
Current year 30% return	43,109,939
Current year transfers	<hr/> (42,998,685)
Balance at June 30, 2019	<hr/> <hr/> \$ 3,143,831

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least thirty percent of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2019 and 2018, the Lottery has transferred \$43,109,939 and \$40,218,983, respectively, for the years ended June 30, 2019 and 2018 to the New Mexico State Treasurer.

NOTE D - RETIREMENT PLANS

Plan Descriptions and Funding

Money Purchase Pension Plan

All the Lottery's eligible employees participate in a plan provided by the Lottery pursuant to the New Mexico Lottery Act (Chapter 6, Article 24 NMSA 1978). The Lottery is the administrator of the Plan, which is a defined contribution money purchase pension plan. Benefit terms, including contribution requirements are established and may be amended by the Lottery's Board of Directors. The plan provides for retirement benefits to plan members and their beneficiaries. The benefit that a plan member will receive when eligible will depend on the contributions to the member's individual account, actual earnings or losses on investments of those contributions, and any fees that are assessed to the member's account. Fifty-six and fifty-three current and former employees of the Lottery were participants in the plan at the end of fiscal years 2019 and 2018, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE D - RETIREMENT PLANS - CONTINUED

Plan Descriptions and Funding- Continued

Money Purchase Pension Plan - Continued

Newport Group (formerly Verisight Trust Company) has been the trustee of the retirement plan (the "New Mexico Lottery Authority Retirement Plan") since August 15, 2014. As of this same date, new employees enter the retirement plan on their date of hire. The money purchase pension plan allows employees to self-direct their investments into any of the forty-one investment funds.

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2019 and 2018, the Lottery recognized \$272,426 and \$263,628 of pension expense for the plan on eligible compensation of \$2,056,047 and \$1,989,644, respectively. There were no forfeitures of employee balances for the years ended June 30, 2019 and 2018, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years have been paid to the plan by June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the Lottery recognized a contribution liability of \$36,632 and \$35,879, respectively, for contributions owed on compensation earned, but not paid, for the last few days of each fiscal year.

457(b) Plan

Effective August 2, 2014, a Section 457(b) Plan, (the "New Mexico Lottery Authority 457(b) Plan") commenced that allows both pre-tax and Roth (after tax) contributions by employees for their retirement up to applicable annual Internal Revenue Code limits. Newport Group (formerly Verisight Trust Company) is the trustee for the 457(b) plan. This plan, like the money purchase pension plan, allows employees to self-direct their investments into any of the forty-one investment funds. Thirty-six and thirty-two current and former employees were participants in the plan at the end of fiscal years 2019 and 2018. All amounts withheld from employee compensation for Section 457(b) contributions have been paid to the plan by June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the Lottery recognized a contribution liability of \$4,193 and \$4,607, respectively, for contributions owed, but not paid, for the last few days of each fiscal year.

Fair Value Measurement of Retirement Plan Investments

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This Statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Starting at the end of fiscal year 2016, the Lottery applied this standard for each of the subsequent fiscal years.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019 and 2018

NOTE D - RETIREMENT PLANS- CONTINUED

Fair Value Measurement of Retirement Plan Investments – Continued

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investment. Level 1 investments reflect prices quoted in active markets; Level 2 investments reflect prices that are based on a similar observable asset either directly or indirectly; and Level 3 investments reflect prices based upon significant unobservable sources.

The Lottery has the following fair value measurements as of June 30, 2019 and 2018:

Mutual funds – Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Lottery are deemed to be actively traded and are registered with the Securities and Exchange Commission.

The Lottery had investments in various mutual funds that were comprised of bonds at June 30, 2019 and 2018, in the amount of \$1,124,556 and \$988,447, respectively, with varying investment quality ratings and maturities. The maturities averaged between six and ten years with an average rating of primarily A on the underlying investments.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2019 and 2018

NOTE D - RETIREMENT PLANS – CONTINUED

Fair Value Measurement of Retirement Plan Investments – Continued

The plan has the following fair value measurements as of June 30:

	2019		2018	
	Money Purchase Pension Plan	457(b) Retirement Plan	Money Purchase Pension Plan	457(b) Retirement Plan
Total Investments in the fair value measurement:				
Level 1 - Quoted prices in active markets				
<u>Mutual funds:</u>				
US Equity				
Value	\$ 443,251	\$ 127,813	\$ 687,105	\$ 145,132
Blend	190,227	66,635	219,507	66,295
Growth	610,509	137,746	321,052	78,464
Total US Equity	1,243,987	332,194	1,227,664	289,891
Bonds	323,746	32,945	273,795	727
Target Date	1,741,385	178,408	1,554,493	128,755
Balanced Asset Allocation	1,072,050	21,099	1,104,828	41,619
Foreign Equity	250,569	763	253,388	7,060
Specialty/Other	1,301,791	158,235	901,133	90,458
Total Level 1	5,933,528	723,644	5,315,301	558,510
Level 2 - Similar observable assets	-	-	-	-
Level 3 - Significant unobservable sources	-	-	-	-
Total investments in the fair value measurement	5,933,528	723,644	5,315,301	558,510
Other plan assets exempt from the fair value measurement:				
Money market/cash	98,153	-	92,851	-
Contribution receivable	36,632	4,193	35,879	4,607
Total Plan Assets	\$ 6,068,313	\$ 727,837	\$ 5,444,031	\$ 563,117

The balances and activity of both Plans as of and for the years ended June 30, 2019 and 2018 are presented in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plans.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE E - CREDIT AGREEMENT

In July 2012, the Lottery entered into an agreement with Wells Fargo Bank (Bank) effective May 15, 2012 for an unsecured overdraft line of credit sweep in the amount of \$4,000,000 with a variable interest rate.

This line matured on May 14, 2016, 2015, 2014, and 2013 and was renewed for another year under the same terms and conditions each year. For 2017, the line matured on May 15, 2017, but the renewal was still in process as of June 30, 2017. On August 23, 2017, the line was renewed through May 15, 2018 under the same terms and conditions. On May 15, 2019 and May 15, 2018, the line was again renewed with an interest rate of Wells Fargo Bank prime plus zero percent each year. Wells Fargo Bank prime rate was 5.5% and 5.0% as of June 30, 2019 and June 30, 2018, respectively. For the years ended June 30, 2019 and 2018, the Lottery had no outstanding borrowings against the line of credit.

In the event of default on the line of credit, at the Bank's sole discretion, the outstanding principal balance of this note shall bear interest at an increased rate per annum equal to six percent (6%) above the applicable rate of interest. In addition, in the event of a default in the payment or performance of any obligation under the note, the Bank may declare all sums of principal and interest to be immediately due and payable, including any costs and expenses, and the Bank's obligation to extend any further credit under the note shall immediately cease and terminate.

NOTE F - COMMITMENT

Effective on November 15, 2007, the Lottery entered into an agreement with INTRALOT, Inc., a Georgia-based company, to provide an updated on-line gaming system for a total of seven years. The system includes the supply, installation, maintenance, service, and operation of a communication network; lottery terminals and peripheral equipment for the Lottery's existing and future retailers; ticket scanners to enable players to check their tickets for prizes; self-service ticket vending machines that sell both instant and draw game tickets; disaster recovery services; and various employees to operate the system and provide sales and marketing support to the Lottery. The transition to this new on-line gaming system took place on November 16, 2008.

Effective November 22, 2015, the Lottery entered into an agreement with INTRALOT, Inc. to provide an updated on-line gaming system for a total of eight years. The system shall include the provisions of the 2007 on-line system along with a new back office accounting system and new lottery terminals for the Lottery's retailers. Intralot shall also employ and manage a fifteen-member lottery sales team. On October 30, 2018, the Lottery entered into an agreement to extend the term for two additional years for a total of ten years ending on November 21, 2025.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE G - OTHER EXPENSES

Other expenses at June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Other	\$ 37,564	\$ 10,944
Registrations and memberships	34,039	30,490
Training	12,292	13,206
Publications and subscriptions	<u>418</u>	<u>376</u>
	<u>\$ 84,313</u>	<u>\$ 55,016</u>

New Mexico Lottery Authority

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

Years ended June 30,

	2019	2018
OPERATING REVENUES		
Instant ticket sales	\$ 74,941,122	\$ 72,291,175
Powerball sales	26,926,003	29,611,869
Mega Millions sales	22,539,843	13,159,344
Roadrunner Cash sales	7,293,605	7,652,785
Pick 3 sales	5,476,632	5,624,439
Lotto America sales	4,462,937	2,810,197
Pick 4 sales	1,060,208	-
Fast Play sales	859,871	785,565
Lucky Numbers Bingo sales	70,514	119,920
Hot Lotto sales	-	1,973,815
Net ticket sales	<u>143,630,735</u>	<u>134,029,109</u>
Retailer fees	20,200	18,725
Bad debts	-	(24,000)
Total operating revenues	<u>143,650,935</u>	<u>134,023,834</u>
NON-OPERATING INCOME		
Interest income	25,893	18,662
Other income	13,396	12,760
Total non-operating income	<u>39,289</u>	<u>31,422</u>
GROSS REVENUES	<u>143,690,224</u>	<u>134,055,256</u>
GAME EXPENSES		
Prize expense	77,040,374	73,142,478
Retailer commissions	9,287,586	8,693,661
On-line vendor fees	5,172,755	4,863,896
Advertising	1,958,039	1,768,393
Ticket vendor fees	1,181,407	1,246,929
Shipping and postage	327,190	301,705
Retailer equipment	111,435	82,067
Promotions	105,324	95,114
Responsible gaming	70,000	70,750
Game membership	43,136	42,645
Total game expenses	<u>95,297,246</u>	<u>90,307,638</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	2,701,925	2,453,339
Utilities and maintenance	255,174	238,869
Depreciation and amortization	212,369	196,580
Professional fees	135,867	109,552
Leases and insurance	111,427	114,425
Other	84,313	55,016
Materials and supplies	67,005	60,638
Travel	19,726	9,080
Operational Reserve Fund expense	1,681,000	268,000
Total operating expenses	<u>5,268,806</u>	<u>3,505,499</u>
OPERATING INCOME	<u>43,084,883</u>	<u>40,210,697</u>
NON-OPERATING EXPENSE		
Interest expense	14,233	23,136
Total nonoperating expense	<u>14,233</u>	<u>23,136</u>
NET INCOME	<u>\$ 43,109,939</u>	<u>\$ 40,218,983</u>
GROSS REVENUE PERCENTAGE RETURN	<u>30.00%</u>	<u>30.00%</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
New Mexico Lottery Authority and
Mr. Brian S. Colón
New Mexico State Auditor
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of New Mexico Lottery Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise New Mexico Lottery Authority's basic financial statements, and have issued our report thereon dated October 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Lottery Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Mexico Lottery Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of New Mexico Lottery Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
New Mexico Lottery Authority and
Mr. Brian S. Colón
New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Lottery Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 9, 2019

New Mexico Lottery Authority

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2019 and 2018

SUMMARY OF AUDITORS' RESULTS

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

New Mexico Lottery Authority

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year Ended June 30, 2019

There were no findings for the year ended June 30, 2019.

New Mexico Lottery Authority

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2019

2018-001 Capital Asset Disposal (Compliance and Other Matters) - Resolved

New Mexico Lottery Authority

EXIT CONFERENCE

For the Year Ended June 30, 2019

An exit conference was held at the New Mexico Lottery Authority on October 9, 2019. The following individuals participated:

<u>Name</u>	<u>Title</u>
<i>New Mexico Lottery Authority Finance/Audit Committee</i>	
Dr. Dan Salzwedel	Board Chairman
Aubrey McGowen	Board of Directors Member
Mark Koson	Board of Directors Member
<i>New Mexico Lottery Authority Employees</i>	
David M. Barden, Esq.	Chief Executive Officer
Sylvia Ann Jaramillo, CPA	Director of Administration
Carolyn Cabell	Chief Operations Officer
Kevin Duda, CPA	Deputy Director of Administration
Michael Boland, CPA	Internal Auditor
<i>CliftonLarsonAllen LLP</i>	
Matt Bone, CPA, CGFM, CGMA	Engagement Principal
Elizabeth Nunez, CPA	Engagement Manager

Financial Statement Preparation

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

