



NEW MEXICO LOTTERY

ANNUAL REPORT **FY03**



A Message From the Board of Directors

Serving the Lottery in Fiscal Year 2003

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

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

By statute, the NMLA board membership must include

accounting, business, law enforcement and legal professionals.

As FY '03 began, the membership included William Bonds, a retired Albuquerque CPA; Claydean Claiborne, Mayor of Jal; Dan Girand of Roswell, a law enforcement veteran; Jill Gutierrez, a Las Cruces bank president; Cody Kelley, an Albuquerque attorney; Karen Westall, a Carlsbad business executive; and, Eugene Zamora, an Albuquerque attorney. At the beginning of the fiscal year, Ms. Claiborne was re-elected to chair the board, and Mr. Kelley was re-elected vice-chair. Mr. Bonds and Mr. Zamora resigned in January 2003. Mr. Bonds was replaced by Reta D. Jones, an Albuquerque CPA, while Mr. Zamora was succeeded by Rudy Garcia, a Gallup business executive. In the fourth quarter former Governor David Cargo was appointed to the board upon the completion of Ms. Westall's term at the

end of the fiscal year. At the same time both Mr. Garcia and Ms. Jones were appointed to full terms.

The board's statutory responsibilities include: adoption of rules, policies and procedures; maximizing net revenue for Lottery beneficiaries; appointment of the Lottery's CEO; setting and oversight of the corporation's annual budget; conducting on-going studies of this and other lotteries to continually improve efficiency, profitability and security; preparation of reports for the Legislature and the people of New Mexico; and the pursuit of "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, again, very pleased with, and proud of, the NMLA's accomplishments. Retailers, players, the NMLA staff and Lottery vendors worked together to, once more, produce the most

successful year in New Mexico Lottery Authority history.

Sincerely,

Claydean Claiborne, *Chair*

Cody Kelley, *Vice Chair*

Jill Gutierrez, *Secretary*

Karen Westall, *Treasurer*

Dan Girand, *Assistant Secretary-Treasurer*

Reta Jones, *Member*

Rudy Garcia, *Member*

The New Mexico Lottery Authority Board of Directors at the close of Fiscal Year 2003

Another Year Benefitting New Mexico

A Letter From the CEO

On behalf of the New Mexico Lottery Authority, I am pleased to submit this annual report for Fiscal Year 2003.

The New Mexico Lottery ended the 2003 fiscal year with a record \$137 million in gross sales. The Lottery also posted a record \$33.1 million profit, all of which was earmarked for the Lottery Success Scholarship program. All Lottery net proceeds provide in-state tuition at more than two dozen public colleges, universities and community colleges in New Mexico.

This marks the sixth consecutive full year of sales increases. We are only the second U.S. start-up lottery to achieve this goal. While we have returned a sizable profit every year, we have set net profit records five of our seven full fiscal years. The New Mexico Lottery and its players have provided more money than ever to help ensure the longevity of the Lottery Success Scholarship program.

Our record performances in sales and profits are the result of a record \$315 million

Powerball jackpot, changes made to Pick 3 and a variety of instant ticket (scratcher) games. We have nearly 1,200 Lottery retailers in New Mexico. These important partners and their employees are the first point of contact for New Mexicans and visitors who buy Lottery products. But they are not the only partners who helped make the past 12 months a record year for the Lottery and the Lottery Success Scholarship program. By successfully renegotiating contracts in FY 2002 with our major vendors, we substantially reduced costs and overhead in FY 2003. This allowed us to raise the most money possible for the Lottery Success Scholarship program. By mid-year, we were already on track for a record year.

Overall sales for Fiscal 2003 increased by \$3.1 million over the same period during fiscal 2002. And net profits for the Lottery Success Scholarship during fiscal 2003 increased by \$3.5 million over fiscal 2002, due to a combination of increased sales and operational efficiencies.

Using 2002-2003 school year tuition averages, the New Mexico Commission on Higher Education determined that the increase in Lottery profits alone equals approximately 3,000 additional scholarships for two- and four-year colleges.

As the amount of money we raise each year increases, the NMLA, its players and partners help endow the Lottery scholarships for current and future students as both enrollments and tuition rates increase. It is another step of ours "Benefitting New Mexico's Future," and more than 27,000 Lottery Success Scholarship recipients thank you.

Respectfully submitted,

Thomas N. Shaheen, *CEO*



Fiscal Year 2003

The Year in Review

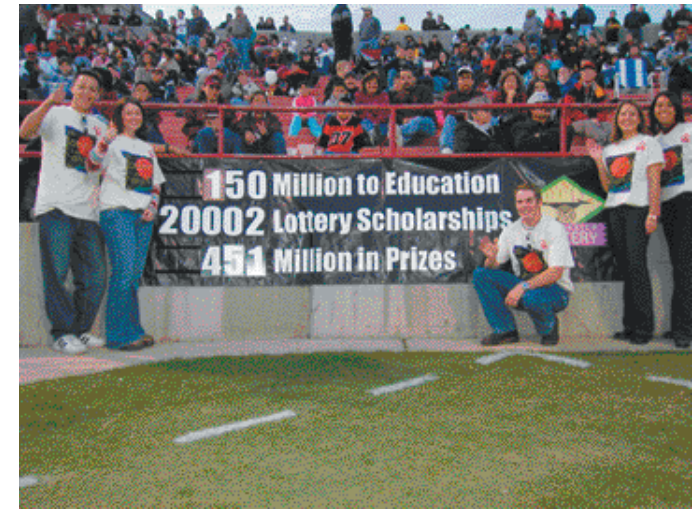
For the seventh full year in a row, the people of New Mexico have shown solid support of the New Mexico Lottery, its games and beneficiaries. After a sixth consecutive full year of record sales, and a fourth straight year of record profits, Fiscal Year 2003 reached new milestones for the State.

The Lottery Authority has returned multi-million dollar profits for New Mexico education every year since sales began in April 1996. Gross sales for Fiscal Year 2003 were \$137 million, and net revenues (profit) were \$33.1 million. Cumulative contribution to State of New Mexico public education from inception in 1996 through the end of Fiscal Year 2003 totaled more than \$181 million. Of that, nearly \$114.5 million had been earmarked for the Lottery Success Scholarship program through Fiscal Year 2003.

Sales and scholarship profits were set to break records without an unexpected mid-

year development, a record \$315 million dollar Powerball jackpot. Although it was won in another state, strong sales just before Christmas 2002 nearly tied the New Mexico Lottery Authority's largest-single monthly transfer of profits for the Lottery Success Scholarship fund. That transfer, exceeding \$5.4 million raised in December 2002, was more than double the average transfer for most months.

But Powerball was just one component, as a team of 65 Lottery employees and a network of almost 1,200 retailers provided players from across New Mexico with interesting and enjoyable products that paid \$62.3 million in prizes, and raised more money than ever for the Lottery Success Scholarship program.



New Mexico State University students Jarrad Bouger, Kristen Borden, Matthew Cramer, Jennifer Kistler and XXXXXX represented Lottery Success Scholarship recipients during halftime at a football game.



The Lottery Authority sponsored a number of university sporting events across the State, highlighting the benefits and recipients of Lottery Success Scholarships.

Scratchers



Once again, scratchers, or instant tickets, were the largest single component of New Mexico Lottery total sales, approximately 58.4 percent. Gross sales of \$80,246,491 were down slightly from FY '02, largely due to changes in player discretionary spending during the last half of the fiscal year. As gasoline prices rose and the threat of war affected the regional, national and international economies, scratcher purchases along with similar discretionary products sold by Lottery retailers declined by slightly over one percent.

Instant games have several components. Players determine “instantly” whether a ticket is a winner. Some tickets are entry vehicles for second chance drawings and contests. Instant tickets have a variety of prices, prizes and play styles.

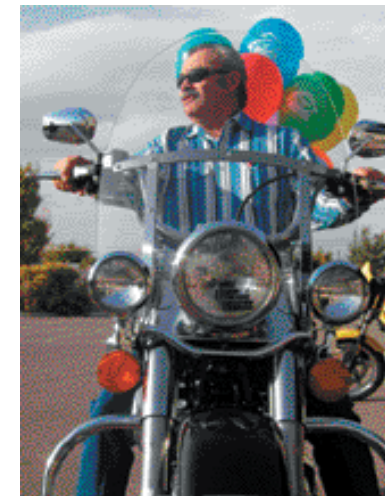
The strengths of New Mexico’s instant games are built upon a mix of licensed products and games designed in-house. In all, 43 instant games were launched during FY '03. Animation’s first leading lady, 73-year old Betty Boop, came out of retirement, and the licensed game in her honor was New Mexico’s scratcher highlight of the fiscal year.

Another popular licensed instant game celebrated the 100th anniversary of the Harley-Davidson motorcycle. Another New Mexico-themed \$10 game, “Fiesta Dollars,” remained popular not only because of its regional concept but because it offered a \$100,000 top prize. And in FY 2003 the Lottery again offered several scratcher games that allowed players to enter drawings to be on-air or at-home contestants for a nationally-syndicated television game show utilizing the Powerball brand name.

FY 2003 was the first full year of participation in that game show, combining the name recognition of the Powerball lotto game with a series of scratcher games. “Powerball – The Game Show” and its successor, “Powerball Instant Millionaire” allowed New Mexicans to win cash prizes from their scratcher tickets, or enter random drawings to appear on the nationally-syndicated game show or qualify for prizes as at-home players. The largest on-air prize won by a New Mexico contestant during the fiscal year was more than \$71,000.

With prizes ranging from free tickets to \$100,000, and non-cash prizes including trips and motorcycles, New Mexico

Lottery players claimed more than \$49.7 million in instant game prizes during FY 2003.



For the second year in a row, New Mexicans played Lottery scratchers to win new Harley-Davidson® motorcycles. Five were won instantly, and a sixth was won in a second-chance drawing from among more than 31,000 entries.

Online Games

Computer-generated numbers games continued their sales growth over previous years, accounting for nearly 41.6 percent of gross sales, nearly \$57.1 million, a two percent increase over FY 2002. Six nightly live Roadrunner Cash and Pick 3 drawings continued on three CBS television affiliates serving New Mexico, based in Albuquerque (KRQE), Roswell (KBIM) and Durango/ Farmington (KREZ). Powerball results are televised immediately after both drawings each week.

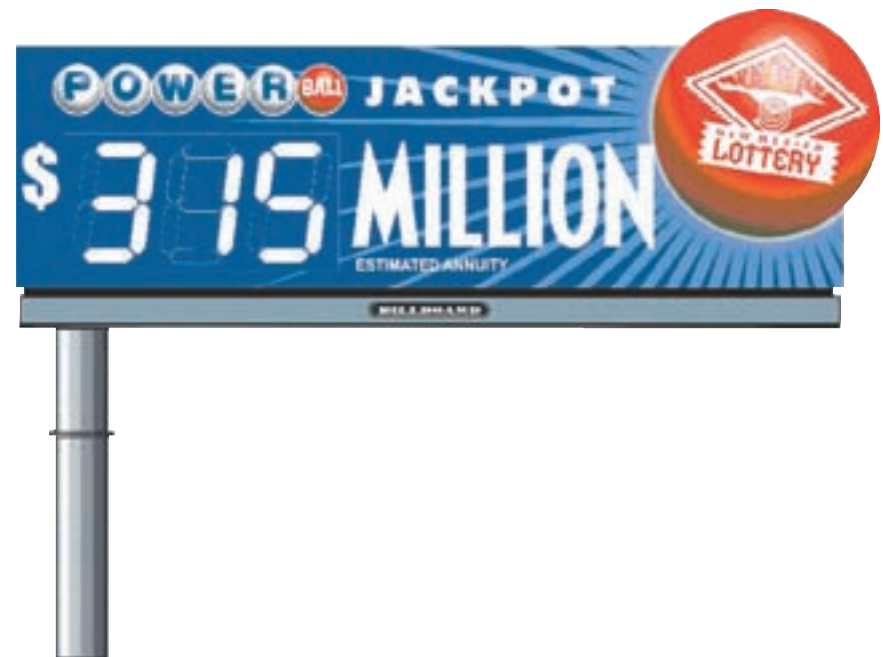
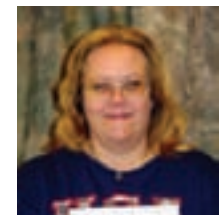
Powerball®

New Mexico's traditional lotto-style game offered players nine different prize levels during FY 2003, ranging from \$3 to jackpot annuities that were never below \$10 million. When the fiscal year began, players chose five numbers from 1 to 49, and a Powerball from 1 to 42. In October 2002, the selection matrix changed, with players selecting five numbers from 1 to 53. The Powerball selection remained unchanged. The matrix change was made not only because additional states and population bases were added, but to help maintain large jackpots.

New Mexico Powerball sales grew almost \$4.6 million, or about 10.6 percent, over Fiscal Year 2002, to nearly \$47.8 million. Sales were bolstered by a record \$315 million jackpot that began growing in October 2002 and continued rolling until Christmas night.

Powerball sales represented nearly 35.9 percent of Lottery gross revenues, up from previous years.

There were also 20 \$100,000 second prize-winning tickets sold in New Mexico, including a record six won on one night in December 2002. New Mexico also had 91 winners of the \$5,000 third prize, including three who multiplied their winnings using the optional Power Play feature. This Powerball enhancement allows players to multiply any Powerball prize except the jackpot from two to five times. Overall, New Mexico players claimed more than \$7.8 million in Powerball prizes.





Lights, camera...animals! Pets from across the State auditioned to be the next Roadrunner Cash game mascot. Try-outs sought animals with distinctive personalities who also had the ability to show that the Roadrunner Cash top prize "rolls over" and grows from one night to the next whenever it isn't won.



Roadrunner Cash

New Mexico's in-state five digit game marked its fifth anniversary during Fiscal Year 2003.

Roadrunner Cash sales dipped slightly over the previous fiscal year, in part because the top prize did not approach or set record highs. Game sales were almost \$7.4 million, or about 5.4 percent of overall Lottery sales.

However, sales continued to

positively reflect the previous enhancement of "rolling" the top prize for growth, a change from the game's 1998 launch with a relatively low fixed top prize. A statewide campaign was launched in the fourth quarter promoting Roadrunner Cash's "rolling" feature. This campaign is expected to contribute to positive game results for Fiscal Year 2004.

During Fiscal Year 2003, there

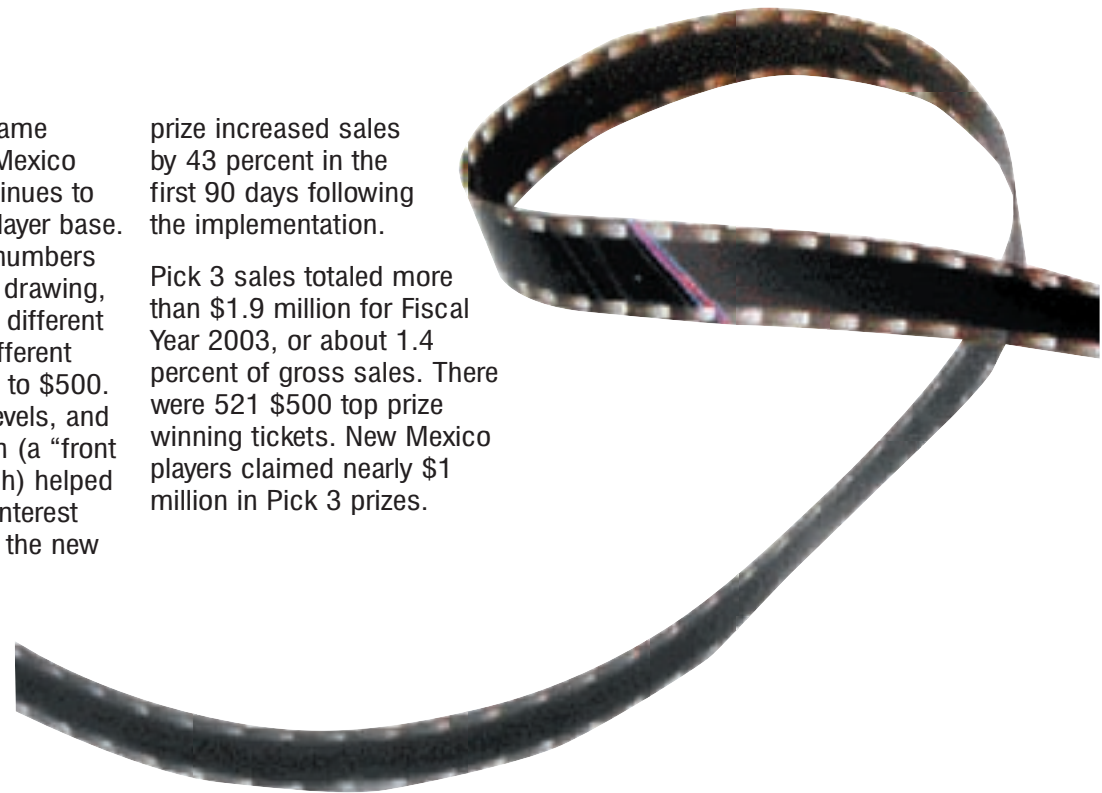
were 41 winning tickets for the Roadrunner Cash top prize, ranging from a \$15,000 base to \$145,000. New Mexico players claimed more than \$3.8 million in Roadrunner Cash prizes.

Pick 3

The newest online game offered by the New Mexico Lottery, Pick 3, continues to develop a growing player base. Only three different numbers are chosen for each drawing, offering players nine different ways to win eight different prize levels, from \$5 to \$500. One of those prize levels, and two new ways to win (a "front pair/back pair" match) helped generate additional interest in the game. Adding the new feature and

prize increased sales by 43 percent in the first 90 days following the implementation.

Pick 3 sales totaled more than \$1.9 million for Fiscal Year 2003, or about 1.4 percent of gross sales. There were 521 \$500 top prize winning tickets. New Mexico players claimed nearly \$1 million in Pick 3 prizes.



\$9.4 Million

In Commissions and Bonuses Paid to New Mexico Lottery Retailers

Retailers and New Programs

There were 1,184 authorized Lottery retailers at the beginning of FY 2003. Over the course of the fiscal year there were 68 new retailers and 84 retailers removed, for a net loss of 16 retailers. The fluctuation in retailers was due primarily to non-Lottery related matters such as store closures, mergers or ownership changes; each ownership change registers as one closed retailer, and one new retailer. The NMLA ended FY 2003 with 1,168 authorized retailers.

Retailers have always played a vital role for the Lottery. They are instrumental not only selling tickets, but also helping educate others. Lottery retailers distribute proactive brochures and messages to warn the public about various scams preying on the elderly, as well as information about responsible gaming and how New Mexicans can qualify for the Lottery Success Scholarship. This dedication, innovation and hard work by retailers has been recognized by the Lottery as crucial to a successful operation.

Retailers were again an important factor as the Lottery set records. Most Lottery

retailers have been selling games and answering players' questions since the very beginning. Through sales and cashing commissions, plus winning ticket incentives, NMLA retailers earned more than \$9.4 million in compensation during the fiscal year, a \$200,000 increase over the previous year.

New Mexico's overall top retailer locations for FY 2003, by sales, were:

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

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

1. *Allsup's Convenience Stores*

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



Other Developments

During the New Mexico Lottery's Seventh Year of Operations

In addition to sales outpacing projections, perhaps the most significant development occurred with the approval of Scientific Games International (SGI) as the successful competitive bid winner of a new contract for instant ticket (scratch game) printing, related marketing services and a customer relationship management system. SGI, of Alpharetta, Georgia, is a subsidiary of Scientific Games Corporation, which produced its first U.S. lottery ticket in 1974. The new SGI contract is for four years, with up to three optional one-year extensions.

The cost of the new contract is estimated at approximately \$1.32 million annually. Under terms of the proposed new instant ticket contract, SGI will be paid 1.65 percent of New Mexico Lottery gross scratcher sales, less returns. When combined with the rest of the contract, this is a significant reduction in the cost of ticket printing services. Since inception, the Lottery has paid instant ticket fees based on per-thousand tickets printed, whether sold or unsold.

Additionally, the proposed new contract includes new marketing services, such

as implementing statewide focus groups annually. It also includes new customer service software, hardware, upgrades, training and technical support. These are designed to better distribute, monitor and track instant ticket products. This will allow the Lottery to change the business model to a better proactive working relationship with retailers. Each retailer will be contacted on a regularly-scheduled basis to review their inventory levels, suggest ticket orders, correct any potential issues before they become problems, and inform the retailers of the latest sales and marketing campaigns. This is expected to be launched in Fiscal Year 2004.

The Lottery also approved an amended agreement for televised drawings with New Mexico's three CBS affiliates, KRQE/Albuquerque, KBIM/Roswell and KREZ/Durango-Farmington, subsidiaries of Emmis Communications. Twelve drawings were broadcast each week; that revised agreement was extended for two years, with four optional one-year extensions.

Albuquerque-based Atkinson & Co., Ltd., received board

approval for a new three-year contract to continue nightly drawing auditing services at both the KRQE studios and Lottery headquarters. That contract also has options for extension.

During Fiscal Year 2003, Lottery personnel began the technical processes necessary for game changes that took place in Fiscal Year 2004. These included the addition of the Roadrunner Cash Bonus Ball, as well as game matrix changes to Powerball.

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

through preparation for Problem Gambling Awareness Week.

In addition, the Lottery expanded 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.

The New Mexico Lottery in the Community

Events and Sponsorship

The Lottery's presence continued across the State at special events statewide during the fiscal year. These included community activities, retailer support and scratcher promotions, plus college and semi-professional athletic sponsorships. These events helped promote not only the Lottery, but also its goal of benefitting education. Citizens, players and non-

players had the opportunity to learn first-hand about both the use of Lottery proceeds in their communities and Lottery products. At some university events, students appeared on the game field or court, recognized for being a part of the over 27,000 students to benefit from Lottery scholarships.

Each event/promotion is a culmination of the efforts

of all departments within the Lottery, not only in the preparation, but also in the execution. This gives the entire staff the opportunity to meet those individuals that the Lottery has helped over the years.

Some of the many first-time and repeat sponsorships and/or promotional activities during FY 2003 included:

- Albuquerque Summerfest
- Big Boy Toy Show – Albuquerque
- Eastern New Mexico University Athletics – Portales
- Governor's Career and Development Conference – Santa Fe
- Great American Duck Race – Deming
- Hawgfest - Carlsbad
- Home and Garden Show – Clovis
- Journal Pavillion Concert Series - Albuquerque
- Lea County Fair – Lovington
- National Intercollegiate Rodeo - Hobbs
- New Mexico Scorpions minor league professional hockey team
- New Mexico State University Athletics – Las Cruces
- Ninth Annual Chili Cook-Off – Carlsbad
- Numerous County Fairs across the state
- Numerous local radio remotes promoting lottery games and the Lottery Success Scholarship
- Problem Gaming Day (State Fair) – Albuquerque
- Professional Bowlers Association – Albuquerque
- Rolling Roadrunner Roadshow — Statewide
- Route 66 Anniversary – Albuquerque
- Route 66 Anniversary – Santa Rosa
- University of New Mexico Athletics - Albuquerque
- Western New Mexico University Athletics – Silver City
- Whole Enchilada Fiesta – Las Cruces



The annual "Whole Enchilada Fiesta" in Las Cruces is New Mexico's second-largest attended event. The Lottery uses this and many other events to sell products, but also to provide information about community benefits, including local participation in the Lottery Success Scholarship program.



\$137 Million

In Gross Ticket Sales for the New Mexico Lottery

Fiscal Year 2003: A Financial Overview

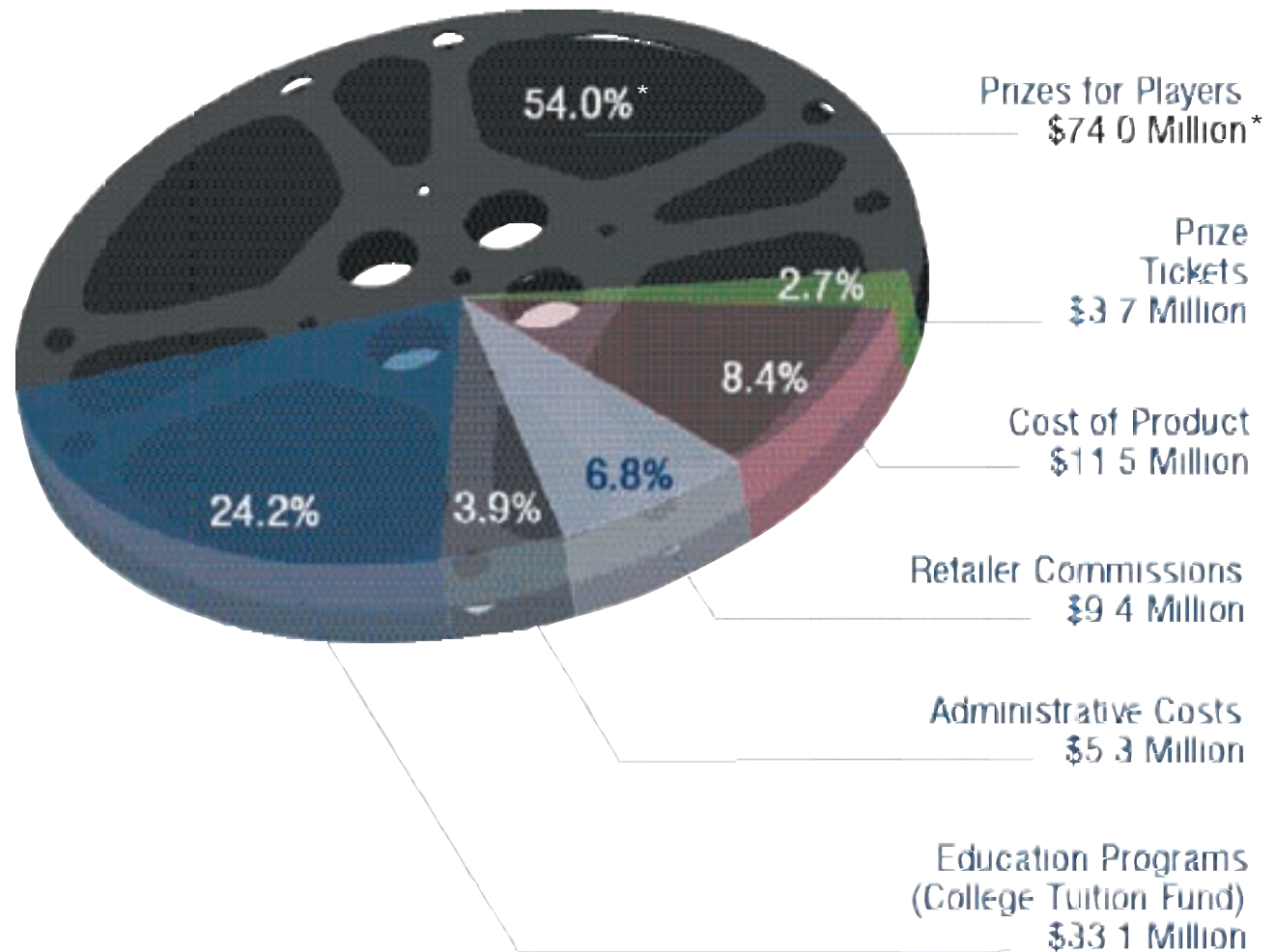
The New Mexico Lottery marked its seventh anniversary in April 2003 and began its eighth year of business. Both sales and net revenues again exceeded projections for a fourth consecutive year.

Gross revenues totaled approximately \$137 million, with a record profit of almost \$33.1 million for New Mexico education programs. All Lottery net proceeds were earmarked for the Lottery Tuition Fund, which finances the Lottery Success Scholarship program.

Revenues were approximately \$3 million higher than the previous fiscal year, and profits for the Lottery Success Scholarship program were \$3.5 million higher than the previous year.

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

Where \$137 Million in Ticket Sales Go



*Includes prize payments to Multi-State Lottery Association for Powerball

11,352

Spring Semester Lottery Success Scholarships

Spring 2003 Semester

Name of School	Students	Total LSS Awards
		(Fall '97 – Spring '03)
Albuquerque Technical Vocational Institute	548 ↑	\$ 923,371
Clovis Community College	95 ↑	\$ 199,592
Eastern New Mexico University - Main Campus, Portales	718 ↑	\$ 4,411,744
Eastern New Mexico University – Roswell	159 ↑	\$ 372,408
Eastern New Mexico University – Ruidoso	22	\$ 38,523
Luna Community College – Las Vegas ⁽¹⁾⁽²⁾	0	\$ 27,150
Mesalands Community College – Tucumcari ⁽³⁾	22	\$ 89,360
New Mexico Highlands University – Las Vegas ⁽²⁾	201	\$ 1,502,328
New Mexico Institute of Mining and Technology – Socorro	319 ↑	\$ 2,137,572
New Mexico Junior College -Hobbs	76	\$ 240,542
New Mexico Military Institute – Roswell	18	\$ 80,756
New Mexico State University – Alamogordo	106	\$ 390,730
New Mexico State University – Carlsbad	92	\$ 392,477
New Mexico State University – Doña Ana	195 ↑	\$ 625,127
New Mexico State University – Grants	40	\$ 136,612
New Mexico State University – Las Cruces (Main Campus)	3,091	\$ 25,944,523
Northern New Mexico Community College – Española & El Rito ⁽¹⁾	86	\$ 273,814
San Juan College – Farmington	195	\$ 347,400
Santa Fe Community College	128	\$ 349,612
University of New Mexico – Albuquerque (Main Campus)	4,820 ↑	\$ 40,802,387
University of New Mexico – Gallup	58	\$ 201,444
University of New Mexico – Los Alamos	69	\$ 211,676
University of New Mexico – Taos	44 ↑	\$ 80,321
University of New Mexico – Valencia (Los Lunas)	128	\$ 455,952
Western New Mexico University – Silver City	122	\$ 782,181
TOTAL CAMPUSES – 25 ⁽¹⁾		
TOTAL RECIPIENTS since inception ⁽⁴⁾⁽⁵⁾	11,352 ↑	\$81,107,602

Appropriated by New Mexico Commission on Higher Education for the Lottery Success Scholarship Program Through FY 2003 ⁽⁴⁾

Fall '97	\$ 1,398,445	(2,192 students)
Spring '98	\$ 3,024,521	(5,087 students)
Fall '98	\$ 2,809,491	(4,139 students)
Spring '99	\$ 5,230,796	(7,802 students)
Fall '99	\$ 5,001,758	(6,406 students)
Spring '00	\$ 7,686,597	(10,014 students)
Fall '00	\$ 6,773,604	(7,611 students)
Spring '01	\$ 8,849,942	(10,429 students)
Fall '01	\$ 8,369,094	(8,181 students)
Spring '02	\$ 10,605,208	(11,001 students)
Fall '02	\$ 9,532,303	(8,870 students)
Spring '03	\$ 11,735,843	(11,352 students)

TOTAL \$ 81,107,602 ⁽⁴⁾

⁽¹⁾ Some satellite campuses are reflected in the main campus information

⁽²⁾ LCC was formerly known as Luna Vocational Technical Institute

⁽³⁾ MCC was formerly known as Mesa Technical College

⁽⁴⁾ LSS debits may be adjusted by CHE in subsequent semesters, pending reviews, audits and/or appeals; these may also reflect minor financial differences due to overall decimal point rounding, and are statistically insignificant

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

↑ Reflects record LSS enrollment for the Spring '03 semester

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

27,398 Lottery Success Scholarship Graduates

High School Graduates Have Received Lottery Success Scholarships Since Inception

Lottery Success Scholarship Program Student Count By County From Fall 1997 - Spring 2003

County	Attended College ⁽¹⁾	Total Grads ⁽²⁾	Total Awards
Bernalillo	8,035	1,856	\$ 28,701,733
Catron	48	12	\$ 156,206
Chaves	956	195	\$ 2,120,912
Cibola	361	116	\$ 967,204
Colfax	171	34	\$ 551,508
Curry	761	194	\$ 1,554,752
De Baca	52	11	\$ 121,954
Doña Ana	2,815	704	\$ 9,305,184
Eddy	968	235	\$ 2,450,116
Grant	525	136	\$ 1,568,591
Guadalupe	51	13	\$ 127,559
Harding	33	13	\$ 112,116
Hidalgo	85	23	\$ 294,329
Lea	797	226	\$ 1,063,953
Lincoln	261	63	\$ 696,394
Los Alamos	492	111	\$ 1,708,139
Luna	213	46	\$ 579,675
McKinley	689	149	\$ 1,624,057
Mora	96	19	\$ 265,618
Otero	954	283	\$ 2,690,285
Quay	205	37	\$ 481,150
Rio Arriba	857	239	\$ 2,140,499
Roosevelt	407	78	\$ 987,266
San Juan	1,439	420	\$ 3,051,720
San Miguel	539	112	\$ 1,521,664
Sandoval	1,148	188	\$ 3,692,921
Santa Fe	1,896	388	\$ 5,348,376
Sierra	105	24	\$ 364,216
Socorro	190	54	\$ 590,551
Taos	397	92	\$ 1,066,650
Torrance	201	41	\$ 604,818
Union	69	16	\$ 195,827
Valencia	1,171	270	\$ 3,044,401
Other(*)	277	48	\$ 473,060
No Response	134	3	\$ 417,875
TOTAL:	27,398⁽⁴⁾	6,449	\$ 80,641,679⁽³⁾

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

The Lottery previously provided \$66,553,850 to the Public School Capital Outlay Fund for State-awarded school construction and repair grants; following action by the New Mexico Legislature, the Lottery's contribution to this fund ended in Fiscal Year 2001 and the last grants made with Lottery revenues occurred in Fiscal Year 2002

This report was prepared using institution-supplied student and student financial aid files

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

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

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

Graduates and degrees may include duplicates if a student attained more than one degree - i.e., a student received an Associates degree and continued for a Bachelors degree; degrees include bachelors, associate, certificate and professional; several graduate students are also included, because their Lottery scholarships applied to undergraduate tuition that was part of their simultaneous graduate programs

(1) Based on data submitted by institutions

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

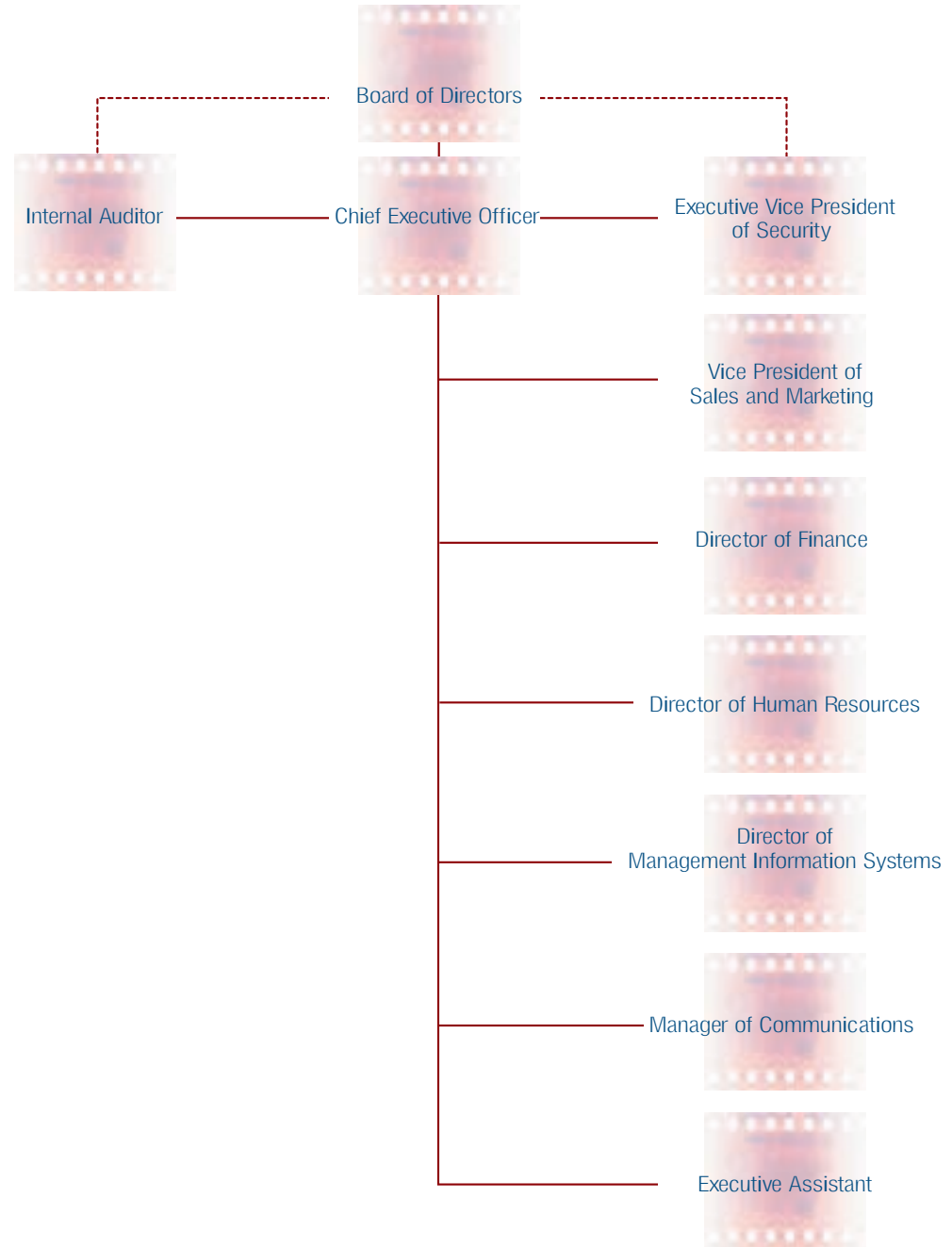
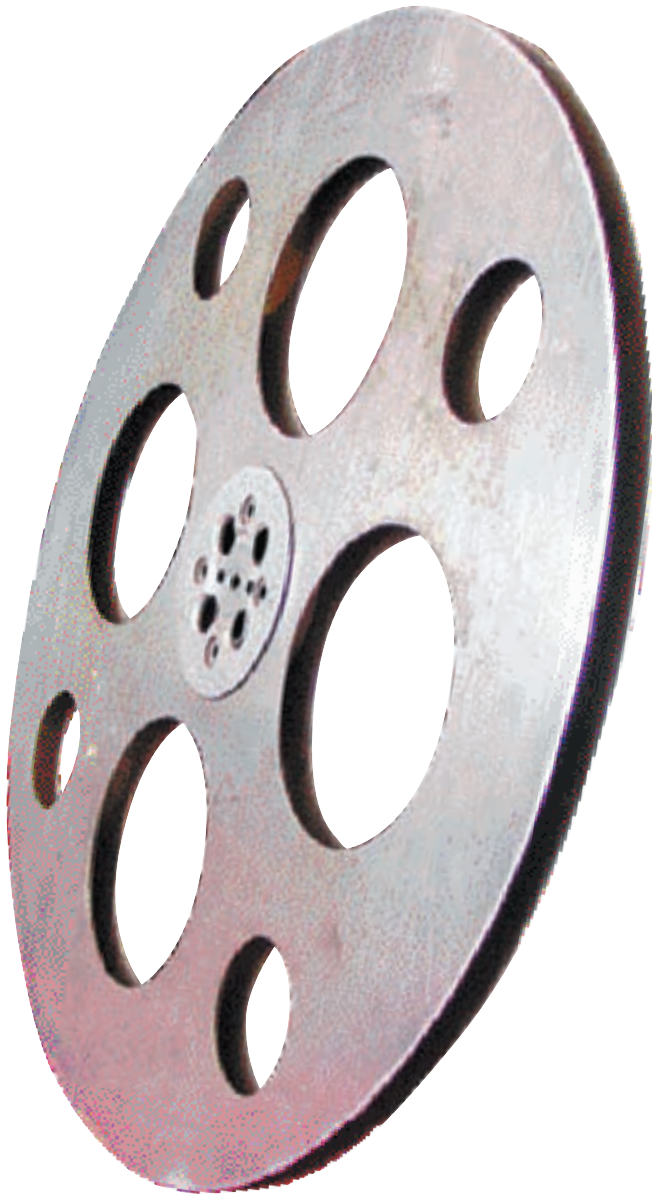
(3) This figure will always differ from the transfer amounts shown on the previous page, due to official reconciliation and adjustments between CHE and the various institutions

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

FY 2003 Organizational Chart

New Mexico Lottery Authority

(Direct Reports*)



* Several departments were reorganized or restructured during FY 2004. These changes will be reflected in the 2004 annual report.

Report Of Independent Certified Public Accountants

Board of Directors

New Mexico Lottery Authority

We have audited the accompanying statements of net assets, the related statements of revenues, expenses and changes in net assets, cash flows, and the respective budget to actual comparison statements of the New Mexico Lottery Authority (the Lottery) as of and for the years ending June 30, 2003 and 2002, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the New Mexico Lottery Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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.

As discussed in Note A 1., the financial statements of the Lottery are intended to present the financial position and results of operations of the financial reporting entity of the State of New Mexico that are attributable to the transactions of the Lottery. These financial statements do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2003 and 2002, and the changes in financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery, as of June 30, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2003 on our consideration of the Lottery's

internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.
Albuquerque, New Mexico

September 5, 2003

Statements Of Net Assets

June 30	2003	2002
CURRENT ASSETS		
Cash	\$ 2,852,217	\$ 2,145,550
Accounts receivable (net of allowance for doubtful accounts)	2,574,639	1,020,719
Reserves on deposit	3,575,676	2,544,206
Inventory	241,261	427,944
Prepaid expenses	95,869	135,515
Total current assets	9,339,662	6,273,934
PROPERTY AND EQUIPMENT, NET		
	619,324	568,478
Total assets	9,958,986	6,842,412
CURRENT LIABILITIES		
Accounts payable and other current liabilities	2,669,549	2,445,811
Prizes payable	4,222,533	2,342,873
Due to lottery tuition fund	3,016,904	2,003,728
Total current liabilities	9,908,986	6,792,412
COMMITMENTS		
	-	-
NET ASSETS - RESTRICTED	\$ 50,000	\$ 50,000

Statements Of Revenues, Expenses And Changes In Net Assets

Years ended June 30,	2003	2002
REVENUES		
Instant ticket sales	\$ 80,246,191	\$ 81,170,077
Powerball sales	47,475,815	43,158,525
Roadrunner Cash sales	7,373,482	8,150,698
Pick 3 sales	1,916,140	1,490,937
Retailer fees	30,038	22,906
Free tickets	(3,710,114)	(4,829,856)
Promotional, spoiled and stolen tickets	(81,845)	(87,563)
Total revenues	133,249,707	129,075,724
GAME EXPENSES		
Prize expense	73,945,533	72,891,677
Retailer commissions	9,415,801	9,238,215
On-line vendor fees	6,696,618	7,455,084
Advertising	2,481,138	1,859,515
Ticket printing	1,290,129	1,318,228
Promotions	417,575	440,498
Shipping and postage	396,776	403,987
Drawing game	146,447	144,010
Game membership	138,615	158,192
Reserve Fund expense	(38,792)	295,081
Total game expenses	94,889,840	94,204,487
OPERATING EXPENSES		
Salaries, wages and benefits	3,496,504	3,555,142
Leases and insurance	990,228	1,154,663
Utilities and maintenance	341,205	328,594
Depreciation and amortization	314,889	272,308
Professional fees	135,474	121,542
Other	116,783	77,153
Materials and supplies	102,197	90,686
Travel	75,264	72,580
Total operating expenses	5,572,544	5,672,668
OPERATING INCOME	32,787,323	29,198,569
NON-OPERATING INCOME		
Other income	159,437	199,201
Interest income	146,637	206,656
Total non-operating income	306,074	405,857
NET INCOME 33,093,397	29,604,426	
Net assets – Restricted, beginning of year	50,000	50,000
Distributions (33,093,397)	(29,604,426)	
Net assets – Restricted, end of year	\$ 50,000	\$ 50,000

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

Budget To Actual Comparison Statements

Years ended June 30	2003			2002			
	Original Budget	Actual	Variance with Original Budget	Original Budget	Revised Budget	Actual	Variance with Revised Budget
Revenues	\$	\$	\$	\$	\$	\$	\$
Instant ticket sales	80,000,000	80,246,191	246,191	75,700,000	76,000,000	81,170,077	5,170,077
Powerball sales	33,000,000	47,475,815	14,475,815	32,500,000	42,600,000	43,158,525	558,525
Roadrunner Cash sales	7,500,000	7,373,482	(126,518)	6,440,000	5,700,000	8,150,698	2,450,698
Pick 3 sales	1,500,000	1,916,140	416,140	1,560,000	1,400,000	1,490,937	90,937
Retailer fees	24,000	30,038	6,038	3,600	19,000	22,906	3,906
Free tickets	(5,850,000)	(3,710,114)	2,139,886	(4,000,000)	(4,500,000)	(4,829,856)	(329,856)
Promotional, spoiled, and stolen tickets	(174,000)	(81,845)	92,155	(203,600)	(219,000)	(87,563)	131,437
Total revenues	116,000,000	133,249,707	17,249,707	112,000,000	121,000,000	129,075,724	8,075,724
Total game expenses	83,426,000	94,889,840	11,463,840	83,176,677	89,548,077	94,204,487	4,656,410
Total operating expenses	6,728,000	5,572,544	(1,155,456)	6,502,575	6,550,975	5,672,668	(878,307)
Operating income	25,846,000	32,787,323	6,941,323	22,320,748	24,900,948	29,198,569	4,297,621
Total non-operating income	310,000	306,074	(3,926)	398,000	398,000	405,857	7,857
Net income	\$ 26,156,000	\$ 33,093,397	\$ 6,937,397	\$ 22,718,748	\$ 25,298,948	\$ 29,604,426	\$ 4,305,478

* There were no revisions to the 2003 Original Budget.

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

Statements Of Cash Flows

Years ended June 30,	2003	2002
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and free, spoiled, and stolen ticket credits	\$ 122,279,986	\$ 119,731,912
From MUSL	-	5,059,964
Cash payments:		
To prize winners and related taxes	(58,412,605)	(76,564,204)
To suppliers of goods or services	(13,147,231)	(14,214,953)
To employees for services and related taxes	(3,018,078)	(2,856,952)
To MUSL	(13,653,268)	-
Net cash provided by operating activities	34,048,804	31,155,767
Cash flows from investing activities		
Purchases of property and equipment	(359,764)	(272,632)
Additions to MUSL Reserve Accounts	(1,061,384)	-
Receipts of interest	38,947	62,285
Receipts of rent	109,704	106,104
Other	10,581	(80)
Net cash used in investing activities	(1,261,916)	(104,323)
Cash flows from noncapital financing activities		
Distributions paid to state	(32,080,221)	(29,448,970)
Net cash used in noncapital financing activities	(32,080,221)	(29,448,970)
NET INCREASE IN CASH	706,667	1,602,474
Cash at beginning of year	2,145,550	543,076
Cash at end of year	\$ 2,852,217	\$ 2,145,550

Years ended June 30	2003	2002
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 32,787,323	\$ 29,198,569
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	314,889	272,308
Additional contributions to MUSL Reserve Accounts	184,428	-
Portion of Unclaimed Powerball Grand Prize	876,956	-
Interest on MUSL Unreserved Account	107,690	144,371
Credits received from vendors	946	9,295
Net changes in assets and liabilities:		
Accounts receivable	(1,553,920)	(106,833)
Reserves on deposit	(1,031,470)	63,418
Inventory	186,683	128,508
Prepaid expenses	39,646	(10,376)
Accounts payable and other liabilities	223,738	70,690
Lawsuit liability	38,206	83,882
Accrued capital purchases	(5,971)	(85,502)
Prizes payable	1,879,660	1,387,437
Net cash provided by operating activities	\$ 34,048,804	\$ 31,155,767

Notes To Financial Statements

June 30, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

With the enactment of the New Mexico Lottery Act (the Act) on July 1, 1995, the New Mexico Lottery Authority (the Lottery) was created as a public body, politic and corporate, separate and apart from the State of New Mexico and constituting a governmental instrumentality of the state. The Lottery was created and organized for the purpose of establishing and conducting the Lottery to provide revenues for the public purposes designated by the Act. The New Mexico Lottery was organized as an independent business enterprise separate from state government, self-sustaining and self-funded, without need for state revenues or resources and subject to oversight, audit, and accountability by public officials and agencies. However, since there is a financial benefit to the State's institutions of

higher education, which are part of the State, the Lottery is considered a component unit of the State of New Mexico. The Lottery has no component units.

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

2. Basis of Presentation

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

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

The Lottery distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with

the Lottery's principal ongoing operations. The principal operating revenues of the Lottery are sales of instant and on-line tickets. Operating expenses include administrative expenses required to manage and operate the Lottery. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

3. Restricted Cash

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 has been 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 an interest rate of less than 1%. At June 30, 2003 and 2002, restricted cash balances were \$21,997 and \$21,846, 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. At June 30, 2003 and 2002, an allowance

for doubtful accounts of \$130,744 and \$141,432, respectively, has been provided to recognize future uncollectible billings.

5. Reserves on Deposit

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

Each MUSL member sells Powerball game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for Powerball is 50% of each drawing period's sales. MUSL has included 2% of each drawing period's sales as part of each MUSL member's prize liability in prize reserve funds. MUSL has placed a \$100,000,000 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. The Lottery also has an unreserved

fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into this account and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2003 and 2002, the Lottery's share of the Powerball prize reserve was \$2,543,370 and \$2,358,942, respectively, and the Lottery's share of the Powerball unreserved fund was \$1,032,306 and \$185,264, respectively.

A winner of a Powerball grand prize may select that the prize be paid at the cash value of the prize or as an annuity. A grand prize annuity is paid out in 30 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. The Lottery currently is not paying any prize winner any annuity prize payments.

6. Inventory

Since the inception of the Lottery, inventory, which has mainly consisted of lottery instant tickets for future use, has been carried at the lower of cost or market using the specific identification method. In March 2003, the Lottery entered into an agreement with its instant ticket

printer whereby the vendor retains title to the instant ticket inventory until the instant tickets are sold. At that time, the Lottery pays the vendor a fee based on a fixed percentage of the instant tickets sold. However, there were no instant tickets distributed to retailers in fiscal year 2003 for games printed under this new agreement.

7. Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. The Lottery capitalizes all property and equipment that have a cost greater than \$1,000 and an expected useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of 2 to 5 years, except for leasehold improvements, which are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

8. Revenue and Accounts Receivable Recognition

Lottery games are sold to the public by contracted retailers and directly by the Lottery. Revenue and accounts receivable for instant tickets are recognized when packs are settled and retailers are billed for the tickets. Revenues and accounts receivable for on-line games are recognized when drawings are held. Accounts receivable are stated at their net realizable value and their past due

status is based upon contractual terms.

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 up to \$599.

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 and Concentrations of Credit Risk

At June 30, 2003, 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.

The following is a reconciliation of cash balances to the financial statements:

	One	Category Two	Three	Carrying Amount	Bank Balance
Demand deposits	\$ 22,012	\$ 2,953,934	\$ -	\$ 2,975,946	\$ 2,849,717
Cash on hand	2,500	-	-	-	2,500
Total	\$ 24,512	\$ 2,953,934	\$ -	\$ 2,975,946	\$ 2,852,217

In fiscal years 2003 and 2002, ten customers (420 and 433 retailer locations, respectively) represented 45% and 44% of sales and 46% and 42% of accounts receivable, respectively.

14. Bank Accounts

Description	Bank	Balance per Bank
Operating account-checking	Bank of America	\$ 2,953,949
Payables account-checking	Bank of America	-
Receiving account-checking	Bank of America	-
Payroll account-checking	Bank of America	-
Prize account-checking	Bank of America	-
Escrow account-investment	Bank of America	21,997
Total amount deposited in bank		2,975,946
Less: FDIC coverage		(22,012)
Total uninsured funds - repurchase agreement		2,953,934
102% collateral requirement for repurchase agreement		\$ 3,013,013
*Pledged security		(3,013,013)
Amount under (over) requirement at June 30, 2003		\$ -
*Federal National Mortgage Association, CUSIP Number 31385XEC7, matures June 1, 2033.		
Cash per bank at June 30, 2003		\$ 2,975,946
Less reconciling items – outstanding checks(126,229)		
Reconciled cash in bank at June 30, 2003		\$ 2,849,717

15. 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.

16. Reserve Fund

The Act (see note A1) requires that "an amount up to 2% 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, 2003 and 2002, the amounts that had been set aside and expended were \$(38,792) and \$295,081, respectively.

17. Net Assets - Restricted

In accordance with the Act, the Lottery shall transmit all net revenues to the state treasurer, who shall deposit the net revenues into the Lottery Tuition Fund. As of August 1, 2003 and 2002, the Lottery has transferred \$33,093,397 and \$29,604,426, respectively, for the periods ended June 30, 2003 and 2002 to the New Mexico State Treasurer. Any Reserve Fund

amounts not expended by fiscal year end for the defined purposes (see note 15) are to 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.

18. 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 applied against prize expense to supplement prizes in the Lottery's games.

19. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. compensated absences at June 30, 2003 and 2002, were \$415,044 and \$485,185, respectively.

20. Shipping and Handling Costs

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

21. Compensated Absences Payable

Paid time off is accrued at rates

specified by the Lottery's Paid Time Off Policy. Employees are limited on the total accumulated hours they may keep in their respective Reserve Bank. Employees with time in service less than or equal to 5 years may accumulate a maximum of 320 hours and employees with time in service greater than 5 years may accumulate a maximum of 360 hours, any excess is forfeited. Accrued compensated absences at June 30, 2003 and 2002, were \$415,044 and \$485,185, respectively.

22. Comprehensive Income

For the years ended June 30, 2003 and 2002, the Lottery had no changes in equity that constituted components of other comprehensive income.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2003 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Data processing software	\$ 1,797,002	\$ -	\$ -	\$ 1,797,002
Data processing equipment	1,555,265	86,568	-	1,641,833
Tenant improvements	647,809	33,004	-	680,813
Vehicles	514,058	240,465	(284,087)	470,436
Furniture and fixtures	281,027	4,019	-	285,046
Equipment - communications drawing warehouse office	243,035 242,002 150,638 42,716	- - - 1,679	- - - -	243,035 242,002 150,638 44,395
	5,473,552	365,735	(284,087)	5,555,200
Accumulated depreciation	(4,905,074)	(314,889)	284,087	(4,935,876)
Property and equipment, net	\$ 568,478	\$ 50,846	\$ -	\$ 619,324

Property and equipment at June 30, 2002 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Data processing software	\$ 1,769,762	\$ 27,240	\$ -	\$ 1,797,002
Data processing equipment	1,520,180	35,085	-	1,555,265
Tenant improvements	544,581	103,228	-	647,809
Vehicles	482,915	171,209	(140,066)	514,058
Furniture and fixtures	281,027	-	-	281,027
Equipment - communications drawing warehouse office	243,035 232,567 150,638 18,724	- 9,435 - 23,992	- - - -	243,035 242,002 150,638 42,716
	5,243,429	370,189	(140,066)	5,473,552
Accumulated depreciation	(4,760,807)	(272,308)	128,041	(4,905,074)
Property and equipment, net	\$ 482,622	\$ 97,881	\$ (12,025)	\$ 568,478

NOTE C - ALLOCATION OF NET INCOME

	Net Income	Due to Lottery Tuition Fund	Reserve Fund	Net Assets
Balance at June 30, 2002	\$ 2,053,728	\$ 2,003,728	\$ -	\$ 50,000
Current year net income	33,093,397	33,093,397	-	-
Current year transfers	(32,080,221)	(32,080,221)	-	-
Balance at June 30, 2003	\$ 3,066,904	\$ 3,016,904	\$ -	\$ 50,000

NOTE D - RETIREMENT PLAN

Plan Description

All of the Lottery's eligible employees participate in a plan provided by the Lottery pursuant to the New Mexico Lottery Act (Chapter 6, Article 24 NMSA 1978). The Lottery is the administrator of the Plan, which is a defined contribution money purchase pension plan. The New Mexico Lottery Authority Retirement Plan provides for retirement benefits to plan members and their beneficiaries.

Funding Policy

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

For the periods ended June 30, 2003 and 2002, the Lottery recognized \$344,526 and \$342,268 of pension expense for the Plan on eligible compensation of \$2,600,196 and \$2,583,155. Except for the June 2003 and June 2002 contributions, the entire pension expense amounts

had been paid to the plan by June 30, 2003 and 2002, respectively. Junes' pension contributions were made in July 2003 and 2002, respectively.

NOTE E - CREDIT AGREEMENT

The Lottery entered into an unsecured credit agreement with Bank of America in May 2001. The agreement provides an overdraft protection facility for the Lottery's operating bank account in the amount of \$1,000,000, with an interest rate at the Bank of America's Prime Rate, 4.00% and 4.75% at June 30, 2003 and 2002, respectively. For the periods ended June 30, 2003 and 2002, the Lottery had no outstanding borrowings against the line. The line matures in May 2004.

NOTE F - LEASES

The Lottery has entered into operating leases for the rental of office and warehouse space, and vending machines. Rent expense was \$820,225 and \$971,337 for the years ending June 30, 2003 and 2002,

respectively. Certain leases contain provisions for scheduled rental increases for inflationary purposes and are renewable at the option of the Lottery. In August 2002, the Lottery renegotiated its leases for office and warehouse space. These leases were extended for an additional seven years at the same lease amounts that will be paid for the final year of the original lease in 2006. Future minimum rental payments on non-cancelable leases with original terms of one year or more are scheduled as follows:

Year	Amount
2004	\$ 693,301
2005	671,879
2006	318,986
2007	314,285
2008	309,485
2009-2013	1,781,213
	<u>\$ 4,089,149</u>

Future minimum sublease income from non-cancelable leases with original terms of one year or more are scheduled as follows:

Year	Amount
2004	\$ 104,100
2005	108,800
2006	112,500
2007	117,200
2008	122,000
2009	52,600
	<u>\$ 617,200</u>

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

	2003	2002
Minimum rentals	\$ 799,467	\$ 949,251
Less: Sublease rentals	(100,500)	(96,900)
	<u>\$ 698,967</u>	<u>\$ 852,351</u>

NOTE G - COMMITMENT

On June 27, 1996, the Lottery entered into an agreement for the On-line Gaming System (the GTECH Agreement) with GTECH Corporation (GTECH). The term of the agreement was for seven years from the Acceptance Day of November 20, 1996, with renewal options for up to five additional one-year extensions or any combination of extensions not exceeding five years. Effective as of February 24, 2002, the Lottery and GTECH agreed to extend the GTECH Agreement until November 20, 2008 at a rate reduced from 10.51% of on-line sales less than \$50 million to 8.5236% of on-line sales less than \$60 million.

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

During fiscal years 2003 and 2002, the Lottery and GTECH agreed to settle various disputed liquidated damages in the total amounts of \$11,446 and \$9,295, respectively.

**NOTE H -
OTHER EXPENSES**

Other expenses at June 30, consisted of:

	2003	2002
Training	\$ 61,188	\$ 21,964
Registrations and memberships	31,360	26,703
Other	21,292	25,372
Publications and subscriptions	2,943	3,114
	<u>\$ 116,783</u>	<u>\$ 77,153</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

*Domingo P. Martinez, C.G.F.M., State Auditor
and
New Mexico Lottery Authority*

We have audited the financial statements of the New Mexico Lottery Authority (the Lottery) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

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

Internal Control Over Financial Reporting

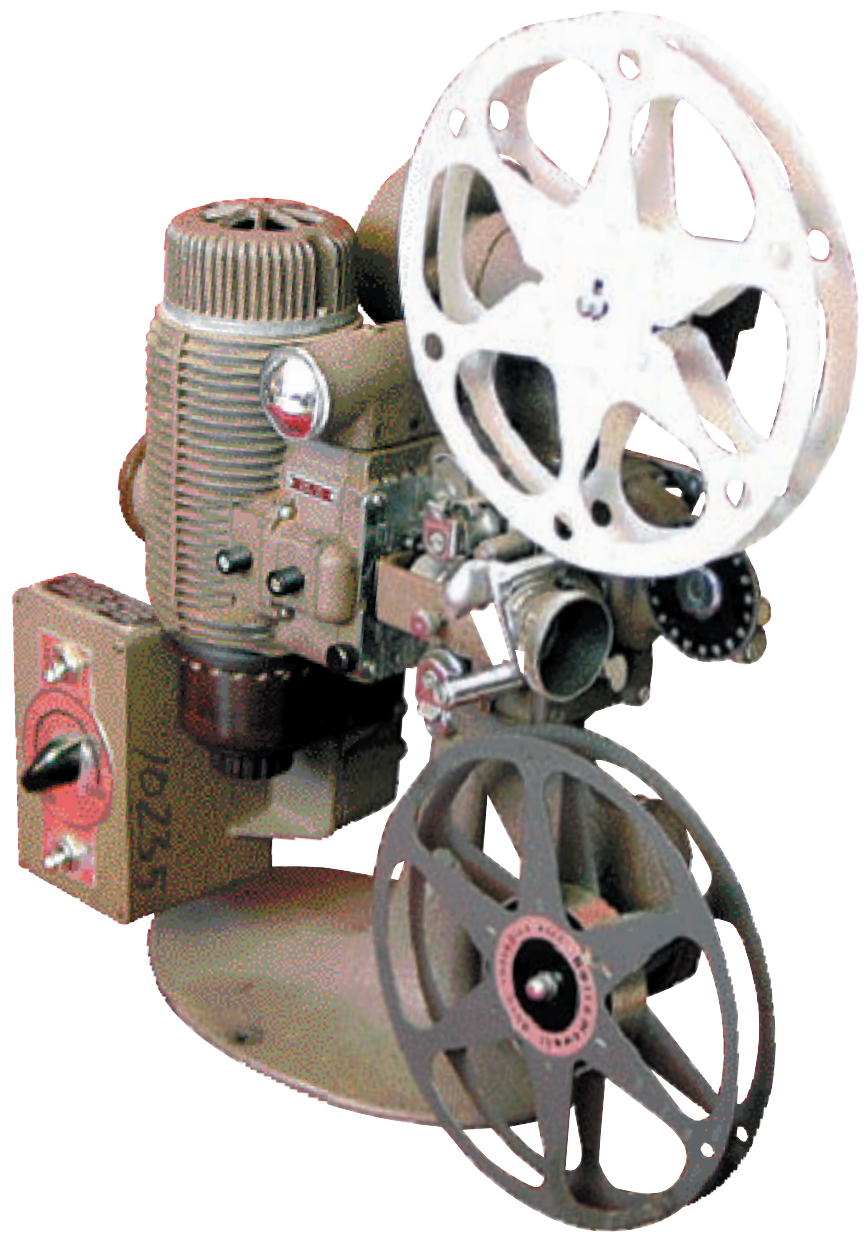
In planning and performing our audit, we considered the Lottery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Lottery's management, Board of Directors and the State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

*Albuquerque, New Mexico
September 5, 2003*



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