

NEW MEXICO LOTTERY AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2020 and 2019



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New Mexico Lottery Authority

OFFICIAL ROSTER

June 30, 2020

BOARD OF DIRECTORS

Reta Jones, CPA	Chair
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(Dr. Dan Salzwedel; Amy Bailey, Esq.; Mark Koson; and Aubrey McGowen served until the appointment of the new board members in November 2019).

OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY

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

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

adopt, amend, or repeal rules, policies and procedures necessary for the operation of the Lottery;

approve, disapprove, amend, or modify the original budget for the succeeding fiscal year and any revised budget during a fiscal year;

review and discuss current financial information and the Lottery's performance to the approved budget for the fiscal year;

approve or disapprove all procurements over seventy-five thousand dollars and the resulting award of contracts;

approve the financial audit contract after (or pending) Office of the State Auditor (State Auditor) approval, hold audit entrance and exit conferences with the independent public accountants (IPA) at an executive session of the Board or in the Finance/Audit Committee, and at an open meeting accept the fiscal year audit following release by the State Auditor and presentation by the IPA;

listen to and discuss Lottery updates on sales, games, issues, etc.;

review, discuss, and accept internal audit reports; and

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

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.

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees. Within the Executive Division, the Chief Operating Officer serves as the organization's chief of staff and directly oversees the activities of all the divisions and departments of the Lottery, except for the Human Resources and the Internal Audit departments. The Executive Division is also designated as the Lottery's Central Purchasing Office. In addition, within the Executive Division, 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 Administration Division, under the direction of the Director of Administration, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; retailer accounts receivable and debt collection; capital asset accounting; game accounting; payroll and benefit preparation, accounting, payment, and review; and tax reporting and payment. In addition, the division provides financial reporting, disclosure, and compliance with generally accepted accounting practices and budget compilation, including the quarterly and annual financial reporting of revenues, expenses, and net revenues to the State of New Mexico; the financial audit and related compilation of financial statements, related notes, and the Management's Discussion and Analysis (MDA) for the fiscal year; the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year and the final (revised) proposed budget by division/department for Board of Directors' approval. Furthermore, the division is responsible for accounts payable and for claims center payment of prizes and sales of tickets.

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED

responsible for all aspects of corporate communications, including creating news releases and responding to requests for information by the public and the media.

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority, a component unit of the State of New Mexico, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the New Mexico Lottery Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico Lottery Authority's basic financial statements. The 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 basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020, on our consideration of the New Mexico Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of New Mexico Lottery Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Mexico Lottery Authority's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 7, 2020

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, 2020 and 2019 with comparative numbers for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements, which begin on page 30.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2020, the Lottery's total current assets of \$10,050,391 decreased by \$1,018,966, a decrease of 9.2%, while at the end of fiscal year 2019, the Lottery's total current assets of \$11,069,357 increased by \$1,202,401, an increase of 12.2%, in comparison to June 30th of each previous fiscal year.
- At the end of fiscal year 2020, the Lottery's total current liabilities of \$8,246,883 decreased by \$1,431,366, a decrease of 14.8%, and decreased by \$315,657, a decrease of 3.2%, to \$9,678,249 at the end of fiscal year 2019, each fiscal year in comparison to the end of the respective previous fiscal year.
- In fiscal year 2020, the total net ticket sales were \$127,053,161, a decrease of \$16,577,574, or a decrease of 11.5%, compared to the previous fiscal year. In fiscal year 2019, total net ticket sales were \$143,630,735, an increase of \$9,601,626, or a 7.2% increase, compared to net sales of \$134,029,109 in fiscal year 2018.
- Compared to the prior fiscal years, total game expenses of \$85,083,726 decreased by \$10,213,520, a decrease 10.7%, in fiscal year 2020 and increased by \$4,989,608, a 5.5% increase, to 95,297,246 in fiscal year 2019.
- Total operating expenses of \$3,653,549 increased by \$65,743, a 1.8% increase, in fiscal year 2020 and increased by \$350,307, a 10.8% increase, to \$3,587,806 in fiscal year 2019, each in comparison to the previous fiscal year.
- Non-operating income (expense) increased by \$57,193, a 228.3% increase, to \$82,249 in fiscal year 2020 and increased by \$16,770, a 202.4% increase, to \$25,056 in fiscal year 2019, compared to each preceding fiscal year.
- In fiscal year 2020, net income was \$38,408,135, a decrease of \$6,382,804, or (14.3)%, compared to the previous fiscal year. In fiscal year 2019, net income was \$44,790,939, an increase of \$4,303,956, or 10.6%, compared to fiscal year 2018's net income of \$40,486,983.
- 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 years 2020 and 2019, the Lottery transmitted 30.00% of gross revenues to the State in each month during the two fiscal years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL HIGHLIGHTS - CONTINUED

- Including the final transfer on July 31, 2020 of June 2020's net return, the Lottery has transferred \$860,191,771 to the State of New Mexico since the commencement of sales in April 1996.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Financial Statements. The Statements of Net Position on Page 30 and the Statements of Revenues, Expenses, and Changes in Net Position on page 31 report the Lottery's assets, liabilities, revenues and expenses in comparative format for fiscal year 2020 and fiscal year 2019. The Statements of Cash Flows on pages 32 and 33 report the sources and uses of cash for fiscal years 2020 and 2019. The Statements of Fiduciary Net Position on page 34 and Statements of Changes in Fiduciary Net Position on page 35 report the balances and activity of the Lottery's Retirement Plans for fiscal years 2020 and 2019.

Notes to Financial Statements. The Notes to Financial Statements on pages 36 to 58 provide additional information that is essential for a full understanding of the financial statements and provide more detailed data.

Schedules of Percentage Return to the State of New Mexico. The Schedules of Percentage Return to the State of New Mexico on page 59 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2020 and 2019 in compliance with the New Mexico Lottery Act.

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

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS

Total Net Position

At the end of fiscal years 2020 and 2019, the Lottery's net position was \$4,881,200 and \$4,620,000, respectively, with unrestricted net position of \$1,803,508 and \$1,648,564 for each fiscal year, respectively.

Total Assets

Table 1
Total Assets

	2020	2019	2018	Increase (Decrease) \$ Change 2019 to 2020	Increase (Decrease) % Change 2019 to 2020	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019
Cash and cash equivalents	\$ 5,127,367	\$ 6,026,545	\$ 4,931,472	\$ (899,178)	(14.9)%	\$ 1,095,073	22.2%
Accounts receivable, (net of allowance for doubtful accounts)	1,592,746	1,167,846	1,252,217	424,900	36.4	(84,371)	(6.7)
Reserves on Deposit	3,110,859	3,584,556	3,347,517	(473,697)	(13.2)	237,039	7.1
Inventory	2,770	153,037	105,906	(150,267)	(98.2)	47,131	44.5
Prepaid expenses	216,649	137,373	229,844	79,276	57.7	(92,471)	(40.2)
Total current assets	10,050,391	11,069,357	9,866,956	(1,018,966)	(9.2)	1,202,401	12.2
Net capital assets	3,077,692	3,228,892	3,323,396	(151,200)	(4.7)	(94,504)	(2.8)
Total assets	\$ 13,128,083	\$ 14,298,249	\$ 13,190,352	\$ (1,170,166)	(8.2)%	\$ 1,107,897	8.4%

Compared to the prior fiscal year, the Lottery's cash and cash equivalents decreased in fiscal year 2020 by \$899,178, a 14.9% decrease, while in fiscal year 2019 the Lottery's cash and cash equivalents increased by \$1,095,073, a 22.2% increase. The changes in cash and cash equivalents each year relate mainly to changes in accounts receivable, accounts payable and other current liabilities, prizes payable, and net position at the end of each fiscal year compared to the prior fiscal year. At the end of fiscal year 2020, the change in cash was primarily due to an increase in net position and the return of the Hot Lotto reserves netted against a reduction in prize payable and accounts payable and other current liabilities. In fiscal year 2019, the increase was primarily due to a decrease in prizes payable netted with an increase in the Lottery's net position at the end of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets - Continued

Accounts receivable from the Lottery's retailers are generally collected each Thursday through electronic bank transfers. Receivables are equal to sales net of any prizes paid by the retailers and any commissions earned, less the allowance for bad debts plus any miscellaneous receivables from any other source. The accounts receivable balance at the end of fiscal year 2020 was \$424,900 higher, an increase of 36.4%, compared to the end of the prior fiscal year. At the end of fiscal year 2020, the uncollected receivable balance for the last ten days of the year was higher due to sales being over \$1 million more during this time period netted against higher prizes paid and commissions paid compared to the uncollected receivable balance at the end of the prior fiscal year. The accounts receivable balance at the end of fiscal year 2019 was \$84,371 less than in fiscal year 2018, a 6.7% decrease. This change in accounts receivable at the end of fiscal year 2019 compared to fiscal year 2018 is primarily due to the cumulative amount due at the end of fiscal year 2019 for higher sales in the last eight days of the fiscal year combined with higher prizes and commissions being paid during this time compared to the cumulative amount due in fiscal year 2018 for sales less prizes and commission paid during the last seven days of the fiscal year.

The Lottery has amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as required by the Powerball® (Powerball), Hot Lotto® (Hot Lotto), Mega Millions® (Mega Millions), and Lotto America® (Lotto America) game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts of a decrease of \$473,697, a decrease of 13.2%, in fiscal year 2020 and an increase of \$237,039, a 7.1% increase, in fiscal year 2019, were caused by the receipts of interest earned on the deposits with MUSL; payments of game expenses; changes to the Powerball, Mega Millions, Hot Lotto, and Lotto America reserve accounts, as required by the MUSL game rules; the re-balancing of the reserve accounts, and in fiscal year 2020 the reimbursement of the reserve balance of \$553,815 for Hot Lotto following the end of the game and the payment of all claims.

The inventory balance at the end of fiscal year 2020 decreased by \$150,267, a 98.2% decrease, while in fiscal year 2019 the inventory balance increased by \$47,131, a 44.5% increase. In fiscal year 2019, the Lottery had paid for ten prizes totaling \$150,000 that were included in prize inventory. These ten prizes were awarded in fiscal year 2020. In addition, at the end of fiscal years 2020 and 2019, the Lottery had inventory of \$2,770 and \$3,037, respectively, for one promotional instant game. In fiscal year 2018, under an agreement signed with a secondary instant ticket printer in March 2010 and amended in March 2014, the Lottery had purchased instant tickets printed by this vendor. The Lottery accounted for games printed under this agreement as ticket inventory using the specific identification method at the lower of cost or market. At the end of fiscal year 2018, the Lottery had remaining inventory purchased under this agreement of \$102,607 for fourteen games.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets - Continued

The changes in capital assets in fiscal years 2020 and 2019 are primarily attributable to \$70,321 and \$117,865 in capital asset purchases and \$221,521 and \$212,369 in depreciation, for the two fiscal years, respectively.

Total Liabilities

Table 2
Total Liabilities

	2020	2019	2018	Increase (Decrease) \$ Change 2019 to 2020	Increase (Decrease) % Change 2019 to 2020	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019
Current liabilities							
Accounts payable and other current liabilities	\$ 1,640,354	\$ 2,027,759	\$ 1,904,502	\$ (387,405)	(19.1)%	\$ 123,257	6.5%
Current portion of note payable	-	257,456	248,614	(257,456)	(100.0)	8,842	3.6
Prizes payable	3,052,106	4,249,203	4,808,213	(1,197,097)	(28.2)	(559,010)	(11.6)
Due to Lottery Tuition Fund	3,554,423	3,143,831	3,032,577	410,592	13.1	111,254	3.7
Total current liabilities	8,246,883	9,678,249	9,993,906	(1,431,366)	(14.8)	(315,657)	(3.2)
Long-term liabilities							
Noncurrent portion of note payable	-	-	257,446	-	-	(257,446)	(100.0)
Total liabilities	\$ 8,246,883	\$ 9,678,249	\$ 10,251,352	\$ (1,431,366)	(14.8)%	\$ (573,103)	(5.6)%

Accounts payable and other current liabilities decreased by \$387,405, a decrease of 19.1% in fiscal year 2020, while in fiscal year 2019 the accounts increased by \$123,257, a 6.5% increase. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to four vendors for advertising, the on-line gaming system, instant ticket printing, and the Lottery's share of prizes payable to MUSL for Powerball, Lotto America, and Mega Millions. Sales during the last weeks of each fiscal year and advertising incurred, but not billed, will generally determine the amounts owed at the end of each fiscal year to these vendors and whether that amount is higher or lower than in the prior fiscal year.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw game and instant games, the related unremitted federal and state

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities - Continued

taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2020, prize payable decreased by \$1,197,097, a 28.2% decrease, and in fiscal year 2019, prizes payable decreased by \$559,010, a decrease of 11.6%.

These differences relate to the changes in prizes payable on individual Lottery games between the fiscal years as a result of sales in each fiscal year and prizes not yet claimed. In addition, in both fiscal years 2020 and 2019, the Lottery used unclaimed prizes to enable it to meet the 30% return to the Lottery Tuition Fund and to supplement the prizes in Scratchers (instant ticket) games to maximize sales in ten of the twelve months in fiscal year 2020 and in eleven of the twelve months in fiscal year 2019. The unclaimed prize fund balance was \$897,460 and \$1,945,665 at the end of fiscal years 2020 and 2019, respectively.

At the end of fiscal years 2020 and 2019, respectively, \$3,554,423 and \$3,143,831 of net revenues for the month of June were due to the Lottery Tuition Fund. These funds were transferred to the New Mexico State Treasurer by the end of July of each year.

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

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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

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

Fiscal Year	Total Net Instant Ticket Sales	%	Total Net Draw Game Sales	%	Gross Revenues*	Return to the Lottery Tuition Fund	\$ Change to the Lottery Tuition Fund Return	% Change to the Lottery Tuition Fund Return	Powerball (PB) and Mega Millions (MM) Highest Jackpots in the Fiscal Year (M=Million; B=Billion)
2010	\$ 78,420,660	55%	\$ 65,165,762	45%	\$143,605,807	\$ 43,608,826			\$261.6M PB \$266M MM
2011	\$ 75,763,425	56%	\$ 59,777,610	44%	\$135,576,661	\$ 41,307,290	\$ (2,301,536)	-5.3%	\$221.7M PB \$355M MM
2012	\$ 68,736,331	51%	\$ 65,051,021	49%	\$133,855,535	\$ 41,328,743	\$ 21,453	0.1%	\$336.4M PB \$656M MM
2013	\$ 69,886,435	49%	\$ 71,872,087	51%	\$141,814,113	\$ 43,684,681	\$ 2,355,938	5.7%	\$590.5 M PB \$198M MM
2014	\$ 69,804,813	51%	\$ 66,197,791	49%	\$136,057,414	\$ 40,941,550	\$ (2,743,131)	-6.3%	\$448.4M PB \$648M MM
2015	\$ 79,956,236	58%	\$ 57,060,487	42%	\$137,063,592	\$ 41,121,221	\$ 179,671	0.4%	564.1M PB \$326M MM
2016	\$ 83,105,873	54%	\$ 71,238,895	46%	\$154,402,802	\$ 46,324,157	\$ 5,202,936	12.7%	\$1.586B PB \$202M MM
2017	\$ 72,398,832	57%	\$ 53,642,432	43%	\$126,111,773	\$ 37,835,459	\$ (8,488,698)	-18.3%	\$487M PB \$536.3M MM
2018	\$ 72,291,175	54%	\$ 61,737,934	46%	\$134,055,256	\$ 40,218,983	\$ 2,383,524	6.3%	\$758.7M PB \$533M MM
2019	\$ 74,941,122	52%	\$ 68,689,613	48%	\$143,690,224	\$ 43,109,939	\$ 2,890,956	7.2%	\$768.4M PB \$1.537B MM
2020	\$ 79,313,453	62%	\$ 47,739,708	38%	\$127,150,418	\$ 38,146,935	\$ (4,963,004)	-11.5%	\$396.9M PB \$414M MM

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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

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 2020 and 2019, the Lottery transmitted a 30 percent return each month, totaling \$38,146,935 and \$43,109,939, respectively.

The changes in net income for fiscal years 2020 and 2019 were related to the changes in sales for the Lottery's games during the two years netted against savings in the cost of the product and operating expenses during the two fiscal years, which will be further reviewed in the following pages of this Management's Discussion and Analysis.

Table 3 reflects the previous eleven years of both net sales by the type of games and the return to the Lottery Tuition Fund. Each fiscal year reflects at least a 30% return on the gross revenues for that fiscal year. The four fiscal years 2010, 2013, 2016, and 2019 (highlighted in yellow) are the years with the highest return to the Lottery Tuition Fund in the Lottery's twenty-five fiscal years.

For fiscal year 2020, the Lottery's return of \$38.1 million decreased by nearly \$5 million from the previous fiscal year. This decrease was due to the decrease in draw game sales of \$20.95 million, mainly due to the jackpot size for both Powerball and Mega Millions. The largest jackpots were \$396.9 million for Powerball and \$414 million for Mega Millions. Jackpot fatigue continued to affect the level of sales on these two games. However, net instant ticket sales increased by \$4.37 million in fiscal year 2020 compared to fiscal year 2019, adding over \$1.3 million to the transfer.

In the second half of fiscal year 2020, because the Lottery could no longer sustain the level of instant game prizes being paid to players and still return 30% to the Lottery Tuition Fund, the prize structures for instant games were adjusted, decreasing the overall prize payout for new games being printed and sold. The prize payout in fiscal year 2020 was decreased by 2.67% to 58.70%, compared to the prior fiscal year.

This change initially caused net instant sales to be reduced in February 2020 and March 2020, but then sales started picking up in April 2020. May 2020 had the highest average daily sales of over \$288,000 per day followed by June's average daily sales of over \$270,700 per day, both months compared to the average daily sales of over \$204,000 during the first ten months of the year.

The effects of the coronavirus pandemic on consumer behavior in New Mexico are not fully known and therefore, are not assessed in this sales analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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

Fiscal year 2019 had the fourth highest return of \$43.1 million to the Lottery Tuition Fund. This return was primarily due to the increase in net instant ticket sales, as well as the increase in Mega Millions ticket sales for the fiscal year compared to fiscal year 2018. With an increase of 1.36% in the instant ticket prize payout to 61.37%, along with strategically selecting the price points and the type of games being introduced into the sales mix each month, the Lottery was able to produce \$2.65 million in additional net instant ticket sales. Fortunately, the Mega Millions jackpot also increased to the game's record setting \$1.537 billion in October 2018 and along with other large jackpots during the year produced nearly \$9.4 million in additional Mega Millions sales in fiscal year 2019 compared to fiscal year 2018.

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

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

Fiscal year 2016's return of \$46.3 million is the highest return to the Lottery Tuition Fund. This return is attributable to Powerball sales of \$43.3 million primarily due to the record-setting Powerball jackpot of \$1.586 billion and to net instant ticket sales continuing to increase to \$83.1 million; the prize payout for instant tickets continued to be over 63 percent for another year at 63.29%.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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

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

In summary, for three of the four highest returns during the Lottery's twenty-five fiscal year history, net instant ticket sales greatly contributed to the returns for those fiscal years along with the net draw game sales. Prize payout for net ticket instant sales in these three fiscal years were higher than the average instant ticket prize payout during this eleven-year period, producing higher net instant ticket sales and as a result a higher return to the Lottery Tuition Fund. In fiscal year 2017, the prize payout on net instant ticket was reduced from the prior fiscal year by 2.54%; net instant ticket sales dropped by \$10.7 million, (12.9)%. This change, along with a reduction in net draw game sales, produced a return to the Lottery Tuition Fund of nearly \$8.5 million less than in the previous fiscal year; \$3.2 million of this fiscal year 2017 decrease to the return is directly attributable to the \$10.7 million decrease in net instant ticket sales. Generally, this table illustrates that the Lottery achieved higher net instant ticket sales and therefore, higher dollar returns to the Lottery Tuition Fund when there were higher prize payouts in instant games.

In general, instant ticket sales in these years have been the foundation for year-over-year sales growth for the Lottery with high jackpots for draw games adding incremental sales.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense

Table 4
Net Ticket Sales and Prize Expense

2020	Net Ticket Sales	Prize Expense
Instant ticket	\$ 79,313,453	\$ 42,901,203
Powerball	16,779,341	8,531,385
Mega Millions	11,490,443	5,801,932
Roadrunner Cash	8,133,868	4,555,629
Pick 3	5,089,107	2,968,520
Lotto America	3,663,450	1,771,367
Pick 4	1,654,766	1,147,788
Fast Play (Formerly Quicksters)	928,733	611,043
Total	<u>\$ 127,053,161</u>	<u>\$ 68,288,867</u>
2019	Net Ticket Sales	Prize Expense
Instant ticket	\$ 74,941,122	\$ 41,349,332
Powerball	26,926,003	13,543,102
Mega Millions	22,539,843	11,313,822
Roadrunner Cash	7,293,605	4,340,822
Pick 3	5,476,632	3,176,915
Lotto America	4,462,937	2,091,983
Pick 4	1,060,208	607,997
Fast Play (Formerly Quicksters)	859,871	572,334
Lucky Numbers Bingo	70,514	44,067
Total	<u>\$ 143,630,735</u>	<u>\$ 77,040,374</u>
2018	Net Ticket Sales	Prize Expense
Instant ticket	\$ 72,291,175	\$ 40,734,467
Powerball	29,611,869	14,961,648
Mega Millions	13,159,344	6,602,007
Roadrunner Cash	7,652,785	4,678,220
Pick 3	5,624,439	3,294,600
Lotto America	2,810,197	1,340,379
Hot Lotto	1,973,815	945,267
Fast Play (Formerly Quicksters)	785,565	510,662
Lucky Numbers Bingo	119,920	75,228
Total	<u>\$ 134,029,109</u>	<u>\$ 73,142,478</u>
\$ Decrease from FY 2019 to FY 2020	<u>\$ (16,577,574)</u>	<u>\$ (8,751,507)</u>
% Decrease from FY 2019 to FY 2020	<u>(11.5)%</u>	<u>(11.4)%</u>
\$ Increase from FY 2018 to FY 2019	<u>\$ 9,601,626</u>	<u>\$ 3,897,896</u>
% Increase from FY 2018 to FY 2019	<u>7.2%</u>	<u>5.3%</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Table 4 provides net ticket sales and prize expense for each Lottery game for fiscal years 2020, 2019, and 2018. In fiscal year 2020, net instant ticket, Roadrunner Cash, Pick 4, and Fast Play sales and the related prize expense increased, while Powerball, Mega Millions, Pick 3, and Lotto America sales and the related prize expense decreased compared to fiscal year 2019. In fiscal year 2019, net instant ticket, Mega Millions, Lotto America, and Fast Play sales and the related prize expense increased, while they decreased for Powerball, Roadrunner Cash, and Pick 3. Pick 4 was started in February 2019, while Lucky Numbers Bingo was ended in March 2019.

Net Ticket Sales

In fiscal year 2020, net instant ticket sales were \$79.3 million, a \$4.4 million increase, or a 5.8% increase, over the previous fiscal year. Whereas, in fiscal year 2019, net instant ticket sales were \$74.9 million, a \$2.6 million increase, or a 3.7% increase over fiscal year 2018.

In fiscal year 2020, net draw game sales were \$47.7 million, a decrease of nearly \$21 million, or a 30.5% decrease, compared to the previous fiscal year. While, in fiscal year 2019, net draw game sales were nearly \$68.7 million, an increase of nearly \$7 million, or an 11.3% increase, over fiscal year 2018.

Overall, net sales decreased by \$16.6 million, a decrease of 11.5%, to \$127 million in fiscal year 2020 and increased by \$9.6 million, an increase of 7.2%, to \$143.6 in fiscal year 2019.

Again, the effects of the coronavirus on shopping and purchasing behavior by consumers has not been fully evaluated and therefore, this analysis does not consider how this pandemic may have contributed to the changes in these instant ticket sales during the last few months of fiscal year 2020.

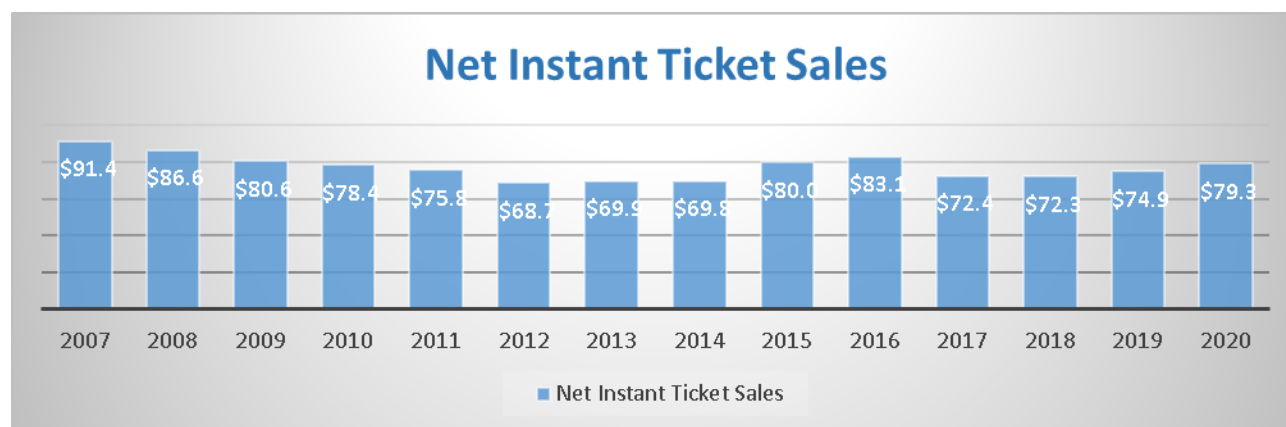
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

NET INSTANT TICKET SALES – FYs 2007 Through 2020



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

Unfortunately, in fiscal years 2018 and 2017, the Lottery was forced to substantially reduce supplemental funding of instant ticket prize payouts to meet the statutory mandated return of 30%. The Lottery reduced the prizes in instant ticket games and could not afford to launch a \$20 instant ticket game causing net instant sales in fiscal year 2017 to fall by \$10.7 million or 12.9% and by an additional \$108,000 in fiscal year 2018. This reduction in net instant ticket sales caused the return to the Lottery Tuition Fund to be nearly \$6.5 million less in combined return for fiscal years 2018 and 2017.

During fiscal year 2019, the prize payout was increased to 61.37% from the previous fiscal year’s prize payout of 60.01% and net instant ticket sales increased to \$74.9 million. The increase in net instant ticket sales was \$2.65 million, a 3.7% increase. Whereas, the \$1, \$2, and \$3 price point net sales decreased by more than \$3.6 million in FY 2019, the \$5 and \$10 price point net sales increased by more than \$6.2 million, compared to fiscal 2018 for the same price points.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

In fiscal year 2020, net instant ticket sales increased to \$79.3 million. Overall, in fiscal year 2020, \$1, \$2, and \$10 price point net sales decreased by more than \$3.8 million, while \$3 and \$5 price point net sales increased by more than \$8.2 million compared to the previous fiscal year's net sales for the same price points. Due to having limited unclaimed prize funds needed to sustain the payout on instant games and meet the thirty percent return, starting in February 2020, new games with lower prize payouts for players and smaller top prizes were printed and distributed. These new games changed the overall instant ticket prize payout from 61.29% for the fiscal year to date at the end of January 2020 to a payout of 58.70% for the fiscal year by the end of June 2020. Despite this change in prize payout, during the last quarter of the fiscal year, especially in May and June 2020, the average daily sales increased adding more than \$5 million additional net instant tickets sales for the quarter compared to the average for the previous three quarters; thus, returning more than 1.5 million additional dollars to the Legislative Lottery Scholarship fund.

The Lottery has continued to use the customer relationship management (CRM) system for placing instant game tickets at retailer locations. The Lottery's customer service representatives have continued placing calls each week to retailer locations, reviewing the inventory at the location with the retailer, and placing orders as needed based on the inventory turnover at each location. In fiscal year 2020, fifty new instant ticket games were launched – 15 - \$1, 9 - \$2, 5 - \$3, 13 - \$5, 8 - \$10, and 0 - \$20 games – 3 more \$1, 2 more \$2, 2 less \$3, 2 more \$5, 1 less \$10 games than in the previous fiscal year. In fiscal year 2019, forty-six new instant ticket games were launched – 12 - \$1, 7 - \$2, 7 - \$3, 11 - \$5, 9 - \$10 and 0 - \$20 games – 1 more \$1, 4 less \$2, 2 more \$3, 4 more \$5, 5 more \$10 games than in fiscal year 2018. In fiscal year 2020, the Lottery launched 25 games with free (prize) tickets and 25 games without prize tickets, while in fiscal year 2019, the Lottery launched 23 games with prize tickets and 23 games without prize tickets.

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

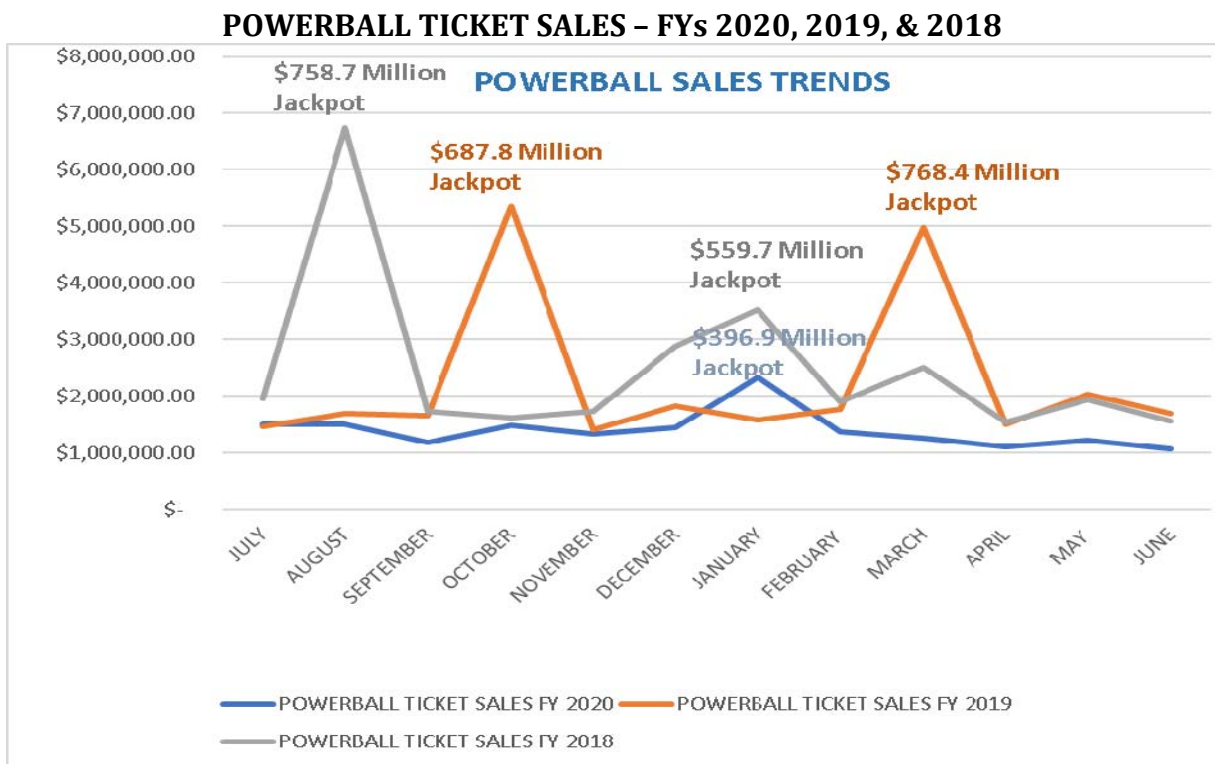
FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Higher draw game sales generally occur when the jackpots start climbing. Unfortunately, the Lottery has no influence over the amount that jackpots will grow and cannot predict when jackpot run-ups will happen. In some fiscal years, the jackpots will roll to extremely high jackpots, such as in fiscal year 2019 for Mega Millions where the jackpot climbed to \$1.537 billion and in fiscal year 2016 for Powerball where the jackpot climbed to \$1.586 billion, and in those fiscal years, the net draw game sales were higher than normal and the return to the Lottery Tuition Fund was higher than in most fiscal years. But in some fiscal years, even with jackpots approaching half-a-billion-dollars, net draw game sales do not grow, as was the case in fiscal year 2020 where the Powerball jackpot grew to \$396.9 million and the Mega Millions jackpot grew to \$414 million.

Powerball Ticket Sales



Powerball sales were driven by the advertised jackpot in both fiscal years 2020 and 2019. The jackpot that will influence the casual players into buying a jackpot ticket has kept growing. Fiscal year 2020 included a \$396.9 million jackpot in January 2020 with nine other jackpots during the year ranging from \$22 million to \$198 million. With these smaller jackpots during the year, Powerball ended the fiscal year with \$10.1 million less sales than in

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

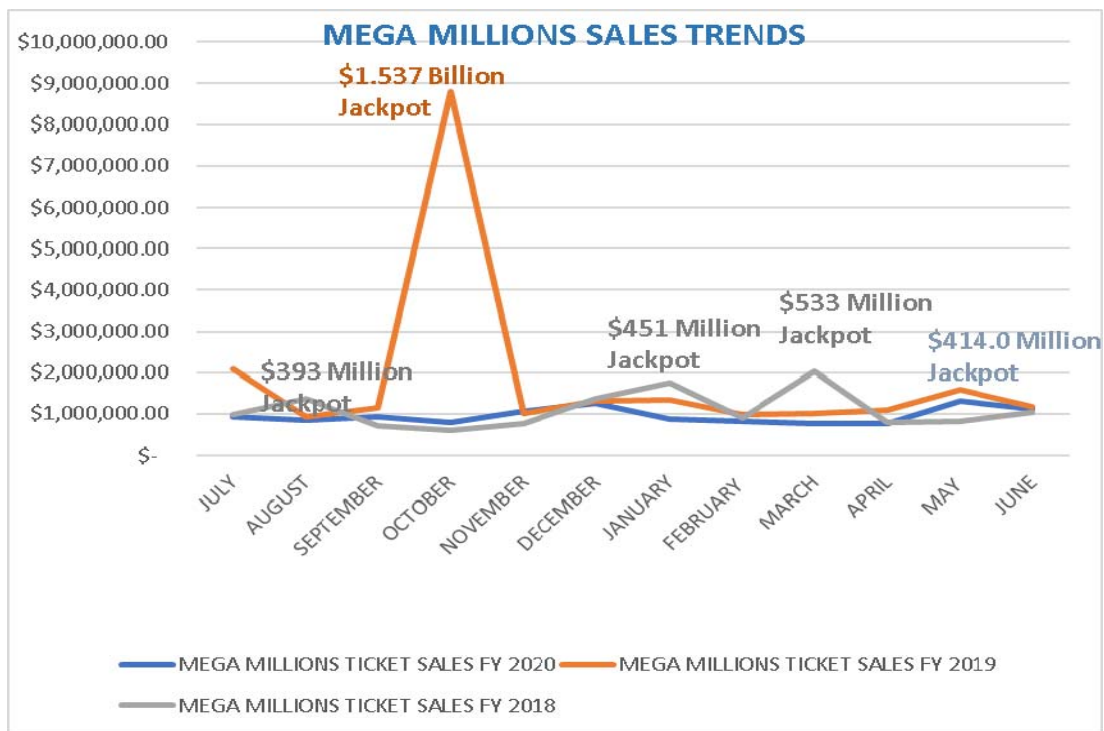
Powerball Ticket Sales –Continued

the prior fiscal year, a decrease of 37.7% in sales. Powerball’s sales of nearly \$16.8 million in fiscal year 2020 were the least sales in the twenty-four fiscal years since Powerball sales started in October 1996.

Fiscal year 2019 included a \$687.8 million jackpot in October 2018, a \$768.4 million jackpot in March 2019 and a \$344.6 million jackpot that ended on June 1, 2019, along with a \$245.6 million jackpot and a \$298.3 million jackpot during the fiscal year. Powerball ended the fiscal year with nearly \$2.7 million less sales than in fiscal year 2018, a 9.1% decrease in sales.

Mega Millions Ticket Sales

MEGA MILLIONS TICKET SALES – FYs 2020, 2019, 2018



Mega Millions sales are also driven by the jackpot amount and the game has also been experiencing jackpot fatigue, where players keep looking for bigger and bigger jackpots before they buy a ticket. In fiscal year 2020, Mega Millions’ largest jackpot was a \$414 million jackpot in June 2020 with a \$375 million jackpot in December 2019, a \$225 million jackpot in September 2019, a \$202 million jackpot in February 2020 and a \$168 million jackpot in July

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Mega Millions Ticket Sales -Continued

2019. Compared to the prior fiscal year, Mega Millions ended the year with \$11 million less in sales, 49% less in sales.

Fortunately, in fiscal year 2019, Mega Millions had a \$1.537 billion jackpot in October 2018, as well as a \$543 million jackpot in July 2018 and a \$522 million jackpot in June 2019, along with a \$437 million jackpot, a \$273 million jackpot, and a \$50 million jackpot. Due to the jackpots in the fiscal year, Mega Millions ended fiscal year 2019 nearly \$9.4 million ahead of the previous fiscal year, a 71.3% increase.

Other Draw Game Ticket Sales

Like Powerball and Mega Millions, Roadrunner Cash sales are driven by the top (jackpot) prize amount. In fiscal year 2020, Roadrunner Cash climbed to the record setting jackpot prize of \$950,000 in November 2019. During the months that this jackpot was growing, an estimated \$2.3 million of additional Roadrunner Cash sales occurred. In addition, during the fiscal year, the jackpot grew to \$550,000 in April. During this time period, an estimated \$850,000 of additional purchases were made. Twelve other Roadrunner jackpots ranged from \$33,000 to \$218,000 in the fiscal year. All in all, Roadrunner Cash sales were nearly \$8,134,000, an increase of more than \$840,000 compared to fiscal year 2019, an increase of 11.5%.

In fiscal year 2019, the top prizes for Roadrunner Cash climbed to \$402,000, \$373,000, \$360,000, \$350,000, \$320,000, and \$270,000 with three prizes over \$132,000 and one prize of \$27,000. Since no prize rose to much more than \$400,000, sales for the fiscal year decreased by more than \$359,000, a 4.7% decrease, to nearly \$7.3 million in sales compared to \$7.65 million in Roadrunner Cash sales in fiscal year 2018.

Pick 3 sales had continued to grow in fiscal year 2018 by more than \$259,000, a 4.8% increase, to more than \$5.6 million. But, in fiscal year 2019, sales decreased by nearly \$150,000, a 2.6% decrease, to nearly \$5.5 million in sales. In fiscal year 2020, Pick 3 sales continued to decrease by over \$388,000, a decrease of 7.1%, to nearly \$5.1 million. Pick 3 has remained a core game for the Lottery bringing in steady monthly average net sales, in fiscal year 2020 ranging from \$393,000 to \$476,000 each month and in fiscal year 2019 ranging from \$394,000 to \$502,000 each month.

In fiscal years 2020 and 2019, Pick 3 sales were impacted when a similar style game, Pick 4, was started in February 2019. Pick 4 added over one million dollars to sales for fiscal year

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Other Draw Game Ticket Sales-Continued

2019 and added nearly \$1.65 million in its first full year in fiscal year 2020.

Lotto America is a game that started in November 2017 after Hot Lotto ended. The Lotto America jackpot had started in May 2018 at \$2 million and grew all through fiscal year 2019 without being won. Finally, in July 2019 when the jackpot reached \$21.6 million, it was won. At that time, the Lotto America jackpot started again at \$2 million and grew to \$9 million through April 2020. The Lotto America jackpot started again at \$2 million and had grown to \$3.2 million by year end. Fiscal year 2019 sales were \$1.65 million more than in the previous fiscal year, 58.8% more, and ended the year at \$4.46 million. In fiscal year 2020, Lotto America sales were \$3.66 million, a decrease of nearly \$800,000, or (17.9)%.

Fast Play (formerly Quicksters) are instant-win games, similar to instant ticket games, but produced by the same Lottery sales terminals as draw game tickets and with no scratching needed to reveal the prizes. In fiscal year 2019, Fast Play sales increased by \$74,000 to nearly \$860,000, a 9.5% increase, while in fiscal year 2020, Fast Play net sales increased by nearly \$69,000 to nearly \$929,000, an 8% increase, over fiscal year 2019's sales.

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

Prize Expense

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

In fiscal year 2020 the overall prize payout decreased by .50%, while in fiscal year 2019 the overall prize payout increased by approximately .53%, prior to the application of unclaimed prizes. The decrease in fiscal year 2020 is primarily due to an overall decrease of 2.67% on instant games, while in fiscal year 2019 the increase is partially attributable to an increase of 1.36% on instant games, both years compared to the previous fiscal years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Expense – Continued

At the end of the claim period for each game, unclaimed prizes for the Lottery's instant games and draw games are paid into the "Prize Fund," in accordance with the New Mexico Lottery Act. These unclaimed prizes from the Lottery's prize fund have been used to meet the 30% return most months by supplementing the prizes in instant and draw games and for second-chance drawings and, thereby, reducing the prize expense for Lottery products, which in turn has helped the Lottery maximize its sales and its return to education. Unclaimed prizes were used to supplement prizes to meet the 30% return in fiscal year 2020 and 2019 for ten and eleven months in each fiscal year, respectively. In the last thirteen years, unclaimed prizes have been used 84% of the time to meet the mandated percentage return to the Lottery Tuition Fund; without the unclaimed prizes, the return percentage would not have been met. More than \$48 million in unclaimed prizes have been transferred to the Lottery Tuition Fund in the last thirteen years.

Prize Tickets

In fiscal year 2020, tickets provided as prizes (prize or free tickets) claimed for instant games increased by nearly \$54,900, an increase of 2.5%, while in fiscal year 2019 prize tickets decreased by \$126,000, or a decrease of 5.5%. Prize tickets are generally placed in the prize structure of the game in lieu of the breakeven prizes. Prize tickets give a player a prize of another instant game ticket of the same price point as the instant ticket that had the winning prize ticket. The Lottery continues to analyze what the optimal quantity of prize tickets should be to be able to boost its instant ticket sales.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 5
Game Expenses

	2020	2019	2018	Increase (Decrease) \$ Change 2019 to 2020	Increase (Decrease) % Change 2019 to 2020	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019
Prize expense	\$ 68,288,867	\$ 77,040,374	\$ 73,142,478	\$ (8,751,507)	(11.4)%	\$ 3,897,896	5.3%
Retailer commissions	8,278,747	9,287,586	8,693,661	(1,008,839)	(10.9)	593,925	6.8
On-line vendor fees	4,659,727	5,172,755	4,863,896	(513,028)	(9.9)	308,859	6.4
Advertising	2,010,807	1,958,039	1,768,393	52,768	2.7	189,646	10.7
Ticket vendor fees	1,344,824	1,181,407	1,246,929	163,417	13.8	(65,522)	(5.3)
Other game expenses	500,754	657,085	592,281	(156,331)	(23.8)	64,804	10.9
Total game expenses	\$ 85,083,726	\$ 95,297,246	\$ 90,307,638	\$ (10,213,520)	(10.7)%	\$ 4,989,608	5.5%

The changes in retailer commissions for fiscal years 2020 and 2019 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.5% of gross revenues for each year, respectively. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets; cashing Lottery prizes; and for selling a jackpot/grand prize for Powerball, Mega Millions, or Lotto America; for selling a match 5 prize for Powerball or Mega Millions; and for selling a jackpot prize of more than \$100,000 for Roadrunner Cash.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses – Continued

For fiscal years 2020 and 2019, the changes in the on-line vendor fees for the two fiscal years are consistent with the changes in net draw game and instant ticket sales for the fiscal years along with the increase in the vendor contract pricing as of November 2015 and are equivalent to 3.7% and 3.6% of gross revenues for the two years, respectively.

Advertising money is expended to market the Lottery and its products to the public and to inform the public about the games that are available; the jackpot and top prize amounts for the draw games; to provide security tips and gambling awareness for our players; and benefit messages to New Mexico students and their families; and to keep the lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.6% and 1.4% of gross revenues, respectively, for fiscal years 2020 and 2019 and stayed within the Lottery Board approved budgets of \$2,054,000 and \$2,000,000, respectively, for each fiscal year.

In March 2018, the Lottery signed a contract with an instant ticket printer, whereby payment is made for tickets ordered as a percentage of net instant sales when the tickets are sold. In both fiscal year 2020 and 2019, the cost for any licensing fees or special printing costs are also included in ticket vendor fees. The ticket vendor fees for fiscal year 2020 are 1.7% and for fiscal year 2019 are 1.6% of net instant ticket sales for each fiscal year, respectively.

Included in other game expenses are shipping and postage, promotions, responsible gaming, retailer equipment, and game membership expenses. Fiscal year 2020 reflects a decrease of more than \$156,000, a decrease of 23.8%, while fiscal year 2019 reflects an increase of \$64,800, a 10.9% increase. The decrease in fiscal year 2020 is mainly due to a \$62,500 reduction of ticket dispensers purchased in the fiscal year along with more than \$30,000 reductions in each line item for shipping and postage, promotions, and game membership expenses. The increase in fiscal year 2019 was primarily due to shipping and postage increasing as a result of a small increase in the contractual cost together with more packs of instant tickets being shipped because of higher instant ticket sales, as well as purchasing additional ticket dispensers and retailer equipment.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 6
Operating Expenses

	2020	2019	2018	Increase (Decrease) \$ Change 2019 to 2020	Increase (Decrease) % Change 2019 to 2020	Increase (Decrease) \$ Change 2018 to 2019	Increase (Decrease) % Change 2018 to 2019
Salaries, wages, and benefits	\$ 2,846,186	\$ 2,701,925	\$ 2,453,339	\$ 144,261	5.3%	\$ 248,586	10.1%
Utilities and maintenance	254,140	255,174	238,869	(1,034)	(0.4)	16,305	6.8
Leases and insurance	111,327	111,427	114,425	(100)	(0.1)	(2,998)	(2.6)
Other operating expenses	441,896	519,280	430,866	(77,384)	(14.9)	88,414	20.5
Total operating expenses	\$ 3,653,549	\$ 3,587,806	\$ 3,237,499	\$ 65,743	1.8%	\$ 350,307	10.8%

Operating expenses are made up of salaries, wages and benefits; utilities and maintenance; leases and insurance; and other operating expenses, which include depreciation and amortization, professional fees, materials and supplies, travel, and other expenses. In fiscal year 2020, operating expenses increased by \$65,700, an increase of 1.8%, and in fiscal year 2019, operating expenses increased by \$350,300, or 10.8%.

In the last six years, the Lottery has reduced its staffing from fifty-six employees with salary, wages, and benefits of \$3.73 million for fiscal year 2014 downward to thirty-two employees at the end of fiscal year 2020 with salary, wages, and benefits of \$2.85 million. This change represents 24 fewer employees and nearly an \$881,000 change in this expense from fiscal year 2014 to fiscal year 2020, a 23.6% change. This decrease in staffing has provided a savings to the Lottery of approximately \$2.7 million during the last six years. Fiscal year 2020 started with thirty-four employees, one employee was hired, and three employees terminated their employment. Fiscal year 2019 started with thirty-three employees and ended with thirty-four employees; four employees were hired, and three employees terminated their employment. In both fiscal years, employee positions continued to be restructured in order to achieve organizational continuity for the Lottery. In fiscal year 2020, five employees received promotions to new positions and twenty-seven employees received an average 2.9% in additional compensation. In fiscal year 2019, one employee was given a promotion and twenty-five employees received an average 3.7% increase in compensation during the fiscal year. In both fiscal years, these position changes and the employee compensation increases

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Operating Expenses - Continued

together with the related payroll taxes and benefits for the changes, as well as increases to the cost of premiums for health insurance, contributed to the increase in salaries, wages, and benefits compared to the prior fiscal year.

Operating expenses continue to be reduced since June 2015 when the Lottery purchased its corporate offices and warehouse. During this time, the Lottery has saved an estimated \$200,000 per fiscal year in operating expenses due to the purchase rather than a lease of the building.

Non-Operating Revenues

Non-operating revenues increased in both fiscal year 2020 and 2019. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2020 or 2019.

Non-Operating Expense

Due to the purchase of the Lottery's corporate offices and warehouse in fiscal year 2015, there was interest expense on the loan used to finance the purchase of the facility of \$5,008 and \$14,233 in fiscal years 2020 and 2019, respectively. As of June 26, 2020, the final payment was made by the Lottery on the loan for the purchase of its corporate offices and warehouse.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison

Table 7
Budgetary Comparison

	2020				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>% Variance with Final Budget</u>
Total operating revenues	\$ 135,634,000	\$ 120,586,000	\$ 127,063,161	\$ 6,477,161	5.4%
Total game expenses	90,630,000	80,633,000	85,083,726	4,450,726	5.5
Total operating expenses	<u>4,316,000</u>	<u>3,825,000</u>	<u>3,653,549</u>	<u>(171,451)</u>	(4.5)
Operating income	40,688,000	36,128,000	38,325,886	2,197,886	6.1
Total non-operating income	<u>7,000</u>	<u>72,000</u>	<u>82,249</u>	<u>10,249</u>	14.2
Net income before transfers to Lottery Tuition Fund	<u>\$ 40,695,000</u>	<u>\$ 36,200,000</u>	<u>\$ 38,408,135</u>	<u>\$ 2,208,135</u>	6.1%
	2019				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>% Variance with Final Budget</u>
Total operating revenues	\$ 129,488,000	\$ 136,754,000	\$ 143,650,935	\$ 6,896,935	5.0%
Total game expenses	86,523,000	91,868,000	95,297,246	3,429,246	3.7
Total operating expenses	<u>4,112,000</u>	<u>3,869,000</u>	<u>3,587,806</u>	<u>(281,194)</u>	(7.3)
Operating income	38,853,000	41,017,000	44,765,883	3,748,883	9.1
Total non-operating income (expense)	<u>(3,000)</u>	<u>20,000</u>	<u>25,056</u>	<u>5,056</u>	25.3
Net income before transfers to Lottery Tuition Fund	<u>\$ 38,850,000</u>	<u>\$ 41,037,000</u>	<u>\$ 44,790,939</u>	<u>\$ 3,753,939</u>	9.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison – Continued

In fiscal year 2020, the original annual budget was revised to reflect the sales performance for the Lottery's games. Instant ticket sales were decreased by \$6 million or (7.6)%, Powerball sales were decreased by \$9 million or (32.1)%, Pick 3 sales were decreased by \$200,000 or (3.9)%, and Pick 4 sales were decreased by \$800,000 or (34.8)%. Mega Millions, Roadrunner Cash, Lotto America, and Fast Play sales were not adjusted. Along with these changes in sales, tickets provided as prizes were reduced by \$800,000 or (28.6)%. Overall net ticket sales were decreased by \$15.05 million or (11.1)%. Game expense line items that are directly affected by sales were decreased due to the decreases in sales with these costs staying close to the percentage they had been in the original budget. In addition, promotions expense was reduced by \$85,000 and retailer equipment expense was reduced by \$137,000. The overall reduction to game expenses was 11.0%, which is close to the budgetary decrease in net ticket sales of 11.1%. All operating expenses were reduced. The largest reduction was to salaries, wages, and benefits, which was reduced by \$208,000 or (6.7)%. Overall, operating expenses were reduced by \$491,000 or (11.4)%. With the changes in the revised budget, the return to the Lottery Tuition Fund was decreased by nearly \$4.5 million or (11.1)%.

Fiscal year 2020 ended with operating revenues outperforming the final (revised) budget by nearly \$6.5 million, a 5.4% increase. Instant sales were \$8.4 million or 11.9%, Roadrunner Cash sales were \$634,000 or 8.5%, Pick 3 sales were 90,000 or 1.8%, Pick 4 sales were \$155,000 or 10.4%, and Fast Play sales were \$129,000 or 16.2%, more than the revised budget. Powerball sales were \$2.2 million or (11.7)%, Mega Millions sales were \$509,000 or (4.2)%, and Lotto America sales were \$236,000 or (6.1)%, less than the revised budget. Directly affected by sales, which surpassed the revised budget by 5.4%, game expenses were more than the revised budget by 5.5%. Operating expenses were less than the revised budget at 95.5% of the budget.

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

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS - CONTINUED

Budgetary Comparison - Continued

Fiscal year 2019 ended with net sales outperforming the final (revised) budget by nearly \$6.9 million, a 5.0% increase. Instant sales were \$2.4 million or 3.4% more than the budget, Powerball sales were \$2.9 million or 12.2% more, Mega Millions sales were \$1 million or 4.8% more, and Lotto America sales were \$763,000 or 20.6% more, while Roadrunner Cash, Pick 3, Pick 4, and Fast Play sales did not meet the budget; the Lucky Numbers Bingo game ended in March 2019. Directly affected by sales, which surpassed the revised budget by 5.0%, game expenses were more than the budget by only 3.7%. Operating expenses were less than the revised budget at 92.7% of the 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 of the Lottery as of June 30, 2020 and 2019, and results of its operations, cash flows, and percentage return to the state for the years then ended and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Administration at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

New Mexico Lottery Authority

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,127,367	\$ 6,026,545
Accounts receivable (net of allowance for doubtful accounts)	1,592,746	1,167,846
Reserves on deposit	3,110,859	3,584,556
Inventory	2,770	153,037
Prepaid expenses	<u>216,649</u>	<u>137,373</u>
Total current assets	10,050,391	11,069,357
NONCURRENT ASSETS		
Capital assets		
Nondepreciable	743,700	743,700
Depreciable, net of accumulated depreciation	<u>2,333,992</u>	<u>2,485,192</u>
Net capital assets	3,077,692	3,228,892
Total assets	<u>\$ 13,128,083</u>	<u>\$ 14,298,249</u>
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 1,640,354	\$ 2,027,759
Current portion of note payable	-	257,456
Prizes payable	3,052,106	4,249,203
Due to Lottery Tuition Fund	<u>3,554,423</u>	<u>3,143,831</u>
Total liabilities	<u>\$ 8,246,883</u>	<u>\$ 9,678,249</u>
NET POSITION		
Net investment in capital assets	\$ 3,077,692	\$ 2,971,436
Unrestricted	<u>1,803,508</u>	<u>1,648,564</u>
Total net position	<u>\$ 4,881,200</u>	<u>\$ 4,620,000</u>

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

New Mexico Lottery Authority

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Instant ticket sales	\$ 79,313,453	\$ 74,941,122
Powerball sales	16,779,341	26,926,003
Mega Millions sales	11,490,443	22,539,843
Roadrunner Cash sales	8,133,868	7,293,605
Pick 3 sales	5,089,107	5,476,632
Lotto America sales	3,663,450	4,462,937
Pick 4 sales	1,654,766	1,060,208
Fast Play sales	928,733	859,871
Lucky Numbers Bingo sales	-	70,514
Net ticket sales	<u>127,053,161</u>	<u>143,630,735</u>
Retailer fees	10,000	20,200
Total operating revenues	<u>127,063,161</u>	<u>143,650,935</u>
GAME EXPENSES		
Prize expense	68,288,867	77,040,374
Retailer commissions	8,278,747	9,287,586
On-line vendor fees	4,659,727	5,172,755
Advertising	2,010,807	1,958,039
Ticket vendor fees	1,344,824	1,181,407
Shipping and postage	294,173	327,190
Promotions	75,010	105,324
Responsible gaming	71,250	70,000
Retailer equipment	48,922	111,435
Game membership	11,399	43,136
Total game expenses	<u>85,083,726</u>	<u>95,297,246</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	2,846,186	2,701,925
Utilities and maintenance	254,140	255,174
Depreciation and amortization	221,521	212,369
Leases and insurance	111,327	111,427
Professional fees	108,430	135,867
Other	60,595	84,313
Materials and supplies	35,539	67,005
Travel	15,811	19,726
Total operating expenses	<u>3,653,549</u>	<u>3,587,806</u>
OPERATING INCOME	<u>38,325,886</u>	<u>44,765,883</u>
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(5,008)	(14,233)
Other income	66,103	13,396
Interest income	21,154	25,893
Total non-operating income	<u>82,249</u>	<u>25,056</u>
Net income before transfers	38,408,135	44,790,939
Transfers to Lottery Tuition Fund	<u>38,146,935</u>	<u>43,109,939</u>
Change in net position	261,200	1,681,000
Net position at beginning of year	<u>4,620,000</u>	<u>2,939,000</u>
Net position at end of year	<u>\$ 4,881,200</u>	<u>\$ 4,620,000</u>

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

New Mexico Lottery Authority

STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 118,359,514	\$ 134,447,720
Cash payments:		
To prize winners and related taxes	(58,119,566)	(64,777,539)
To MUSL	(11,366,398)	(12,821,845)
To suppliers of goods or services	(9,423,538)	(10,183,102)
To employees for services and related taxes	<u>(2,291,703)</u>	<u>(2,212,251)</u>
Net cash provided by operating activities	<u>37,158,309</u>	<u>44,452,983</u>
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(37,736,343)</u>	<u>(42,998,685)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(70,321)	(117,865)
Principal paid on capital debt	(257,456)	(248,604)
Interest paid on capital debt	<u>(5,137)</u>	<u>(14,357)</u>
Net cash used by capital and related financing activities	<u>(332,914)</u>	<u>(380,826)</u>
Cash flows from investing activities		
Receipts of interest	6,436	8,205
Other	<u>5,334</u>	<u>13,396</u>
Net cash provided by investing activities	<u>11,770</u>	<u>21,601</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(899,178)	1,095,073
Cash and cash equivalents at beginning of year	<u>6,026,545</u>	<u>4,931,472</u>
Cash and cash equivalents at end of year	<u>\$ 5,127,367</u>	<u>\$ 6,026,545</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 38,325,886	\$ 44,765,883
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	221,521	212,369
Vendors' non-cash transactions	(14,589)	(17,564)
Interest on MUSL unreserved account	14,718	17,688
Net changes in assets and liabilities:		
Accounts receivable	(424,900)	84,371
Reserves on deposit	549,184	(219,351)
Inventory	150,267	(47,131)
Prepaid expenses	(79,276)	92,471
Accounts payable and other liabilities	(387,405)	123,257
Prizes payable	<u>(1,197,097)</u>	<u>(559,010)</u>
Net cash provided by operating activities	<u>\$ 37,158,309</u>	<u>\$ 44,452,983</u>

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

New Mexico Lottery Authority

STATEMENTS OF FIDUCIARY NET POSITION

Years ended June 30, 2020 and 2019

	2020			2019		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 104,777	\$ -	\$ 104,777	\$ 98,153	\$ -	\$ 98,153
Marketable securities and other investments	6,694,857	916,496	7,611,353	5,933,528	723,644	6,657,172
Contribution receivable	41,686	4,322	46,008	36,632	4,193	40,825
Total assets	<u>\$ 6,841,320</u>	<u>\$ 920,818</u>	<u>\$ 7,762,138</u>	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>
NET POSITION						
Held in Trust for Pension plan participants' benefits	<u>\$ 6,841,320</u>	<u>\$ 920,818</u>	<u>\$ 7,762,138</u>	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>

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

New Mexico Lottery Authority

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years ended June 30, 2020 and 2019

	2020			2019		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ADDITIONS						
Net Gain in fair value of investments	\$ 277,457	\$ 49,201	\$ 326,658	\$ 43,141	\$ 12,267	\$ 55,408
Dividends	214,282	22,329	236,611	322,089	29,665	351,754
Employer contributions	288,124	-	288,124	272,426	-	272,426
Employee contributions	-	122,499	122,499	-	122,788	122,788
Other activity	1,072	111	1,183	-	-	-
Total additions	<u>780,935</u>	<u>194,140</u>	<u>975,075</u>	<u>637,656</u>	<u>164,720</u>	<u>802,376</u>
DEDUCTIONS						
Distributions to participants	7,928	1,159	9,087	13,208	-	13,208
Other activity	-	-	-	166	-	166
Total deductions	<u>7,928</u>	<u>1,159</u>	<u>9,087</u>	<u>13,374</u>	<u>-</u>	<u>13,374</u>
Change in net position	773,007	192,981	965,988	624,282	164,720	789,002
Net position - beginning	<u>6,068,313</u>	<u>727,837</u>	<u>6,796,150</u>	<u>5,444,031</u>	<u>563,117</u>	<u>6,007,148</u>
Net position - ending	<u>\$ 6,841,320</u>	<u>\$ 920,818</u>	<u>\$ 7,762,138</u>	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>	<u>\$ 6,796,150</u>

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

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

2. Basis of Presentation

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation – Continued

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2020 and 2019 there were no restricted resources.

3. Budgets and Budgetary Accounting

Each year, Lottery management prepares a budget in conformity with GAAP for the succeeding fiscal year. The Lottery's budget is not legally binding. The budget is presented by management to the Lottery's Board of Directors for review, amendment, and approval prior to the beginning of the next fiscal year. Any revisions to this budget during the fiscal year are also approved by the Lottery's Board of Directors. The Lottery's financial statements are usually 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, 2020 and 2019

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, 2020 and 2019, an allowance for doubtful accounts of \$38,545 and \$39,545, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2020 and 2019, ten retail customers (481 and 486 retailers) represented 62% and 63% of sales for each fiscal year, respectively, and 70% and 59% of accounts receivable at the end of each fiscal year, respectively.

6. Reserves on Deposit

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Reserves on Deposit – Continued

As of October 1, 2013, the Powerball prize reserve deduction was set to begin at two percent (2%) when the annuity jackpot, as determined after sales are known, exceeds \$120 million, and four percent (4%) when the annuity jackpot, as determined after sales are known, exceeds \$250 million. Powerball has two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA). The maximum amounts designated by the MUSL Powerball product group for the PRA is \$80 million and for the SPRA is \$40 million for all member lotteries. At June 30, 2020 and 2019, the Lottery's share in the Powerball PRA was \$865,755 and \$817,931, respectively, and in the SPRA was \$329,704 and \$365,218, respectively. The PRA was fully funded at the end of fiscal years 2020 and 2019. The SPRA was fully funded for fiscal year 2020, but required an additional \$13,658 to be fully funded at the end of 2019.

Hot Lotto ended on October 28, 2017. At June 30, 2019, the Lottery's share in the Hot Lotto PRA was \$553,815. Following the end of the game and all claims being paid, the \$553,815 was returned to the Lottery in fiscal year 2020.

MUSL may include an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales into the Mega Millions Prize Reserve Account (PRA). The MUSL product group increased the maximum PRA balance in October 2017 from the previous maximum amount of \$45 million to \$100 million for all party lotteries. At June 30, 2020 and 2019, the Lottery's share in the Mega Millions PRA was \$847,657 and \$904,309, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of fiscal years 2020 and 2019.

The game Lotto America began on November 12, 2017. MUSL includes up to 4% of the Lottery's Lotto America drawing period's sales, depending on the annuitized value of the Grand Prize, as determined after sales are known, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Lotto America PRA balance at \$12 million for all party lotteries. At June 30, 2020 and 2019, the Lottery's share in the Lotto America PRA was \$264,594 and \$204,222, respectively. The Lotto America PRA had not met its requirements of \$774,365 and \$712,093 as of June 30, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Reserves on Deposit – Continued

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2020 and 2019, the Lottery's share of the unreserved fund was \$803,149 and \$739,061, respectively.

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

7. Inventory

Since 2010, the Lottery has entered into various agreements with its primary instant ticket printers, whereby the printers have retained title to the instant ticket inventory until the instant tickets are sold. Under these agreements, the Lottery pays the printer a fee based on a fixed percentage of the net instant tickets sold; net instant tickets sold represents instant ticket sales less prize, spoiled, stolen, and promotional tickets. In addition, the Lottery signed an agreement in 2010 with a secondary instant ticket printer, whereby the Lottery purchased and owns the tickets printed. These tickets are carried at the lower of cost or market using the specific identification method. At the end of fiscal years 2020 and 2019, the Lottery was distributing games printed under the various agreements. As of June 30, 2020 and 2019, \$2,770 and \$3,037, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2020 and 2019, there was zero and \$150,000 in prize inventory, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Capital Assets

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

9. Revenue and Accounts Receivable Recognition

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Revenue and Accounts Receivable Recognition – Continued

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Instant ticket sales	\$ 81,570,656	\$ 77,145,653
Powerball sales	16,779,387	26,926,071
Mega Millions sales	11,490,465	22,539,925
Roadrunner Cash sales	8,133,869	7,293,625
Pick 3 sales	5,089,117	5,476,686
Lotto America sales	3,663,480	4,462,941
Pick 4 sales	1,654,766	1,060,209
Fast Play sales	928,733	859,877
Lucky Numbers Bingo sales	-	70,514
Less tickets provided as prizes	(2,236,610)	(2,181,719)
Less spoiled, stolen, and promotional tickets	(20,702)	(23,047)
Net ticket sales	<u>127,053,161</u>	<u>143,630,735</u>
Retailer fees	<u>10,000</u>	<u>20,200</u>
Total operating revenues	<u>\$ 127,063,161</u>	<u>\$ 143,650,935</u>

10. Prizes

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

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Custodial Credit Risk and Interest Rate Risk

At June 30, 2020 and 2019, respectively, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at this financial institution.

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

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

The Lottery’s custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery’s investments are made in overnight repurchase agreements. Investments are made through a local financial institution and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by Government Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico “Security of Public Money” standards and be held in third party safekeeping. As of June 30, 2020 and 2019, the Lottery’s balances of \$5,136,002 and \$6,065,541, respectively, were exposed to custodial credit risk as follows:

	<u>2020</u>	<u>2019</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank's trust department in the bank's name	-	-
Collateral held by the pledging bank's trust department in the Lottery's Name	5,136,002	6,065,541
	<u>\$ 5,136,002</u>	<u>\$ 6,065,541</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Custodial Credit Risk and Interest Rate Risk – Continued

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

At June 30, 2020 and 2019, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2020:

Description	Bank	Balance per Bank
Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 5,136,002
Operating account – checking	Wells Fargo Bank, NA	-
Total amount deposited in bank		5,136,002
Less: FDIC coverage		-
*Total uninsured funds – deposits and overnight repurchase agreement		<u>\$ 5,136,002</u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 5,238,722
* Total pledged security		<u>(5,238,722)</u>
Amount under (over) requirement at June 30, 2020		<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 31334YCD7 (cost \$4,962,345), matures August 01, 2049. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2020	\$ 5,136,002
Less reconciling items--outstanding checks	<u>(20,110)</u>
Reconciled cash in bank at June 30, 2020	5,115,892
Cash in vault	<u>11,475</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 5,127,367</u></u>

At June 30, 2019:

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts – Continued

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

16. Risk Management

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

17. Shipping and Handling Costs

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

18. Net Position

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

18. Net Position – Continued

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

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes have been applied against prize expense to supplement prizes in the Lottery's games and to promotions to increase sales. As of June 30, 2020 and 2019, the Lottery had unclaimed prizes in the amount of \$897,460 and \$1,945,665, respectively, reported as prizes payable that had not yet been applied against prize expense. The \$897,460 and \$1,945,665, respectively, in the unclaimed prize fund have already been committed and continue to supplement the prizes on instant games that have been printed and that are offered for sale. Any unclaimed prizes will continue to be a portion of the thirty percent return to the Lottery Tuition Fund.

20. Use of Estimates in Preparation of Financial Statements

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

21. Compensated Absences Payable

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Compensated Absences Payable – Continued

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, 2020 and 2019, the following changes occurred in the compensated absences liabilities:

<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>
\$ 191,526	\$ 29,282	\$ (3,115)	\$ 217,693
<u>Balance July 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2019</u>
\$ 176,640	\$ 19,934	\$ (5,048)	\$ 191,526

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

22. Long-term Liabilities

During the years ended June 30, 2020 and 2019, the following changes occurred in long-term obligations:

	<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>	<u>Amounts Due Within One Year</u>
Note payable	\$ 257,456	\$ -	\$ (257,456)	\$ -	\$ -

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

A promissory note payable to Wells Fargo Bank, NA for the purchase of the building used as the Lottery's corporate offices and warehouse was issued on June 26, 2015. The note was secured by the real property purchased, commonly known as 4511 Osuna Rd NE Albuquerque, NM. Principal and interest payments were due monthly on the 26th day of the month. The note had an interest rate of 3.6% and matured and was paid in full on June 26, 2020. The outstanding balance at June 30, 2019 was \$257,456, with the total amount being due within one year.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

23. Accounts Payable and Other Current Liabilities

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

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 831,501	\$ 1,007,212
Accrued liabilities, vendors*	391,869	657,459
Accrued liabilities, retailers*	13,500	11,500
Accrued payroll, and payroll taxes and benefits	185,791	160,062
Compensated absences	217,693	191,526
	<u>\$ 1,640,354</u>	<u>\$ 2,027,759</u>

* The Lottery has accrued an estimated amount of services delivered by its vendors and deposits for its retailers as of June 30, 2020 and 2019, respectively.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2020 consisted of:

	Beginning Balances	Reclass- ification	Increases	Decreases	Ending Balances
<u>Capital assets not being depreciated:</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Total capital assets not being depreciated	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Capital assets being depreciated:</u>					
Building and building improvements	2,321,761	-	26,271	-	2,348,032
Data processing equipment and software	409,525	(7,127)	5,229	-	407,627
Equipment	957,620	(32,540)	38,821	(4,107)	959,794
Vehicles	168,157	-	-	-	168,157
Furniture and fixtures	224,413	-	-	-	224,413
Intellectual property	179,073	-	-	-	179,073
Land improvements & infrastructure	23,133	-	-	-	23,133
Obsolete capital assets	3,356,934	39,667	-	(63,061)	3,333,540
Total capital assets being depreciated	<u>7,640,616</u>	<u>-</u>	<u>70,321</u>	<u>(67,168)</u>	<u>7,643,769</u>
<u>Less accumulated depreciation for:</u>					
Building and building improvements	(223,230)	-	(77,752)	-	(300,982)
Data processing equipment and software	(295,619)	7,127	(30,432)	-	(318,924)
Equipment	(765,263)	32,540	(66,413)	4,107	(795,029)
Vehicles	(131,985)	-	(24,738)	-	(156,723)
Furniture and fixtures	(220,174)	-	(2,119)	-	(222,293)
Intellectual property	(160,549)	-	(18,525)	-	(179,074)
Land improvements & infrastructure	(1,670)	-	(1,542)	-	(3,212)
Obsolete capital assets	(3,356,934)	(39,667)	-	63,061	(3,333,540)
Total accumulated depreciation	<u>(5,155,424)</u>	<u>-</u>	<u>(221,521)</u>	<u>67,168</u>	<u>(5,309,777)</u>
Total capital assets being depreciated, net	<u>2,485,192</u>	<u>-</u>	<u>(151,200)</u>	<u>-</u>	<u>2,333,992</u>
NET CAPITAL ASSETS	<u>\$ 3,228,892</u>	<u>\$ -</u>	<u>\$ (151,200)</u>	<u>\$ -</u>	<u>\$ 3,077,692</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE B – CAPITAL ASSETS – CONTINUED

Capital assets at June 30, 2019 consisted of:

	Beginning Balances	Reclass- ification	Increases	Decreases	Ending Balances
<u>Capital assets not being depreciated:</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Total capital assets not being depreciated	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Capital assets being depreciated:</u>					
Building and building improvements	2,274,233	-	47,528	-	2,321,761
Data processing equipment and software	2,878,746	(2,464,016)	9,415	(14,620)	409,525
Equipment	997,118	(57,634)	60,922	(42,786)	957,620
Vehicles	168,157	-	-	-	168,157
Furniture and fixtures	232,265	(1,826)	-	(6,026)	224,413
Intellectual property	179,073	-	-	-	179,073
Land improvements & infrastructure	23,133	-	-	-	23,133
Obsolete capital assets	854,505	2,523,476	-	(21,047)	3,356,934
Total capital assets being depreciated	<u>7,607,230</u>	<u>-</u>	<u>117,865</u>	<u>(84,479)</u>	<u>7,640,616</u>
<u>Less accumulated depreciation for:</u>					
Building and building improvements	(153,322)	-	(69,908)	-	(223,230)
Data processing equipment and software	(2,745,105)	2,464,016	(29,150)	14,620	(295,619)
Equipment	(809,082)	57,634	(56,601)	42,786	(765,263)
Vehicles	(104,423)	-	(27,562)	-	(131,985)
Furniture and fixtures	(225,120)	1,826	(2,906)	6,026	(220,174)
Intellectual property	(135,849)	-	(24,700)	-	(160,549)
Land improvements & infrastructure	(128)	-	(1,542)	-	(1,670)
Obsolete capital assets	(854,505)	(2,523,476)	-	21,047	(3,356,934)
Total accumulated depreciation	<u>(5,027,534)</u>	<u>-</u>	<u>(212,369)</u>	<u>84,479</u>	<u>(5,155,424)</u>
Total capital assets being depreciated, net	<u>2,579,696</u>	<u>-</u>	<u>(94,504)</u>	<u>-</u>	<u>2,485,192</u>
NET CAPITAL ASSETS	<u>\$ 3,323,396</u>	<u>\$ -</u>	<u>\$ (94,504)</u>	<u>\$ -</u>	<u>\$ 3,228,892</u>

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

	Due to Lottery Tuition Fund
	<hr/>
Balance at June 30, 2018	\$ 3,032,577
Prior year 30% return	43,109,939
Prior year transfers	<hr/> (42,998,685)
Balance at June 30, 2019	\$ 3,143,831
Current year 30% return	38,146,935
Current year transfers	<hr/> (37,736,343)
Balance at June 30, 2020	<hr/> <hr/> \$ 3,554,423

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, 2020, and 2019, the Lottery has transferred \$38,146,935 and \$43,109,939, respectively, for the years ended June 30, 2020 and 2019 to the New Mexico State Treasurer.

NOTE D - RETIREMENT PLANS

Plan Descriptions and Funding

Money Purchase Pension Plan

All the Lottery's eligible employees participate in a plan provided by the Lottery pursuant to the New Mexico Lottery Act (Chapter 6, Article 24 NMSA 1978). The Lottery is the administrator of the Plan, which is a defined contribution money purchase pension plan. Benefit terms, including contribution requirements are established and may be amended by the Lottery's Board of Directors. The plan provides for retirement benefits to plan members

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2020 and 2019

NOTE D - RETIREMENT PLANS - CONTINUED

Plan Descriptions and Funding– Continued

Money Purchase Pension Plan – Continued

and their beneficiaries. The benefit that a plan member will receive when eligible will depend on the contributions to the member’s individual account, actual earnings or losses on investments of those contributions, and any fees that are assessed to the member’s account. Fifty-five and fifty-six current and former employees of the Lottery were participants in the plan at the end of fiscal years 2020 and 2019, respectively.

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

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2020 and 2019, the Lottery recognized \$288,124 and \$272,426 of pension expense for the plan on eligible compensation of \$2,174,519 and \$2,056,047, respectively. There were no forfeitures of employee balances for the years ended June 30, 2020 and 2019, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years have been paid to the plan by June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the Lottery recognized a contribution liability of \$41,686 and \$36,632, respectively, for contributions owed on compensation earned, but not paid, for the last few days of each fiscal year.

457(b) Plan

Effective August 2, 2014, a Section 457(b) Plan, (the “New Mexico Lottery Authority 457(b) Plan”) commenced that allows both pre-tax and Roth (after tax) contributions by employees for their retirement up to applicable annual Internal Revenue Code limits. Newport Group (formerly Verisight Trust Company) is the trustee for the 457(b) plan. This plan, like the money purchase pension plan, allows employees to self-direct their investments into any of the forty-one investment funds. Thirty-six current and former employees were participants in the plan at the end of fiscal years 2020 and 2019. All amounts withheld from employee compensation for Section 457(b) contributions have been paid to the plan by June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the Lottery recognized a contribution liability of \$4,322 and \$4,193, respectively, for contributions owed, but not paid, for the last few days of each fiscal year.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE D - RETIREMENT PLANS- CONTINUED

Fair Value Measurement of Retirement Plan Investments

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

The Lottery has the following fair value measurements as of June 30, 2020 and 2019:

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

The Lottery had investments in various mutual funds that were comprised of bonds at June 30, 2020 and 2019, in the amount of \$1,925,294 and \$1,124,556, respectively, with varying investment quality ratings and maturities. The maturities averaged between six and ten years with an average rating of primarily A on the underlying investments.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE D - RETIREMENT PLANS - CONTINUED

Fair Value Measurement of Retirement Plan Investments - Continued

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

	2020		2019	
	Money Purchase Pension Plan	457(b) Retirement Plan	Money Purchase Pension Plan	457(b) Retirement Plan
Total Investments in the fair value measurement:				
Level 1 - Quoted prices in active markets				
<u>Mutual funds:</u>				
US Equity				
Value	\$ 273,191	\$ 94,282	\$ 443,251	\$ 127,813
Blend	265,747	76,545	190,227	66,635
Growth	557,961	163,590	610,509	137,746
Total US Equity	1,096,899	334,417	1,243,987	332,194
Bonds	930,838	156,119	323,746	32,945
Target Date	2,028,562	243,717	1,741,385	178,408
Balanced Asset Allocation	1,045,995	22,345	1,072,050	21,099
Foreign Equity	216,868	720	250,569	763
Specialty/Other	1,375,695	159,178	1,301,791	158,235
Total Level 1	6,694,857	916,496	5,933,528	723,644
Level 2 - Similar observable assets	-	-	-	-
Level 3 - Significant unobservable sources	-	-	-	-
Total investments in the fair value measurement	6,694,857	916,496	5,933,528	723,644
Other plan assets exempt from the fair value measurement:				
Money market/cash	104,777	-	98,153	-
Contribution receivable	41,686	4,322	36,632	4,193
Total plan assets	<u>\$ 6,841,320</u>	<u>\$ 920,818</u>	<u>\$ 6,068,313</u>	<u>\$ 727,837</u>

The balances and activity of both Plans as of and for the years ended June 30, 2020 and 2019 are presented in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plans.

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE E - CREDIT AGREEMENT

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

This line matured on May 14, 2016, 2015, 2014, and 2013 and was renewed for another year under the same terms and conditions each year. For 2017, the line matured on May 15, 2017, but the renewal was still in process as of June 30, 2017. On August 23, 2017, the line was renewed through May 15, 2018 under the same terms and conditions. On May 15, 2019 and May 15, 2018, the line was again renewed with an interest rate of Wells Fargo Bank prime plus zero percent each year. On May 15, 2020, the line was extended through August 15, 2020 under the same terms and conditions. On August 28, 2020, the credit agreement was extended to May 14, 2024 under the same terms and conditions. Wells Fargo Bank prime rate was 3.25% and 5.50% as of June 30, 2020 and June 30, 2019, respectively. For the years ended June 30, 2020 and 2019, the Lottery had no outstanding borrowings against the line of credit.

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

NOTE F - COMMITMENT

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

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

New Mexico Lottery Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE F - COMMITMENT - CONTINUED

agreement to extend the term for two additional years for a total of ten years ending on November 21, 2025.

NOTE G - OTHER EXPENSES

Other expenses at June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Registrations and memberships	\$ 41,534	\$ 34,039
Other	11,852	37,564
Training	5,115	12,292
Publications and subscriptions	<u>2,094</u>	<u>418</u>
	<u>\$ 60,595</u>	<u>\$ 84,313</u>

New Mexico Lottery Authority

SUPPLEMENTARY INFORMATION
SCHEDULES OF PERCENTAGE RETURN TO THE STATE OF NEW MEXICO
 Years ended June 30,

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Instant ticket sales	\$ 79,313,453	\$ 74,941,122
Powerball sales	16,779,341	26,926,003
Mega Millions sales	11,490,443	22,539,843
Roadrunner Cash sales	8,133,868	7,293,605
Pick 3 sales	5,089,107	5,476,632
Lotto America sales	3,663,450	4,462,937
Pick 4 sales	1,654,766	1,060,208
Fast Play sales	928,733	859,871
Lucky Numbers Bingo sales	-	70,514
Net ticket sales	<u>127,053,161</u>	<u>143,630,735</u>
Retailer fees	<u>10,000</u>	<u>20,200</u>
Total operating revenues	<u>127,063,161</u>	<u>143,650,935</u>
NON-OPERATING INCOME		
Other income	66,103	13,396
Interest income	<u>21,154</u>	<u>25,893</u>
Total non-operating income	<u>87,257</u>	<u>39,289</u>
GROSS REVENUES	<u>127,150,418</u>	<u>143,690,224</u>
GAME EXPENSES		
Prize expense	68,288,867	77,040,374
Retailer commissions	8,278,747	9,287,586
On-line vendor fees	4,659,727	5,172,755
Advertising	2,010,807	1,958,039
Ticket vendor fees	1,344,824	1,181,407
Shipping and postage	294,173	327,190
Promotions	75,010	105,324
Responsible gaming	71,250	70,000
Retailer equipment	48,922	111,435
Game membership	<u>11,399</u>	<u>43,136</u>
Total game expenses	<u>85,083,726</u>	<u>95,297,246</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	2,846,186	2,701,925
Utilities and maintenance	254,140	255,174
Depreciation and amortization	221,521	212,369
Leases and insurance	111,327	111,427
Professional fees	108,430	135,867
Other	60,595	84,313
Materials and supplies	35,539	67,005
Travel	15,811	19,726
Operational Reserve Fund expense	<u>264,000</u>	<u>1,681,000</u>
Total operating expenses	<u>3,917,549</u>	<u>5,268,806</u>
OPERATING INCOME	<u>38,061,886</u>	<u>43,084,883</u>
NON-OPERATING EXPENSE		
Interest expense	<u>5,008</u>	<u>14,233</u>
Total nonoperating expense	<u>5,008</u>	<u>14,233</u>
NET INCOME	38,144,135	43,109,939
OPERATIONAL RESERVE FUND TRANSFER	<u>2,800</u>	<u>-</u>
TOTAL TRANSFER TO LOTTERY TUITION FUND	<u>\$ 38,146,935</u>	<u>\$ 43,109,939</u>
GROSS REVENUE PERCENTAGE RETURN	<u>30.00%</u>	<u>30.00%</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise New Mexico Lottery Authority's basic financial statements, and have issued our report thereon dated October 7, 2020.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
October 7, 2020

New Mexico Lottery Authority

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2020 and 2019

SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

New Mexico Lottery Authority

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Year Ended June 30, 2020

There were no findings for the year ended June 30, 2020.

New Mexico Lottery Authority

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2020

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

New Mexico Lottery Authority

EXIT CONFERENCE

For the Year Ended June 30, 2020

An exit conference was held at the New Mexico Lottery Authority on October 7, 2020. The following individuals participated:

<u>Name</u>	<u>Title</u>
<i>New Mexico Lottery Authority Board of Directors:</i>	
Reta Jones, CPA	Board Chair
Salvatore Baragiola	Board Vice Chair
Dr. Paul Guerin	Board Secretary/Treasurer
David Keylon	Board Member
Leo M. Romero, Esq.	Board Member
Othiamba Umi, Esq.	Board Member
Nina Thayer	Board Member
<i>New Mexico Lottery Authority Employees:</i>	
David M. Barden, Esq.	Chief Executive Officer
Sylvia Ann Jaramillo, CPA	Director of Administration
Carolyn Cabell	Chief Operations Officer
Kevin Duda, CPA	Deputy Director of Administration
<i>CliftonLarsonAllen LLP</i>	
Matt Bone, CPA, CGFM, CGMA	Engagement Principal
Elizabeth Nunez, CPA	Engagement Manager

Financial Statement Preparation

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

