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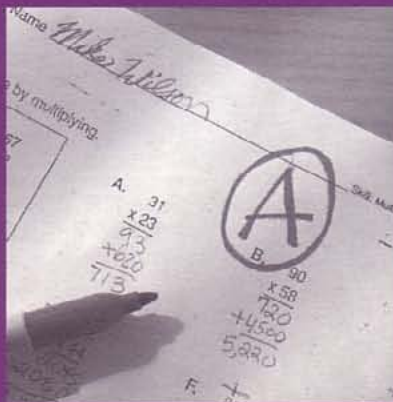
*the*

# WINNING NUMBERS

*for all of*

# NEW MEXICO

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1998  
*annual report*





Everyone was a winner at the New Mexico Lottery's Trucks & Bucks second chance drawing.

## BOARD OF DIRECTORS

### SERVING THE LOTTERY IN FISCAL YEAR 1999

The New Mexico Lottery's Board of Directors is a seven-member body appointed by the Governor of New Mexico, with the approval of the State Legislature. The membership consists of dedicated citizens who set policy and provide their advice and counsel to the lottery staff. They are not paid for their services.

The current membership includes S. Bert Atkins of Alamogordo, Mary Claydean Elkins of Jal, Steven J. Gabaldon of Farmington, Fred L. Ragsdale of Corrales, Peggy O. Roberts of Albuquerque, and Karen L. Westall of Carlsbad. Chairman of the Board Bruce Wiggins of Albuquerque recently resigned. Leaving the board at the end of FY98 following the expiration of their terms were former

Lieutenant Governor Casey Luna of Belen and Kathryn Cordova of Taos.

The Finance and Audit Committees of the Board of Directors currently consist of Chairwoman Peggy Roberts along with Mr. Gabaldon. The Operations and Security Committees consist of Mr. Atkins, Ms. Elkins and Ms. Westall.



Top row from left to right: Bruce Wiggins; Fred L. Ragsdale; Steven J. Gabaldon and Bert Atkins. Bottom row from left to right: Mary Claydean Elkins and Karen L. Westall.



Peggy O. Roberts was elected Chairwoman of the Lottery Board on October 15, 1998.

# \$42,800,000

*in cash and prizes claimed by New Mexico Lottery Players*

## A MESSAGE FROM THE CEO

**T**he New Mexico Lottery's second year was even better than the first. We built on the success of our inaugural year and continued to lay a solid foundation for the future, and now, after just our second full year of operation, we have a wealth of good news to share with you.

Fiscal year 1998 (FY98) was a success on many levels. Most lotteries experience a slump in their second year of operation, but the New Mexico Lottery realized a sales increase of \$2.7 million over FY97!

The biggest and best news is that education programs in New Mexico received \$48.3 million in net earnings from the New Mexico Lottery, from startup in April 1996 through the end of fiscal 1998. In the spring semester of 1998, more than 5,000 students attended New Mexico colleges with their tuition paid by the New Mexico Lottery. Sharing in the pride of this accomplishment are the State Legislature that created the New Mexico Lottery, the Governor who signed it into law, our many thousands of players, nearly 1,200 retailers, and the New Mexico Lottery staff.

Indeed, it was quite a year: We created Roadrunner Cash, the first on-line, computerized game just for New Mexico. With its launch in February 1998, Roadrunner Cash quickly proved popular with players, who told us they wanted a game with lower odds that was "easier to hit." By the end of the fiscal year, just five months into Roadrunner Cash, 15 players had won the \$15,000 top prize and more than \$1.6 million had been won by thousands of players.

Our Scratcher instant games remained a hit with players. During FY98, New Mexico Lottery players purchased more than \$48.5 million worth of Scratchers. Without a doubt, our most popular instant game was "Trucks & Bucks," featuring a top prize of five 1998 Dodge

Ram pickup trucks, each worth an estimated \$37,000 with all the taxes, fees and licenses paid by the Lottery. It was the highest-value Scratcher prize we've given away to date.

And then there was the "new and improved" Powerball, which surpassed all expectations and set a world record for lottery jackpots.

Powerball sales rose to over \$31 million during FY98 in New Mexico. Played in 20 states and the District of Columbia, Powerball established itself as the biggest lottery game in the world when its jackpot hit \$195 million in May. It's only a matter of time before a New Mexico Lottery player will win the multi-million-dollar prize. We joined Powerball in October 1996, and by the end of FY98, 33 New Mexico Lottery players had won the \$100,000 prize for matching all five white numbers.

- So who were our big winners in FY98?
- **New Mexico Lottery players** – won nearly \$42.8 million in cash and prizes.
  - **New Mexico public schools** – received more than \$11.7 million to build and renovate schools across New Mexico.
  - **New Mexico college students** – Freshman enrollment at New Mexico's public universities, colleges and trade schools skyrocketed, as 5,378 New Mexico students took advantage of the Lottery Success Scholarship Program. The Lottery Tuition Fund received nearly \$9.5 million from the Lottery in FY98.
  - **New Mexico Lottery Retailers** – received almost \$5.9 million in commissions and bonuses.
  - **New Mexico Lottery Employees** – Sixty-two lottery employees were on the payroll and paid taxes.
  - **The New Mexico economy** – the commissions paid out to lottery retailers, the thousands of college students who stayed in-state to attend

school and the dollars paid to suppliers and vendors all resulted in a multiplier effect, creating new jobs and pouring money back into the New Mexico economy.

Net revenue in FY98 was down, however. This was a direct result of two factors. First, the lottery paid terminal fees to system vendor GTECH for a full year. Second, with our new and successful "more games, more often" strategy for our Scratcher product, our printing costs also have increased.

Fiscal year 1999 looks more promising, with the introduction of a new on-line game just for New Mexico – Mega Match 4 – to complement our existing games, and the growing momentum we've generated through our efforts to enthusiastically promote our products and the benefits they provide for education.

We're getting the message out – When New Mexico plays, New Mexico wins!



*David M. Miller*

David M. Miller  
Chief Executive Officer

# \$11,700,000

*transferred to build and renovate schools across New Mexico*

## FISCAL YEAR 1998 – THE YEAR IN REVIEW



Let's look at what your New Mexico Lottery has been building:

### NEW PRODUCTS

We introduced new games and modified existing games to keep our products fresh, fun and exciting for our players.

### SCRATCHERS

Our popular instant games accounted for 57% of total sales and we introduced 42 new instant games. Based on our research of customer desires, we shortened the duration of most games and increased the frequency of new-game introduction (3-4 games every four weeks). Employing the "More Games, More Often" strategy has increased printing costs, but that has been more than made up for with increased consumer interest.

### ON-LINE GAMES

On-line, computerized games accounted for 43% of total sales.

### POWERBALL

The multi-million-dollar jackpot game has proven so popular with players that in November 1997, the game was changed to promote larger jackpots. The minimum was increased from \$5 million to \$10 million. And, in response to customer demand, a new feature – an up-front, lump-sum cash payment option – was added as an alternative to the regular annuity pay-out. Changing the matrix of Powerball was designed to lead to higher jackpots, and that is exactly what has happened. Powerball has achieved two world-record jackpots since May – one of \$195 million and one of \$292 million early in FY99. This has resulted in a significant broadening of the player base in all 20 Powerball states and the District of Columbia. We are

seeing increases in Powerball play in New Mexico even when the jackpot is at its minimum \$10 million. Since New Mexico started playing Powerball in October of 1996, New Mexico Lottery players have purchased nearly 1.9 million money-winning Powerball tickets. While the odds of winning the multi-million-dollar jackpot are 1 in 80 million, players often can (and do!) win the \$100,000 second prize. In fact, 42 New Mexicans had beaten the 1 in 2 million odds to win \$100,000 to date. The \$5,000 third prize had been won by 190 New Mexico Lottery players.

### ROADRUNNER CASH

Our Scratcher games feature favorable odds, but many of our players like to play computerized, on-line games as well. Daily Millions, another on-line game from MUSL, was discontinued in March following disappointing results. In an attempt to replace lost revenue and offer our players an on-line alternative to POWERBALL with better odds of winning, we created Roadrunner Cash. An on-line game just for New Mexico, with favorable odds of winning the \$15,000 top prize (1 in 169,000), Roadrunner Cash – the game that's easier to hit – was an instant success. Since the game began in February, we had nearly 500,000 winners in fiscal year 1998! Fifteen players won the \$15,000 top prize, while nearly 2,300 won the \$100 second prize.



*Balloons fly at the grand opening of Route 66 Elementary in Moriarty. The school was made possible by Lottery Critical Capital Outlay contributions.*



#### **NEW PROGRAMS**

Over the past year, we have expanded and improved our operations to meet customer demand for new services:

- The New Mexico Lottery placed 900 Play Centers — tall, colorful stands in retail stores where players can easily find lottery products.
- Installed 750 bright neon lighted signs with the lottery logo to identify lottery retailers all over New Mexico.
- Installed 200 Instant Ticket Vending Machines (ITVMs) in stores to make it even easier and more convenient for players to find and purchase Scratcher games.

#### **NEW EVENTS**

The New Mexico Lottery was quite visible throughout the state in FY98. We participated in many special events statewide, including the 1997 New Mexico State Fair, the Kodak International Balloon Fiesta, the Deming Duck Race and the Southern New Mexico State Fair.

#### **NEW SPONSORSHIPS**

In our continuing efforts to keep the New Mexico Lottery name in the public eye, we sponsored a variety of events with the Albuquerque Dukes, New Mexico Scorpions, Albuquerque Geckos, the University of New Mexico, New Mexico State University and others.

#### **EDUCATION**

The Lottery conducted numerous events to educate and inform the public, retailers, employees and others about our programs and products. Some of our initiatives included:

- Ambassador events at malls and retail outlets that helped attract new customers, educate players, introduce new games and promote beneficiary awareness.
- Creation of the Retailer Council, providing a means for the Lottery to share prospective plans and programs with retailers and get their input. This gave the Lottery feedback concerning customer trends, preferences, etc.
- Visiting various communities throughout the state, hosting monthly Retailer Breakfasts where we met our retailers and listened to their ideas and concerns.

#### **RESEARCH AND ANALYSIS**

We conducted various studies and initiated probes to learn more about the New Mexico Lottery's impact on its customers:

- Situational analyses of instant games, on-line games, public relations, key retailer accounts, promotions and special events.
- Baseline research to determine player demographics. It was determined that the Lottery has a broad player base, which debunks the old myth of lotteries appealing primarily to the poor.



The New Mexico Lottery generated \$8.1 million for the Lottery Tuition Fund in FY98.

## FISCAL YEAR 1998 – A FINANCIAL OVERVIEW

During FY98, from July 1, 1997 through June 30, 1998, the New Mexico Lottery transferred \$21.2 million to the State of New Mexico. Sixty percent of net revenues is allocated to the Critical Capital Outlay Fund and 40% of net revenues plus any unexpended reserves is allocated to the Lottery Tuition Fund.

FY98 brought the total amount of Lottery earnings for education to more than \$48.3 million since startup, 24.7% of total gross sales of about \$195.5 million.

Of the \$48.3 million allocated to the state, \$27.6 million went to public school capital outlay, and \$20.7 million went to the tuition fund.

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

### DIVIDING THE DOLLAR - WHERE FY98 EARNINGS GO

(Numbers rounded)



\* Includes ticket printing, on-line vendor fees, advertising, shipping, postage and drawing expenses.

# \$9,500,000

*transferred to the Lottery Tuition Fund*

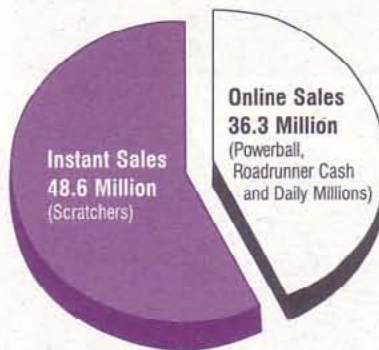
## THE POWER OF NEW AND IMPROVED POWERBALL

The fiscal year's biggest event was, undoubtedly, the reintroduction of the "new and improved" Powerball. The Multi-State Lottery Association, a nonprofit association owned and operated by the member state lotteries, was created in 1987. Powerball was designed originally with 45 numbers and a minimum jackpot of \$5 million.

In November 1997, Powerball was changed to have 49 numbers in the white ball machine and 42 numbers in the red ball machine. The minimum jackpot was increased to \$10 million, and players were given the option to play for either the 25-year annuity or a new lump-sum cash payment.

It was predicted that the changes would increase the popularity of Powerball and increase the chances for giant jackpots. That proved to be the case from March through May of 1998 when the jackpot rolled through 16 consecutive draws, growing to the then-record level of \$195 million. That nearly doubled the previous world record for a single-payment lottery jackpot.

## INCOME FROM FY98 TICKET SALES TOTAL: 84.9 MILLION



The near fever-pitch excitement the huge run-up in May generated was awe-inspiring. Here in New Mexico, players in record numbers lined up at lottery retailers to buy chances for the big jackpot.

New Mexico Lottery players spent nearly \$2 million on Powerball tickets on Wednesday, May 20, setting a new state record for sales in a single day. Weekly

sales for the New Mexico Lottery nearly reached \$4.8 million that week, topping the record that occurred during the inaugural week of the Lottery in April 1996.

Extra computer ticket terminals were set up at swamped retail sites to help handle the surging demand for tickets for the on-line Powerball game, especially along the New Mexico-Texas border.

In addition to the thousands of New Mexicans vying for the huge jackpot, players from Texas and Colorado poured into New Mexico to take their chances at winning the record top prize. Texas and Colorado are lottery states, but neither participate in Powerball. Our western neighbor, Arizona, is a Powerball state.

The retailer with the highest sales the last week of the run-up was Cigarette Outlet in Santa Teresa, NM, with more than \$25,000 in sales. This store is located near the New Mexico-Texas state line. The New Mexico Lottery paid out more than \$286,000 in sales commissions to retailers that week.

Record sales led to more winners - in Roadrunner Cash and Scratchers as well as Powerball. Here are a few of their stories:

**Winner  
Spotlight**

New Mexico Lottery  
**POWERBALL**

## Natives are Restless— and Lucky!

Playing as a team proved lucky for 20 people in Las Cruces during the huge POWERBALL run-up in May. When the jackpot hit \$195 million, the 20 players each put in \$50 and purchased 1,000 POWERBALL tickets. One of their tickets matched five white numbers, and each of the 20 came away with \$5,000.

"We are really excited," said Linda

Morris, the organizer of the group who labeled themselves the "Restless Natives."

They bought the 1,000 Quick Picks at the Conoco Service Station at Elk and Main in Las Cruces at 6 p.m. on Wednesday, May 20, just three hours ahead of the drawing for the biggest jackpot in history. A Chicago couple ended up winning the \$195 million jackpot, and the "Restless Natives" matched all the white numbers but missed the red POWERBALL number.

"The fact that the money goes to education is really wonderful. I support anything that improves education," said Ms. Morris. "And winning the \$100,000 makes it really fun, too."

Coincidentally, it was reported that the winning ticket for the next \$10 million jackpot in the POWERBALL drawing of Saturday, May 23, was purchased in

Missouri by a group of 44 co-workers. They pooled their prize winnings from the giant drawing and parlayed that money into \$10 million.

For the Las Cruces group, there were about as many ideas for using the money as players. One took his grandchildren to Disneyland. Kelly Morris is getting married and will use her money for that. Ms. Morris' best friend, Linda Liebich, planned to use some of hers to place a bet on Real Quiet, the thoroughbred horse that had hoped to become the first Triple Crown winner in 20 years. It didn't happen.

"Pooling their money is a great idea," said David M. Miller, CEO of the New Mexico Lottery. "It makes it more fun to play, doesn't cost the individual players so much and increases their chances of winning."

# \$5,900,000

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

Winner  
Spotlight



**It Really Is  
Easier to Hit!**

## **ROADRUNNER CASH MAKES SUCCESSFUL DEBUT**

With the launch of Roadrunner Cash in February 1998, the game just for New Mexico with lower odds certainly lived up to its billing as being easier to hit!

Three was a charm in April, as Roadrunner Cash lived up to its billing as the game that's "easier to hit."

Of 15 \$15,000 winners in FY98, three came in one week! Josephine Duran of Las Vegas, LaVerne Pachta of Belen and Dan Danella of Rio Rancho all received big checks at the New Mexico Lottery headquarters.

Ms. Duran and Ms. Pachta both had winning numbers in the Friday, April 10 drawing, while Mr. Danella's winning combination came up Tuesday, April 14.

Between the game's debut and the end of FY98 (a span of less than five months), 15 players won the \$15,000 top prize! Roadrunner Cash should continue to be popular with players in FY99, especially with the change from two to four weekly drawings.

Ms. Pachta became the second Roadrunner Cash grand-prize winner from Belen.

The women used Quick Picks, letting the computer pick random numbers, and Mr. Danella used his own special numbers, a combination of family birthdays.

"We designed Roadrunner Cash to be a game that is easy to win," said David M. Miller, Chief Executive Officer of the New Mexico Lottery. "And having three winners in one week certainly testifies that Roadrunner Cash is definitely easy to win."

## **SCRATCHERS SHOULDER THE LOAD**

While the Lottery made a couple of high-profile changes to on-line games (new and improved POWERBALL and the introduction of Roadrunner Cash), instant Scratchers remained the cornerstone of the New Mexico Lottery's ability

to fulfill its responsibilities to education in New Mexico. Scratchers accounted for 57% of FY 98 sales, and a re-tooled strategy of introducing "more games, more often" proved popular with players, as well as an effective boost to sales. As usual, there were plenty of fun stories about winners of instant games, too.

Winner  
Spotlight



**Lucky Number  
Leads to Jackpot,  
Excitement!**

In April, Manuel Flores and Rose M. Baca of Albuquerque were so excited about winning \$10,000 playing Jackalope Jackpot, they accidentally locked their house keys inside their Downtown apartment the morning they came to New Mexico Lottery headquarters to pick up their winnings.

While shopping the night before at Country Club Market at 10<sup>th</sup> and Coal S.W., they purchased a \$2 Jackalope Jackpot scratcher and a \$1 "21" scratcher. They took them home with their groceries.

Mr. Flores was watching TV as Ms. Baca scratched the tickets in another room. "I came out and told him, 'Guess what!? I think we won \$10,000!' He didn't believe me," Ms. Baca said. He believed it when he had the big check in his hand. "We spent \$3, and we won \$10,000," Mr. Flores said, shaking his head. Ms. Baca believes she had a lucky number working for her. She said the Jackalope Jackpot scratcher was No. 64, she scratched it with a 1964 nickel at about 6:40 p.m. Tuesday, and there are a "6" and a "4" in their address number.





*Nearly 1,200 New Mexico businesses earned \$5,900,000 in bonuses selling Lottery games in FY98.*

## BUILDING FOR THE FUTURE



### WHAT'S NEW FOR FY99

The management and staff of the New Mexico Lottery are making plans to build on favorable response to the Lottery from the citizenry. We'll have more new products; more local event participation; more training at the retail store level on how to play; more communication with opinion leaders on the status and growth of the Lottery; increased visibility for our ever-expanding numbers of winners; improved customer service for our retailers. And we will do this without increasing the number of employees at the New Mexico Lottery.

### SPEAKERS BUREAU

We are creating a New Mexico Lottery Speakers Bureau, consisting of lottery executives, staff members and board members who will travel the state to meet with organizations such as service clubs, PTAs, school boards, elected officials and other opinion-leaders. They will spread the message about the value of the New Mexico Lottery to you and the other citizens of New Mexico. If you would like to have a Lottery speaker for a club meeting or some other event, please contact Richard Williams (505-342-7616) or Nadine Guillen (505-342-7615) at Lottery headquarters in Albuquerque.

### ROADRUNNER CASH

Roadrunner Cash, the first New Mexico-only, on-line game, has proven so popular with players since its launch in February 1998 that, in July, the number of weekly drawings were increased from two to four. In its first few weeks, the increase had significantly increased the frequency of wins.

### POWERBALL

Powerball will continue creating new, excited players in New Mexico; the game is already very popular with players from our non-Powerball neighbor states who will pour across the state line to play the game in even greater numbers. It's a wonderful example of new, out-of-state dollars coming to benefit education in our state.

While no one can predict when a jackpot will be hit or roll to higher amounts, the statisticians who designed the "new and improved" Powerball predicted there would be at least one or two big run-ups a year with its new matrix. That certainly seems to be the case.

### MEGA MATCH 4

This fall, the New Mexico Lottery will add to its stable of fun and exciting games with the launch of a new on-line game, Mega Match 4. Mega Match 4 features a generous prize structure with a big jackpot of \$500,000, more ways to win on each ticket, an innovative new play style, and like Roadrunner Cash, the new game will be just for New Mexico.

### NEW SCRATCHER GAMES

As always, Scratchers remain the backbone of the New Mexico Lottery and promise to continue as the major contributor to our income in FY99. Our in-house creative team is designing new, exciting games that will appeal to New Mexico Lottery players, tailoring the duration of games, the style of play, the prize structures and other key features to the particular tastes and desires of New Mexico citizens.



Since 1997, more than 5,000 New Mexico high school graduates have gone on to college with the help of Lottery Success Scholarships.

## NEW MEXICO WINS!

### INVESTING IN NEW MEXICO'S EDUCATION: LOTTERY SUCCESS SCHOLARSHIP PROGRAM

Thanks to the Lottery Success Scholarship Program, freshmen enrollment is booming in public universities, colleges and trade schools throughout New Mexico. Here are just a few of the college "success stories" that New Mexicans are helping to write by playing the Lottery:



#### *Betsy Cata*

Betsy, 19, is from Española and attends Eastern New Mexico University in Portales on a partial tennis scholarship. Her Lottery Success Scholarship

helps her pay for what tennis doesn't cover.

"Playing tennis at the college level makes me work harder and it pushes me to balance my time wisely," Betsy says. The Lottery Scholarship was another reason for staying in-state, because she would be closer to home and wouldn't have to worry about finding money for tuition.

Betsy hopes to earn a degree in Wildlife and Fishery Science from ENMU and wants to work at a national park where she can work to protect our country's natural resources and wildlife habitats.

"That would be a dream come true for me," she says.



#### *Jason Roach*

Jason is a 20-year-old New Mexico State University sophomore from Farmington pursuing a double major in accounting and business computer

systems. Jason said the lottery scholarship helped him decide to attend college in-state. Jason says he hopes the lottery scholarship continues, because "it allows students to go to school who couldn't afford to go."

Jason is a great example of how the Lottery is helping our young people fulfill their potential: He works in the dean's office of the business college, and is currently pledging a professional business fraternity. He is also a member of the Knights of Columbus, a social fraternity that gives donations to charities.

After college, Jason aspires to work with a large corporation or accounting firm. A master's degree is one of Jason's future goals.

### BRICKS & MORTAR: CAPITAL OUTLAY

Lottery proceeds have helped provide schools throughout New Mexico with new buildings and much-needed improvements to existing public education facilities.

During FY98, the New Mexico Lottery had provided more than \$11.7 million to the Public School Capital Outlay program, which provides badly needed funding to public schools throughout the state. More than 30 public school districts

received help from the lottery. Here are a few examples:

#### *Moriarty Kids Get Kicks at Route 66 Elementary*

Thanks to \$1.2 million in New Mexico Lottery proceeds, children in the Moriarty and Edgewood area have a new school. Route 66 Elementary School opened for classes in the fall of 1998 to 259 students and 29 teachers and staff members. The 36,356-square-foot building celebrates the famous highway. Hubcaps and an old VW bug hood decorate the walls and a colorful replica of the road snakes through the halls.

#### *Rio Rancho Has a New Elementary School*

New Mexico Lottery funds provided \$500,000 to help build a new 64,000-square-foot elementary school for fast-growing Rio Rancho. The new school will house 800 students when it opens in the state's fourth largest city.

#### *Hondo, Jemez and Hatch Got New School Facilities*

Lottery proceeds have been of great benefit to Hondo Valley Public Schools, which received \$400,000 from the Public School Capital Outlay Committee. That money is being used to build new classrooms for the elementary school and classrooms and a science laboratory for the high school. Jemez Valley Public Schools received \$170,000 to put new roofs on its school buildings. Garfield Elementary School in Hatch was built with \$1.5 million in lottery proceeds.

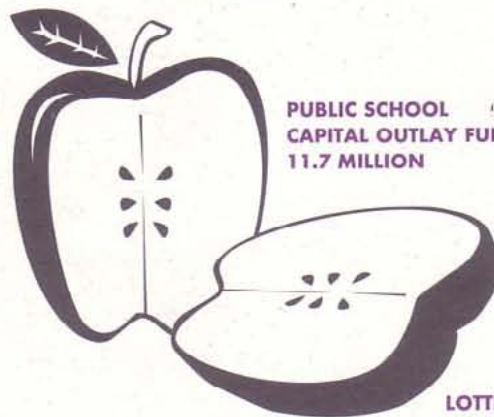
# 5,378

## Lottery Success Scholarships

### LOTTERY SUCCESS SCHOLARSHIPS SPRING SEMESTER 1998

NAME OF SCHOOL	AMOUNT AWARDED	# OF STUDENTS
Albuquerque TVI	\$99,528	231
Clovis Community College	\$17,283	54
Clovis Community College - Extended Service	\$286	1
Eastern New Mexico University	\$271,490	343
Eastern New Mexico University - Roswell	\$26,775	73
Luna Vocational Technical	\$11,641	45
Mesa Technical	\$725	2
New Mexico Junior College	\$44,088	174
New Mexico Highlands University	\$114,570	157
NM Institute of Mining and Technology	\$114,487	114
New Mexico Military Institute	\$12,692	22
New Mexico State University - Alamogordo	\$41,406	100
New Mexico State University - Carlsbad	\$62,907	131
New Mexico State University - Doña Ana	\$54,992	143
New Mexico State University - Grants	\$17,676	39
New Mexico State University - Main	\$1,439,250	1,288
Northern New Mexico Community College	\$34,540	118
San Juan Community College	\$52,920	238
Santa Fe Community College	\$66,744	237
University of New Mexico - Los Alamos	\$12,636	33
University of New Mexico - Gallup	\$25,404	64
University of New Mexico - Main	\$1,761,628	1,561
University of New Mexico - Taos	\$5,100	13
University of New Mexico - Valencia	\$49,892	109
Western New Mexico University	\$65,260	88
<b>TOTAL</b>	<b>\$4.4 MILLION</b>	<b>5,378</b>

**CONTRIBUTIONS TO  
NEW MEXICO EDUCATION  
FOR FISCAL YEAR 1998  
TOTALED \$21.2 MILLION**



**PUBLIC SCHOOL  
CAPITAL OUTLAY FUND  
11.7 MILLION**

**LOTTERY TUITION FUND  
9.5 MILLION**

Source of information for scholarship awards:  
New Mexico Commission on Higher Education, 1-800-827-7363

# \$25,300,000

*transferred to the Critical Capital Outlay Fund*

## PUBLIC SCHOOL OUTLAY COUNCIL AWARDS FUNDED WITH LOTTERY PROCEEDS

SCHOOL DISTRICT	LOTTERY FUNDS AWARDED JANUARY 1997	LOTTERY FUNDS AWARDED AUGUST 1997
Belen	—	450,000
Bernalillo	500,000	700,000
Carrizozo	—	80,000
Dexter	400,000	1,200,000
Estancia	60,400	1,680,000
Farmington	—	400,000
Gadsden	500,000	1,000,000
Gallup	250,000	230,000
Grady	15,000	—
Hatch	886,000	600,000
Hondo	—	400,000
Jemez Mountain	—	800,000
Jemez Valley	100,000	170,000
Lake Arthur	—	150,000
Las Cruces	—	750,000
Las Vegas City	240,000	900,000
Las Vegas West	800,000	750,000
Lordsburg	233,702	500,000
Los Lunas	—	1,400,000
Magdalena	370,000	—
Mora	307,000	350,000
Moriarty	335,000	1,200,000
Mosquero	370,000	100,000
Pecos	75,000	700,000
Peñasco	366,000	290,000
Pojoaque	100,000	—
Questa	115,498	—
Raton	300,979	—
Rio Rancho	—	500,000
Socorro	500,000	850,000
Springer	120,000	450,000
Tucumcari	250,000	400,000
Zuni	—	500,000
	<b>\$7,194,579</b>	<b>\$17,500,000</b>

**TOTAL LOTTERY PROCEEDS AWARDED BY PSCO COUNCIL:**

**\$24.7 MILLION**

Source of information for these awards: Public School Outlay Council (505) 827-6560



*New Mexico's public schools were big winners in 1998: The New Mexico Lottery contributed \$11.7 million to the Critical Capital Outlay Fund.*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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We have audited the accompanying balance sheets of the New Mexico Lottery Authority, as of June 30, 1998 and 1997, and the related statements of revenue and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the New Mexico Lottery Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to

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

In our opinion, the 1998 and 1997 financial statements referred to above present fairly, in all material respects, the

financial position of the New Mexico Lottery Authority as of June 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Atkinson & Co., Ltd.*

**ATKINSON & CO., LTD.**  
Albuquerque, New Mexico  
September 11, 1998

# FINANCIAL STATEMENTS

## FINANCIAL REPORT

### BALANCE SHEETS

(Dollars rounded)

	June 30 1998	June 30 1997
<b>CURRENT ASSETS</b>		
Cash (notes A3 and A13)	\$ 2,108,000	\$ 3,290,000
Accounts receivable (notes A4 and A8) (net of allowance for bad debts of \$176 in 1998 and \$174 in 1997)	1,139,000	1,087,000
Reserves on Deposit (note A5)	2,597,000	1,437,000
Inventory (note A6)	673,000	579,000
Prepaid expenses	81,000	57,000
<b>Total current assets</b>	<b>6,598,000</b>	<b>6,450,000</b>
<b>PROPERTY AND EQUIPMENT (notes A7 and B)</b>	<b>2,095,000</b>	<b>2,820,000</b>
	<b>\$ 8,693,000</b>	<b>\$ 9,270,000</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable (note G)	\$ 3,150,000	\$ 2,437,000
Prizes payable (note A9 and A17)	1,611,000	1,788,000
Due to public school capital outlay (note C)	2,274,000	2,012,000
Due to lottery tuition fund (note C)	1,516,000	1,341,000
Reserve fund payable (note A15 and C)	92,000	1,642,000
<b>Total current liabilities</b>	<b>8,643,000</b>	<b>9,220,000</b>
<b>RETAINED EARNINGS (note A16 and C)</b>	<b>50,000</b>	<b>50,000</b>
	<b>\$ 8,693,000</b>	<b>\$ 9,270,000</b>

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

**STATEMENTS OF REVENUE AND EXPENSES AND  
CHANGES IN RETAINED EARNINGS**

(Dollars rounded)

Years ended	June 30 1998	June 30 1997
Revenues (note A8)		
Instant tickets	\$ 48,567,000	\$ 56,746,000
Powerball sales	31,016,000	22,638,000
Daily millions sales	2,361,000	2,700,000
Roadrunner cash sales	2,933,000	-
Retailer fees	22,000	108,000
Total revenues	84,899,000	82,192,000
Direct costs		
Prize expense (note A9)	42,794,000	41,371,000
Retailer commissions (note A10)	5,863,000	5,282,000
On-line vendor fees	6,173,000	4,153,000
Ticket printing	962,000	828,000
Shipping & postage	246,000	289,000
Drawing game	93,000	-
Total direct costs	56,131,000	51,923,000
Operating expenses		
Salaries & benefits	3,002,000	2,891,000
Advertising (note A11)	2,408,000	2,034,000
Depreciation and amortization	1,199,000	1,136,000
Leases (note E)	1,032,000	448,000
Other (note H)	826,000	651,000
Promotions	539,000	579,000
Professional fees	119,000	186,000
Bad debt expense	30,000	112,000
Total operating expenses	9,155,000	8,037,000
Operating income	19,613,000	22,232,000
Non-operating income (expenses)		
Interest income	276,000	95,000
Other income	217,000	82,000
Other expenses	-	(492,000)
Total non-operating income (expenses)	493,000	(315,000)
Net income	20,106,000	21,917,000
Retained earnings at beginning of year	50,000	50,000
Distributions	(20,106,000)	(21,917,000)
Retained earnings at end of year	\$ 50,000	\$ 50,000

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

# FINANCIAL STATEMENTS

## STATEMENTS OF CASH FLOWS

(Dollars rounded)

Increase (Decrease) in Cash	June 30	June 30
Years ended	1998	1997
<b>Cash flows from operating activities</b>		
Net income	\$ 20,106,000	\$ 21,917,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,199,000	1,136,000
Change in assets and liabilities		
Accounts receivable	(52,000)	(704,000)
Reserves on deposit	(1,160,000)	(1,437,000)
Inventory	(94,000)	(380,000)
Prepaid expenses	(24,000)	(20,000)
Accounts payable	713,000	85,000
Prizes payable	(177,000)	(3,454,000)
<b>Net cash provided by operating activities</b>	<b>20,511,000</b>	<b>17,143,000</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(474,000)	(458,000)
<b>Net cash used in investing activities</b>	<b>(474,000)</b>	<b>(458,000)</b>
<b>Cash flows from noncapital financing activities</b>		
Distributions paid to state	(21,219,000)	(23,173,000)
Repayment of line-of-credit	-	(900,000)
Repayment of bonds	-	(2,800,000)
<b>Net cash used in noncapital financing activities</b>	<b>(21,219,000)</b>	<b>(26,873,000)</b>
<b>Net decrease in cash</b>	<b>(1,182,000)</b>	<b>(10,188,000)</b>
Cash balance at beginning of year	3,290,000	13,478,000
<b>Cash balance at end of year</b>	<b>\$ 2,108,000</b>	<b>\$ 3,290,000</b>
Cash paid during the year for Interest	\$ -	\$ 5,000

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



# NOTES TO FINANCIAL STATEMENTS

June 30, 1998 and 1997

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Report Entity

The New Mexico Lottery Authority (the Lottery) was established as an instrumentality of the state with the enactment of the New Mexico Lottery Act (the Act) on July 1, 1995. The Lottery was created and organized for the purpose of establishing and conducting the Lottery to provide revenues for the public purposes designated by the Act.

The Lottery commenced sales of instant tickets on April 27, 1996, and sale of on-line tickets on October 20, 1996.

### 2. Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

### 3. Restricted Cash (rounded)

The Lottery is required by terms of its main office building lease agreement to deposit an amount equal to five months of rent in an interest-bearing escrow account. Accrued

interest on the security deposit shall be paid in periodic payments every six months to the Lottery, beginning six months from the occupancy date. The amount of the security deposit shall be reduced every six months beginning six months from the occupancy date, by an amount equal to one month's monthly rent, until the security deposit equals the amount of one month's monthly rent which shall remain the required security deposit for the balance of the term. The restricted cash is held in an escrow account at 3 percent interest. Restricted cash balances were \$32,000 and \$78,000 at June 30, 1998 and 1997, respectively.

### 4. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. An allowance for doubtful accounts has been provided to recognize future uncollectible billings.

### 5. Reserves on Deposit (rounded)

On October 20, 1996, the Lottery began on-line ticket sales. The Lottery became a member of the Multi-State Lottery Association (MUSL) which operates games on behalf of participating state lotteries. MUSL operates the POWERBALL® game. Each MUSL member sells on-line game tickets through its agents and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL® is 50% of each drawing period's sales. MUSL has included 2% of each drawing period's sales as part of each MUSL member's prize liability in prize reserve funds. MUSL has placed a \$62,000,000 cap on the prize reserve funds and once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members

if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. At June 30, 1998 and 1997, the Lottery's share of the POWERBALL® prize reserve was \$2,243,000 and \$1,192,000, respectively.

Grand prizes are paid out in 25 installments. Bonds at the discounted value of grand prize annuities are purchased by MUSL to fund all future installments and are held in trust. Maturities are staggered in order to provide adequate cash flow for each annual installment. MUSL is responsible for paying amounts owed to the grand prize winners. The assets and related liabilities are reflected in MUSL's financial statements and therefore are not reflected in the Lottery's financial statements.

On February 16, 1997, a second on-line game, Daily Millions®, was started. On March 29, 1998, MUSL ended the Daily Millions® on-line game. The prize reserves minus any claimed prizes will be refunded two years from the game's conclusion. The prize pool for Daily Millions® was 50% of each drawing's sales. MUSL has placed 4.856% of each drawing period's sales as a part of each MUSL members prize liability in prize reserve funds. At June 30, 1998 and 1997, the Lottery's share of the prize reserve was \$353,000 and \$245,000, respectively.

### 6. Inventory

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

### 7. Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 2 to 5 years, except for leasehold improvements, which are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

# FINANCIAL STATEMENTS

## NOTES TO FINANCIAL STATEMENTS - *continued*

### 8. Revenue and Account Receivable Recognition

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

### 9. Prizes

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

### 10. Commissions

Retailers receive a commission of 6 percent on gross ticket sales and a 1 percent cashing commission on winning ticket validations.

### 11. Advertising Costs

Advertising costs are expensed as incurred.

### 12. Income Taxes

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

### 13. Cash (rounded) and Concentrations of Credit Risk

At June 30, 1998, the Lottery's cash deposits were categorized to give an indication of the level of risk assumed by the Lottery. Category One includes cash on hand, deposits insured by federal depository insurance, or amounts collateralized with securities held by the Lottery or by its agent in the Lottery's name. Category Two includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Lottery's name. The Company maintains its cash balances in two principal financial institutions. The balances for demand deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each institution. Category Three represents uncollateralized deposits and bank balances collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Lottery's name.

	One	Category Two	Three	Carrying Amount	Bank Balance
Demand deposits	\$ 132,000	\$ -	\$ 1,971,000	\$ 2,103,000	\$ 2,198,000
Cash on hand	5,000	-	-	5,000	-
Total	\$ 137,000	\$ -	\$ 1,971,000	\$ 2,108,000	\$ 2,198,000

### 14. Insurance

The Lottery is exposed to various risks of loss related to torts, theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery has purchased commercial insurance to cover these risks.

### 15. Reserve Fund (rounded)

In accordance with the Act (see note A1), the Board of Directors has elected to set aside up to 2 percent of gross revenues into a reserve account. At June 30, 1998 and 1997, the amounts which had been set aside were \$100,000 and \$1,644,000 respectively. Of these amounts, nothing had been spent as of June 30, 1998 or 1997. In accordance with the Act, \$100,000 and \$1,644,000 or the full amounts of the reserve account less \$50,000 were remitted to the State Treasurer for the Lottery Tuition Fund by August 1, 1998 and 1997, respectively.

### 16. Retained Earnings (rounded)

In accordance with the Act "the authority shall transmit all net revenues to the state treasurer who shall deposit sixty percent of the revenues in the Public School Capital Outlay Fund and forty percent in the Lottery Tuition Fund." As of August 1, 1998 and 1997, the Lottery transferred \$19,267,000 and \$21,253,000 respectively of net income for the periods ended June 30, 1998 and 1997 to the New Mexico State Treasurer. The Act also requires that "an amount up to two percent of the gross annual revenues shall be set aside as a Reserve Fund to cover bonuses and incentive plans for lottery retailers, special promotions for retailers, purchasing special promotional giveaways, sponsoring special promotional events, compulsive gambling rehabilitation and other purposes as the Board deems necessary to maintain the integrity and meet the revenue goals of the Lottery." Any Reserve Fund amounts not expended by fiscal year end for the above defined purpose will be transferred to the Lottery Tuition Fund, except that

unexpended amounts up to \$50,000 can be retained by the Lottery for future defined expenditures.

### 17. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund. Unclaimed prizes are offset against projected prize expense to reflect actual prizes paid.

### 18. Use of Estimates in Preparation of Financial Statements

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

### NOTE B - PROPERTY AND EQUIPMENT

Property and equipment (rounded) at June 30, 1998 and 1997 consisted of:

	1998	1997
Data processing software	\$1,677,000	\$1,665,000
Data processing equipment	1,156,000	1,316,000
Tenant improvements	514,000	474,000
Furniture and fixtures	281,000	275,000
Equipment communications	243,000	243,000
Vehicles	201,000	128,000
Equipment warehouse	125,000	125,000
Equipment drawing	62,000	-
Equipment office	19,000	19,000
	4,278,000	4,245,000
Accumulated depreciation and amortization	(2,183,000)	(1,425,000)
Property and equipment, net	\$2,095,000	\$2,820,000

**NOTE C - ALLOCATION OF NET INCOME** (rounded)

	Net Income	Due to Public School Capital Outlay	Due to Lottery Tuition Fund	Reserve Fund	Retained Earnings
Balance at June 30, 1997	\$ 5,045,000	\$ 2,012,000	\$ 1,341,000	\$ 1,642,000	\$ 50,000
Current year net income	20,106,000	12,003,000	8,003,000	100,000	
Current year distributions	(21,219,000)	(11,741,000)	(7,809,000)	(1,650,000)	
Balance at June 30, 1998	\$ 3,932,000	\$ 2,274,000	\$ 1,516,000	\$ 92,000	\$ 50,000

**NOTE D - RETIREMENT PLAN** (rounded)

The Lottery has two defined contribution plans, which cover all full-time employees. In the first plan, the Lottery makes a contribution of 10 percent of the employee's earned annual base salary. Eligibility for the plan is one year of service and 1,000 hours of service in a plan year as of the semiannual entry dates, unless the individual was employed on or before April 27, 1996. The plan commenced on January 1, 1996 and the Lottery's contributions vest over five years. In the second plan, employees are allowed to contribute the lower of 10 percent of their gross compensation or \$5,000 into the plan. The Lottery matches employees contributions at \$.50 on the dollar up to \$2,500 or 5% of annual compensation. Eligibility for the plan is one hour of service as of the quarterly entry dates. The plan commenced on January 1, 1997 and the Lottery's contributions vest over five years.

The Lottery's contributions were calculated using a base salary amount for full-time employees of \$1,815,000 and \$1,777,000. The total contributions accrued as of June 30, 1998 and 1997 were \$180,000 and \$173,000, respectively.

**NOTE E - LEASES** (rounded)

The Lottery has entered into operating leases for the rental of office and warehouse space, office equipment, vending machines and vehicles. Certain leases contain provisions for scheduled rental increases for inflationary purposes and are renewable at the option of

the Lottery. Future minimum rental payments on non-cancelable leases with original terms of one year or more are scheduled as follows:

Year	Amount
1999	\$ 837,000
2000	797,000
2001	790,000
2002	746,000
2003	226,000
Thereafter	708,000
	<u>\$ 4,104,000</u>

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

	Year Ending June 30,	
	1998	1997
Minimum rentals	\$ 1,001,000	\$ 427,000
Less: Sublease rentals	(67,000)	(65,000)
	<u>\$ 934,000</u>	<u>\$ 362,000</u>

**NOTE F - COMMITMENT** (rounded)

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

The GTECH Agreement calls for GTECH to provide on-line gaming systems and services, and entitles the Lottery to certain liquidated damages upon the occurrence of defined incidences. On January 15, 1998, the Lottery and GTECH agreed to settle disputed liquidated damages in the amount of \$243,000 by GTECH's delivery to the Lottery of 750 neon signs and 600 jackpot signs with a stated value of \$125,000. The January 15 Agreement also relieved GTECH of its contractual obligation to provide a pilot distribution program. The value of the pilot distribution program has not been determined.

**NOTE G - LITIGATION SETTLEMENT**

During 1998, the Lottery agreed to a settlement of certain litigation arising from the conduct of its operations. The agreement calls for the Lottery to make a cash payment to the plaintiffs which will be reimbursed by the Lottery's insurance. The agreement also requires the Lottery to expand its training and education of retailers on matters of the Americans with Disabilities Act. Management's estimates of amounts to be paid in excess of applicable

insurance limits has been accrued as of June 30, 1997.

**NOTE H - OTHER EXPENSES** (rounded)

	1998	1997
Communications and utilities	\$ 189,000	\$ 188,000
Travel	164,000	133,000
Game membership	124,000	83,000
Repairs and maintenance	90,000	34,000
Insurance	79,000	84,000
Material & supplies	70,000	77,000
Other	66,000	34,000
Building maintenance and janitorial	44,000	18,000
	<u>\$ 826,000</u>	<u>\$ 651,000</u>

**NOTE I - SUBSEQUENT EVENTS**

**Roadrunner Cash** - Roadrunner Cash was established on February 6, 1998 using a five of thirty-one format. Drawings were held Tuesday and Friday nights. Prize expense represents 56.65% of revenues recognized for the game, which vary depending on sales levels and number of winners. Jackpot prizes are paid out as single cash payments. On July 27, 1998, drawings were expanded from two to four drawings per week.

**Mega Match 4** - Subsequent to June 30, 1998, the Lottery will initiate an additional on-line game, Mega Match 4, to begin October 19, 1998. Drawings will be held each Tuesday and Thursday, using a four of eighty format. Prize expense will represent 50.69% of revenues recognized for the game, and will vary depending on sales levels and number of winners. Jackpot prizes will be paid out as single cash payment.



P.O. Box 93130 • 4511 Osuna Rd. NE • Albuquerque, NM 87199-3130 • (505) 342-7600 • [www.nmlottery.com](http://www.nmlottery.com)  
ADA Coordinator: (505) 342-7624 • TDD: (505) 342-7535