



NEW MEXICO LOTTERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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New Mexico Lottery Authority

OFFICIAL ROSTER

June 30, 2012

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OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

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Adriana Binns	Director of Marketing and Communications
David Ramirez	Director of MIS
Pam Poteat	Director of Sales

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY

As per the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, the New Mexico Lottery Authority (the Lottery) is governed by a seven-member Board of Directors (Board or Directors), who provide the Lottery with the private-sector perspective of a large marketing and sales enterprise in order to maximize revenues for the Legislative Lottery Scholarship.

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

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public and Lottery divisions and employees. Also, within the Executive Division is Product Development, which manages and monitors the instant products, including such areas as game launches, game endings, and performance analysis using several key performance measures.

The Finance Division, under the direction of the Director of Finance, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; retailer accounts receivable and debt collection; fixed asset accounting; game accounting; payroll and benefit accounting, payment, and review; and tax reporting and payment. In addition, the division provides financial reporting, disclosure, and compliance with generally accepted accounting practices and budget compilation, including the quarterly and annual financial reporting of revenues, expenses, and net revenues to the State of New Mexico; the financial audit and related compilation of financial statements, related notes, and the Management's Discussion and Analysis (MDA) for the fiscal year; the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year and the final proposed budget by division for Board of Directors' approval. Furthermore, the division is responsible for the procurement of materials and services; claims center payment of prizes and sales of tickets; and accounts payable.

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

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

The Marketing and Communications Division, under the direction of the Director of Marketing and Communications, is responsible for implementing, managing and administering the activities associated with marketing the Lottery and its products, including advertising, communications, television drawings, promotions and special events. This entails creating and producing multi-media advertising campaigns, in-store

**ORGANIZATIONAL DIVISIONS
OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED**

point of sale materials and player and retailer publications; as well as negotiating and overseeing the Lottery's participation in a number of statewide promotions and special events. The division is also responsible for all aspects of corporate communications including creating news releases and annual reports and responding to requests for information by the public and the media.

The Management Information Systems (MIS) Division, under the direction of the Director of MIS, performs all the activities associated with the systems and data processing functions of the Lottery, including instant ticket transaction processing, back office functionality, order and distribution systems, financial applications, retailer network support, game management, monitoring of game activities and draw game vendors, and providing data and analysis to divisions.

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

The Security Division, under the direction of the Executive Vice President of Security, statutorily as a law enforcement agency is responsible for administering, enforcing and ensuring compliance with the security provisions of the New Mexico Lottery Act. The division conducts backgrounds of all prospective employees, lottery retailers, lottery vendors and lottery contractors. It also supervises ticket verification and Lottery drawings and conducts drawings when the prize amount is more than \$5,000. The division functions as liaison among the Attorney General's Office, District Attorney Offices and law enforcement agencies in general. It is also responsible for building and employee security and safety. The warehouse component of the Security Division is responsible for the packing and shipment of the Lottery's instant scratcher tickets and for the maintenance and shipping of Lottery premium and point of sale items. The division is responsible for the management of building and grounds maintenance.

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Report of Independent Auditors

Board of Directors
New Mexico Lottery Authority

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the State of New Mexico Lottery Authority (Lottery), a component unit of the State of New Mexico, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Lottery's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statements and the schedules of percentage return to the State of New Mexico presented as supplementary information in the accompanying financial statements as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities, and the aggregate remaining fund information of the Lottery as of June 30, 2012 and 2011, and the changes in its financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the budgetary comparison statements and schedules of percentage return to the State of New Mexico for the years ended June 30, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
New Mexico Lottery Authority

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 3 through 20, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's financial statements. The budgetary comparison statements and schedules of percentage return to the State of New Mexico are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison statements and schedules of percentage return to the State of New Mexico are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Albuquerque, New Mexico
November 19, 2012

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis of the New Mexico Lottery Authority (Lottery), offers readers of the Lottery's financial statements a narrative overview and analysis of the financial activities of the Lottery for the fiscal years ended June 30, 2012 and 2011 with comparative numbers for the fiscal year ended June 30, 2010. Please read it in conjunction with the financial statements, which begin on page 21.

FINANCIAL HIGHLIGHTS

- At the end of fiscal years 2012 and 2011, the Lottery's total current assets increased by \$2,124,932, or 22.4%, and \$1,390,596, or 17.2%, respectively, in comparison to June 30th of each previous fiscal year.
- Compared to the end of the two preceding fiscal years, the Lottery's total liabilities increased by \$2,262,417 or 23.4% at the end of fiscal year 2012 and by \$1,241,164 or 14.7% at the end of fiscal year 2011.
- In fiscal year 2012, total revenues were \$133,791,602, a decrease of \$1,750,106, (1.3)%, from the prior fiscal year. In fiscal year 2011, total revenues were \$135,541,708, a decrease of \$7,997,064, (5.6)%, compared to total revenues of \$143,538,772 in fiscal year 2010.
- From the prior fiscal years, total game expenses decreased by \$1,913,734, (2.1)%, in fiscal year 2012 and \$5,692,070, (6.0)%, in fiscal year 2011.
- Total operating expenses increased by 3.4% or \$171,155 in fiscal year 2012, while operating expenses decreased by 0.7% or \$35,540 in fiscal year 2011 in comparison to each previous fiscal year.
- Non-operating income increased by \$28,980 or 82.9% in fiscal year 2012, while it decreased in fiscal years 2011 by \$32,082, (47.9)%, each compared to the preceding fiscal year.
- Net Income in fiscal year 2012 was \$41,328,743, a \$21,453 or .1% increase over the prior fiscal year. Net income was \$41,307,290 in fiscal year 2011, a decrease of \$2,301,536, (5.3)%, compared to the previous fiscal year's net income of \$43,608,826. Beginning July 1, 2007, the Lottery was required by the New Mexico Lottery Act to transmit at least twenty-seven percent of its gross revenues to the State of New Mexico and then at least 30% beginning in January 2009. In fiscal year 2012, the Lottery transmitted 30.88% in net revenues to the State, while in fiscal year 2011, the Lottery transmitted 30.47% in net revenues to the State. In each of the last two fiscal years the Lottery surpassed the 30% required gross revenue return each month. The Lottery has continued to transfer its actual net income each month, regardless of whether or not the amount of net income exceeded the statutory requirement.
- Including the final transfer on July 31, 2012 of June 2012's net revenues (net income), the Lottery has transferred \$528,808,846 to the State of New Mexico since the commencement of sales in April 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Financial Statements. The Statements of Net Assets on Page 21 and the Statements of Revenues, Expenses, and Changes in Net Assets on page 22 report the Lottery's assets, liabilities, revenues and expenses in comparative format for fiscal year 2012 and fiscal year 2011. The Statements of Cash Flows on pages 23 and 24 report the sources and uses of cash for fiscal years 2012 and 2011. The Statements of Fiduciary Net Assets on page 25 and Statements of Changes in Fiduciary Net Assets on page 26 report the balances and activity of the Lottery's Retirement Plan for fiscal years 2012 and 2011.

Notes to Financial Statements. The Notes to Financial Statements on pages 27 to 46 provide additional information that is essential for a full understanding of the financial statements and provide more detailed data.

Budgetary Comparison Statements. The Budgetary Comparison Statements on page 47 show the variances between the budgets and actual Lottery performance.

Schedules of Percentage Return to the State of New Mexico. The Schedules of Percentage Return to the State of New Mexico on page 48 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2012 and 2011 in compliance with the New Mexico Lottery Act.

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

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS

Total Net Assets

At the end of fiscal years 2012 and 2011, the Lottery's total assets and total liabilities were equal with total net assets reduced to zero. The Lottery has no reserve balances on its books, transferring its net revenues for the previous month to the Lottery Tuition Fund each month.

Assets

Table 1
Assets

	2012	2011	2010	Increase (Decrease) \$ Change 2011 to 2012	Increase (Decrease) % Change 2011 to 2012	Increase (Decrease) \$ Change 2010 to 2011	Increase (Decrease) % Change 2010 to 2011
Cash and cash equivalents	\$6,885,806	\$5,561,825	\$2,988,826	\$1,323,981	23.8%	\$2,572,999	86.1%
Accounts receivable, net	1,225,638	885,691	2,219,806	339,947	38.4	(1,334,115)	(60.1)
Reserves on deposit	3,396,831	2,925,251	2,698,135	471,580	16.1	227,116	8.4
Inventory	33,077	11,334	96,342	21,743	191.8	(85,008)	(88.2)
Prepaid expenses	80,686	113,005	103,401	(32,319)	(28.6)	9,604	9.3
Total current assets	11,622,038	9,497,106	8,106,510	2,124,932	22.4	1,390,596	17.2
Capital assets, net	305,550	168,065	317,497	137,485	81.8	(149,432)	(47.1)
Total assets	\$11,927,588	\$9,665,171	\$8,424,007	\$2,262,417	23.4%	\$1,241,164	14.7%

Compared to each prior fiscal year, the Lottery's cash and cash equivalents increased at the end of fiscal year 2012 by \$1,323,981 or 23.8% and by \$2,572,999 or 86.1% at the end of fiscal year 2011. The changes in cash and cash equivalents relate mainly to changes in accounts receivable, accounts payable and prizes payable at the end of each fiscal year compared to the prior fiscal year.

Accounts receivable from the Lottery's retailers are collected weekly each Thursday through electronic bank transfers. Receivables are equal to sales by retailers net of any prizes paid by the retailers and any commissions earned, less the allowance for bad debts and plus any miscellaneous receivables from any other source. Accounts receivable increased by \$339,947

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets - Continued

or 38.4% in fiscal year 2012. This increase at year-end from the prior fiscal year can be attributed to having seven days of sales in receivables compared to only five days in the prior fiscal year. Accounts receivable decreased at the end of fiscal year 2011 by \$1,334,115, (60.1)%. This decrease mainly occurred because the regular weekly electronic bank transfers of \$1,412,866 were collected on the last day of the fiscal year, Thursday, June 30th, which also contributed to the increase of cash at year-end.

The Lottery has amounts on deposit with MUSL called reserves on deposit, as required by the Powerball® (Powerball), Hot Lotto® (Hot Lotto), and Mega Millions® (Mega Millions) game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts in both fiscal years 2012 and 2011 of \$471,580 and \$227,116, respectively, were caused by the receipt of interest earned and other income on the deposits with MUSL; payments of game expenses; changes to the Hot Lotto reserve account, as required by the Hot Lotto game rules; re-balancing of the Powerball reserve accounts; and in fiscal year 2012, the receipt of the Lottery's portion of an unclaimed Powerball jackpot. Additionally, in fiscal year 2010, a reserve account for Mega Millions was established in compliance with the Mega Millions game rules and in fiscal years 2012 and 2011, this reserve account grew by \$149,951 and \$146,009, respectively.

The inventory balance at the end of fiscal year 2012 increased by \$21,743, a 191.8% increase, whereas in fiscal year 2011 it decreased by \$85,008, (88.2)%. The Lottery has agreements signed in March 2003 and 2010, with its primary instant ticket printer, whereby the tickets printed are owned by the vendor with the Lottery having an obligation to pay for the tickets when the tickets are sold. Therefore, these tickets are not included in the Lottery's inventory. But, under an agreement signed with a secondary instant ticket printer in March 2010, the Lottery began purchasing the instant tickets printed by this vendor. The Lottery has accounted for six games printed under this agreement as ticket inventory using the specific identification method at the lower of cost or market. During fiscal year 2010, four games were printed under this contract. On June 30, 2010, the inventory balance for these tickets was \$96,342. During fiscal year 2011, three of the four games' tickets were depleted and the games were ended leaving a residual inventory balance of \$11,334 for only one game. In fiscal year 2012, the tickets for the remaining game printed in fiscal year 2010 were depleted, but two additional games were printed under this agreement. The remaining inventory balance on these two games is \$33,077. At the end of fiscal years 2012 and 2011, there were no merchandise prizes for second chance drawings included in inventory, as there had been in previous fiscal years.

As part of the agreement with INTRALOT, Inc. to provide an updated on-line gaming system, the Lottery installed and implemented a new internal control system (ICS) in fiscal year 2009.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets – Continued

The cost of the ICS is included in the fixed fee paid to the vendor as a percentage of net sales. The Lottery has accounted for this transaction as a capital lease and, therefore, the ICS cost of \$43,600 is reflected in capital assets. The related liability for the ICS is included in the current portion of capital lease obligation (\$6,229 and \$6,228 at June 30, 2012 and 2011, respectively) and in the noncurrent portion of capital lease obligation (\$15,052 and \$21,281 at June 30, 2012 and 2011, respectively).

As part of the facility lease agreements signed in 2002 and 2012, the landlord paid for \$51,858 in tenant improvements for the Lottery's corporate facility. The Lottery has capitalized the \$51,858 as tenant improvements with a related deferred liability. In fiscal year 2012, \$4,787 is included in the current portion of capital lease obligation and \$46,672 is included in the noncurrent portion of capital lease obligation.

There were no significant changes in capital assets in fiscal years 2012 and 2011; \$253,418 and \$11,402 in capital asset purchases and \$115,933 and \$160,834 in depreciation, for the two fiscal years, respectively.

Liabilities

Table 2
Liabilities

	2012	2011	2010	Increase (Decrease) \$ Change 2011 to 2012	Increase (Decrease) % Change 2011 to 2012	Increase (Decrease) \$ Change 2010 to 2011	Increase (Decrease) % Change 2010 to 2011
Accounts payable and other current liabilities	\$ 1,955,328	\$ 1,829,650	\$ 1,674,615	\$ 125,678	6.9%	\$ 155,035	9.3%
Current portion of capital lease obligation	11,016	6,228	6,229	4,788	76.9	(1)	-
Prizes payable	6,860,315	4,592,530	3,314,239	2,267,785	49.4	1,278,291	38.6
Due to Lottery Tuition Fund	3,039,205	3,215,482	3,401,415	(176,277)	(5.5)	(185,933)	(5.5)
Total current liabilities	11,865,864	9,643,890	8,396,498	2,221,974	23.0	1,247,392	14.9
Noncurrent portion of capital lease obligation	61,724	21,281	27,509	40,443	190.0	(6,228)	(22.6)
Total liabilities	\$ 11,927,588	\$ 9,665,171	\$ 8,424,007	\$ 2,262,417	23.4%	\$ 1,241,164	14.7%

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Liabilities - Continued

Accounts payable and other current liabilities increased by \$125,678 or 6.9% and \$155,035 or 9.3% at the end of fiscal years 2012 and 2011, respectively. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to vendors for advertising, the on-line gaming system, instant ticket printing fees, and the lottery's share of prizes payable to MUSL for Powerball, Hot Lotto, and Mega Millions. Sales amounts and advertising placed during the last few weeks of each fiscal year will generally determine the amounts owed at the end of each fiscal year to these vendors and whether that amount is higher or lower than in the prior fiscal year.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for drawing game and instant game prizes, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal years 2012 and 2011, prizes increased by \$2,267,785 or 49.4% and \$1,278,291 or 38.6%. These differences relate to the changes of prizes payable on individual Lottery games between the fiscal years as a result of sales in each fiscal year and prizes not yet claimed.

At the end of fiscal years 2012 and 2011, \$3,039,205 and \$3,215,482, respectively, of net revenues for the month of June were due to the Lottery Tuition Fund. These funds were transferred to the New Mexico State Treasurer by the end of July of each year.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Sales and Prize Expense

Table 3
Net Sales and Prize Expense

2012	Net Sales	Prize Expense	Gross Margin
Instant ticket, net of prize, stolen, and promotional tickets	\$ 68,736,331	\$ 38,273,594	\$ 30,462,737
Powerball, net of spoiled and promotional tickets	33,767,315	16,897,832	16,869,483
Mega Millions, net of spoiled and promotional tickets	14,255,730	7,230,117	7,025,613
Roadrunner Cash, net of spoiled and promotional tickets	7,509,592	4,586,920	2,922,672
Hot Lotto, net of spoiled and promotional tickets	5,430,132	2,723,879	2,706,253
Pick 3, net of spoiled and promotional tickets	3,634,804	2,068,225	1,566,579
Quicksters, net of spoiled and promotional tickets	453,448	246,741	206,707
Total	\$ 133,787,352	\$ 72,027,308	\$ 61,760,044

2011	Net Sales	Prize Expense	Gross Margin
Instant ticket, net of prize, stolen, and promotional tickets	\$ 75,763,424	\$ 42,313,901	\$ 33,449,523
Powerball, net of spoiled and promotional tickets	29,080,968	14,519,181	14,561,787
Mega Millions, net of spoiled and promotional tickets	10,655,528	5,450,887	5,204,641
Roadrunner Cash, net of spoiled and promotional tickets	8,748,662	5,524,466	3,224,196
Hot Lotto, net of spoiled and promotional tickets	7,563,516	3,655,097	3,908,419
Pick 3, net of spoiled and promotional tickets	3,728,936	2,149,805	1,579,131
Total	\$ 135,541,034	\$ 73,613,337	\$ 61,927,697

2010	Net Sales	Prize Expense	Gross Margin
Instant ticket, net of prize, stolen, and promotional tickets	\$ 78,420,660	\$ 45,033,793	\$ 33,386,867
Powerball, net of spoiled and promotional tickets	41,134,525	20,583,573	20,550,952
Mega Millions, net of spoiled and promotional tickets	3,846,692	2,002,238	1,844,454
Roadrunner Cash, net of spoiled and promotional tickets	7,648,383	4,469,653	3,178,730
Hot Lotto, net of spoiled and promotional tickets	9,130,469	4,467,962	4,662,507
Pick 3, net of spoiled and promotional tickets	3,405,693	2,049,350	1,356,343
Total	\$ 143,586,422	\$ 78,606,569	\$ 64,979,853

\$ (Decrease) from FY 2011 to FY 2012	\$ (1,753,682)	\$ (1,586,029)	\$ (167,653)
% (Decrease) from FY 2011 to FY 2012	(1.3)%	(2.2)%	(0.3)%
\$ (Decrease) from FY 2010 to FY 2011	\$ (8,045,388)	\$ (4,993,232)	\$ (3,052,156)
% (Decrease) from FY 2010 to FY 2011	(5.6)%	(6.4)%	(4.7)%

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Sales and Prize Expense – Continued

Table 3 compares net sales, prize expense and gross margin (net sales minus prize expense) for each lottery game for fiscal years 2012, 2011, and 2010. In fiscal year 2012, Powerball and Mega Millions net sales, prize expense and gross margin increased, but net sales, prize expense, and gross margin decreased for instant tickets, Roadrunner Cash, Hot Lotto, and Pick 3. Quicksters were introduced in March 2012 and contributed \$206,707 in gross margin.

In fiscal year 2011, Mega Millions, Roadrunner Cash, and Pick 3 net sales, prize expense, and gross margin increased, but net sales, prize expense and gross margin decreased for Powerball and Hot Lotto. Although net sales for instant tickets in fiscal year 2011 decreased by 3.39%, gross margin increased by more than \$62,656 in comparison to the previous fiscal year. This change was due to a lower prize expense for instant tickets in fiscal year 2011.

Net Sales

In both fiscal years 2012 and 2011, the Lottery has continued to use the customer relationship management (CRM) system for placing instant game tickets at retailer locations. The Lottery's customer service representatives continue to place calls each week to each retailer location, review the inventory at each location with the retailer, and place orders continually as needed based on the inventory turnover at each location. In fiscal year 2012, forty-two new instant ticket games were launched – 15 - \$1, 10 - \$2, 8 - \$3, 8 - \$5, and 1 - \$20—5 less \$1, 1 more \$3, 1 less \$5 and 1 less \$10 game than in fiscal year 2011. In fiscal year 2011, forty-eight new instant ticket games were launched – 20 - \$1, 10 - \$2, 7 - \$3, 9 - \$5, 1 - \$10, and 1 - \$20—2 less \$1, 4 less \$2, 1 more \$5, and 1 less \$10 game than in fiscal year 2010. In fiscal year 2012, the Lottery launched 22 games with free (prize) tickets and 20 games without free tickets, while in fiscal year 2011, the Lottery launched 24 games with free tickets and 24 games without free tickets. Instant ticket sales for every month of fiscal year 2012 were lower than the comparable month in the previous fiscal year. Instant ticket sales for 11 months of fiscal year 2011 were lower than the comparable months in the prior fiscal year, with only June 2011 having higher sales than in June 2010. Since fiscal year 2007, when net instant ticket sales were a record \$91.37 million, net instant ticket sales have decreased by \$22.63 million or an approximate 24.8% drop to \$68.74 million in fiscal year 2012.

In January 2012, the Powerball game was changed from a \$1 price point to a \$2 price point. Along with this price change, the jackpot now starts at \$40 million, up from the previous starting jackpot of \$20 million. The matrix was changed from a 5 of 59 and 1 of 39 game to a 5 of 59 and 1 of 35 game. Two prize levels were changed; the Match 5 + 0 prize level going from a \$200,000 cash prize to a \$1 million cash prize and the Match 0 + 1 going from a \$3 prize to a \$4 prize. The overall odds and the jackpot odds were improved. The Power play option

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Sales and Prize Expense - Continued

Net Sales – Continued

remained in the game, but the multiplier option was discontinued and instead increased set prize levels are included in the Power Play option. The roll down option was eliminated.

Although, Powerball sales are generally driven by the advertised jackpot, in fiscal year 2012, the change in the price point and the matrix also affected the sales. In fiscal year 2012, the highest jackpot for the year was \$310 million with three other jackpots reaching \$245, \$240, and \$220 million, three smaller jackpots reaching \$173, \$128, and \$108 million, and seven jackpots being \$70 million or less when they were won. The change in the price point and the level of the jackpots helped to increase Powerball net sales by nearly \$4.7 million over the previous fiscal year.

In fiscal year 2011, the highest jackpot for the year was \$221.7 million with two other jackpots reaching \$201.9 million and \$182.1 million, three smaller jackpots reaching \$116, \$128.6 and \$122.1 million and ten jackpots that were less than \$100 million at the time that they were won. Smaller dollar jackpots than in previous fiscal years and ten jackpots being won at levels less than \$100 million, as well as having another similar national game, Mega Millions, contributed to fiscal year 2011 net sales being less than in the previous fiscal year by over \$12 million dollars.

Since fiscal year 2006 when net sales were a record \$54.1 million, Powerball net sales have decreased by \$20.3 million, a decrease of approximately 37.5%, to \$33.8 million in fiscal year 2012.

Mega Millions' sales are also driven by the jackpot amount. In fiscal year 2012, the highest jackpot reached a record \$640 million with another jackpot climbing to \$206 million and three smaller jackpots hitting \$118, \$113, and \$105 million when they were won. Six jackpots were won at amounts less than \$100 million. The \$640 million jackpot helped to increase sales in March 2012 by over five million dollars. Although, Mega Millions had a higher jackpot in fiscal year 2012 than Powerball, Mega Millions average monthly sales, without the \$640 million run-up spike, average less than \$800,000 per month, while Powerball's average sales, without run-up spikes, are over \$2.5 million per month.

In fiscal year 2011, there were two jackpots that climbed to \$355 and \$312 million with two jackpots rising to \$133 and \$140 million and seven jackpots at levels less than \$100 million before being won. During the months of these run-ups in jackpots, the Lottery's Mega Millions net sales were higher than in other months with lower jackpot amounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Sales and Prize Expense – Continued

Net Sales – Continued

Similar to the Powerball and Mega Millions games, Roadrunner Cash sales are driven by the jackpot prize amount. In fiscal year 2012, the jackpot rose seven times to more than \$150,000 climbing to \$420,000 and \$550,000 in August 2011 and in March 2012, respectively. In fiscal year 2011, the jackpot climbed to more than \$150,000 ten times, rising to \$495,000 before being won on January 1, 2011 and to \$470,000 in July and September 2010. These differences in the top prizes reflected on the net sales in these fiscal years and the respective monthly net sales during these jackpot increases.

The MUSL game, Hot Lotto, is another smaller national jackpot game offered by the Lottery. Hot Lotto started fiscal year 2012 at \$1.1 million and continued to climb to \$7.52 million in November 2011. It climbed again to \$2.63 million in January, to \$2.98 million in March, to \$1.56 million in April, and to \$3.4 million the last week of June. These changing jackpots reflect on monthly net sales during the fiscal year.

Hot Lotto began fiscal year 2011 with a \$2.3 million jackpot prize, which continued to climb for six months to \$16.5 million when it was won at the end of December 2010. The jackpot then climbed again until the beginning of May 2011 to \$9.09 million before being won and then climbed again to \$2.24 million and \$1.05 million before being hit twice in June. Monthly Hot Lotto net sales in fiscal year 2011 reflect the changes in the jackpot amounts during the year.

Pick 3 net sales in the fiscal year 2012 decreased by \$94,132 or a 2.5% decrease. In fiscal year 2011 Pick 3 net sales increased by \$323,243. Pick 3 has become a core game for the Lottery bringing in steady monthly net sales with no major sales changes from month-to-month.

A new game, Quicksters, was started on March 25, 2012. Quicksters are instant-win games, similar to instant ticket games, but produced by the same lottery sales terminals as drawing game tickets and with no scratching needed to reveal the prizes. The first game offered was Super 7s. This game provided \$453,448 in net sales for the fiscal year.

Prize Expense

Prize expense for the drawing games of Powerball, Mega Millions and Hot Lotto is based on the overall prize payout per the game design, while prize expense for Roadrunner Cash, Pick 3 and Quicksters is determined by the prizes won for each drawing or game. The prizes included in the prize structure for each instant game printed determine prize expense for instant games. In general, prize expense increases or decreases from year-to-year relative to

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Sales and Prize Expense – Continued

Prize Expense - Continued

the increases or decreases in sales for each Lottery product and the prize structures of the games. In fiscal years 2012 and 2011, the prize payout decreased by approximately .8% and 1.8%, respectively, prior to the application of unclaimed prizes.

At the end of the claim period for each game, unclaimed prizes for the Lottery's instant games and drawing games are paid into the "Prize Fund," in accordance with the New Mexico Lottery Act. These unclaimed prizes from the Lottery's prize fund are used to supplement the prizes in instant and drawing games and for second chance drawings and, therefore, reduce the prize expense for Lottery products and help the Lottery to maximize its sales and its return to education.

Prize Tickets

In fiscal year 2012, prize (free) tickets claimed for instant games decreased by \$195,471 or 6.33%, while in fiscal year 2011, prize tickets increased by \$287,376 or 10.27%, in comparison to the previous fiscal years. Prize tickets are placed in the prize structure of the game in lieu of the breakeven prizes. Prize tickets give a player a prize of another instant game ticket of the same price point as the instant ticket that had the winning prize ticket. The Lottery continues to study the market to determine the optimum quantity of prize tickets to place each fiscal year in its instant ticket games in order to optimize its instant ticket sales.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 4
Game Expenses

	2012	2011	2010	Increase (Decrease) \$ Change 2011 to 2012	Increase (Decrease) % Change 2011 to 2012	Increase (Decrease) \$ Change 2010 to 2011	Increase (Decrease) % Change 2010 to 2011
Prize expense	\$72,027,308	\$73,613,337	\$78,606,569	\$(1,586,029)	(2.2)%	\$(4,993,232)	(6.4)%
Retailer							
commissions	8,696,851	8,859,206	9,363,616	(162,355)	(1.8)	(504,410)	(5.4)
Advertising	2,277,892	2,286,794	2,160,112	(8,902)	(0.4)	126,682	5.9
On-line vendor							
fees	2,139,754	2,170,366	2,290,586	(30,612)	(1.4)	(120,220)	(5.2)
Ticket vendor							
fees	1,177,708	1,350,379	1,597,118	(172,671)	(12.8)	(246,739)	(15.4)
Other game							
expenses	1,061,035	1,014,200	968,351	46,835	4.6	45,849	4.7
Total game expenses	\$87,380,548	\$89,294,282	\$94,986,352	\$(1,913,734)	(2.1)%	\$(5,692,070)	(6.0)%

The changes in retailer commissions for fiscal years 2012 and 2011 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.5% of gross revenues for the two years. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets, cashing Lottery prizes and for selling a jackpot prize for Powerball, Mega Millions and Hot Lotto and a top prize of more than \$100,000 for Roadrunner Cash.

Since November 21, 2008, the on-line vendor fee has been a fixed percentage of net sales, plus applicable gross receipts taxes, with no additional terminal fees. The on-line fee increases or decreases as drawing game and instant ticket net sales increase or decrease. The changes in the on-line vendor fees for the two fiscal years are consistent with the changes in drawing game and instant ticket net sales in fiscal years 2012 and 2011 and are equivalent to 1.6% of gross revenues for the two years.

Advertising is expended to market the Lottery and its products to the public and to inform the public about the games that are available, the jackpot and top prize amounts for the drawing games, to provide security tips and gambling awareness for our players and benefit messages to New Mexico students and their families, and to keep the lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.70%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Game Expenses - Continued

and 1.69% of gross revenues, respectively, for fiscal years 2012 and 2011 and stayed within the Lottery Board approved budgets of \$2,300,000 for each fiscal year.

In fiscal years 2010 and 2003, the Lottery signed contracts with its primary ticket printer effective in March of each respective year. Under these contracts, the instant tickets are owned by the vendor with the Lottery expensing the cost to ticket vendor fees and paying for the tickets as a percentage of sales when the tickets are sold. The cost for the tickets under the 2003 contract also included the cost for the CRM system used by the Lottery. In addition, in March 2010, the Lottery signed a contract with a secondary printer, whereby the Lottery would be purchasing the tickets printed. These tickets are included in inventory with the cost of the tickets being recorded as ticket vendor fees as the tickets are consigned to retailers. In fiscal year 2012 and 2011, the cost for any licensing fees or special printing costs are also included in ticket vendor fees, rather than being allocated to the prize structure for the game as in previous years. The ticket vendor fees for both fiscal year 2012 and 2011 are less due to lower instant ticket sales, but also as a result of payment of a lower percentage of net sales to the primary ticket printer compared to previous fiscal years where the percentage was higher and was paid on gross sales rather than net sales. This lower fee is reflected in the lower percentage of gross revenues for ticket vendor fees of .88% and 1.00%, compared to the previous year's 1.11% of gross revenues.

Included in other game expenses are shipping and postage, promotions, drawing game, responsible gaming, and game membership expenses. Fiscal years 2012 and 2011 reflect increases of \$46,835 or 4.6% and \$45,849 or 4.7%, respectively. In fiscal year 2012, this change was primarily due to an increase in TV and radio promotions and events, offset with a savings in shipping costs to distribute instant tickets to the Lottery's retailers. In fiscal year 2011, this increase was due to an increase in the shipping expense and to the cost of purchasing replacement ticket dispensers for the Lottery's retailers, offset with savings in drawing game expenses.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 5
Operating Expenses

	2012	2011	2010	Increase (Decrease) \$ Change 2011 to 2012	Increase (Decrease) % Change 2011 to 2012	(Decrease) \$ Change 2010 to 2011	(Decrease) % Change 2010 to 2011
Salaries, wages, and benefits	\$ 3,583,778	\$ 3,456,748	\$ 3,468,593	\$ 127,030	3.7%	\$ (11,845)	(0.3)%
Leases and insurance	585,629	593,740	613,877	(8,111)	(1.4)	(20,137)	(3.3)
Other operating expenses	<u>976,837</u>	<u>924,601</u>	<u>928,159</u>	<u>52,236</u>	5.6	<u>(3,558)</u>	(0.4)
Total operating expenses	<u>\$ 5,146,244</u>	<u>\$ 4,975,089</u>	<u>\$ 5,010,629</u>	<u>\$ 171,155</u>	3.4%	<u>\$ (35,540)</u>	(0.7)%

Operating expenses are made up of salaries, wages and benefits, leases and insurance, and other operating expenses, which include utilities and maintenance, materials and supplies, professional fees, depreciation and amortization, travel, and other expenses. In fiscal year 2012, the Lottery increased its total operating expenses by \$171,155 or 3.4%, whereas in fiscal year 2011, the Lottery decreased its total operating expenses by \$35,540 (0.7) %.

The change in fiscal year 2012 is mainly due to increases in the cost of salary, wages and benefits. In fiscal year 2012, the Lottery was fully staffed most of the year with an average of 55.5 employees during the year, while in the prior fiscal year the Lottery employed fewer employees all year at an average of 53 employees when vacated positions were not immediately filled. In fiscal year 2012, the cost of health insurance for the Lottery also increased by approximately twelve percent. In addition, replacement computer equipment was purchased and the cost for building and vehicle maintenance, gas, and legal fees increased. These costs were offset with savings on lease and insurance costs and a smaller amount of depreciation and amortization for capitalized assets.

In fiscal year 2011, the Lottery had savings in lease and insurance expense by protesting and reducing its property taxes and by reducing the insurance premiums paid. In fiscal year 2011, the Lottery also had savings in equipment and building maintenance costs and in the cost of legal and other professional fees, which were offset by increases in depreciation and amortization, material and supplies purchases, travel expenses and other expenses.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Non-Operating Income

Non-operating income decreased in fiscal years 2012 and 2011 mainly due to the decrease in interest rates and the related interest earned on the Lottery's deposits. In fiscal year 2012, other income increased due to liquidated damages being received on a Lottery contract.

Net Income

	<u>Total Revenues</u>	<u>Net Income</u>
Fiscal Year 2012	\$ 133,791,602	\$ 41,328,743
Fiscal Year 2011	\$ 135,541,708	\$ 41,307,290
Fiscal Year 2010	\$ 143,538,772	\$ 43,608,826
Increase (Decrease) from FY 2011 to FY 2012	<u>\$ (1,750,106)</u>	<u>\$ 21,453</u>
% Increase (Decrease) from FY 2011 to FY 2012	<u>(1.3)%</u>	<u>0.1%</u>
(Decrease) from FY 2010 to FY 2011	<u>\$ (7,997,064)</u>	<u>\$ (2,301,536)</u>
% (Decrease) from FY 2010 to FY 2011	<u>(5.6)%</u>	<u>(5.3)%</u>

Effective July 1, 2007, the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, was changed to require the Lottery to transmit at least twenty-seven percent of its gross revenues to the State Treasurer until December 31, 2008 and at least thirty percent of its gross revenues thereafter. In fiscal years 2012 and 2011, the Lottery transmitted its net income each month, totaling \$41,328,743 and \$41,307,290, respectively. The gross revenue percentage return for fiscal year 2012 was 30.88% and for fiscal year 2011 was 30.47%. The Lottery was able to meet the 30% gross revenue percentage returns each month in both fiscal years.

The changes in net income for fiscal years 2012 and 2011 were related to the changes in sales for the Lottery's games during the two years netted against savings in the cost of the product and operating expenses during the two fiscal years.

In addition to the changes that had been made in fiscal year 2008 of reducing staffing, retailer and sales staff incentives, advertising costs, and prize expense to meet the statutory requirement of 27% through December 2008 and 30% thereafter for gross revenue percentage return; the Lottery also commenced a new on-line system agreement in November 2008, whereby the fee to the on-line vendor was reduced, and separate terminal

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Income - Continued

communication fees and vending machine fees that had previously been paid were eliminated. This change has continued to provide a percentage reduction of the on-line vendor fees to gross revenues of over 3% in both fiscal year 2012 and 2011 compared to fiscal year 2008.

Budgetary Comparison

	2012				
	Original Budget	Final Budget	Actual	Variance with Final Budget	% Variance with Final Budget
Total revenues	\$ 136,400,000	\$ 134,143,000	\$ 133,791,602	\$ (351,398)	(0.3)%
Total game expenses	89,964,000	88,173,000	87,380,548	(792,452)	(0.9)
Total operating expenses	5,456,000	5,368,000	5,146,244	(221,756)	(4.1)
Operating income	40,980,000	40,602,000	41,264,810	662,810	1.6
Total non-operating income	80,000	42,000	63,933	21,933	52.2
Net income before transfers to Lottery Tuition Fund	\$ 41,060,000	\$ 40,644,000	\$ 41,328,743	\$ 684,743	1.7%
	2011				
	Original Budget	Final Budget	Actual	Variance with Final Budget	% Variance with Final Budget
Total revenues	\$ 146,000,000	\$ 132,700,000	\$ 135,541,708	\$ 2,841,708	2.1%
Total game expenses	96,271,000	87,567,000	89,294,282	1,727,282	2.0
Total operating expenses	5,975,000	5,344,000	4,975,089	(368,911)	(6.9)
Operating income	43,754,000	39,789,000	41,272,337	1,483,337	3.7
Total non-operating income	75,000	30,000	34,953	4,953	16.5
Net income before transfers to Lottery Tuition Fund	\$ 43,829,000	\$ 39,819,000	\$ 41,307,290	\$ 1,488,290	3.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison - Continued

In fiscal year 2012, the original fiscal year budget was revised because instant ticket, Roadrunner Cash and Hot Lotto sales were under performing and Powerball and Mega Millions were well ahead of their original budgeted sales amounts. Pick 3 was also revised upward by a small amount. The new game, Quicksters, had originally been planned to start in late October or early November, but was not launched until the end of March, therefore, the Quickster sales were also revised to a lower sales amount. The sales budget was decreased by \$2.6 million, which was made up of a reduction in instant ticket sales of \$8 million, in Roadrunner Cash sales of \$2.2 million, in Hot Lotto sales of \$2.4 million, and in Quickster sales of \$1.6 million and an increase of \$7 million for Powerball sales, \$4.5 for Mega Millions sales and \$100,000 for Pick 3 sales. Prize tickets were also reduced by \$300,000, spoiled, stolen and promotional tickets reduced by \$40,000; and retailer fees increased by \$3,000. All of these changes decreased total operating revenues by \$2,257,000. Non-operating income was reduced by \$38,000 due to continuing decreases in interest rates in the current year and less other income expected. In total, gross revenues were decreased by \$2,295,000.

Related game expenses for prize expense, retailer commissions, on-line vendor fees, ticket vendor fees, and other game expenses were adjusted in fiscal year 2012 in accordance to the changes in sales with a total adjustment of \$1,791,000 to game expenses. Each line item in operating expenses, except for leases and insurance was reduced for a total reduction of \$88,000 and net income was decreased by \$416,000, still returning over 30% of gross revenues.

In fiscal year 2011, the original fiscal year budget was revised because instant ticket, Powerball, Mega Millions and Hot Lotto sales were not performing as planned and Roadrunner Cash and Pick 3 sales were exceeding the budgeted sales. The sales budget was reduced by a total of \$13.9 million, which was made up of a reduction in instant ticket sales of \$6.5 million, Powerball sales of \$9 million, Mega Million sales of \$1.5 million, and Hot Lotto sales of \$1 million and increasing Roadrunner Cash sales by \$3.5 million and Pick 3 sales by \$600,000. Prize tickets were also reduced by \$550,000, spoiled, stolen, and promotional tickets were reduced by \$55,000 and retailer fees were reduced by \$5,000. All of these changes decreased total revenues by \$13.3 million. Non-operating revenues were also reduced by \$45,000 due to the continued reduction in interest rates. In total, gross revenues were decreased by \$13,345,000.

Related game expenses for prize expense, retailer commissions, on-line vendor fees, ticket vendor fees, promotions and game membership expense were also reduced in fiscal year 2011 in accordance to the changes in sales with a total reduction in game expenses of \$8.7 million. Shipping and postage was increased due to the additional cost of distributing instant tickets to the retailers and drawing game cost was also increased slightly. Advertising and responsible gaming costs were kept at the same amounts in the fiscal year revised budget as they were in

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison - Continued

the original budget. Operating expenses were reduced by \$631,000, which was primarily made up of reductions of \$477,000 in salaries, wages and benefits, \$80,000 in utilities and maintenance, and \$56,000 in travel. Four other operating expense line items were also reduced and only one line item in operating expenses was increased, which was professional fees. Professional fees were increased for the cost of a network upgrade, which was planned for the end of the fiscal year, but then moved into fiscal year 2012. Net income was reduced by just over \$4 million, with the budget still forecast to return 30% of gross revenues.

Actual net sales for fiscal year 2012 did not meet the budget, underperforming by \$351,398. With cost savings in game expenses of \$792,452 and in operating expenses of \$221,756 and additional non-operating income of \$21,933, the Lottery was able to surpass the fiscal year 2012 revised annual budget net income by \$684,743; ending the fiscal year at 101.68% of the revised budget.

Actual net sales for fiscal year 2011 improved by year end, with total revenues exceeding the revised budget by over \$2.8 million; ending the fiscal year at over 102.14% of the revised budget. Net income exceeded the revised budget by nearly \$1.5 million; ending the fiscal year at 103.74% of the revised budget. Operating expenses were reduced beyond the revised budget by \$369,000; ending the year at 93.1% of the revised budget. Savings in operating expenses, as well as savings in game expenses assisted in producing a higher net income return than expected per the revised budget.

Requests for Additional Financial Information

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the Lottery's retailers, vendors, creditors, and other interested parties with a general overview of the financial position as of June 30, 2012 and 2011, and results of its operations, cash flows, variances from budgets, and percentage return to the state for the years then ended for the Lottery and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Finance at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

New Mexico Lottery Authority
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,885,806	\$ 5,561,825
Accounts receivable (net of allowance for doubtful accounts)	1,225,638	885,691
Reserves on deposit	3,396,831	2,925,251
Inventory	33,077	11,334
Prepaid expenses	80,686	113,005
Total current assets	11,622,038	9,497,106
CAPITAL ASSETS, NET	305,550	168,065
Total assets	\$ 11,927,588	\$ 9,665,171
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 1,955,328	\$ 1,829,650
Current portion of capital lease obligation	11,016	6,228
Prizes payable	6,860,315	4,592,530
Due to Lottery Tuition Fund	3,039,205	3,215,482
Total current liabilities	11,865,864	9,643,890
LONG-TERM LIABILITIES		
Noncurrent portion of capital lease obligation	61,724	21,281
Total liabilities	\$ 11,927,588	\$ 9,665,171
NET ASSETS		
Invested in capital assets, net of related debt	\$ 305,550	\$ 168,065
Unrestricted net assets (deficit)	(305,550)	(168,065)
Total net assets	\$ -	\$ -

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

New Mexico Lottery Authority

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30, 2012 and 2011

	2012	2011
REVENUES		
Instant ticket sales	\$ 71,632,710	\$ 78,857,176
Powerball sales	33,795,664	29,113,287
Mega Millions sales	14,330,230	10,665,551
Roadrunner Cash sales	7,520,021	8,754,477
Hot Lotto sales	5,438,475	7,571,584
Pick 3 sales	3,638,558	3,731,680
Quickster sales	453,448	-
Retailer fees	16,250	12,674
Prize tickets	(2,890,810)	(3,086,281)
Spoiled, stolen, and promotional tickets	(130,944)	(66,440)
Bad debts	(12,000)	(12,000)
Total revenues	133,791,602	135,541,708
GAME EXPENSES		
Prize expense	72,027,308	73,613,337
Retailer commissions	8,696,851	8,859,206
Advertising	2,277,892	2,286,794
On-line vendor fees	2,139,754	2,170,366
Ticket vendor fees	1,177,708	1,350,379
Shipping and postage	410,422	423,742
Promotions	381,179	323,236
Drawing game	116,532	122,372
Responsible gaming	87,400	87,400
Game membership	65,502	57,450
Total game expenses	87,380,548	89,294,282
OPERATING EXPENSES		
Salaries, wages, and benefits	3,583,778	3,456,748
Leases and insurance	585,629	593,740
Utilities and maintenance	431,189	402,813
Materials and supplies	153,867	104,361
Professional fees	150,651	123,524
Depreciation and amortization	115,933	160,834
Travel	69,470	65,323
Other	55,727	67,746
Total operating expenses	5,146,244	4,975,089
OPERATING INCOME	41,264,810	41,272,337
NON-OPERATING INCOME		
Other income	45,464	11,396
Interest income	18,469	23,557
Total non-operating income	63,933	34,953
Net income before transfers	41,328,743	41,307,290
Transfers to Lottery Tuition Fund	41,328,743	41,307,290
Change in net assets	-	-
Net assets at beginning of year	-	-
Net assets at end of year	\$ -	\$ -

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

New Mexico Lottery Authority

STATEMENTS OF CASH FLOWS

Years ended June 30, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 124,762,104	\$ 128,008,488
From MUSL - Hot Lotto jackpots	1,153,023	-
Cash payments:		
To prize winners and related taxes	(57,149,803)	(60,028,057)
To MUSL	(13,762,743)	(12,306,989)
To suppliers of goods or services	(9,200,911)	(8,771,710)
To employees for services and related taxes	<u>(2,838,626)</u>	<u>(2,827,093)</u>
Net cash provided by operating activities	<u>42,963,044</u>	<u>44,074,639</u>
Cash flows from investing activities		
Receipts of interest	7,861	8,987
Other	<u>23,971</u>	<u>227</u>
Net cash provided by investing activities	<u>31,832</u>	<u>9,214</u>
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(41,505,020)</u>	<u>(41,493,223)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(159,248)	(11,402)
Principal payments under capital lease	<u>(6,627)</u>	<u>(6,229)</u>
Net cash used by capital and related financing Activities	<u>(165,875)</u>	<u>(17,631)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,323,981	2,572,999
Cash and cash equivalents at beginning of year	<u>5,561,825</u>	<u>2,988,826</u>
Cash and cash equivalents at end of year	<u>\$ 6,885,806</u>	<u>\$ 5,561,825</u>

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

New Mexico Lottery Authority

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,264,810	\$ 41,272,337
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	115,933	160,834
Vendor's non-cash transactions	(18,678)	31,992
Interest on MUSL unreserved account	1,167	1,876
Net changes in assets and liabilities:		
Accounts receivable	(332,647)	1,325,986
Reserves on deposit	(471,580)	(227,116)
Inventory	(21,743)	85,008
Prepaid expenses	32,319	(9,604)
Accounts payable and other liabilities	125,678	155,035
Prizes payable	<u>2,267,785</u>	<u>1,278,291</u>
Net cash provided by operating activities	<u>\$ 42,963,044</u>	<u>\$ 44,074,639</u>

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

New Mexico Lottery Authority
STATEMENTS OF FIDUCIARY NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 461,989	\$ 384,341
Marketable securities and other investments	3,599,443	3,709,097
Contribution receivable	6,931	17,169
Total assets	\$ 4,068,363	\$ 4,110,607
 NET ASSETS		
Pension plan participants' benefits	\$ 4,068,363	\$ 4,110,607

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

New Mexico Lottery Authority

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ADDITIONS		
Investment earnings	\$ 739,810	\$ 821,248
Employer contributions	335,375	325,052
Other activity	-	31
Total additions	<u>1,075,185</u>	<u>1,146,331</u>
DEDUCTIONS		
Investment losses	776,116	-
Distributions to participants	<u>341,313</u>	<u>86,901</u>
Total deductions	<u>1,117,429</u>	<u>86,901</u>
Change in net assets	(42,244)	1,059,430
Net assets - beginning	<u>4,110,607</u>	<u>3,051,177</u>
Net assets - ending	<u>\$ 4,068,363</u>	<u>\$ 4,110,607</u>

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 drawing game tickets on October 20, 1996.

2. Basis of Presentation

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

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, issued on or before November 30, 1989 (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.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation – Continued

A Fiduciary Fund is used to account for assets held in a trustee capacity for Lottery employees. The Lottery's only fiduciary fund is a pension trust fund.

The pension trust fund per Statements of Fiduciary Net Assets and Statements of Changes in Fiduciary Net Assets and Note D reflects the activities of the New Mexico Lottery Authority Retirement Plan (Plan) pursuant to a trust agreement with a national bank. The bank holds, invests and distributes the assets of the Plan for the benefit of the Plan participants, subject to the overall direction of the Lottery in its capacity as plan administrator.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2012 and 2011 there were no restricted resources.

3. Budgets and Budgetary Accounting

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

4. Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. At June 30, 2012 and 2011, an allowance for doubtful accounts of \$29,688 and \$23,652, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2012 and 2011, ten customers (481 and 443 retailer locations) represented 55% and 53% of sales for each year, respectively, and 52% of accounts receivable for each year, respectively.

6. Reserves on Deposit

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating lotteries. MUSL currently operates the POWERBALL® (Powerball), Hot Lotto® (Hot Lotto) and Mega Millions® (Mega Millions) games for the Lottery. The Lottery sells Powerball, Hot Lotto and Mega Millions game tickets through its retailers and makes weekly wire transfers to MUSL in an amount equivalent to the member lottery's share of the estimated grand prize liability for each game. Lesser prizes are paid directly to the winners by each member lottery. The prize pools for the three games are 50% of each game's drawing period's sales after the prize reserve accounts are funded to the amounts set by the MUSL product group.

MUSL has established prize reserve accounts for the games it operates. These prize reserve accounts are funded out of the prize pools for the games until the accounts reach amounts set by the MUSL product groups for each game. Once the prize reserve funds exceed these designated maximums, the excess becomes part of the grand prize pool. The prize reserve funds serve as contingency reserves to protect MUSL and the party lotteries from unforeseen prize liabilities. The money in these reserve funds is used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands, a member leaves MUSL, or a game is discontinued. In these instances, members must wait one year before receiving their remaining share, if any, of the prize reserve funds. The prize reserve accounts may also be carried forward to a replacement game's prize reserve account.

MUSL included 2% of the Lottery's Powerball drawing period's sales in two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA), until the Lottery's share in both the PRA and SPRA were fully funded. The maximum amounts designated by the MUSL Powerball product group for the PRA is \$100 million and for the SPRA is \$25 million for all member lotteries. At June 30, 2012 and 2011, the Lottery's share in the Powerball PRA was \$1,430,961 and \$1,520,644, respectively, and in the SPRA was \$440,966 and \$351,283, respectively. Both Powerball reserve funds are fully funded.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Reserves on Deposit - Continued

MUSL includes from 1% to 3% of the Lottery's Hot Lotto drawing period's sales, depending on the annuitized value of the Grand Prize, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Hot Lotto PRA balance at \$9 million for all party lotteries. At June 30, 2012 and 2011, the Lottery's share in the Hot Lotto PRA was \$696,149 and \$700,791, respectively. The Lottery's remaining Hot Lotto prize reserve buy-in amount was \$70,645 and \$99,909, respectively, as of June 30, 2012 and 2011.

The Lottery commenced sales of Mega Millions tickets on January 31, 2010. MUSL includes an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales and included 4.9338682% until September 13, 2010 and then 1.5801572% of the Megaplier sales into the Prize Reserve Account (PRA). The MUSL product group has not determined a maximum balance for the Mega Millions Prize Reserve Account (PRA). At June 30, 2012 and 2011, the Lottery's share in the Mega Millions PRA was \$286,019 and \$136,068, respectively.

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2012 and 2011, the Lottery's share of the unreserved fund was \$542,736 and \$216,465, respectively.

A winner of a Powerball grand prize, a Hot Lotto grand prize, or Mega Millions grand prize may select that the prize be paid at the cash value of the prize or as an annuity. A Powerball grand prize annuity is paid out in 30 annual installments, a Hot Lotto grand prize annuity is paid out in 25 annual installments, and a Mega Millions grand prize is paid out in 26 annual installments. Government securities at the discounted value of the grand prize annuity are purchased to fund all future installments and are held in trust. Maturities are staggered in order to provide adequate cash flow for each annual installment. These assets and related liabilities are reflected in MUSL's financial statements and therefore are not reflected in the Lottery's financial statements. MUSL is responsible for transferring the cash or the annuity installment amounts to the member lottery prior to the payment to any grand prize winner. Currently, the Lottery is not paying any prize winner any annuity prize payments.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Inventory

In March 2003 and then again in March 2010, the Lottery entered into agreements with its primary instant ticket printers, whereby the vendors retain title to the instant ticket inventory until the instant tickets are sold. Under the March 2003 agreement, the Lottery pays the vendor a fee based on a fixed percentage of the instant tickets sold. Under the March 2010 agreement, the Lottery pays the vendor a fee based on a fixed percentage of the net instant tickets sold; net instant tickets representing instant tickets less prize, spoiled, stolen, and promotional tickets. In addition, in March 2010, the Lottery signed an agreement with a secondary instant ticket printer, whereby the Lottery purchases and owns the tickets printed. These tickets are carried at the lower of cost or market using the specific identification method.

At the end of fiscal years 2012 and 2011, the Lottery is distributing games printed under the March 2003 agreement and the two March 2010 agreements.

As of June 30, 2012 and 2011, \$33,077 and \$11,334, respectively, of instant tickets are included in inventory. In the past two fiscal years there are no merchandise prizes for second chance drawings included in inventory at June 30th, as there have been in previous fiscal years.

8. Capital Assets

Capital assets, which include data processing software and hardware, tenant improvements, vehicles, furniture and fixtures, and equipment, are stated at cost net of accumulated depreciation. The Lottery capitalizes all capital assets that have a cost greater than \$5,000 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 tenant improvements, which are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. 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 drawing 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.

10. Prizes

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

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

14. Custodial Credit Risk and Interest Rate Risk

At June 30, 2012, the Lottery maintained its cash balances in two financial institutions, while at June 30, 2011, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at these financial institutions.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Custodial Credit Risk and Interest Rate Risk - Continued

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

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

The Lottery’s custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery’s investments are made in overnight repurchase agreements. Investments are made through two local financial institutions and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by the Government Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico “Security of Public Money” standards and be held in third party safekeeping. As of June 30, 2012 and 2011, the Lottery’s bank balances of \$7,027,864 and \$5,644,147, respectively, were exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the Bank’s name	6,864,002	-
Collateral held by the pledging bank’s trust department in the Lottery’s name	<u>163,862</u>	<u>5,644,147</u>
	<u>\$ 7,027,864</u>	<u>\$ 5,644,147</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

At June 30, 2012 and 2011, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2012:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase Agreement	Wells Fargo Bank, NA	\$ 6,864,002
Operating account – checking	Wells Fargo Bank, NA	-
Operating account - overnight repurchase Agreement	US Bank	163,862
Operating account – checking	US Bank	-
Total amount deposited in bank		<u>7,027,864</u>
Less: FDIC coverage		-
*Total uninsured funds – deposits and overnight repurchase agreement		<u><u>\$ 7,027,864</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$7,168,421
* Total pledged security		<u>(7,168,423)</u>
Amount under (over) requirement at June 30, 2012		<u><u>\$ (2)</u></u>

*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 31292LE35 (fair market value \$7,001,283), matures March 01, 2042. The repurchase agreement is collateralized with securities held in the name of Wells Fargo Bank, NA.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts - Continued

*US Bank securities are held in safekeeping at the Federal Reserve Bank in Cleveland, OH. Presented at fair value, CUSIP Number 3128DFAU2 (fair market value \$167,140), matures October 01, 2035. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery Authority.

Cash and cash equivalents per bank at June 30, 2012	\$ 7,027,864
Less reconciling items--outstanding checks	<u>(156,979)</u>
Reconciled cash in bank at June 30, 2012	6,870,885
Cash in vault	<u>14,921</u>
Total cash and cash equivalents per Statements of Net Assets	<u><u>\$ 6,885,806</u></u>

At June 30, 2011:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase Agreement	First Community Bank**	\$ 5,644,721
Operating account - checking	First Community Bank**	<u>(574)</u>
Total amount deposited in bank		5,644,147
Less: FDIC coverage		<u>-</u>
*Total uninsured funds - deposits and overnight repurchase agreement		<u><u>\$ 5,644,147</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 5,757,615
* Total pledged security		<u>(5,787,242)</u>
Amount under (over) requirement at June 30, 2011		<u><u>\$ (29,627)</u></u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts - Continued

*Securities are held in safekeeping at the Federal Home Loan Bank in Dallas, Texas. Presented at fair value, CUSIP Numbers 31396QW21 (fair market value \$5,787,242), matures September 25, 2039. The deposits and repurchase agreement are collateralized with securities held in the name of the New Mexico Lottery Authority.

** Acquired by U.S. Bank, N.A. on January 28, 2011, however, the Bank's name did not change until July 18, 2011.

Cash and cash equivalents per bank at June 30, 2011	\$ 5,644,147
Less reconciling items--outstanding checks	<u>(89,315)</u>
Reconciled cash in bank at June 30, 2011	5,554,832
Cash in vault	<u>6,993</u>
Total cash and cash equivalents per Statements of Net Assets	<u>\$ 5,561,825</u>

16. Risk Management

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

17. Shipping and Handling Costs

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Net Assets

Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, net of related debt - is intended to reflect the portion of net assets which is associated with non-liquid, capital assets, net of related debt.

Restricted Net Assets-are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) legally enforceable, limitations on their use. The Lottery does not have any restricted use net assets.

Unrestricted Net Assets-represent unrestricted liquid assets.

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes are applied against prize expense to supplement prizes in the Lottery's games.

20. Use of Estimates in Preparation of Financial Statements

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Compensated Absences Payable

Annual leave and sick leave are accrued at rates specified by the Lottery's Leave Policy. Annual leave is awarded based on the employee's years of service, leave status, and employment status (full-time or part-time) and sick leave is awarded at 3.7 hours biweekly for full-time employees. The maximum number of annual leave that full-time employees may carry over and retain in their annual leave bank varies from 80 hours for an employee with less than 5 years of service up to a maximum of 320 hours for an employee with fifteen or more years of service. The maximum number of sick leave hours that a full-time employee may carry over from year-to-year is 480 hours. Part-time employees receive leave and carry-over and retain leave in their leave banks based on their percentage of employment. Upon separation from service, employees with at least one year of service will be compensated for their annual leave balance, not to exceed the maximum annual leave bank based on their years of service. Accrued sick leave hours will not be paid to an employee upon separation from service. During the years ended June 30, 2012 and 2011, the following changes occurred in the compensated absences liabilities:

<u>Balance</u> <u>July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2012</u>
\$ 193,831	\$ 30,259	\$ (11,171)	\$ 212,919
<u>Balance</u> <u>July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>
\$ 175,038	\$ 31,084	\$ (12,291)	\$ 193,831

The balances of compensated absences payable are reported on the Statements of Net Assets in accounts payable and other current liabilities. The Lottery estimates all compensated absences are due within one year.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Long-term Liabilities - Capital Lease Obligations

During the years ended June 30, 2012 and 2011, the following changes occurred in the capital lease obligations:

<u>Balance July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
\$ 27,509	\$ 51,858	\$ (6,627)	\$ 72,740	\$ 11,016

<u>Balance July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2011</u>	<u>Amounts Due Within One Year</u>
\$ 33,738	\$ -	\$ (6,229)	\$ 27,509	\$ 6,228

23. Accounts Payable and Other Current Liabilities

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

	<u>2012</u>	<u>2011</u>
Accounts payable	\$ 1,458,049	\$ 1,417,321
Accrued liabilities, vendors*	142,146	90,149
Accrued liabilities, retailers*	30,500	29,000
Accrued payroll, and payroll taxes and benefits	111,714	99,349
Compensated absences	<u>212,919</u>	<u>193,831</u>
	<u>\$ 1,955,328</u>	<u>\$ 1,829,650</u>

* The Lottery has accrued an estimated amount of services delivered by its vendors and deposits for its retailers as of June 30, 2012 and 2011, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2012 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Data processing software	\$ 2,503,323	\$ (84,388)	\$ -	\$ -	\$ 2,418,935
Data processing equipment	1,281,648	(530,259)	101,468	-	852,857
Equipment - Security and disaster recovery	572,479	(25,908)	94,170	(1,137)	639,604
Vehicles	432,500	-	-	-	432,500
Tenant improvements	339,670	(16,939)	51,437	-	374,168
Furniture and fixtures	233,172	-	-	-	233,172
Equipment - communications	116,260	2,375	-	-	118,635
Equipment - drawing	116,478	-	-	-	116,478
Equipment - warehouse	69,831	-	6,343	(5,000)	71,174
Equipment - office	50,837	(1,329)	-	-	49,508
Obsolete capital assets	780,733	656,448	-	(535,310)	901,871
Capital assets	<u>6,496,931</u>	<u>-</u>	<u>253,418</u>	<u>(541,447)</u>	<u>6,208,902</u>
Data processing software	(2,485,425)	84,388	(17,898)	-	(2,418,935)
Data processing equipment	(1,257,806)	530,259	(10,929)	-	(738,476)
Equipment - Security and disaster recovery	(566,399)	25,908	(2,612)	1,137	(541,966)
Vehicles	(318,944)	-	(76,087)	-	(395,031)
Tenant improvements	(339,670)	16,939	(2,410)	-	(325,141)
Furniture and fixtures	(233,172)	-	-	-	(233,172)
Equipment - communications	(116,260)	(2,375)	-	-	(118,635)
Equipment - drawing	(109,789)	-	(5,733)	-	(115,522)
Equipment - warehouse	(69,831)	-	(264)	5,000	(65,095)
Equipment - office	(50,837)	1,329	-	-	(49,508)
Obsolete capital assets	<u>(780,733)</u>	<u>(656,448)</u>	<u>-</u>	<u>535,310</u>	<u>(901,871)</u>
Accumulated depreciation	<u>(6,328,866)</u>	<u>-</u>	<u>(115,933)</u>	<u>541,447</u>	<u>(5,903,352)</u>
Capital assets, net	<u>\$ 168,065</u>	<u>\$ -</u>	<u>\$ 137,485</u>	<u>\$ -</u>	<u>\$ 305,550</u>

Included in data processing software, data processing equipment, and tenant improvements are \$86,167 and \$43,600 in assets under a capital lease at June 30, 2012 and 2011, respectively. For each fiscal year, there were \$6,627 and \$6,229, respectively, in related amortization on these assets.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE B - CAPITAL ASSETS - CONTINUED

Capital assets at June 30, 2011 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Data processing software	\$ 2,145,044	\$ 357,592	\$ 687	\$ -	\$ 2,503,323
Data processing equipment	1,858,673	(587,740)	10,715	-	1,281,648
Equipment - Security and disaster recovery	572,479	-	-	-	572,479
Vehicles	432,500	-	-	-	432,500
Tenant improvements	340,587	(917)	-	-	339,670
Furniture and fixtures	251,074	(17,384)	-	(518)	233,172
Equipment - drawing	116,478	-	-	-	116,478
Equipment - communications	116,260	-	-	-	116,260
Equipment - warehouse	69,831	-	-	-	69,831
Equipment - office	51,987	(1,150)	-	-	50,837
Obsolete capital assets	531,134	249,599	-	-	780,733
Capital assets	6,486,047	-	11,402	(518)	6,496,931
Data processing software	(2,104,573)	(357,592)	(23,260)	-	(2,485,425)
Data processing equipment	(1,829,463)	587,740	(16,083)	-	(1,257,806)
Equipment - Security and disaster recovery	(550,076)	-	(16,323)	-	(566,399)
Vehicles	(222,198)	-	(96,746)	-	(318,944)
Tenant improvements	(340,587)	917	-	-	(339,670)
Furniture and fixtures	(250,388)	17,384	(686)	518	(233,172)
Equipment - drawing	(102,053)	-	(7,736)	-	(109,789)
Equipment - communications	(116,260)	-	-	-	(116,260)
Equipment - warehouse	(69,831)	-	-	-	(69,831)
Equipment - office	(51,987)	1,150	-	-	(50,837)
Obsolete capital assets	531,134	(249,599)	-	-	(780,733)
Accumulated depreciation	(6,168,550)	-	(160,834)	518	(6,328,866)
Capital assets, net	\$ 317,497	\$ -	\$ (149,432)	\$ -	\$ 168,065

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE C - ALLOCATION OF NET INCOME/TRANSFERS TO LOTTERY TUITION FUND

	Net Income	Due to Lottery Tuition Fund	Net Assets
	<hr/>	<hr/>	<hr/>
Balance at June 30, 2011	\$ 3,215,482	\$ 3,215,482	\$ -
Current year net income	41,328,743	41,328,743	-
Current year transfers	<u>(41,505,020)</u>	<u>(41,505,020)</u>	<u>-</u>
Balance at June 30, 2012	<u>\$ 3,039,205</u>	<u>\$ 3,039,205</u>	<u>\$ -</u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least thirty percent of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2012 and 2011, the Lottery has transferred \$41,328,743 and \$41,307,290, respectively, for the years ended June 30, 2012 and 2011 to the New Mexico State Treasurer.

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. The balances and activity of the Plan as of and for the years ended June 30, 2012 and 2011 are presented in the Statements of Fiduciary Net Assets and Statements of Changes in Fiduciary Net Assets. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plan.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE D - RETIREMENT PLAN - CONTINUED

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 years ended June 30, 2012 and 2011, the Lottery recognized \$335,376 and \$325,052 of pension expense for the Plan on eligible compensation of \$2,531,140 and \$2,453,223, respectively. The entire pension amounts have been paid to the Plan by June 30, 2012 and 2011, respectively, for all compensation paid during the respective fiscal years.

NOTE E - CREDIT AGREEMENT

In July 2012, the Lottery entered into an agreement with Wells Fargo Bank effective May 15, 2012 for an automatic unsecured overdraft line of credit sweep in the amount of \$4,000,000 with a variable interest rate. In July 2005, the Lottery had entered an agreement with First Community Bank (US Bank) effective May 15, 2005 for an automatic unsecured overdraft line of credit sweep in the amount of \$1,000,000 with a fixed interest rate at the Wall Street Journal interest rate less .500 percentage points (2.75% at June 30, 2011). This line matured on May 14, 2008, May 14, 2010, and May 14, 2012, with no further extensions. For the years ended June 30, 2012 and 2011, the Lottery had no outstanding borrowings against either line of credit.

NOTE F - LEASES

In 1996 the Lottery entered into operating leases for the rental of office and warehouse space for a term of ten years. In September 2002, the Lottery renegotiated these leases. The leases were extended until March 31, 2013 at the same lease amounts that were to be paid in the final year of the original lease with no further yearly escalations of the monthly lease amounts.

In June 2012, the Lottery executed a new lease for its corporate office and warehouse space. The new lease commences on July 1, 2012 and cancels the remaining nine months of the 2002 lease extension. The new lease is for ten years and nine months, ending on March 31, 2023. The Lottery has the option to extend the new lease for five additional years until March 31, 2028.

Rent expense was \$465,653 and \$471,258 for the years ended June 30, 2012 and 2011, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE F - LEASES - CONTINUED

Future minimum rental payments on these leases with original terms of one year or more are scheduled as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 369,067
2014	283,213
2015	283,213
2016	283,213
2017	283,213
2018-2023	<u>1,658,475</u>
	<u>\$ 3,160,394</u>

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

	<u>2012</u>	<u>2011</u>
Minimum rentals	\$ 431,087	\$ 431,485
Less: Subleases	<u>-</u>	<u>-</u>
	<u>\$ 431,087</u>	<u>\$ 431,485</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE F - LEASES - CONTINUED

As part of the agreement with INTRALOT, Inc., to provide an updated on-line gaming system, the Lottery installed and implemented a new internal control system (ICS) in fiscal year 2009. The cost for the ICS is included in the fixed fee paid to the vendor as a percentage of net sales. The Lottery has accounted for this transaction as a capital lease. The ICS cost was projected over the initial term of the contract of seven years and has been capitalized on the books of the Lottery at the present value of this cost, as determined with a discount rate of 4%.

Years ending June 30:

2013	\$	8,237
2014		8,237
2015		8,237
2016		3,433
Total minimum payments		<u>28,144</u>
Less the amount representing interest		<u>(6,863)</u>
Present value of net minimum payments	\$	<u>21,281</u>

As part of the 2002 lease extension with NMLB, LLC, the Lottery received \$50,000 in 2012 to be used for tenant improvements to the facility. In addition, as part of the 2012 lease, the Lottery received \$1,858, which represented 25% of the cost of xeriscaping the facility. The Lottery has capitalized the \$51,858 as tenant improvements with a related deferred liability to be amortized over the life of the lease using the straight-line method.

Years ending June 30:

2013	\$	4,787
2014		4,787
2015		4,787
2016		4,787
2017		4,787
Thereafter		<u>27,524</u>
Total minimum payments	\$	<u>51,459</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

NOTE G - COMMITMENT

Effective on November 15, 2007, the Lottery entered into an agreement with INTRALOT, Inc., a Georgia-based company, to provide an updated on-line gaming system for a total of seven years with the option of three additional one year periods or any combination thereof. The system includes the supply, installation, maintenance, service, and operation of a communication network, lottery terminals and peripheral equipment for the Lottery's existing and future retailers, ticket scanners to enable players to check their tickets for prizes, self service ticket vending machines that sell both instant and drawing game tickets, a disaster recovery and business continuity facility, and various employees to operate the system and provide sales and marketing support to the Lottery. The transition to this new on-line gaming system took place on November 16, 2008. Since November 21, 2008, the on-line vendor fee has been fixed at 1.5% of net sales, plus the applicable gross receipts tax.

NOTE H - OTHER EXPENSES

Other expenses at June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Registrations and memberships	\$ 25,712	\$ 25,924
Training	15,982	24,358
Other	10,723	13,974
Publications and subscriptions	<u>3,310</u>	<u>3,490</u>
	<u>\$ 55,727</u>	<u>\$ 67,746</u>

New Mexico Lottery Authority

BUDGETARY COMPARISON STATEMENTS

Years ended June 30, 2012 and 2011

	2012				2011			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Instant ticket sales	\$ 80,000,000	\$ 72,000,000	\$ 71,632,710	\$ (367,290)	\$ 84,500,000	\$ 78,000,000	\$ 78,857,176	\$ 857,176
Powerball sales	27,000,000	34,000,000	33,795,664	(204,336)	36,000,000	27,000,000	29,113,287	2,113,287
Mega Millions sales	9,500,000	14,000,000	14,330,230	330,230	11,000,000	9,500,000	10,665,551	1,165,551
Roadrunner Cash sales	10,000,000	7,800,000	7,520,021	(279,979)	6,500,000	10,000,000	8,754,477	(1,245,523)
Hot Lotto sales	8,000,000	5,600,000	5,438,475	(161,525)	9,000,000	8,000,000	7,571,584	(428,416)
Pick 3 sales	3,600,000	3,700,000	3,638,558	(61,442)	3,000,000	3,600,000	3,731,680	131,680
Quickster sales	1,900,000	300,000	453,448	153,448	-	-	-	-
Retailer fees	11,000	14,000	16,250	2,250	16,000	11,000	12,674	1,674
Prize tickets	(3,400,000)	(3,100,000)	(2,890,810)	209,190	(3,800,000)	(3,250,000)	(3,086,281)	163,719
Spoiled, stolen, and promotional tickets	(187,000)	(147,000)	(130,944)	16,056	(192,000)	(137,000)	(66,440)	70,560
Bad debts	(24,000)	(24,000)	(12,000)	12,000	(24,000)	(24,000)	(12,000)	12,000
Total revenues	136,400,000	134,143,000	133,791,602	(351,398)	146,000,000	132,700,000	135,541,708	2,841,708
Total game expenses	89,964,000	88,173,000	87,380,548	(792,452)	96,271,000	87,567,000	89,294,282	1,727,282
Total operating expenses	5,456,000	5,368,000	5,146,244	(221,756)	5,975,000	5,344,000	4,975,089	(368,911)
Operating income	40,980,000	40,602,000	41,264,810	662,810	43,754,000	39,789,000	41,272,337	1,483,337
Total non-operating income	80,000	42,000	63,933	21,933	75,000	30,000	34,953	4,953
Net income before transfers to Lottery Tuition Fund	\$ 41,060,000	\$ 40,644,000	\$ 41,328,743	\$ 684,743	\$ 43,829,000	\$ 39,819,000	\$ 41,307,290	\$ 1,488,290

New Mexico Lottery Authority

SCHEDULES OF PERCENTAGE RETURN TO THE STATE OF NEW MEXICO

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Instant ticket sales	\$ 71,632,710	\$ 78,857,176
Powerball sales	33,795,664	29,113,287
Mega Millions sales	14,330,230	10,665,551
Roadrunner Cash sales	7,520,021	8,754,477
Hot Lotto sales	5,438,475	7,571,584
Pick 3 sales	3,638,558	3,731,680
Quickster sales	453,448	-
Retailer fees	16,250	12,674
Prize tickets	(2,890,810)	(3,086,281)
Spoiled, stolen, and promotional tickets	(130,944)	(66,440)
Bad debts	(12,000)	(12,000)
Total revenues	<u>133,791,602</u>	<u>135,541,708</u>
NON-OPERATING INCOME		
Other income	45,464	11,396
Interest income	18,469	23,557
Total non-operating income	<u>63,933</u>	<u>34,953</u>
GROSS REVENUES	<u>133,855,535</u>	<u>135,576,661</u>
GAME EXPENSES		
Prize expense	72,027,308	73,613,337
Retailer commissions	8,696,851	8,859,206
Advertising	2,277,892	2,286,794
On-line vendor fees	2,139,754	2,170,366
Ticket vendor fees	1,177,708	1,350,379
Shipping and postage	410,422	423,742
Promotions	381,179	323,236
Drawing game	116,532	122,372
Responsible gaming	87,400	87,400
Game membership	65,502	57,450
Total game expenses	<u>87,380,548</u>	<u>89,294,282</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	3,583,778	3,456,748
Leases and insurance	585,629	593,740
Utilities and maintenance	431,189	402,813
Materials and supplies	153,867	104,361
Professional fees	150,651	123,524
Depreciation and amortization	115,933	160,834
Travel	69,470	65,323
Other	55,727	67,746
Total operating expenses	<u>5,146,244</u>	<u>4,975,089</u>
OPERATING INCOME	<u>41,264,810</u>	<u>41,272,337</u>
NET INCOME	<u>\$ 41,328,743</u>	<u>\$ 41,307,290</u>
GROSS REVENUE PERCENTAGE RETURN	<u>30.88%</u>	<u>30.47%</u>

New Mexico Lottery Authority

EXIT CONFERENCE

For the Year Ended June 30, 2012

An exit conference was held at the New Mexico Lottery Authority on October 11, 2012. The following individuals participated:

Name	Title
<i>New Mexico Lottery Authority Finance/Audit Committee</i>	
Reta Jones, CPA	Board Assistant Secretary/Treasurer Vice-Chair
Ken Hoeksema	Secretary
Mark Koson	Treasurer
Clifford Stroud, MBA	Board Member
Dan Salzwedel	Board Member
Amy Bailey	
<i>New Mexico Lottery Authority Employees</i>	
Tom Romero	Chief Executive Officer
Sylvia Ann Jaramillo, CPA	Director of Finance
David Ramirez	Director of MIS
Michael Boland, CPA	Internal Auditor
Vince Torrez	Executive Vice President of Security
Evelyn McKnight	Director of Human Resources
Adriana Binns	Director of Marketing & Communications
Pam Poteat	Director of Sales
<i>Moss Adams LLP</i>	
Scott Eliason, CPA	Audit Partner

Financial Statement Preparation

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