

1996 ● 2001



*Five Years of Benefitting  
New Mexico's Future*



NEW MEXICO LOTTERY AUTHORITY

# Years 1996 • 2001

## **A MESSAGE FROM THE BOARD OF DIRECTORS**

### *Serving the Lottery in Fiscal Year 2001*

The New Mexico Lottery Authority's Board of Directors is a seven-member body appointed by the Governor, with confirmation by the State Senate. Our role is to provide the authority with private sector perspective of a large marketing enterprise. It is also to exercise sound and prudent business judgment in its management and promotion of the Lottery. We are citizen volunteers.

We also have a mission: to maintain a Lottery that demonstrates the highest level of integrity, that players truly enjoy, and that simultaneously and responsibly maximizes additional revenue for public education. Our board has endeavored to listen to, and communicate with, our many stakeholders: players, legislators, the public and media.

During FY '01, the membership included S. Bert Atkins, an Alamogordo attorney; Claydean Claiborne, Mayor of Jal; Steven Gabaldon, a Farmington business executive; Cody Kelley, an Albuquerque attorney; Peggy O. Roberts, an Albuquerque CPA; Karen Westall, a Carlsbad business executive; and, Henry Ulibarri, a Tierra Amarilla community volunteer and business executive. Messers. Gabaldon, Atkins and Ulibarri resigned their appointments in October 2000, December 2000 and January 2001, respectively. Dan Girand of Roswell, a law enforcement veteran, was appointed to replace Mr. Atkins, while Tularosa (now Las Cruces) bank executive Jill Gutierrez replaced Mr. Gabaldon. Mr. Ulibarri's position remained vacant through the end of the fiscal year. During this same period, Ms. Roberts was re-elected to chair the board, and Mr. Kelley was elected vice-chair.

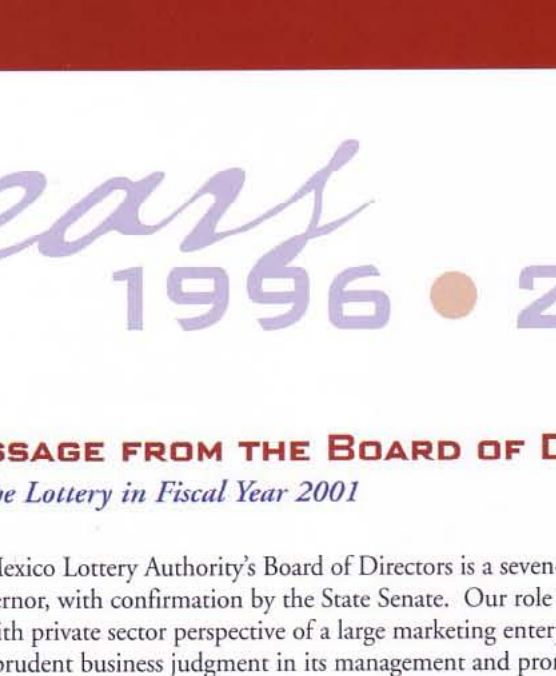
Among your board's statutory responsibilities: adoption of rules, policies and procedures; maximizing net revenue for Lottery beneficiaries; appointment of the Lottery's CEO; set and oversee the corporation's annual budget; conduct on-going studies of this and other lotteries to continually improve efficiency,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

We are very pleased with, and proud of, the success the NMLA has achieved this past fiscal year. This success is the direct result of a unified team effort by retailers, players, Lottery vendors and the NMLA staff. We appreciate this opportunity to again report to the people of New Mexico the results of these efforts.

Sincerely,

The New Mexico Lottery Authority Board of Directors for Fiscal Year 2001

Peggy O. Roberts, Chair  
Cody Kelley, Vice Chair  
Karen Westall, Secretary  
Claydean Claiborne, Assistant Secretary/Treasurer  
Jill Gutierrez, Member  
Dan Girand, Member



*From top left, clockwise: Dan Girand, Claydean Claiborne, Peggy Roberts, Cody Kelley, Karen Westall and Jill Gutierrez.*

Years

\$132.7  
million  
in cash, prizes  
and jackpots  
claimed by  
New Mexico  
Lottery  
players

**A LETTER FROM THE CEO**  
*Thomas N. Shaheen*



On behalf of the New Mexico Lottery Authority, I am pleased to submit this annual report for Fiscal Year 2001.

This was a milestone fiscal year for the Lottery. It marked another year of not only record sales but of record return to our beneficiaries in New Mexico education. We saw our first Powerball jackpot winners. Our flagship in-state online game, "Roadrunner Cash," set a record six-figure top prize. A new online game was launched. Live televised game drawings resumed, to the delight of players statewide. And the Lottery celebrated its fifth anniversary.

While sales and net return both grew during FY 2001, regional, national and international economic trends may affect the New Mexico Lottery's growth in the future. These financial conditions remind us why the Lottery has been charged by the Legislature to be run like a business. It allows us to react quickly to both negative and positive market changes in our quest to maximize revenue to education.

The Lottery Authority is truly a corporate organization in a quasi-governmental structure. Businesses in the private sector have customers, boards of directors and shareholders. The New Mexico Lottery has shareholders (the people of New Mexico), a board of directors (appointed by the Governor and confirmed by the State Senate) and customers (players and retailers). The private sector has stock dividends; the Lottery's profits are all earmarked for New Mexico education. With low operating costs, a profit margin exceeding 20 percent, and more than half of every dollar spent returned to customers, the Lottery's success would certainly be enviable in the private sector.

Your New Mexico Lottery is a streamlined, cost-efficient organization that strives to get better every year. We look forward to a continued role benefitting New Mexico's future.

Sincerely,  
*Thomas N. Shaheen*  
Thomas N. Shaheen  
CEO

## FISCAL YEAR 2001 - THE YEAR IN REVIEW

Fiscal year 2001 was a year of spectacular firsts for the New Mexico Lottery. It was the first time the Lottery had back-to-back annual sales exceeding \$110 million. It marked the first time the Lottery produced back-to-back annual record-breaking profits exceeding \$24 million.

And for players, it was the first time that a Powerball jackpot was won in New Mexico.

Once again, the Lottery's 65 employees and 1,227 retailers formed a solid team that exceeded all product sales goals. This resulted in a fifth full year of continued sales growth.

Additionally, the Lottery's board and management helped to further lower administrative costs, resulting in even more money for Lottery beneficiaries.

Gross sales for fiscal year 2001 (July 1, 2000 through June 30, 2001) totaled approximately \$115.6 million, an increase of almost \$4.9 million (4.4%) over the previous fiscal year.

The Lottery returned more than \$25.9 million in profit to the State of New Mexico for sales between July 1, 2000 and June 30, 2001, \$400,000 higher than anticipated. This is nearly \$1.4 million higher than the previous fiscal year's record profit, and a 5.6 percent profit increase for education.

### SCRATCHERS

Scratchers, or instant tickets, launched the New Mexico Lottery, and are still a fun and entertaining value. The opportunity to scratch a latex coating off of a ticket and reveal "instantly" whether a prize is won is a favorite among our Lottery players. Scratchers come in a variety of play styles, prices and prize levels.

Instant games again continued to provide a strong financial base for the Lottery, nearly 64.7 percent of total sales. Scratcher sales still increased more than \$2 million over the previous year, generating just under \$74.9 million.

There were 41 instant games launched during FY '00, again ranging from \$1 to \$5. The second full year of \$5 instant tickets also saw top prizes for scratchers grow to \$75,000.



*Vycki Smith of Radium Springs proudly shows off a new 2001 VW Beetle, the top prize in the Lottery's "Holiday Bug" game. Her prize package was worth nearly \$35,000. Smith's winning ticket came from Eagle Quick Mart in Las Cruces.*

Vehicle give-aways continued to be popular second-chance drawings, generating sales for several games. The Lottery launched a "Holiday Bug" scratcher, which included second-chance entries for a 2001 Volkswagen Beetle. Several months earlier, the Lottery held a drawing for a 2001 Ford F-150 pick-up truck at the New Mexico State Fair. More than 156,000 non-winning scratchers statewide were entered, generating interest for the Lottery, its beneficiaries, and the State Fair.

In September 2000, the NMLA introduced free tickets as a prize in place of the breakeven prize in the game. Free tickets have grown to be very popular with players.

*Kevin Pacheco attends the University of New Mexico with a Lottery Success Scholarship. The junior from San Juan Pueblo majors in political science and minors in Native American studies. Like many Lottery Scholarship recipients, he is the first in his family to attend college.*

**\$13.5**  
*million*

*distributed to  
pay for college  
scholarships*

*during  
FY '01*

## ON-LINE GAMES

Computer-generated number games increased their contribution toward Lottery sales, accounting for more than 35.3 percent of total sales, or approximately \$40.8 million. All three games benefitted from the resumption of live televised drawings: six nights weekly for Roadrunner Cash and Pick 3, and each of the semi-weekly Powerball drawings when the jackpot reaches or exceeds \$50 million. The drawings are televised on three CBS television affiliates based in Albuquerque, Roswell and Durango/Farmington.

## POWERBALL

Powerball is New Mexico's traditional lotto-style game. Players choose five numbers from 1 to 49, and then a Powerball number from 1 to 42. Nine levels of prizes begin at \$3, and rise to annuitized jackpots that are never below \$10 million. There are 21 states plus the District of Columbia that participate in Powerball. A twenty-third lottery will be added when Pennsylvania begins selling the game in the summer of 2002.



Lottery CEO Tom Shabeen (center) is flanked by four of New Mexico's newest millionaires: Powerball winners Charles Taber, Jeffrey McCullough, Mary Datson and Mark Madrid.

New Mexico's FY '01 Powerball sales grew by nearly \$1.9 million, buoyed by a jackpot run-up that culminated with 14 New Mexicans employed at Sandia National Labs winning a \$131 million advertised prize. The winners opted to divide a \$70.3 million lump sum. At the time, it was the fourth-largest Powerball jackpot ever, and resulted in local, regional, national and international news coverage for the New Mexico Lottery.



Duane Carr (left) and Charles Taber (right) hold the ceremonial check for "New Mexico's First," 14 Sandia Lab security staff members who split a \$131 million annuitized Powerball jackpot. The group opted to divide a \$70.3 million lump sum cash prize.

In addition to New Mexico's first Powerball jackpot during FY '01, there were 20 \$100,000 second prize winning tickets sold in New Mexico, and 98 \$5,000 to \$25,000 third prize winners. Three third prize winners benefitted from a Powerball enhancement, "Power Play," launched in the fourth quarter of the fiscal year. The "Power Play" option allows players to multiply a Powerball prize up to five times. Winners quickly doubled, tripled, quadrupled and quintupled their Powerball prizes, including \$10,000, \$15,000 and \$25,000 third-prize winners. Overall, New Mexico players claimed more than \$86.3 million in Powerball prizes.

## ROADRUNNER CASH

Roadrunner Cash is sold only in New Mexico. Players choose five numbers from 1 to 31. There are three prize levels, beginning at \$5 and growing to the posted prize for that night's drawing.



"Roadrunner," a Jack Russell terrier, debuted as the television commercial mascot for Roadrunner Cash. The six year-old trained actor playfully demonstrated that the Roadrunner Cash top prize can now roll from drawing to drawing.

Player feedback resulted in a major enhancement to Roadrunner Cash, New Mexico's in-state five-digit game. The top prize, which had been a constant \$15,000 (except for a promotional doubling in FY 1999), began growing during the fourth quarter, whenever all five numbers are not matched. Shortly thereafter, the top prize reached \$152,000, and was won by six Los Alamos firefighters. Other top prizes included \$84,000 shortly after the prize began rolling, \$69,000 and \$52,000.

The late year changes helped turn around Roadrunner Cash sales, which accounted for almost \$5.2 million in Lottery sales, down about \$700,000 from the previous year. Roadrunner Cash sales are expected to grow substantially in FY 2002. Overall, players won nearly \$2.7 million in prizes. The game still accounted for nearly 4.5 percent of Lottery sales.



Six Los Alamos firefighters split the first rolling "Roadrunner Cash" prize that exceeded \$100,000. Pictured, from left, are Mark Sandoval, Leroy Espinoza, Ramon "Money" Garcia, Freddie Seeds, Charlie Lopez and Juan Romero.

## PICK 3

Although only three numbers are drawn for each game, Pick 3 offers five different ways to win, depending upon the combination of numbers chosen by players. Prizes range from \$40 upward to \$500.

Many state lotteries offer a three-digit on-line game, affording players several ways to win. This concept was widely requested by local players and retailers. New Mexico launched the game during the first quarter of FY 01, naming it Pick 3, with a top prize of \$500.

Pick 3 generated almost \$1.7 million in sales for the Lottery during slightly more than the first nine months of operation. Players won almost \$737,000 in prizes, including 304 \$500 top prizes.



Lottery CEO Tom Shabeen (left) and Phillips/Circle K division manager Lonnie Appel hold a ceremonial check for \$50,000, the largest bonus check ever presented to a New Mexico Lottery retailer. Circle K store #379 sold New Mexico's winning \$131 million jackpot Powerball ticket.

**\$8**  
million

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

## RETAILERS AND NEW PROGRAMS

There were 1,232 Lottery retailers at the beginning of FY 2001, a net increase of 22 from one year earlier. Overall, there was a net loss of five retailers, primarily due to non-Lottery related matters such as store openings, closures or mergers. The NMLA ended FY 2001 with 1,227 authorized retailers.

During the fourth quarter of the year, a large retailer with 48 locations statewide filed for bankruptcy protection. The Lottery worked closely with the retailer to protect Lottery sales and revenues as that chain prepared to sell some locations and close others, which occurred in FY 2002.

Also during FY 2001, the Lottery finalized plans to launch a network of "Starlets," small lighted electronic display (LED) screens attached to Lottery ticket terminals. These are designed to increase sales by carrying a variety of messages to players,

including top prize and jackpot information. Installation began in FY 2002.

Once again, the Lottery recognized the role played by a statewide network of retailers, the majority of whom have been with us since the beginning. Through sales commissions, cashing bonuses and winning ticket bonuses, NMLA retailers earned \$8 million in compensation during the fiscal year, a \$400,000 increase over the previous year. This includes a \$50,000 bonus paid for the sale of the Lottery's first winning Powerball jackpot ticket. The Lottery worked closely with the Circle K chain to manage the extensive media coverage generated by the event. Circle K management representatives were on hand to receive the congratulations and a Lottery Lucky Landmark plaque presented to the store during a press conference.

*New Mexico's overall top retailer locations for FY 2001, by sales, were:*

- |   |  |
|---|--|
| 1. Cigarette Outlet, <i>Santa Teresa</i>      | 9. John Brooks Supermarket #1, <i>Albuquerque</i>          |
| 2. Stires Mini Mart, <i>Chaparral</i>         | 10. Van Winkle's IGA #1, <i>Alamogordo</i>                 |
| 3. Sunland Park Grocery, <i>Sunland Park</i>  | 11. J.R.'s Country Store #508, <i>Raton</i>                |
| 4. McNutt Howdy's #10, <i>Santa Teresa</i>    | 12. Stires Supermarket, <i>Chaparral</i>                   |
| 5. Pepper's Supermarket, <i>Deming</i>        | 13. Bullocks, Inc., <i>Truth or Consequences</i>           |
| 6. Loaf N' Jug, <i>Raton</i>                  | 14. St. Michael's Shell #82, <i>Santa Fe</i>               |
| 7. Circle K #1430, <i>Moriarty</i>            | 15. Southwest LLC #57719 (7-Eleven),<br><i>Albuquerque</i> |
| 8. Fast Stop #1, <i>Truth or Consequences</i> |  |

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

- |   |                             |
|---|-----------------------------|
| 1. Allsup's Convenience Stores                          | 6. Town and Country         |
| 2. Giant Industries                                     | 7. Brewer Oil               |
| 3. Circle K Corporation                                 | 8. Furr's Supermarkets      |
| 4. Diamond Shamrock                                     | 9. Phillips Petroleum       |
| 5. Southwest Convenience Stores<br>(7-Eleven Franchise) | 10. Albertson's Food & Drug |

## OTHER DEVELOPMENTS

*The New Mexico Lottery's fifth year of serving the State brought a number of changes.*

The 2001 New Mexico Legislature earmarked all Lottery profits for the Lottery Success Scholarship program, effective June 15, 2001. This follows several years during which Lottery profits were divided 60 percent / 40 percent for the public school critical capital outlay and Lottery tuition funds, respectively, and later split equally between the two programs.

The Lottery's management and corporate structures were reorganized, further improving efficiency. Plans were made to again combine the sales and marketing divisions under one vice president. The administration division was restructured as finance and human resource departments, reporting directly to the CEO. These resulted in the elimination of two vice president positions.

During the past year, the New Mexico Lottery Authority was a participant in the New Mexico Problem Gambling Alliance. This informal consortium of several organizations and agencies was formed to explore gaming issues and serve as a focal point for the evaluation of resources directed to the prevention of problem gaming, as well as the treatment and



*The Lottery celebrated its fifth anniversary during 2001. Some of the original employees photographed on the anniversary are, from left: (top row) Vince Torres, Tim McKee, Dave Gore, Scott Ward, Philippe Menzies; (middle row) Ken Dablstrom, Pam Poteat, Gina Borrego, John Gallegos, Kathy Romero, Anthony Lucero, Gary Lewis; (front row) Adriana Binns, Trevas Ryan, Nadine Guillén, Gwen Azar and Julie Rehder.*

assistance options for current problem gamblers. Three goals of this Alliance are Awareness, Education and Treatment.

Primary activities for the organization were to increase public awareness of problem gambling issues through preparation for Problem Gambling Awareness Week, slated during the first quarter of FY 2002.

In addition, the Lottery continued its "Play it Safe" and "Please Play Responsibly" messages in both print and broadcast advertising. The Lottery also maintained its fiscal support of the New Mexico Council on Problem Gambling and its toll-free help line accessible from anywhere in New Mexico 24 hours-per-day. Quarterly statistical summaries of calls continue to indicate that lottery-related problem gambling is minimal. The New Mexico Lottery will continue to pledge its support and assistance to this important effort.

During the year, consulting firm FBD performed a review of the NMLA compensation and benefits system. FBD, in conjunction with the executive

management of the NMLA, reviewed every position. The results indicated that the NMLA was currently competitive in the New Mexico employment market as it relates to salaries and benefits.

Contracts extended during the fiscal year for an additional year were: Scientific Games and Oberthur Gaming Technologies (instant tickets), Kilmer & Kilmer (advertising agency), Atkinson & Company (drawing and financial audits) and banking services (Bank of America).

The Lottery's central computer system was upgraded during the fiscal year. Data access and overall performance were dramatically increased. The upgrade gives the NMLA a state of the art computer platform, allowing more complex computer applications as the Lottery grows.



*Ken and Sandra Turnbow of Gallup became the first \$55,000 winners of the Lottery's "Happy Anniversary" game, which marked the NMLA's fifth anniversary. They are surrounded by Lottery employees.*

## THE NEW MEXICO LOTTERY IN THE COMMUNITY

### Events and Sponsorships

The Lottery continued to expand its presence at special events statewide during the fiscal year. These included athletic sponsorships, community activities, retailer support and scratcher promotions, covering every aspect of community involvement and activities. These events helped promote not only the Lottery, but also its goal of benefitting education. Citizens, players and non-players had the opportunity to learn first-hand about both Lottery products and the use of Lottery proceeds in their communities.


An example was the FY '01 introduction of a scratcher game featuring new Harley-Davidson® motorcycles as prizes. The game's promotion included different motorcycle runs organized by the New Mexico Lottery, which continued into FY '02. Each of these runs involved the area's local Harley-Davidson® dealership as well as different Lottery retailers along the run route. Each run incorporated a mix of food, music, prizes and fun, bringing the message of the Lottery's educational benefits to new audiences.

*Some of the many first-time and repeat sponsorships and/or promotional activities during FY 2001 included:*

- Chama Valley Spring Festival – Rio Arriba County
- Cinco de Mayo – Chaves County
- Clovis Home and Garden Show – Curry County
- Deming Duck Race – Luna County
- Eighth Annual Chili Cook-Off – Eddy County
- Expo in the Desert – Lea County
- Freestyle Motocross – Bernalillo County
- Gridiron Gus – Chaves County
- Lea County Fair – Lea County
- Mesilla Valley Festival – Doña Ana County
- Monster Truck Jam – Bernalillo County
- National Arenacross – Bernalillo County
- New Mexico State Fair – Bernalillo County
- Santa Fe Rodeo – Santa Fe County
- Summer Fun Trade Show – San Juan County
- Whole Enchilada Fiesta – Doña Ana County

#### Other Events

- College sports sponsorships throughout the state
- Harley-Davidson® scratcher runs
- Holiday Bug statewide broadcast remotes and second chance drawing (26 total)
- Local semi-professional basketball and hockey teams
- Numerous broadcast remotes at retailer locations promoting Lottery games
- Rich Ford 40<sup>th</sup> Anniversary



*The Lottery's traveling "trolley" dispenses tickets, promotional items and local educational beneficiary information at events around the state. It is pictured here at Chick's Harley-Davidson®/Buell® in Albuquerque during a Lottery-sponsored bike run tied to the popular "Harley-Davidson®" instant game.*



### Mexico Plays, New Mexico Wins

*Lottery events coordinator Rich Grainger, creative services manager Pat Ratledge and sales representative Ken Dablstrom staffed the Lottery trolley during the Mesilla Valley Festival in Las Cruces.*



# 5 Years

**\$115.6**  
*million*  
*in ticket*  
*sales for the*  
*New Mexico*  
*Lottery*

## FISCAL YEAR 2001: A FINANCIAL OVERVIEW

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

During FY 2001, gross revenues totaled approximately \$115.6 million. A record profit of over \$25.9 million was reported for New Mexico education programs. Of that, almost \$13.5 million was earmarked for the Lottery Tuition Fund, the first time that college scholarship assistance received a majority of Lottery profits. The

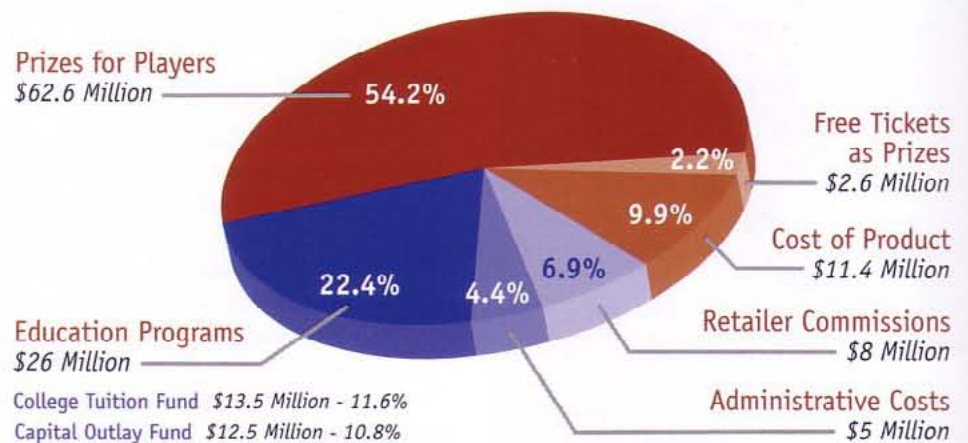
remaining net revenues, nearly \$12.5 million, were allocated to the Public School Capital Outlay Fund, the final year for which the Lottery provided financial aid. This legislative change was effective June 15, 2001.

Revenues were more than \$4.9 million higher than the previous year, and profits were nearly \$1.4 million higher than the previous year.

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

## WHERE \$115.6 MILLION IN TICKET SALES GO

(rounded)



Mike Houlne of Estancia is shown with his new Ford F-150 4x4 pick-up truck. It was part of his \$36,000 prize package from the Lottery during a 2000 New Mexico State Fair promotion and drawing.

## LOTTERY SUCCESS SCHOLARSHIPS

Spring Semester 2001

Name of School	Students	Fall '97 - Spring '01 Total Awards
Albuquerque Technical Vocational Institute	406	\$ 406,883
Clovis Community College	61	118,873
Eastern New Mexico University—Main Campus, Portales	716	2,386,618
Eastern New Mexico University—Roswell	125	204,918
Eastern New Mexico University—Ruidoso	14	16,990
Luna Community College—Las Vegas <sup>(*)</sup>	0	27,150
Mesalands Community College—Tucumcari <sup>(**)</sup>	31	52,328
New Mexico Junior College—Hobbs	123	194,610
New Mexico Highlands University—Las Vegas <sup>(*)</sup>	271	830,853
NM Institute of Mining and Technology—Socorro	282	1,042,335
New Mexico Military Institute—Roswell	18	53,436
New Mexico State University—Alamogordo	121	220,490
New Mexico State University—Carlsbad	84	262,482
New Mexico State University—Doña Ana	129	355,034
New Mexico State University—Grants	42	87,306
New Mexico State University—Main Campus, Las Cruces	2,899	13,227,782
Northern New Mexico Community College—Española & El Rito <sup>(*)</sup>	67	204,051
San Juan College—Farmington	219	242,820
Santa Fe Community College	121	237,111
University of New Mexico—Los Alamos	60	125,912
University of New Mexico—Gallup	46	123,808
University of New Mexico—Main Campus, Albuquerque	4,314	19,555,573
University of New Mexico—laos	25	44,293
University of New Mexico—Valencia (Los Lunas)	125	276,534
Western New Mexico University—Silver City	130	462,885
<b>Total Campuses 25<sup>(*)</sup></b>	<b>Total Recipients 10,429</b>	<b>\$40,761,075<sup>(****)</sup></b> <i>since inception</i>

### Appropriated by New Mexico Commission on Higher Education for the Lottery Success Scholarship Program Through FY 2001

Fall '97	\$1,385,445	(2,192 students)
Spring '98	3,024,530	(5,087 students)
Fall '98	2,809,490	(4,139 students)
Spring '99	5,230,798	(7,802 students)
Fall '99	4,997,997	(6,402 students)
Spring '00	7,689,266	(10,020 students)
Fall '00	6,773,605	(7,611 students)
Spring '01	8,849,941	(10,429 students)
<b>Total</b>	<b>\$40,761,072<sup>(****)</sup></b>	

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

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

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

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

(\*\*\*\*) \$3 difference due to overall decimal point rounding, and is statistically insignificant

# 10,429

Spring

semester

Lottery

Success

Scholarships

Brett Trembley attends Eastern New Mexico University in Portales with a Lottery Success Scholarship. He is from Belen.



*Josh Manary of Rio Rancho gets encouragement from his mother, Susan Wells. Josh is a freshman at UNM, majoring in international management. He is the first member of his family to attend college. "The Lottery Success Scholarship has benefitted me, because otherwise I would not be in college now," he said.*

# 18,023

*high school  
graduates have  
qualified for  
Lottery Success  
Scholarships  
since inception*

## LOTTERY SUCCESS SCHOLARSHIP PROGRAM

*Student Count by County, Fall 1997 – Spring 2001*

County	Attended College <sup>(1)</sup>	Total Grads <sup>(2)</sup>	Total Awards
Bernalillo	4,898	561	\$ 12,032,669
Catron	31	6	81,877
Chaves	421	56	925,540
Cibola	264	55	532,614
Colfax	109	7	288,084
Curry	501	103	798,222
De Baca	31	3	45,529
Doña Ana	1,832	268	5,570,965
Eddy	640	86	1,411,791
Grant	350	41	850,864
Guadalupe	32	3	74,818
Harding	26	3	65,936
Hidalgo	57	5	143,751
Lea	583	102	539,349
Lincoln	159	23	364,880
Los Alamos	333	38	799,611
Luna	134	13	360,357
McKinley	442	55	842,258
Mora	56	4	121,129
Otero	632	116	1,543,994
Quay	129	14	238,657
Rio Arriba	542	98	1,043,218
Roosevelt	339	58	671,138
San Juan	1,031	184	1,698,379
San Miguel	430	29	877,442
Sandoval	656	46	1,412,437
Santa Fe	1,338	145	2,628,754
Sierra	76	7	190,367
Socorro	122	16	290,420
Taos	271	35	556,011
Torrance	122	11	315,827
Union	48	4	108,027
Valencia	756	116	1,518,618
GED, Home School, Other <sup>(*)</sup>	594	78	1,456,020
Texas/Arizona <sup>(3,4)</sup>	38	5	73,515
<b>Totals</b>	<b>18,023 <sup>(6)</sup></b>	<b>2,394</b>	<b>\$ 40,473,068 <sup>(5)</sup></b>

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

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

(\*) Includes private, parochial, DIA and special State-assisted.

(1) Student count is cumulative and includes all students that were awarded a Lottery Success Scholarship at any time; a majority of these students are still enrolled.

(2) Graduates and degrees may include duplicates if a student attained more than one degree - i.e., a student received an Associates degree and continued for a Bachelors degree; degree status not yet available for 2001-2002; degrees include bachelors, associate, certificate and professional, several graduate students are also included, because their Lottery scholarships applied to undergraduate tuition that was part of their graduate programs.

(3,4) New Mexico students who graduated from Texas and Arizona high schools under an agreement with the State Department of Education, and state line-area Navajo Reservation residents who qualify for Lottery Scholarships.

(5) This figure will always differ from the transfer amounts shown on the previous page, because of fiscal reconciliation and adjustments between CHE and the various institutions.

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

**\$66.5**  
million  
transferred to  
the capital  
outlay fund  
since inception

## CAPITAL OUTLAY

Fiscal Year 2001

School District	Awards	Cumulative Totals (*)	Projects
Alamogordo	\$107,759	\$ 312,058	Vocational Technology Building
Belen	538,793	1,640,662	Dennis Chavez, La Promesa and Gil Sanchez Elementary Schools
Bernalillo	560,345	2,444,713	Middle School and High School
Bloomfield	-----	10,866	District wide mechanical improvements
Carrizozo	301,724	816,596	All schools in the district
Central	538,793	613,730	Ojo Amarillo Elementary School
Cloudcroft	-----	56,203	I High school classroom construction
Clovis	248,276	360,682	Gattis Junior High School
Cobre	-----	196,125	Central Elementary School
Deming	-----	242,424	Chaparral Elementary School
Des Moines	344,828	1,027,483	Elementary School and High School
Dexter	150,862	2,206,514	Elementary School and Middle School
Elida	-----	67,444	Build new High School wing; remodel Elementary School
Españoia	905,173	1,670,173	Sombrillo Elementary School and Middle School
Estancia	-----	2,700,447	Elementary School, High School, Library/Media Center, Cafeteria
Farmington	-----	785,425	Piedra Vista High School
Fort Sumner	-----	72,727	I Home Economics Building
Gadsden	473,060	3,234,161	Chaparral, La Union & Riverside Elementary Schools, Chaparral Middle School
Gallup-McKinley	732,759	2,129,098	Indian Hills, Mentmore and Turpen Elementary Schools
Grady	-----	45,101	Classrooms, Kitchen and Commons Areas
Grants-Cibola	926,724	1,397,176	New school site development, architectural and engineering design
Hagerman	237,069	847,993	High School, K-12 Multi-Purpose/Cafeteria
Hatch	948,276	3,012,773	Garfield Elementary, Rio Grande Elementary, New High School
Hondo	-----	725,317	Elementary School, district wastewater treatment system
Jemez Mountain	-----	859,950	Middle/High School
Jemez Valley	409,483	1,175,097	Elementary School, High School
Lake Arthur	-----	747,692	Elementary School, K-12 Multi-Purpose Facility
Las Cruces	323,276	1,821,657	Doña Ana, Highland and MacArthur Elementary Schools
Las Vegas City	290,948	2,304,616	Robertson High School, Legion Park cafeteria
Las Vegas West	840,517	3,357,850	Luis Armijo Elementary School, Old High School
Logan	-----	17,236	Construct vocational facility
Lordsburg	-----	786,158	Traylor Elementary School
Los Lunas	732,759	3,290,689	Daniel Fernandez and Raymond Gabaldon Intermediate Schools, Century and Los Lunas High Schools, Technical Vocational Academy
Loving	-----	74,937	Middle School classrooms, restrooms and support facilities
Magdalena	-----	370,000	K-12 Facility
Maxwell	118,534	310,469	Multi-purpose Classroom Building and Library
Mesa Vista	90,517	355,422	High School, counseling, health services and media centers
Mora	114,224	1,388,783	Elementary School, Middle School
Moriarty	323,276	3,064,263	Route 66 Elementary, Edgewood Middle School
Mosquero	43,103	678,300	Elementary School, Cafeteria, Computer Lab, Agriculture/Vocational Building
Mountainair	111,638	199,955	High School
Pecos	226,293	1,035,015	Elementary School, Middle School, High School
Peñasco	237,069	1,431,876	Elementary School, Middle School, High School
Pojoaque	-----	313,571	High School
Portales	-----	93,672	Junior High School classrooms and restrooms
Questa	-----	115,498	Cerro Elementary
Raton	323,276	1,508,166	Columbian, Keamy and Longfellow Elementary School, Middle School, High School
Rio Rancho	215,517	1,243,967	Enchanted Hills, Northern Meadows and Puesta Del Sol Elementary Schools
Roy	-----	151,163	Elementary School, I High School
Ruidoso	-----	44,962	Complete auditorium, classroom addition and renovation at High School
San Jon	170,259	573,319	New Science Lab and Instructional TV Classrooms, Pre-school and kindergarten
Santa Rosa	-----	387,273	New Classrooms and Distance Learning Lab
Silver City	-----	479,072	Stout Elementary School
Socorro	280,172	2,448,450	San Antonio Elementary School, Zimmerly Elementary School
Springer	142,241	1,082,696	Junior/Senior High School, Wilferth Elementary School, Portable Classrooms
Texico	280,172	280,172	Elcmntary, Junior High and High School renovations
Tucumcari	794,414	2,957,571	New upper/lower Elementary School
Tularosa	797,414	1,224,747	New Intermediate School
Vaughn	-----	29,975	Life/safety and ADA improvements at the gymnasium
Wagon Mound	258,621	322,318	High School remodeling and renovation, including new roof
Zuni	862,069	3,385,002	New High School
Totals	\$15,000,000	\$66,525,450	
	(FY '01)	(FY 97-02)	

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

Other funding sources for all Capital Outlay awards include the General Fund, Severance Taxes and General Obligation Bonds. 61 school districts have qualified for capital outlay assistance since Lottery revenues were used; 37 received Lottery-funded awards during FY 01, including four for the first time. (\*)= Cumulative totals represent awards from January and August 1997, and August 1998, 1999 and 2000, and October 2001; October 2001 awards made in FY '02 include Lottery revenues generated during the Lottery's FY '01 and are reflected in the "cumulative totals" column; they will be detailed in the Lottery's FY '02 annual report. Although some Lottery net profits were transferred for capital outlay projects through June 15, 2001, unused funds have been allocated by the State for one final Capital Outlay Council Lottery-funded award for FY 2002. Because of a change in State statutes, the Lottery will no longer transfer a portion of its profits to the Public School Capital Outlay Council. FY 2001 totals are rounded.

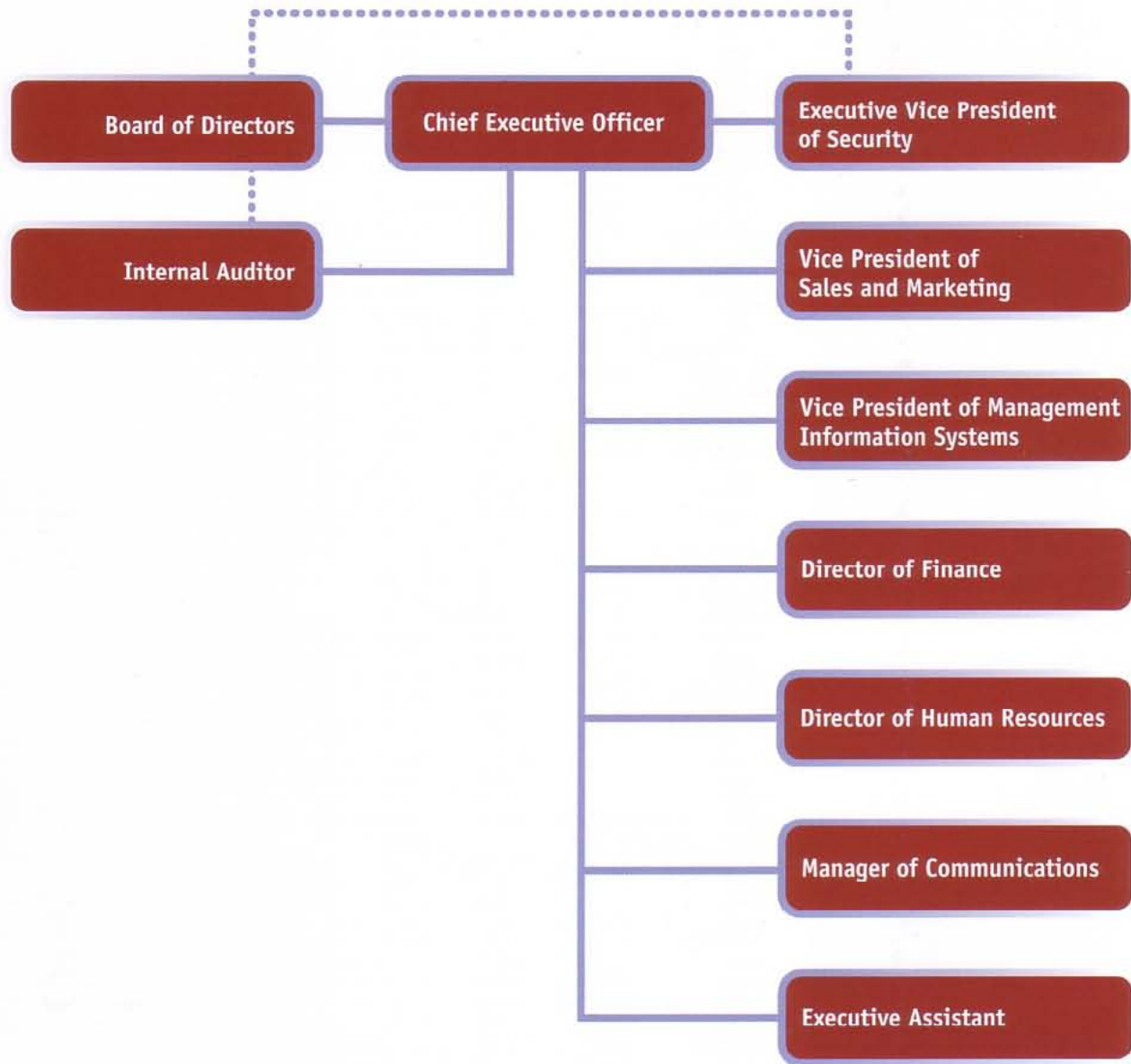
The Bernalillo Middle School was one of dozens of schools receiving construction and repair awards from the State of New Mexico with FY 2001 profits from the New Mexico Lottery. Capital outlay awards combined Lottery, severance tax and general obligation bond funds.

BERNALILLO  
MIDDLE SCHOOL  
WE ARE A SCHOOL  
OF CHARACTER  
WORD OF THE MONTH  
CARING



# ORGANIZATIONAL CHART

*New Mexico Lottery Authority*



## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

*Board of Directors, New Mexico Lottery Authority*

We have audited the accompanying balance sheets of the New Mexico Lottery Authority, as of June 30, 2001 and 2000, 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 in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the 2001 and 2000 financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Lottery Authority as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Atkinson & Co., Ltd.

*Atkinson & Co., Ltd.*

Albuquerque, New Mexico

September 14, 2001

## FINANCIAL REPORT

### BALANCE SHEETS

(dollars rounded)

	June 30 2001	June 30 2000
<b>CURRENT ASSETS</b>		
Cash	\$ 543,000	\$ 2,528,000
Accounts receivable (net of allowance for bad debts of \$149,000 in 2001 and \$150,000 in 2000)	914,000	677,000
Reserves on deposit	2,608,000	2,783,000
Inventory	556,000	650,000
Prepaid expenses	125,000	114,000
<b>Total current assets</b>	<b>4,746,000</b>	<b>6,752,000</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>483,000</b>	<b>523,000</b>
	<b>\$ 5,229,000</b>	<b>\$ 7,275,000</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,375,000	\$ 2,393,000
Prizes payable	956,000	1,545,000
Due to public school capital outlay	424,000	1,972,000
Due to lottery tuition fund	1,424,000	1,315,000
<b>Total current liabilities</b>	<b>5,179,000</b>	<b>7,225,000</b>
<b>COMMITMENTS</b>	<b>-</b>	<b>-</b>
<b>RETAINED EARNINGS</b>	<b>50,000</b>	<b>50,000</b>
	<b>\$ 5,229,000</b>	<b>\$ 7,275,000</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 2001	June 30 2000
<b>Revenues</b>		
Instant ticket sales	\$ 74,863,000	\$ 72,812,000
Powerball sales	33,973,000	32,091,000
Roadrunner Cash sales	5,168,000	5,869,000
Pick 3 sales	1,665,000	-
Retailer fees	9,000	9,000
Free tickets	(2,555,000)	-
Promotional, spoiled, stolen tickets	(123,000)	(165,000)
<b>Total revenues</b>	<b>113,000,000</b>	<b>110,616,000</b>
<b>Game expenses</b>		
Prize expense	62,647,000	62,378,000
Retailer commissions	7,996,000	7,609,000
On-line vendor fees	6,933,000	6,635,000
Advertising	2,088,000	2,040,000
Ticket printing	1,199,000	1,183,000
Promotions	490,000	276,000
Shipping & postage	393,000	351,000
Drawing game	134,000	132,000
Reserve Fund expense	120,000	140,000
Game membership	55,000	58,000
<b>Total game expenses</b>	<b>82,055,000</b>	<b>80,802,000</b>
<b>Operating expenses</b>		
Salaries and benefits	3,239,000	3,157,000
Leases and insurance	1,121,000	1,093,000
Depreciation and amortization	503,000	883,000
Utilities and maintenance	403,000	360,000
Professional fees	199,000	108,000
Materials and supplies	83,000	124,000
Travel	80,000	89,000
Other	70,000	59,000
<b>Total operating expenses</b>	<b>5,698,000</b>	<b>5,873,000</b>
<b>Operating income</b>	<b>25,247,000</b>	<b>23,941,000</b>
<b>Non-operating income</b>		
Interest income	457,000	334,000
Other income	211,000	261,000
<b>Total non-operating income</b>	<b>668,000</b>	<b>595,000</b>
<b>Net income</b>	<b>25,915,000</b>	<b>24,536,000</b>
Retained earnings at beginning of year	50,000	50,000
Distributions	(25,915,000)	(24,536,000)
<b>Retained earnings at end of year</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>

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



## STATEMENTS OF CASH FLOWS

(dollars rounded)

Increase (Decrease) in Cash

Years Ended	June 30 2001	June 30 2000
Cash flows from operating activities		
Net income	\$ 25,915,000	\$ 24,536,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	503,000	883,000
Change in assets and liabilities		
Accounts receivable	(237,000)	2,771,000
Reserves on deposit	175,000	(160,000)
Inventory	94,000	(298,000)
Prepaid expenses	(11,000)	(23,000)
Accounts payable	(18,000)	(1,190,000)
Prizes payable	(589,000)	(374,000)
Net cash provided by operating activities	25,832,000	26,145,000
Cash flows from investing activities		
Purchases of property and equipment	(463,000)	(53,000)
Net cash used in investing activities	(463,000)	(53,000)
Cash flows from noncapital financing activities		
Distributions paid to state	(27,354,000)	(24,806,000)
Net cash used in noncapital financing activities	(27,354,000)	(24,806,000)
(DECREASE) INCREASE IN CASH	(1,985,000)	1,286,000
Cash balance at beginning of year	2,528,000	1,242,000
Cash balance at end of year	\$ 543,000	\$ 2,528,000

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

# NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Reporting Entity

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

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

### 2. Basis of Presentation

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

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

### 3. Restricted Cash (rounded)

The Lottery was required by the terms of its main office building lease agreement to deposit an amount equal to five months of rent in an interest-bearing escrow account. Accrued interest on the security deposit is paid monthly to the Lottery. The amount of the security deposit was reduced every six months, beginning six months from the occupancy date, by an amount equal to one month's rent until the security deposit equaled the amount of one month's rent, which will remain the required security deposit for the balance of the term. The restricted cash is held in an escrow account at 3 percent interest. Restricted cash balances were \$22,000 and \$21,000 at June 30, 2001 and 2000, respectively.

### 4. Accounts Receivable

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

### 5. Reserves on Deposit (rounded)

On October 20, 1996, the Lottery began on-line ticket sales. The Lottery became a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating state lotteries. MUSL operates the POWERBALL® game. Each MUSL member sells on-line game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL® is 50% of each drawing period's sales. MUSL has included 2% of each drawing period's sales as part of each MUSL member's prize liability in prize reserve funds. MUSL has placed a \$77,000,000 cap on the prize reserve funds and once the prize reserve funds exceed this designated cap, the excess becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors. The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds. At June 30, 2001 and 2000, the Lottery's share of the POWERBALL® prize reserve was \$2,608,000 and \$2,783,000, respectively.

A winner of a grand prize may select that the prize be paid at the cash value of the prize or as an annuity. A grand prize annuity is paid out in 25 installments. Bonds at the discounted value of grand prize annuity are purchased by MUSL to fund all future installments and are held in trust. Bond maturities are staggered in order to provide adequate cash flow for each annual installment. These assets and related liabilities are reflected in MUSL's financial statements and therefore are not reflected in the Lottery's financial statements. MUSL is responsible for transferring the cash or the annuity installment amounts to the member lottery prior to the payment to the grand prize winner.

### 6. Inventory

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

### 7. Property and Equipment

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

### 8. Revenue and Account Receivable Recognition

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

### 9. Prizes

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

### 10. Commissions

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

### 11. Advertising Costs

Advertising costs are expensed as incurred.

### 12. Income Taxes

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

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

At June 30, 2001, the Lottery's cash deposits were categorized to give an indication of the level of risk assumed by the Lottery. Category One includes cash on hand, deposits insured by federal depository insurance, or amounts collateralized with securities held by the Lottery or by its agent in the Lottery's name. Category Two includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Lottery's name. Category Three represents uncollateralized deposits and bank balances collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Lottery's name. The Company maintains its cash balances in one financial institution. The balances for demand deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000 for this financial institution. The Lottery does not believe it is exposed to any significant credit risk with respect to its cash balances.

	One	Category Two	Three	Carrying Amount	Bank Balance
Deposits	\$100,000	\$ -	\$ 434,000	\$ 534,000	\$ 610,000
Cash on hand	9,000	-	-	9,000	-
Total	\$109,000	\$ -	\$ 434,000	\$ 543,000	\$ 610,000

### 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)

The Act (see note A1) requires that "an amount up to two percent of the gross annual revenues shall be set aside as a Reserve Fund to cover bonuses and incentive plans for Lottery retailers, special promotions for retailers, purchasing special promotional giveaways, sponsoring special promotional events, compulsive gambling rehabilitation and other purposes as the Board deems necessary to maintain the integrity and meet the revenue goals of the Lottery." Accordingly, the Board of Directors has elected to set aside up to 2% of gross revenues into the reserve account. At June 30, 2001 and 2000, the amounts that had been set aside and expended were \$120,000 and \$140,000, respectively.

16. Retained Earnings (rounded)

In accordance with the Act the Lottery shall transmit all net revenues to the state treasurer. The Act has required the state treasurer to deposit the revenues into two funds (the Funds), the Public School Capital Outlay Fund and the Lottery Tuition Fund. In fiscal year 2000 in compliance with the Act, sixty percent of the revenues were allocated to the Public School Capital Outlay Fund and forty percent to the Lottery Tuition Fund. Effective July 1, 2000 the allocation to each fund was changed per the Act to fifty percent for each of the Funds. Effective June 15, 2001 the Act changed the allocation to one hundred percent to the Lottery Tuition Fund. As of August 1, 2001 and 2000, the Lottery transferred \$25,915,000 and \$25,680,000, respectively, for the periods ended June 30, 2001 and 2000 to the New Mexico State Treasurer. Any Reserve Fund amounts not expended by fiscal year end for the above defined purposes will be transferred to the Lottery Tuition Fund, except for unexpended amounts up to \$50,000, which can be retained by the Lottery for future defined expenditures.

(see note 15)

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

19. Shipping and handling costs

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

**NOTE B - PROPERTY AND EQUIPMENT**

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

	2001	2000
Data processing software	\$ 1,770,000	\$ 1,770,000
Data processing equipment	1,520,000	1,211,000
Tenant improvements	545,000	529,000
Vehicles	483,000	483,000
Furniture and fixtures	281,000	281,000
Equipment communications	243,000	243,000
Equipment drawing	232,000	94,000
Equipment warehouse	151,000	151,000
Equipment office	19,000	19,000
	5,244,000	4,781,000
Accumulated depreciation and amortization	(4,761,000)	(4,258,000)
Property and equipment, net	\$ 483,000	\$ 523,000

**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, 2000	\$ 3,337,000	\$1,972,000	\$1,315,000	\$ -	\$ 50,000
Current year net income	25,915,000	12,457,000	13,458,000	-	-
Current year transfers	(27,354,000)	(14,005,000)	(13,349,000)	-	-
Balance at June 30, 2001	\$ 1,898,000	\$ 424,000	\$1,424,000	\$ -	\$ 50,000

**NOTE D - RETIREMENT PLAN**

(rounded)

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

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

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

In the fiscal year ended June 30, 2001 the Lottery recognized \$314,000 of pension expense for the Employee Retirement Plan on salaries of \$2,648,000. As of June 30, 2001, the entire expense amount had been paid.

In the fiscal year ended June 30, 2000 the Lottery recognized \$244,000 of pension expense for the Employee Retirement Plan, net of \$74,000 of pension forfeitures on salaries of \$2,664,000. As of June 30, 2000, the entire expense amount had been paid.

**NOTE E - CREDIT AGREEMENT**

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

**NOTE F - LEASES**

(rounded)

The Lottery has entered into operating leases for the rental of office and warehouse space, office equipment, and vending machines. Rent expense was \$974,000 and \$960,000 for the years ending June 30, 2001 and 2000, respectively. 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
2002	\$ 801,000
2003	287,000
2004	395,000
2005	420,000
2006	316,000
	\$ 2,219,000

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

	Year Ending June 30,	
	2001	2000
Minimum rentals	\$ 952,000	\$ 851,000
Less: Sublease rentals	(93,000)	(90,000)
	\$ 859,000	\$ 761,000

**NOTE G - COMMITMENT**

(rounded)

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

for up to five additional one-year extensions. The GTECH Agreement calls for GTECH to provide on-line gaming systems and services, and entitles the Lottery to certain liquidated damages upon the occurrence of defined incidences.

On May 9, 2000, the Lottery and GTECH agreed to settle disputed liquidated damages in the amount of \$97,000 by cash payments to the Lottery by GTECH of approximately \$9,000 per week for 11 weeks starting May 15, 2000 through July 24, 2000.

On August 20, 2001, the Lottery and GTECH agreed to settle disputed liquidated damages in the amount of \$17,000 as a credit against money owed to GTECH for the destruction of on-line

game ticket stock, due to changes made by the Lottery.

**NOTE H -  
LITIGATION SETTLEMENT**

During 1997, the Lottery agreed to a settlement of certain litigation arising from the conduct of its operations. The agreement calls for the Lottery to make cash payment to the plaintiffs that 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 estimate of amounts to be paid in excess of applicable insurance limits has been accrued as of June 30, 1997.

**NOTE I -  
OTHER EXPENSES**

(rounded)

Other expenses (rounded) at June 30, consisted of:

	2001	2000
<b>Registrations &amp; Memberships</b>	<b>\$ 32,000</b>	<b>\$ 27,000</b>
Other	20,000	11,000
Training	15,000	14,000
Publications & Subscriptions	3,000	7,000
	<b>\$ 70,000</b>	<b>\$ 59,000</b>

## CREDITS

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