

NEW MEXICO LOTTERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021

NEW MEXICO LOTTERY AUTHORITY

OFFICIAL ROSTER

June 30, 2022

BOARD OF DIRECTORS

Reta Jones, CPA	Chair
Salvatore Baragiola	Vice Chair
Dr. Paul Guerin	Secretary/Treasurer
David Keylon	Member
Leo M. Romero, Esq.	Member
Nina Thayer	Member
Othiamba Umi, Esq.	Member

OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

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Carolyn Cabell	Chief Operating Officer
Sylvia A. Jaramillo, CPA	Director of Finance
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 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 generally 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 year. The Chair also appoints a Chair and two Directors for each of the two standing committees of the Board: the Finance and Audit Committee and the Security and Operations Committee. The Directors appoint the Chief Executive Officer (CEO) and prescribe 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 and 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
- discuss, and when necessary, approve or disapprove other matters that should properly come before the Directors in their fiduciary duty for the efficient and effective operation, profitability, integrity, and security of the Lottery.

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY - CONTINUED

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees. 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 Finance Division, under the direction of the Director of Finance, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; retailer accounts receivable and debt collection; capital asset accounting; lease 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, 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 responsible for all aspects of corporate communications, including creating news releases and responding to requests for information by the public and the media.

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

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 events, 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 background checks of all prospective employees, Lottery retailers, Lottery vendors, and Lottery contractors. It also supervises larger prize claim verifications and conducts and oversees second-chance drawings. 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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority (the "Lottery"), a component unit of the State of New Mexico, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lottery as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the New Mexico Lottery Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lottery's basic financial statements. The Schedules of Percentage Return to the State of New Mexico is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Organizational Divisions of the New Mexico Lottery Authority, and exit conference but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

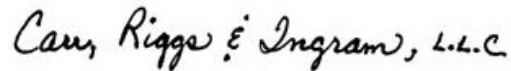
Board of Directors
New Mexico Lottery Authority and
Mr. Brian S. Colón, Esq.,
New Mexico State Auditor

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2022 on our consideration of the Lottery'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 the Lottery'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 the Lottery's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of the Lottery as of June 30, 2021, were audited by other auditors whose report dated October 13, 2021, expressed an unmodified opinion on those statements.



Carr, Riggs & Ingram, LLC
Albuquerque, New Mexico
October 28, 2022

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, 2022 and 2021 with comparative numbers for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements, which begin on page 33.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2022, the Lottery's total current assets of \$17,329,583 increased by \$1,369,469, an increase of 8.6%, while at the end of fiscal year 2021, the Lottery's total current assets of \$15,960,114 increased by \$5,909,723, an increase of 58.8%, each fiscal year in comparison to June 30th of the previous fiscal year.
- At the end of fiscal year 2022, the Lottery's total current liabilities of \$15,212,589 increased by \$1,855,017, an increase of 13.9%, while at the end of fiscal year 2021, the Lottery's total current liabilities of \$13,357,572 increased by \$5,110,689, an increase of 62.0%, each fiscal year in comparison to the end of the respective previous fiscal year.
- In fiscal year 2022, the total net ticket sales were \$136,873,587, a decrease of \$18,011,316, or a 11.6% decrease. In fiscal year 2021, the total net ticket sales were \$154,884,903, an increase of \$27,831,742, or a 21.9% increase, compared to total net ticket sales of \$127,053,161 in fiscal year 2020.
- Compared to the prior fiscal years, total game expenses of \$91,875,802 decreased in fiscal year 2022 by \$12,280,193, or 11.8%, but increased in fiscal year 2021 by \$19,072,269, or 22.4%, to \$104,155,995 compared to \$85,083,726 in fiscal year 2020.
- Total operating expenses of \$3,755,554 increased by \$212,015, a 6.0% increase, in fiscal year 2022, but decreased by \$110,010, a 3.0% decrease, to \$3,543,539 in fiscal year 2021, each fiscal year in comparison to the previous fiscal year.
- Non-operating income (expense) decreased by \$22,306, a 53.1% decrease, to \$19,738 in fiscal year 2022 and decreased by \$40,205, a 48.9% decrease, to \$42,044 in fiscal year 2021, each fiscal year compared to each preceding fiscal year.
- In fiscal year 2022, net income was \$41,270,508, a decrease of \$5,964,960, or 12.6%, compared to fiscal year 2021. In fiscal year 2021, net income was \$47,235,468, an increase of \$8,827,333, or 23.0%, compared to fiscal year 2020's net income of \$38,408,135.
- 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 thirty percent beginning in January 2009. In fiscal years 2022 and 2021, the Lottery transmitted thirty percent of gross revenues to the State in each month during the two fiscal years.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL HIGHLIGHTS - CONTINUED

- Including the final transfer on July 29, 2022 of June 2022's net return, the Lottery has transferred \$947,744,847 to the State of New Mexico for education 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 Annual Comprehensive 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 33 and the Statements of Revenues, Expenses, and Changes in Net Position on page 34 report the Lottery's assets, liabilities, revenues, and expenses in comparative format for fiscal year 2022 and fiscal year 2021. The Statements of Cash Flows on pages 35 and 36 report the sources and uses of cash for fiscal years 2022 and 2021. The Statements of Fiduciary Net Position on page 37 and Statements of Changes in Fiduciary Net Position on page 38 report the balances and activity of the Lottery's Retirement Plans for fiscal year 2022 and fiscal year 2021.

Notes to Financial Statements. The Notes to Financial Statements on pages 39 to 60 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 61 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2022 and 2021 in compliance with the New Mexico Lottery Act.

To assess the Lottery's financial position and financial health, it is important to note changes in the components of assets and liabilities as set forth in the Statements of Net Position; 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 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 2022 and 2021, the Lottery's net position was \$5,834,100 and \$5,635,000, respectively, with unrestricted net position of \$2,469,944 and \$2,605,398 for each fiscal year, respectively.

Total Assets

Table 1
Total Assets

	2022	2021	2020	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022	Increase (Decrease) \$ Change 2020 to 2021	Increase (Decrease) % Change 2020 to 2021
Cash and cash equivalents	\$ 13,254,842	\$ 10,607,465	\$ 5,127,367	\$ 2,647,377	25.0%	\$ 5,480,098	106.9%
Accounts receivable, (net of allowance for doubtful accounts)	801,802	2,031,183	1,592,746	(1,229,381)	(60.5)	438,437	27.5
Reserves on deposit	2,977,831	2,889,313	3,110,859	88,518	3.1	(221,546)	(7.1)
Inventory	17,294	2,620	2,770	14,674	560.1	(150)	(5.4)
Prepaid expenses	277,814	429,533	216,649	(151,719)	(35.3)	212,884	98.3
Total current assets	17,329,583	15,960,114	10,050,391	1,369,469	8.6	5,909,723	58.8
Net capital assets	3,723,302	3,041,604	3,077,692	681,698	22.4	(36,088)	(1.2)
Total assets	\$ 21,052,885	\$ 19,001,718	\$ 13,128,083	\$ 2,051,167	10.8%	\$ 5,873,635	44.7%

Compared to the prior fiscal years, the Lottery's cash and cash equivalents increased in both fiscal year 2022 and 2021 by \$2,647,377 or 25.0% and \$5,480,098 or 106.9%, respectively. 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 2022, the change in cash relates mainly to a decrease in accounts receivable due to collection of the prior week's receivables on the last day of the fiscal year along with increases in accounts payable and other current liabilities, prizes payable, and net position. At the end of fiscal year 2021, the change in cash and cash equivalents was mainly due to an increase in prizes payable in conjunction with an increase in net position.

NEW MEXICO LOTTERY AUTHORITY

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. At the end of fiscal year 2022, the receivables balance decreased by \$1,229,381 or 60.5% in comparison to the previous fiscal year because the receivables for the prior week were collected on June 30, 2022, leaving only five days of receivables. The accounts receivable balance at the end of fiscal 2021 was \$438,437 or 27.5% higher than at the end of the previous fiscal year. At the end of fiscal year 2021, the uncollected receivable balance was for eleven days compared to ten days in the previous year. Prizes paid and commissions earned combined with sales that were nearly \$472,800 higher for those eleven days contributed to the uncollected receivable balance being higher than for the last ten days at the end of the previous fiscal year.

The Lottery is required to have amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as determined by the Powerball® (Powerball), 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 an increase of \$88,518, or an increase of 3.1%, in fiscal year 2022 and a decrease of \$221,546, or a decrease of 7.1%, in fiscal year 2021 were caused by the receipts of interest earned on the deposits with MUSL; payments of game expenses; changes to the Powerball, Mega Millions, and Lotto America reserve accounts, as required by the MUSL game rules; and the re-balancing of the reserve accounts.

The inventory balance at the end of fiscal year 2022 increased by \$14,674, or 560.1%, while the balance decreased by \$150 or 5.4% at the end of fiscal year 2021. During fiscal year 2022, the lottery purchased a \$5 promotional instant game to add to the \$1 promotional instant game that had been included in inventory in fiscal year 2021. At the end of fiscal years 2022 and 2021, the Lottery had inventory of \$17,294 and \$2,620, respectively, for these promotional instant games.

The changes in net capital assets in fiscal years 2022 and 2021 are primarily attributable to \$869,654 and \$162,568 in capital asset purchases and \$187,956 and \$198,656 in depreciation expense for the two fiscal years, respectively.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities

Table 2
Total Liabilities

	2022	2021	2020	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022	Increase (Decrease) \$ Change 2020 to 2021	Increase (Decrease) % Change 2020 to 2021
Current liabilities							
Accounts payable and other current liabilities	\$ 2,370,675	\$ 1,865,244	\$ 1,640,354	\$ 505,431	27.1%	\$ 224,890	13.7%
Current portion of lease liability	2,950	2,856	-	94	3.3	2,856	-
Prizes payable	9,444,566	8,090,607	3,052,106	1,353,959	16.7	5,038,501	165.1
Due to Lottery Tuition Fund	3,394,398	3,398,865	3,554,423	(4,467)	(0.1)	(155,558)	(4.4)
Total current liabilities	15,212,589	13,357,572	8,246,883	1,855,017	13.9	5,110,689	62.0
Long-term liabilities							
Noncurrent portion of lease liability	6,196	9,146	-	(2,950)	(32.3)	9,146	-
Total liabilities	\$ 15,218,785	\$ 13,366,718	\$ 8,246,883	\$ 1,852,067	13.9%	\$ 5,119,835	62.1%

Accounts payable and other current liabilities increased by \$505,431 or 27.1% in fiscal year 2022 and \$224,890 or 13.7% in fiscal year 2021. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to four vendors for advertising, the online 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. In fiscal year 2022, accounts payable and other current liabilities also increased due to a remaining balance of \$350,000 that was owed to the online vendor for self-service-lottery sales terminals that were purchased during the fiscal year.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw games and instant games, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2022, prizes payable increased by \$1,353,959 or 16.7% and in fiscal year 2021, prizes payable increased by \$5,038,501 or 165.1%.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities - Continued

These differences relate to the changes in prizes payable on individual Lottery game sales between each fiscal year and prizes not yet claimed along with the balances in the unclaimed prize fund. In fiscal year 2021, with sales growing for instant ticket games, Powerball, and Mega Millions and lower prize payout for these games, the unclaimed prize fund balance grew by \$3,439,846. Unclaimed prizes were used in six of the twelve months of the year with \$207,800 in unclaimed prizes used in meeting the monthly 30% return for fiscal year 2021. The unclaimed prize fund balance, therefore, increased to \$4,337,306 by the end of fiscal year 2021 from the \$897,460 balance at the end of fiscal year 2020. In fiscal year 2022, the Lottery used unclaimed prizes of \$2,467,900 to enable it to meet the 30% return to the Lottery Tuition Fund and to supplement the prizes in Scratcher (instant ticket) games to maximize sales in nine of the twelve months in the fiscal year. During fiscal year 2022, the unclaimed prize fund increased by \$1,879,439 from \$4,337,306 at the beginning of the fiscal year to \$6,216,745 as of June 30, 2022.

At the end of fiscal years 2022 and 2021, respectively, \$3,394,398 and \$3,398,865 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.

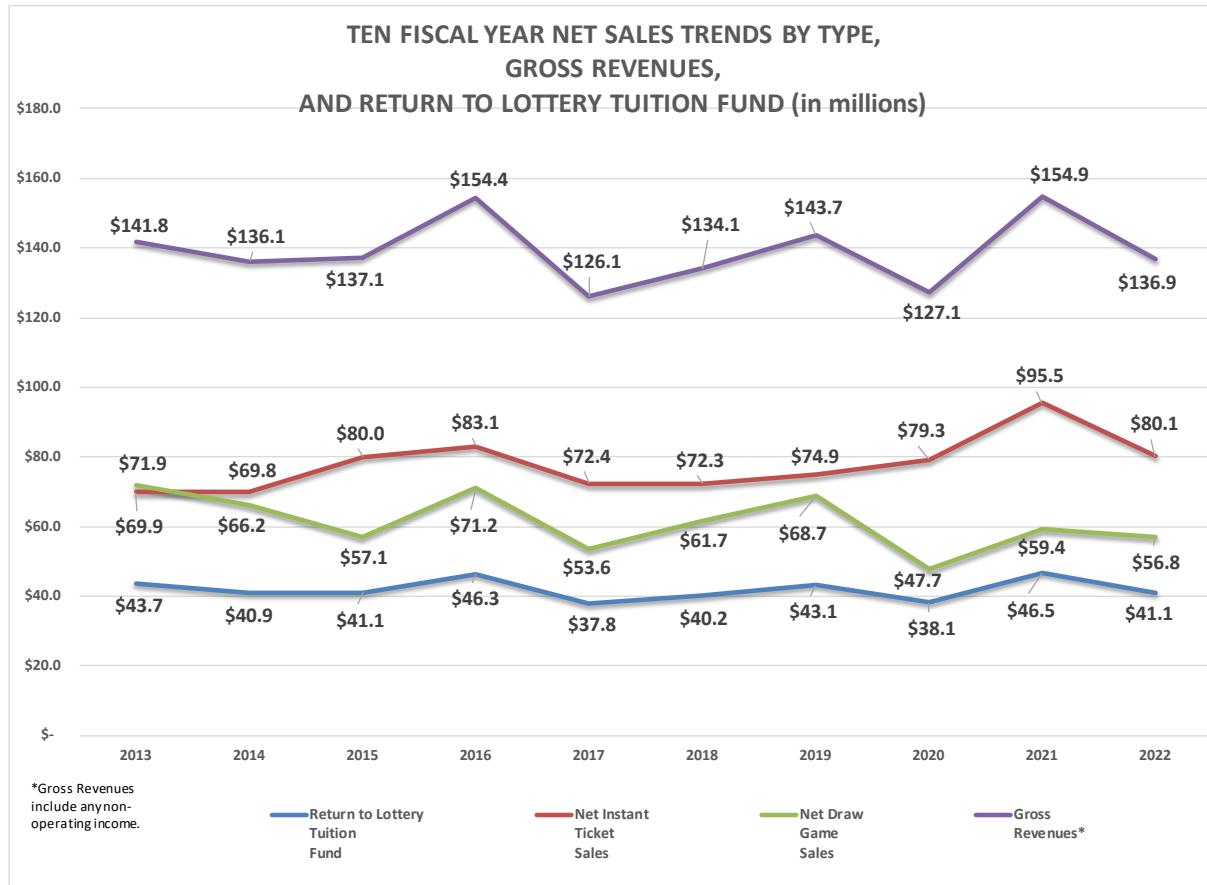
Reflected in total liabilities in fiscal year 2022 and 2021 was a current portion of lease liability of \$2,950 and \$2,856, respectively, and a non-current portion of lease liability of \$6,196 and \$9,146, respectively. These amounts represent the remaining liability of a capitalized lease for a postage machine that was acquired in July 2020.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Ten Fiscal Year Net Sales Trends by Type, Gross Revenues, and Return to Lottery Tuition Fund



Fiscal Year	Powerball (PB) Highest Jackpot in the Fiscal Year (M=Million; B=Billion)	Mega Millions (MM) Highest Jackpots in the Fiscal Year (M=Million; B=Billion)	Fiscal Year	Average Instant Ticket Prize Payout Percentages
2013	\$590.5 M	\$198 M	2013	58.94%
2014	\$448.4 M	\$648 M	2014	60.05%
2015	564.1 M	\$326 M	2015	63.75%
2016	\$1.586 B	\$202 M	2016	63.29%
2017	\$487 M	\$536.3 M	2017	60.75%
2018	\$758.7 M	\$533 M	2018	60.01%
2019	\$768.4 M	\$1.537 B	2019	61.37%
2020	\$396.9 M	\$414 M	2020	58.70%
2021	731.1 M	1.05 B	2021	55.74%
2022	699.8 M	431 M	2022	58.97%

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Ten Fiscal Year Net Sales Trends by Type, Gross Revenues, and Return to Lottery Tuition Fund – 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 2022 and 2021, the Lottery transmitted a 30 percent return each month, totaling \$41,071,408 and \$46,481,668, respectively.

The changes in net income for fiscal years 2022 and 2021 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/or operating expenses during the two fiscal years, which will be further reviewed in the following pages of this Management's Discussion and Analysis.

The graph on page ten reflects the last ten years of net sales for both instant and draw games, gross revenues, and the return to the Lottery Tuition Fund along with the highest Powerball and Mega Millions jackpot for each fiscal year and the average instant ticket prize payout percentage for each fiscal year. Each fiscal year reflects at least a 30% return on the gross revenues for that fiscal year. During this 10-year period, four fiscal years (2013, 2016, 2019, and 2021), along with fiscal year 2010 (not reflected in this 10-year chart) were the years with the five highest returns to the Lottery Tuition Fund in the Lottery's twenty-seven fiscal years.

For fiscal year 2022, the Lottery's return of \$41.1 million decreased by approximately \$5.4 million from the previous fiscal year. Although, Powerball added an additional \$3.04 million in sales and Roadrunner Cash added an additional \$1.5 million in sales compared to fiscal year 2021, net instant ticket sales decreased by \$15.34 million and Mega Millions sales decreased by \$6.34 million compared to the previous fiscal year. The re-opening of other entertainment venues in fiscal year 2022 affected the level of the Lottery's instant ticket sales. These changes in sales, therefore, affected the return for the fiscal year.

For fiscal year 2021, the Lottery's return of \$46.5 million was the highest return to the Lottery Tuition Fund in the Lottery's history. This return occurred primarily because of the increase in sales for instant tickets, Powerball, and Mega Millions. The increase in instant ticket sales was affected by several factors including adjusting instant game prize structures to offer more prizes at lower levels and the effect of the coronavirus pandemic, which closed other entertainment venues such as casinos, movie theaters, restaurants, and sporting events for many months during the fiscal year. Mega Millions sales increased twice during the fiscal year when the jackpot climbed to \$1.05 billion and then again to \$516 million. Powerball's sales increased when the jackpot climbed to \$731.1 million.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Ten Fiscal Year Net Sales Trends by Type, Gross Revenues, and Return to Lottery Tuition Fund – Continued

Fiscal year 2019 had the fifth 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. In addition, 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.

Fiscal year 2010 isn't reflected on the graph on page ten, but the \$43.6 million return was the fourth highest return 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.

In fiscal year 2013, the third 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 for Powerball during the prior fiscal year.

Fiscal year 2016's return of \$46.3 million is the second highest return to the Lottery Tuition Fund. This return is attributable to Powerball sales of \$43.3 million in part 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%.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Ten Fiscal Year Net Sales Trends by Type, Gross Revenues, and Return to Lottery Tuition Fund – Continued

Fiscal year 2017 is the fiscal year with the lowest return to the Lottery Tuition Fund of \$37.8 million. 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. Following the lowering of the instant ticket prize payout in fiscal year 2017, net instant ticket sales dropped by \$10.7 million or 12.9%. 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 or 18.3% compared to the previous fiscal year.

In summary, for four of the five highest returns during the Lottery's twenty-seven fiscal year history, net instant ticket sales greatly contributed to the returns for those four fiscal years along with the net draw game sales. Instant game prize payouts in three of these fiscal years were higher than the average instant ticket prize payout during this time, producing higher net instant ticket sales and as a result a higher return to the Lottery Tuition Fund. In fiscal year 2017, when the prize payout on net instant tickets was reduced, net instant ticket sales dropped by \$10.7 million. This payout change, along with a reduction in net draw game sales, produced a significantly lower return to the Lottery Tuition Fund than the previous fiscal year. Generally, the graph on page ten 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. Fiscal year 2021 is the exception to the standard that decreasing payout contributes to decreasing sales. The prize payout for instant tickets had been reduced starting in February 2020, but instant ticket sales continued to grow. This sales growth generally has been attributed to other entertainment venues being closed for many months and lottery tickets being an available product at essential businesses during the coronavirus pandemic.

In general, instant ticket sales during these fiscal 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 3
Net Ticket Sales and Prize Expense

2022	Net Ticket Sales	Prize Expense
Instant ticket	\$ 80,131,691	\$ 45,260,658
Powerball	25,838,880	12,864,873
Mega Millions	11,744,153	5,937,292
Roadrunner Cash	7,321,667	4,059,747
Pick 3 Plus	4,900,574	2,452,792
Lotto America	3,922,863	1,879,857
Pick 4 Plus	1,941,728	973,364
Fast Play	1,072,031	685,027
Total	<u>\$ 136,873,587</u>	<u>\$ 74,113,610</u>
2021	Net Ticket Sales	Prize Expense
Instant ticket	\$ 95,472,037	\$ 53,204,870
Powerball	22,803,259	11,481,634
Mega Millions	18,083,921	9,046,004
Roadrunner Cash	5,810,006	3,517,581
Pick 3 and Pick 3 Plus	5,884,493	3,765,093
Lotto America	3,767,239	1,881,482
Pick 4 and Pick 4 Plus	1,948,544	1,164,499
Fast Play	1,115,404	707,923
Total	<u>\$ 154,884,903</u>	<u>\$ 84,769,086</u>
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	928,733	611,043
Total	<u>\$ 127,053,161</u>	<u>\$ 68,288,867</u>
\$ Decrease from FY 2021 to FY 2022	<u>\$ (18,011,316)</u>	<u>\$ (10,655,476)</u>
% Decrease from FY 2021 to FY 2022	<u>(11.6%)</u>	<u>(12.6%)</u>
\$ Increase from FY 2020 to FY 2021	<u>\$ 27,831,742</u>	<u>\$ 16,480,219</u>
% Increase from FY 2020 to FY 2021	<u>21.9%</u>	<u>24.1%</u>

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Table 3 provides net ticket sales and prize expense for each Lottery game for fiscal years 2022, 2021, and 2020. In fiscal year 2022, Powerball and Roadrunner Cash sales and the related prize expense increased, while net instant ticket sales, Mega Millions, Pick 3 Plus, Pick 4 Plus, and Fast Play sales and the related prize expense decreased in comparison to fiscal year 2021. Lotto America sales increased in fiscal year 2022 in comparison to fiscal year 2021, while the related prize expense decreased. In fiscal year 2021, net instant ticket, Powerball, Mega Millions, Pick 3, Lotto America, Pick 4, and Fast Play sales and the related prize expense increased, while Roadrunner Cash sales and the related prize expense decreased compared to fiscal year 2020. Pick 3 and Pick 4 were ended in June 2021, while new games Pick 3 Plus and Pick 4 Plus were started in June 2021. 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.

Net Ticket Sales

In fiscal year 2022, net instant ticket sales decreased to \$80.13 million, a \$15.34 million decrease or a decrease of 16.1% compared to fiscal year 2021. In fiscal year 2021, net instant ticket sales were \$95.47 million, a \$16.16 million or 20.4% increase over fiscal year 2020's net instant ticket sales of \$79.31 million.

In fiscal year 2022, net draw game sales were \$56.74 million, a decrease of \$2.67 million or 4.5%. In fiscal year 2021, net draw game sales were \$59.41 million, a \$11.67 million or 24.5% increase compared to fiscal year 2020's net draw game sales of \$47.74 million.

Overall, net sales decreased by \$18.01 million or 11.6% to \$136.87 million in fiscal year 2022, while net sales had increased by \$27.83 million or 21.9% to \$154.88 million in fiscal year 2021 compared to net sales of \$127.05 million in fiscal year 2020.

Because of the coronavirus, starting in March 2020 many businesses in New Mexico were open only intermittently into fiscal year 2022. During this time, essential businesses such as grocery stores and convenience stores, often Lottery retailers, remained open.

NEW MEXICO LOTTERY AUTHORITY

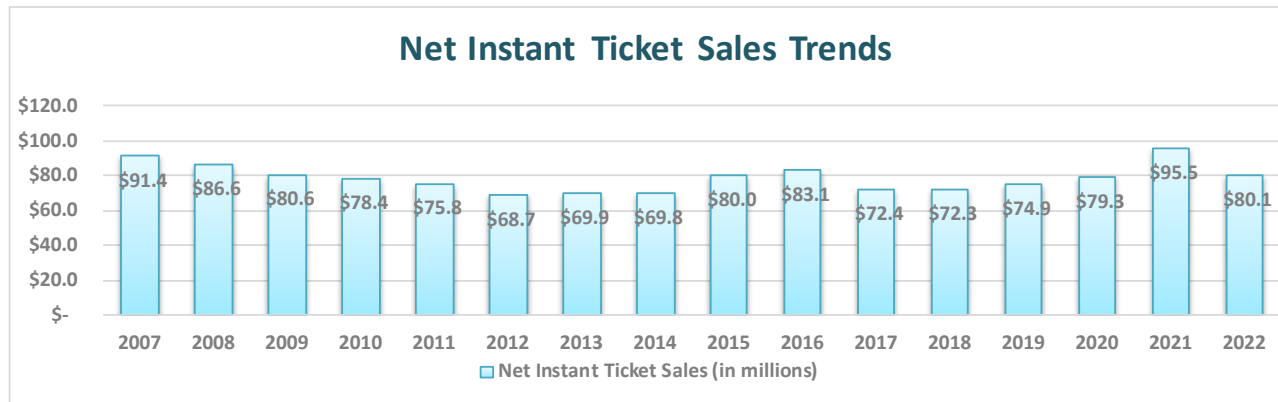
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

NET INSTANT TICKET SALES – FYs 2007 Through 2022



As reflected in the Net Instant Ticket Sales graph, sales begin rebounding in fiscal year 2015 and fiscal year 2016 toward the then record-setting \$91.4 million net instant ticket sales for fiscal year 2007, due largely to a pilot program of increased instant game prize payouts. Net instant sales increased in fiscal year 2016 by \$3.1 million or 3.9% and by \$10.2 million or 14.5% 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.

In fiscal years 2018 and 2017, depletion of the unclaimed prizes used to supplement prize payouts caused the Lottery to substantially reduce 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.

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.

In fiscal year 2020, net instant ticket sales increased to \$79.31 million. \$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, instant game prizes structures were reorganized with lower prize payouts for players and more, smaller

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

top prizes. 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 following the start of the coronavirus, the average daily sales increased, adding more than \$5 million in 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.

In fiscal year 2021, net instant tickets sales increased by \$16.16 million to \$95.47 million. \$3 price point ticket sales increased by more than \$5.7 million or 35.9%, \$10 ticket sales increased by nearly \$5.2 million or 23.7%; \$5 ticket sales increased by more than \$2.1 million or 8.3%; \$2 ticket sales increased by \$1.8 million or 20.8%; and \$1 ticket sales increased by \$1.3 million or 18.4%. \$10 instant ticket games had the highest average prize payout of 58.3%, while \$1 instant ticket games had the lowest average prize payout of 53.4%. The average prize payout percentage for all instant games was 55.7%.

In fiscal year 2022, net instant ticket sales decreased by \$15.3 million to \$80.13 million. Since fiscal year 2017, the Lottery had not been able to afford to sell a \$20 price point game, but at the end of April 2022, the Lottery once again started selling a \$20 game. This game produced sales of \$2,241 million dollars in just over two months. The other price points had the following sales changes compared to fiscal year 2021: the \$5 price point decreased by \$6.9 million or 24.9%; the \$3 price point decreased by \$5.6 million or 25.6%; the \$2 price point decreased by \$2.9 million or 27.5%; the \$1 price point decreased by \$2.1 million or 24.6%; and the \$10 price point decreased by \$111,500 or .41%. The \$20 instant ticket game had the highest prize payout of 68.9%, while the \$1 instant ticket games had the lowest average prize payout of 54.0%. The average prize payout percentage for all instant games was 59.0%.

In fiscal year 2022, thirty-nine instant games were launched including eleven \$1 games, eight \$2 games, five \$3 games, nine \$5 games, five \$10 games and finally in April 2022 launching a \$20 game. In fiscal year 2021, fifty-eight instant games were launched including fourteen \$1 games, twelve \$2 games, seven \$3 games, fifteen \$5 games, ten \$10 games, and no \$20 games. In fiscal year 2022, the Lottery launched 23 games with prize (free) tickets and 16 games without prize tickets, while in fiscal year 2021, the Lottery launched 30 games with prize tickets and 28 games without prize tickets.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

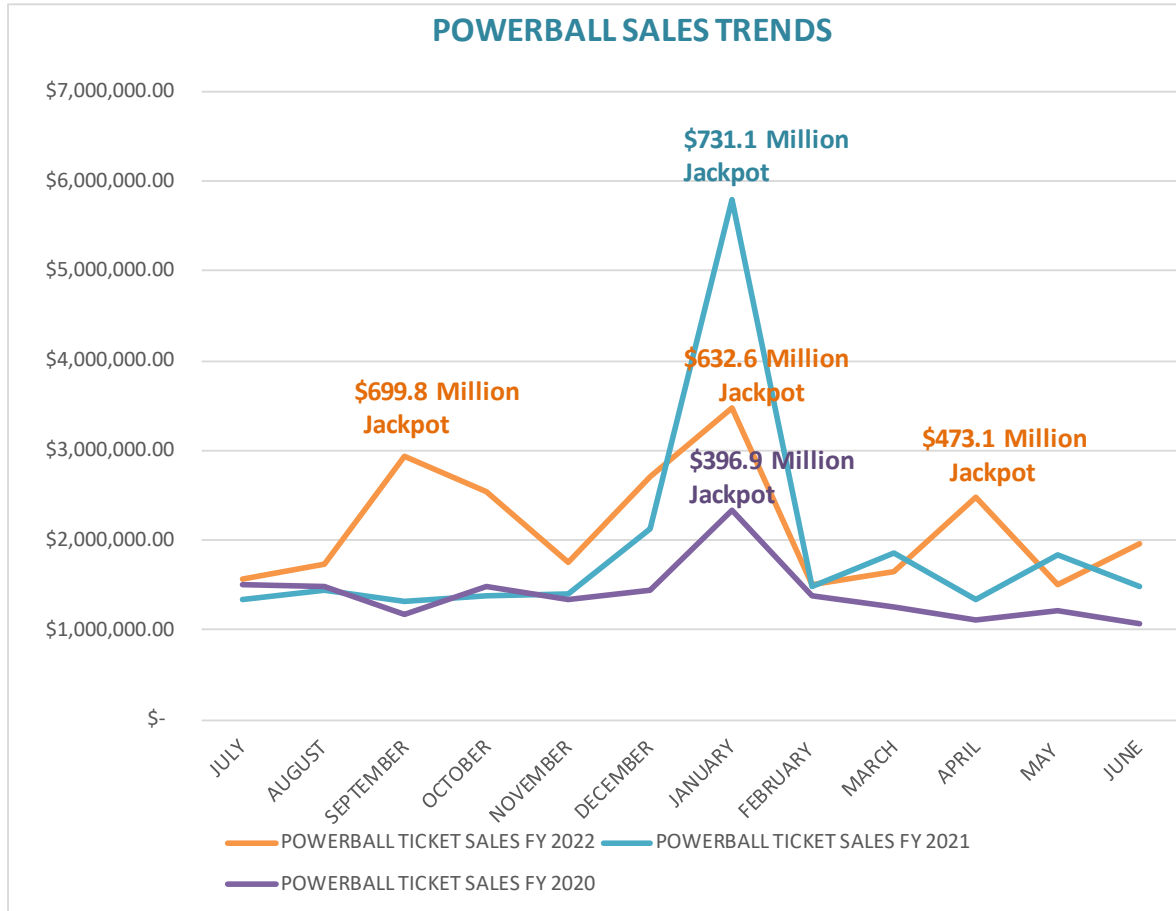
Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Higher draw game sales generally occur when the jackpots start climbing. 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 levels, such as in fiscal year 2021 when the Mega Millions jackpot grew to \$1.05 billion and in fiscal year 2019 when the jackpot for Mega Millions climbed to \$1.537 billion. In addition, in fiscal year 2016, the jackpot for Powerball climbed to \$1.586 billion. In these fiscal years, the net draw game sales were higher 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 only grew to \$396.9 million and the Mega Millions jackpot only grew to \$414 million and in fiscal year 2022, when the Mega Millions jackpot only grew to only \$426 and \$431 million.

Powerball Ticket Sales

POWERBALL TICKET SALES – FYs 2022, 2021, & 2020



NEW MEXICO LOTTERY AUTHORITY

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

Powerball sales were driven by the advertised jackpot in both fiscal years 2022 and 2021. The jackpot level that will convince casual players to buy a ticket has kept growing. Fiscal year 2022 included five jackpot wins. The year started with a jackpot that rolled forty-one times before being won on October 4, 2021, when it was \$699.8 million. The jackpot climbed again for three months until January 5, 2022, when it was \$632.6 million. The jackpot then was won three more times during the fiscal year on February 14, 2022 at \$185.3 million, on April 27, 2022 at \$473.1 million, and finally on June 29, 2022 at \$366.7 million. These jackpots, plus adding another draw night on Mondays starting on August 23, 2021, resulted in sales of \$25.84 million, adding \$3.04 million or 13.3% more in sales compared to fiscal year 2021. Fiscal year 2021 included a \$731.1 million jackpot in January 2021, a \$285.6 million jackpot in June 2021, a \$235.4 million jackpot in March 2021, a \$168.5 million jackpot in August 2020, and three small jackpots ranging from \$23.2 million to \$94.8 million. With these jackpots, Powerball ended fiscal year 2021 at \$22.80 million in sales, nearly \$6.024 million more in sales than in fiscal year 2020, a 35.9% increase in sales. 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 or 37.7% less in sales than in the prior fiscal year. Powerball's sales of nearly \$16.8 million in fiscal year 2020 were the lowest sales in the twenty-six fiscal years since Powerball sales started at the New Mexico Lottery in October 1996. Powerball's sales of \$22.8 million in fiscal year 2021 were the third lowest sales since Powerball sales commenced in 1996.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

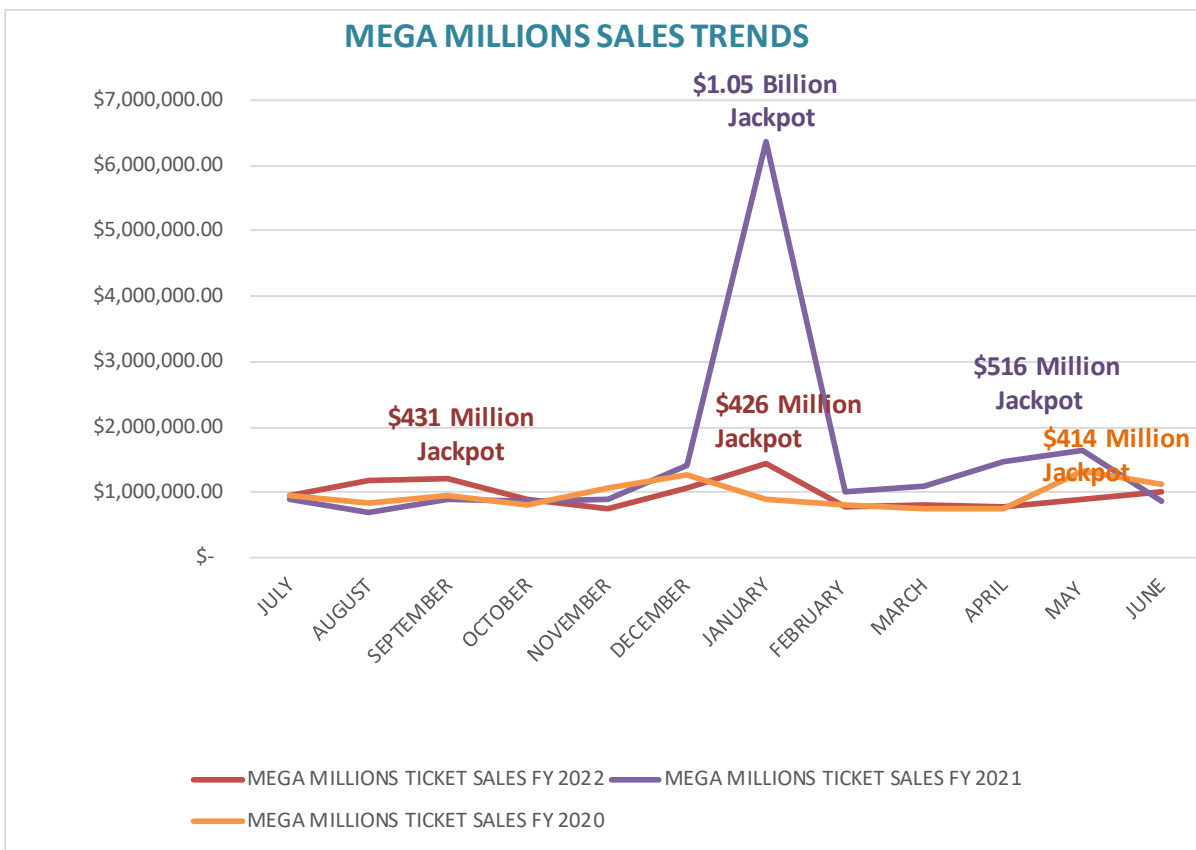
FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Net Ticket Sales – Continued

Mega Millions Ticket Sales

MEGA MILLIONS TICKET SALES – FYs 2022, 2021, 2020



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 2022, the Mega Millions jackpot climbed to \$431 million in September 2021, to \$108 million in October 2021, to \$426 million in January 2022, to \$128 million in March 2022, to \$110 million in April 2022 and then again to \$20 million in April 2022 and then continued to grow beyond the end of the fiscal year until July 29, 2022, when it was won at \$1.337 billion. Fiscal year 2022 ended with sales of \$11.74 million, a decrease in sales compared to the previous fiscal year of \$6.34 million or 35.1%. In fiscal year 2021, the Mega Millions jackpot climbed to \$1.05 billion in January 2021, followed by a \$516 million jackpot in May 2021. During the fiscal year there were five smaller jackpots ranging from \$22

NEW MEXICO LOTTERY AUTHORITY

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

million to \$123 million. Fiscal year 2021 ended with Mega Millions sales of nearly \$18.1 million, nearly \$6.6 million or 57.4% more than in fiscal year 2020. The sales in fiscal year 2021 were the second highest Mega Millions sales since Mega Millions sales started at the New Mexico Lottery in February 2010. The only year with higher sales was fiscal year 2019 where there were four large jackpots including a \$1.537 billion jackpot that produced sales of more than \$22.5 million for the fiscal year. 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 2019. Compared to the prior fiscal year, Mega Millions ended the year with \$11 million or 49% less in sales.

Other Draw Game Ticket Sales

Like Powerball and Mega Millions, Roadrunner Cash sales are also driven by the top (jackpot) prize amount. In fiscal year 2022, Roadrunner climbed to \$640,000 in August 2021 and to \$652,000 in January 2022. During the time that each of these jackpots was growing, the Lottery's sales increased by approximately \$1.2 million. During fiscal year 2022, there were also five jackpots between \$120,000 and \$182,000 and six jackpots between \$39,000 and \$91,000. Sales in the fiscal year were \$7.32 million, \$1.51 million or 26.0% more than in fiscal year 2021. In fiscal year 2021, a Roadrunner Cash jackpot grew to \$363,000 in December 2020. There were also smaller jackpots of \$216,000 in August 2020 with six jackpots ranging from \$100,000 to \$146,000 and ten jackpots ranging from \$33,000 to \$93,000 during the rest of the fiscal year. Sales of just over \$5.81 million for the fiscal year were \$2.32 million or 28.6% less than in the prior fiscal year. The difference in sales between fiscal year 2020 and fiscal year 2021 is approximately equal to the sales that occurred during the time when a jackpot in fiscal year 2020 was climbing to a record setting jackpot prize of \$950,000 in November 2019.

On June 27, 2021, a new game called Pick 3 Plus replaced the Pick 3 game. Pick 3 Plus added nearly \$50,800 in sales for the last four days of fiscal year 2021. Pick 3 Plus sales were \$4.901 million in fiscal year 2022. Pick 3 Plus sales averaged approximately \$408,000 each month. In fiscal year 2021, Pick 3 sales had grown to nearly \$5.834 million, a \$744,600 increase or 14.6% increase compared to fiscal year 2020.

On June 26, 2021, a new game called Pick 4 Plus replaced Pick 4. Pick 4 Plus added sales of more than \$20,400 for the last four days of fiscal year 2021. In fiscal year 2022, Pick 4 Plus sales were \$1.941 million, approximately \$162,000 each month. In fiscal year 2021, Pick 4 sales were more than \$1.928

NEW MEXICO LOTTERY AUTHORITY

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

million through June 26, 2021, an increase of more than \$273,000, or 16.5%, compared to fiscal year 2020.

Lotto America is a game that started in November 2017. The Lotto America jackpot grew and was won at \$9 million in April 2020, at \$4.28 million in August 2020, at \$3.5 million in December 2020, at \$8.04 million in July 2021 and then continued to grow all through fiscal year 2022 to \$16.17 million by June 29, 2022, when it still had not been won. Fiscal year 2022 sales were \$3.92 million, an increase of just over \$155,600 or 4.1% compared to the previous fiscal year. In fiscal year 2021, Lotto America sales were nearly \$3.77 million, nearly \$103,800 or 2.8% more than in fiscal year 2020.

Fast Play 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 2022, Fast Play sales decreased by nearly \$43,400 or 3.9% to nearly \$1.072 million compared to the previous fiscal year. In fiscal year 2021, Fast Play net sales increased by nearly \$186,700 or 20.1% to \$1.115 million, compared to fiscal year 2020.

Prize Expense

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

In fiscal year 2022, the overall prize payout for instant and drawing games increased by 1.39% from 54.26% to 55.65%, while in fiscal year 2021 the overall prize payout decreased by 2.26% from 56.52% to 54.26%. The changes for the two fiscal years are primarily due to an overall increase of 3.23% from 55.74% to 58.97% for instant game payout in fiscal year 2022 and an overall decrease of 2.96% from 58.70% to 55.74% on instant game payout in fiscal year 2021, mixed in with changes in sales for instant tickets, Powerball and Mega Millions sales. Powerball and Mega Millions have an average 50% payout for each game.

At the end of the claim period for each game, prizes not claimed 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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Expense – Continued

30% return most months by supplementing game prizes and for second-chance and promotional 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 years 2022 and 2021 for nine and six months in each fiscal year, respectively. In the last fifteen years, unclaimed prizes have been used 81.1% 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 during these fifteen years. More than \$50.72 million in unclaimed prizes have been transferred to the Lottery Tuition Fund in the last fifteen years.

Prize Tickets

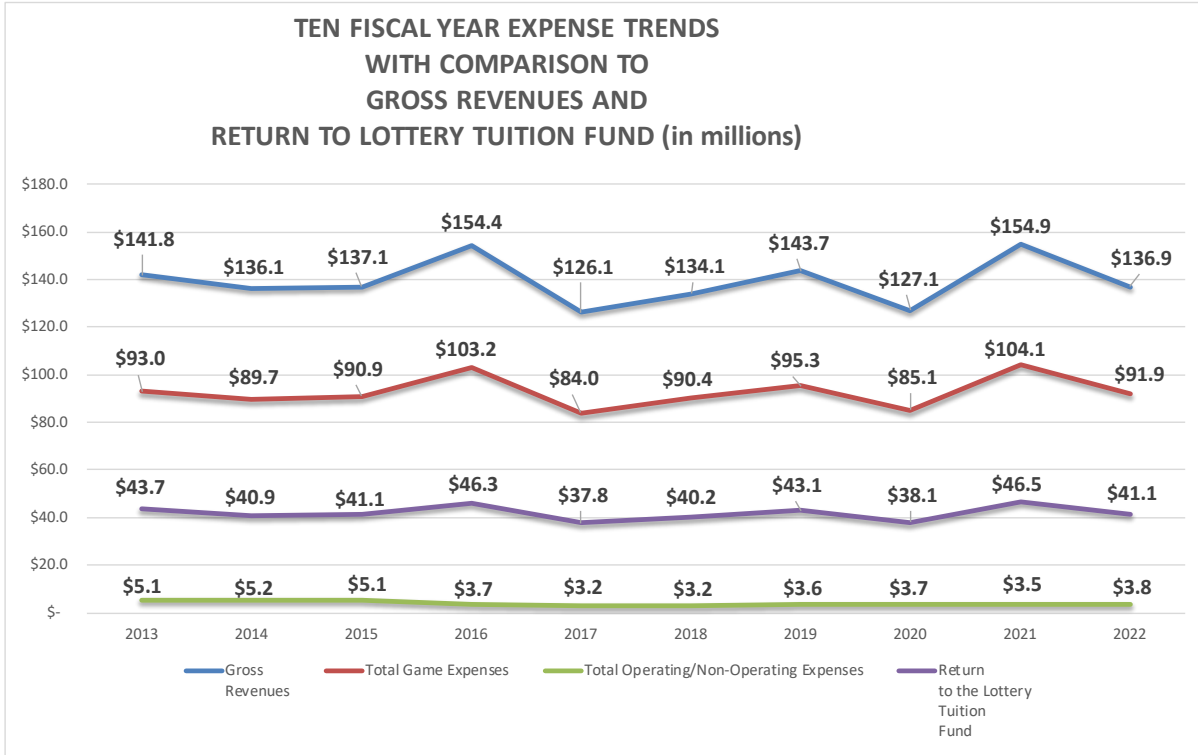
In fiscal year 2022, tickets provided as prizes (prize or free tickets) claimed on instant games decreased by just over \$624,000 or a reduction of 21.3% to \$2.31 million. In fiscal year 2021, tickets provided as prizes claimed on instant games increased by just over \$700,000 or 31.3% to \$2.94 million. In fiscal years 2022 and 2021, the amounts claimed for prize tickets were predominantly in \$1, \$2, \$3, and \$5 instant games.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

TEN FISCAL YEAR EXPENSE TRENDS WITH COMPARISON TO GROSS REVENUES AND RETURN TO LOTTERY TUITION FUND



The above chart shows the trends for game expenses and operating/non-operating expenses for the last ten years. Generally, game expenses go up and down as sales go up and down. Operating/non-operating expenses are generally fixed expenses and have been reduced over the last ten years. More information regarding gaming expenses and operating/non-operating expenses follows in this Management’s Discussion and Analysis.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 4
Game Expenses

	2022	2021	2020	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022	Increase (Decrease) \$ Change 2020 to 2021	Increase (Decrease) % Change 2020 to 2021
Prize expense	\$ 74,113,610	\$ 84,769,086	\$ 68,288,867	\$ (10,655,476)	(12.6)%	\$ 16,480,219	24.1%
Retailer							
commissions	8,892,882	10,089,595	8,278,747	(1,196,713)	(11.9)	1,810,848	21.9
On-line vendor							
fees	4,810,545	5,376,587	4,659,727	(566,042)	(10.5)	716,860	15.4
Advertising	2,015,419	1,829,704	2,010,807	185,715	10.2	(181,103)	(9.0)
Ticket vendor							
fees	1,516,694	1,624,886	1,344,824	(108,192)	(6.7)	280,062	20.8
Other game							
expenses	526,652	466,137	500,754	60,515	13.0	(34,617)	(6.9)
Total game							
expenses	\$ 91,875,802	\$ 104,155,995	\$ 85,083,726	\$ (12,280,193)	(11.8)%	\$ 19,072,269	22.4%

The changes in retailer commissions for fiscal years 2022 and 2021 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; 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 and agreed to pay a base rate of 2.9988% of total net sales. 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. In addition, as part of the 2015 agreement, if the Lottery's total net sales exceed \$146.5 million, the vendor will be paid at a discounted rate of 2.500%

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses – Continued

on those amounts above the \$146.5 million for the remainder of the fiscal year in which the \$146.5 million is attained.

Effective October 30, 2018, the Lottery entered into a second amendment to the 2015 agreement whereby commencing on November 22, 2020, the rate paid to the vendor was reduced to 2.89% of total net sales, not including other specifically priced options such as any sports lottery offered for sale to the public by the Lottery, which will remain at the 2.9988% of total net sales pricing during the duration of the 2015 agreement.

For fiscal years 2022 and 2021, 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 decrease in the vendor contract pricing as of November 2020 and the reduction due to achieving total net sales of \$146.5 million in June 2021 and are equivalent to 3.5% of gross revenues for the two years, respectively.

Advertising money is expended to market the Lottery and its products to the public; to inform the public about games, including jackpot and top prize amounts; to provide security tips and gambling awareness for our players; to present benefit messages to New Mexico students and their families; and to keep lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.5% and 1.2% of gross revenues, respectively, for fiscal years 2022 and 2021, and stayed within the Lottery Board approved budgets of \$2,100,000 and \$1,900,000, respectively, for each fiscal year.

In April 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 years 2022 and 2021, the cost for any licensing fees or special printing costs were also included in ticket vendor fees. The ticket vendor fees for fiscal years 2022 and 2021 were 1.9% and 1.7%, respectively, of net instant ticket sales.

Included in other game expenses are shipping and postage, responsible gaming, retailer equipment, promotions, and game membership expenses. Fiscal year 2022 reflects an increase of \$60,515 or 13.0%, while fiscal year 2021 reflects a decrease of \$34,617 or 6.9%. The increase in fiscal year 2022 is mainly due to an increase in the cost of shipping effective at the end of March 2022, which increased shipping by \$25,306, along with an increase in promotions expense of \$21,750 and in MUSL game membership expense of \$21,421 netted against a decrease in the purchase of retailer equipment of \$7,962. The decrease in fiscal year 2021 is primarily due to a decrease in promotions expense of \$40,538, in game membership expenses of \$11,399 and in shipping and postage of \$2,664, netted against an increase of \$18,984 in retailer equipment and in responsible gaming of \$1,000.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 5
Operating Expenses

	2022	2021	2020	Increase \$ Change 2021 to 2022	Increase % Change 2021 to 2022	Increase (Decrease) \$ Change 2020 to 2021	Increase (Decrease) % Change 2020 to 2021
Salaries, wages, and benefits	\$ 2,936,217	\$ 2,768,150	\$ 2,846,186	\$ 168,067	6.1%	\$ (78,036)	(2.7)%
Utilities and maintenance	254,304	250,569	254,140	3,735	1.5	(3,571)	(1.4)
Leases and insurance	148,182	126,584	111,327	21,598	17.1	15,257	13.7
Other operating expenses	416,851	398,236	441,896	18,615	4.7	(43,660)	(9.9)
Total operating expenses	\$ 3,755,554	\$ 3,543,539	\$ 3,653,549	\$ 212,015	6.0%	\$ (110,010)	(3.0)%

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 2022, total operating expenses increased by \$212,015 or 6.0%, while in fiscal year 2021, total operating expenses decreased by \$110,010 or 3.0%.

In fiscal year 2022, salaries, wages, and benefits increased by \$168,067 or 6.1%, while in fiscal year 2021, salaries, wages, and benefits decreased by \$78,036 or 2.7%. Fiscal year 2022 started with thirty-two employees. During the fiscal year, four employees were hired and three employees left the employment of the Lottery. There were thirty-three employees at the end of the fiscal year. Fiscal year 2021 started with thirty-two employees. During the fiscal year, three employees were hired and three employees left the employment of the Lottery. There were thirty-two employees at the end of the fiscal year with one employee position waiting to be filled at the end of the year. In fiscal year 2022, one employee received a promotion, while thirty employees received cost of living adjustments averaging 3.84% and three employees received other salary adjustments averaging 10%. In fiscal year 2021, one employee received a promotion, four employees received market adjustments, but there were no increases for performance provided to any employee. In addition, in both fiscal years 2022 and 2021, due to the COVID 19 pandemic, insurance premiums were not increased and remained the same as for fiscal year 2020. In both fiscal years, additional employees, position changes, employee compensation changes and related changes to payroll taxes and benefits contributed to the changes in salaries, wages, and benefits compared to the prior fiscal year.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses - Continued

In fiscal years 2022 and 2021, leases and insurances increased by \$21,598 or 17.1% and \$15,257 or 13.7%, respectively. These increases were primarily due to increases in various premiums upon renewal, including for employment practices, cyber, and crime insurances. In fiscal year 2022, other operating expenses increased by \$18,615 or 4.7%. This increase was primarily due to increases in professional fees, travel, and other expenses of \$40,368 netted against reductions in depreciation and amortization and materials and supplies of \$21,753. In fiscal year 2021, other operating expenses were reduced by \$43,660 or 9.9% primarily because of a total of \$53,335 in reductions in depreciation and amortization, travel, other expenses and materials and supplies netted against an increase of \$9,675 in professional fees.

Non-Operating Revenues

Non-operating revenues decreased in both fiscal year 2022 and 2021. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2022 or 2021.

Non-Operating Expense

In fiscal years 2022 and 2021, there was interest expense of \$348 and \$427, respectively for a five-year lease effective on July 1, 2020 for a postage machine that was capitalized under GASB 87.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison

Table 6
Budgetary Comparison

	2022				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 136,234,000	\$ 140,484,000	\$ 136,882,126	\$ (3,601,874)	(2.6)%
Total game expenses	91,118,000	94,117,000	91,875,802	(2,241,198)	(2.4)
Total operating expenses	<u>4,255,000</u>	<u>4,231,000</u>	<u>3,755,554</u>	<u>(475,446)</u>	(11.2)
Operating income	40,861,000	42,136,000	41,250,770	(885,230)	(2.1)
Total non-operating income	<u>14,000</u>	<u>14,000</u>	<u>19,738</u>	<u>5,738</u>	41.0
Net income before transfers to Lottery Tuition Fund	<u>\$ 40,875,000</u>	<u>\$ 42,150,000</u>	<u>\$ 41,270,508</u>	<u>\$ (879,492)</u>	(2.1)%
	2021				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 118,484,000	\$ 144,284,000	\$ 154,892,958	\$ 10,608,958	7.4%
Total game expenses	78,811,000	97,065,000	104,155,995	7,090,995	7.3
Total operating expenses	<u>4,139,000</u>	<u>3,943,000</u>	<u>3,543,539</u>	<u>(399,461)</u>	(10.1)
Operating income	35,534,000	43,276,000	47,193,424	3,917,424	9.1
Total non-operating income	<u>16,000</u>	<u>14,000</u>	<u>42,044</u>	<u>28,044</u>	200.3
Net income before transfers to Lottery Tuition Fund	<u>\$ 35,550,000</u>	<u>\$ 43,290,000</u>	<u>\$ 47,235,468</u>	<u>\$ 3,945,468</u>	9.1%

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

In fiscal year 2022, the original budget was revised to reflect the sales performance for the Lottery's games. Instant ticket sales were decreased by \$2.5 million or 2.9%; Powerball sales were increased by \$5.5 million or 26.2%; Mega Millions sales were decreased by \$750,000 or 5.5%; and Roadrunner Cash sales were increased by \$2.0 million or 33.3%. Pick 3 Plus, Pick 4 Plus, and Fast Play sales were adjusted by smaller amounts in the final (revised) budget. Lotto America sales were left the same as in the original budget. Along with instant ticket sales, tickets provided as prizes were decreased by \$200,000 or 7.4%. Net ticket sales and gross revenues were increased by \$4.25 million or 3.1%. Game expense line items for prize expense, retailer commissions, and on-line vendor fees were increased due to the increase in sales, while ticket vendor fees were decreased due to the decrease in instant ticket sales. The percentages for these direct costs generally stayed close as a percentage to what they had been in the fiscal year 2022 original budget. The overall increase of nearly \$3 million to game expenses was 3.3%, which was within .2% of the change in net ticket sales. Operating expenses were reduced by \$24,000 or .6%. The final budget was projected to return \$1.28 million or 3.1% more to the Lottery Tuition Fund.

Fiscal year 2022 ended with gross revenues not meeting the final budget by \$3.598 million or 2.6%. Compared to the revised budget, instant ticket sales were \$1.772 million or 2.2% lower; Powerball sales were \$660,600 or 2.5% lower; Mega Millions sales were \$1.255 million or 9.7% lower; and Roadrunner Cash sales were \$678,000 or 8.5% lower, while Lotto America sales were \$523,400 or 15.4% higher; Pick 3 Plus sales were nearly \$101,000 or 2.1% higher; Pick 4 Plus were \$42,200 or 2.2% higher, and Fast Play sales were \$72,500 or 7.3% higher. Directly affected by net ticket sales, which were less than the revised budget by 2.6%, game expenses were less than the revised budget by 2.4%. Operating expenses were less than the revised budget at 88.8% of the budget. Fiscal year 2022 returned \$1.079 million or 2.6% less than the revised budget to the Lottery Tuition Fund.

In fiscal year 2021, the original budget was revised to reflect the sales performance for the Lottery's games. Instant ticket sales were increased by \$19 million or 26.0%; Powerball sales were increased by \$3 million or 16.7%; Mega Millions sales were increased by \$6 million or 57.1%; and Roadrunner Cash sales were decreased by \$1.9 million or 23.8%. Lotto America, Pick 3, Pick 4, and Fast Play sales were adjusted by smaller amounts in the final budget. Pick 3 Plus and Pick 4 Plus were not included in the final budget because of not having a finalized launch date for fiscal year 2021 when the final budget was prepared and because the sales amounts were projected to be immaterial. Along with instant ticket sales, tickets provided as prizes were increased by \$900,000 or 45.0%. Net ticket sales and gross revenues were increased by \$25.8 million or 21.8%. Game expense line items for prize expense, retailer commissions, on-line vendor fees, and ticket vendor fees were increased due to the increase in sales. The percentages for these direct costs stayed relatively close as a percentage to what they had been in the fiscal year 2021 original budget. The overall increase to game expenses of \$18.3 million was 23.2%, which was within 1.4% of the change in net ticket sales. Operating

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

expenses were reduced by \$196,000 or 4.7%. The largest reduction was to salaries, wages, and benefits, which was reduced by \$151,000 or 4.9%. The reduction in salaries, wages, and benefits mainly occurred because three positions remained vacant and one position was not filled until mid-year. The final budget was projected to return \$7.74 million or 21.8% more to the Lottery Tuition Fund.

Fiscal year 2021 ended with gross revenues outperforming the final budget by \$10.635 million or 7.4%. Compared to the revised budget, instant ticket sales were nearly \$6.469 million or 7.3% higher; Powerball sales were nearly \$1.854 million or 8.9% higher; Mega Millions sales were \$1.584 million or 9.6% higher; Lotto America sales were \$367,700 or 10.8% higher; Pick 3 and Pick 3 Plus sales were nearly \$285,000 or 5.1% higher; Pick 4 and Pick 4 Plus sales were \$149,000 or 8.3% higher, and Fast Play sales were nearly \$166,000 or 17.5% higher. Roadrunner Cash sales were \$289,500 or 4.8% less than the revised budget. Directly affected by net ticket sales, which surpassed the revised budget by 7.3%, game expenses were also more than the revised budget by 7.3%. Operating expenses were less than the revised budget at 89.9% of the budget. Fiscal year 2021 returned nearly \$3.192 million or 7.4% more than the revised budget to the Lottery Tuition Fund.

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, 2022 and 2021, 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 Finance at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2022 and 2021

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,254,842	\$ 10,607,465
Accounts receivable (net of allowance for doubtful accounts)	801,802	2,031,183
Reserves on deposit	2,977,831	2,889,313
Inventory	17,294	2,620
Prepaid expenses	277,814	429,533
Total current assets	17,329,583	15,960,114
NONCURRENT ASSETS		
Capital assets		
Non-depreciable	743,700	743,700
Depreciable, net of accumulated depreciation	2,971,145	2,286,627
Intangible right-to-use, net of accumulated amortization	8,457	11,277
Net capital assets	3,723,302	3,041,604
Total assets	\$ 21,052,885	\$ 19,001,718
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 2,370,675	\$ 1,865,244
Current portion of lease liability	2,950	2,856
Prizes payable	9,444,566	8,090,607
Due to Lottery Tuition Fund	3,394,398	3,398,865
Total current liabilities	15,212,589	13,357,572
LONG-TERM LIABILITIES		
Noncurrent portion of lease liability	6,196	9,146
Total liabilities	\$ 15,218,785	\$ 13,366,718
NET POSITION		
Net investment in capital assets	\$ 3,364,156	\$ 3,029,602
Unrestricted	2,469,944	2,605,398
Total net position	\$ 5,834,100	\$ 5,635,000

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, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Instant ticket sales	\$ 80,131,691	\$ 95,472,037
Powerball sales	25,838,880	22,803,259
Mega Millions sales	11,744,153	18,083,921
Roadrunner Cash sales	7,321,667	5,810,006
Pick 3 and Pick 3 Plus sales	4,900,574	5,884,493
Lotto America sales	3,922,863	3,767,239
Pick 4 and Pick 4 Plus sales	1,941,728	1,948,544
Fast Play sales	1,072,031	1,115,404
Net ticket sales	136,873,587	154,884,903
Retailer fees	8,539	8,055
Total operating revenues	136,882,126	154,892,958
GAME EXPENSES		
Prize expense	74,113,610	84,769,086
Retailer commissions	8,892,882	10,089,595
On-line vendor fees	4,810,545	5,376,587
Advertising	2,015,419	1,829,704
Ticket vendor fees	1,516,694	1,624,886
Shipping and postage	316,815	291,509
Responsible gaming	72,250	72,250
Retailer equipment	59,944	67,906
Promotions	56,222	34,472
Game membership	21,421	-
Total game expenses	91,875,802	104,155,995
OPERATING EXPENSES		
Salaries, wages, and benefits	2,936,217	2,768,150
Utilities and maintenance	254,304	250,569
Depreciation and amortization	187,956	198,656
Leases and insurance	148,182	126,584
Professional fees	137,035	118,106
Other	63,318	47,812
Materials and supplies	21,638	32,690
Travel	6,904	972
Total operating expenses	3,755,554	3,543,539
OPERATING INCOME	41,250,770	47,193,424
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(348)	(427)
Interest income	18,375	16,806
Other income	1,711	25,665
Total non-operating income	19,738	42,044
Net income before transfers	41,270,508	47,235,468
Transfers to Lottery Tuition Fund	41,071,408	46,481,668
Change in net position	199,100	753,800
Net position at beginning of year	5,635,000	4,881,200
Net position at end of year	\$ 5,834,100	\$ 5,635,000

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CASH FLOWS

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 129,218,625	\$ 144,364,926
Cash payments:		
To prize winners and related taxes	(59,165,822)	(65,773,939)
To MUSL	(13,593,829)	(13,956,646)
To suppliers of goods or services	(9,795,597)	(10,141,612)
To employees for services and related taxes	<u>(2,433,495)</u>	<u>(2,260,652)</u>
Net cash provided by operating activities	<u>44,229,882</u>	<u>52,232,077</u>
 Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(41,075,875)</u>	<u>(46,637,226)</u>
 Cash flows from capital and related financing activities		
Purchases of capital assets	(519,654)	(148,472)
Principal paid on capital leases	(2,856)	(2,094)
Interest paid on capital leases	<u>(348)</u>	<u>(427)</u>
Net cash used by capital and related financing Activities	<u>(522,858)</u>	<u>(150,993)</u>
 Cash flows from investing activities		
Receipts of interest	14,517	10,575
Other	<u>1,711</u>	<u>25,665</u>
Net cash provided by investing activities	<u>16,228</u>	<u>36,240</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,647,377	5,480,098
 Cash and cash equivalents at beginning of year	<u>10,607,465</u>	<u>5,127,367</u>
 Cash and cash equivalents at end of year	<u><u>\$ 13,254,842</u></u>	<u><u>\$ 10,607,465</u></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, 2022 and 2021

	2022	2021
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,250,770	\$ 47,193,424
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	187,956	198,656
Vendors' non-cash transactions	(353,858)	(6,231)
Interest on MUSL unreserved account	3,858	6,231
Net changes in assets and liabilities:		
Accounts receivable	1,229,381	(438,437)
Reserves on deposit	(84,660)	227,777
Inventory	(14,674)	150
Prepaid expenses	151,719	(212,884)
Accounts payable and other liabilities	505,431	224,890
Prizes payable	1,353,959	5,038,501
Net cash provided by operating activities	\$ 44,229,882	\$ 52,232,077

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

NEW MEXICO LOTTERY AUTHORITY
STATEMENTS OF FIDUCIARY NET POSITION

Years ended June 30, 2022 and 2021

	2022			2021		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 51,006	\$ -	\$ 51,006	\$ 85,274	\$ -	\$ 85,274
Marketable securities and other investments	7,484,953	1,339,904	8,824,857	8,889,558	1,430,850	10,320,408
Contribution receivable	45,615	7,346	52,961	43,293	6,459	49,752
Total assets	\$ 7,581,574	\$ 1,347,250	\$ 8,928,824	\$ 9,018,125	\$ 1,437,309	\$ 10,455,434
NET POSITION						
Held in Trust for Pension plan participants' benefits	\$ 7,581,574	\$ 1,347,250	\$ 8,928,824	\$ 9,018,125	\$ 1,437,309	\$ 10,455,434

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, 2022 and 2021

	2022			2021		
	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	\$ -	\$ -	\$ -	\$ 2,088,393	\$ 329,926	\$ 2,418,319
Dividends	852,381	92,289	944,670	230,375	26,967	257,342
Employer contributions	295,547	-	295,547	280,027	-	280,027
Employee contributions	-	182,818	182,818	-	162,877	162,877
Total additions	<u>1,147,928</u>	<u>275,107</u>	<u>1,423,035</u>	<u>2,598,795</u>	<u>519,770</u>	<u>3,118,565</u>
DEDUCTIONS						
Net loss in fair value of investments	2,544,525	365,166	2,909,691	-	-	-
Distributions to participants	39,756	-	39,756	421,735	3,144	424,879
Fees	198	-	198	255	135	390
Total deductions	<u>2,584,479</u>	<u>365,166</u>	<u>2,949,645</u>	<u>421,990</u>	<u>3,279</u>	<u>425,269</u>
Change in net position	(1,436,551)	(90,059)	(1,526,610)	2,176,805	516,491	2,693,296
Net position - beginning	<u>9,018,125</u>	<u>1,437,309</u>	<u>10,455,434</u>	<u>6,841,320</u>	<u>920,818</u>	<u>7,762,138</u>
Net position - ending	<u>\$ 7,581,574</u>	<u>\$ 1,347,250</u>	<u>\$ 8,928,824</u>	<u>\$ 9,018,125</u>	<u>\$ 1,437,309</u>	<u>\$ 10,455,434</u>

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021

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 2022 and 2021 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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. As of June 30, 2022 and 2021, an allowance for doubtful accounts of \$38,545 for both fiscal years has been provided to recognize future uncollectible billings. In fiscal years 2022 and 2021, ten retail customers (504 and 468 retailers) represented 64% and 63% of sales for each fiscal year, respectively, and 83% and 64% 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, 2022 and 2021

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. As of June 30, 2022 and 2021, the Lottery's share in the Powerball PRA was \$715,944 and \$759,137, respectively, and in the SPRA was \$311,280 and \$258,951, respectively. The PRA was fully funded at the end of fiscal years 2022 and 2021. The SPRA was fully funded at the end of fiscal year 2022, but required an additional \$78,969 to be fully funded for fiscal year 2021.

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 maximum amount designated by the MUSL product group for the PRA is \$100 million for all party lotteries. As of June 30, 2022 and 2021, the Lottery's share in the Mega Millions PRA was \$715,016 and \$774,108, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of fiscal years 2022 and 2021.

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. As of June 30, 2022 and 2021, the Lottery's share in the Lotto America PRA was \$373,311 and \$287,737, respectively. The Lotto America PRA had not met its requirements of \$766,787 and \$774,404 as of June 30, 2022 and 2021, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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. As of June 30, 2022 and 2021, the Lottery's share of the unreserved fund was \$862,280 and \$809,380, respectively.

A winner of a Powerball grand prize, Mega Millions grand prize, or 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

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 owns one game of promotional tickets that was purchased under a previous agreement and another game of promotional tickets purchased under the current printing agreement. These tickets are carried at the lower of cost or market using the specific identification method. As of June 30, 2022 and 2021, \$17,294 and \$2,620, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2022 and 2021, there were no amounts in prize inventory, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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 both purchased equipment and leased 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. The Lottery capitalizes leased non-financial assets that are measured at more than \$5,000 and provide the Lottery the right to use the underlying asset for a period 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 15 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 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. Any retailer fees and any related bad debts are shown as a contra revenue account in total operating revenues.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Revenue and Accounts Receivable Recognition – Continued

	2022	2021
OPERATING REVENUES		
Instant ticket sales	\$ 82,482,123	\$ 98,426,748
Powerball sales	25,838,945	22,803,242
Mega Millions sales	11,744,173	18,083,947
Roadrunner Cash sales	7,321,682	5,810,006
Pick 3 and Pick 3 Plus sales	4,900,584	5,884,493
Lotto America sales	3,922,863	3,767,249
Pick 4 and Pick 4 Plus sales	1,941,728	1,948,544
Fast Play sales	1,072,031	1,115,404
Less tickets provided as prizes	(2,312,580)	(2,936,629)
Less spoiled, stolen, and promotional tickets	(37,962)	(18,101)
Net ticket sales	136,873,587	154,884,903
Retailer fees	8,539	8,055
Total operating revenues	\$ 136,882,126	\$ 154,892,958

10. Prizes

Prize expense for instant, Powerball, Mega Millions, Roadrunner Cash, Lotto America, Pick 3 Plus, and Pick 4 Plus games is recorded based on an estimate of the predetermined prize structure for each game. Prize expense for Pick 3, Pick 4, and Fast Play games is recorded based on the actual prizes won for each game. In March 2021 a Prize Reserve Account (PRA) of \$300,000 was established for Roadrunner Cash and in April 2021 PRAs of \$200,000 and \$150,000 were established for the new games Pick 3 Plus and Pick 4 Plus, respectively. These PRAs were established to enable the Lottery to pay prizes claimed for any drawing that exceeded the expected prizes per each game's prize structure. The balances in the PRAs as of June 30, 2022 and 2021 were \$261,740 and \$394,491, respectively, for Roadrunner Cash, \$190,760 and \$206,048, respectively, for Pick 3 Plus, and \$74,238 and \$149,124, respectively, for Pick 4 Plus.

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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Income Taxes

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

14. Custodial Credit Risk and Interest Rate Risk

As of June 30, 2022 and 2021, 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, 2022 and 2021, the Lottery’s balances of \$13,295,023 and \$10,645,581, respectively, were exposed to custodial credit risk as follows:

	2022	2021
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	13,295,023	10,645,581
	<u>\$ 13,295,023</u>	<u>\$ 10,645,581</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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.

As of June 30, 2022 and 2021, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2022:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase Agreement	Wells Fargo Bank, NA	\$ 13,295,023
Operating account – checking	Wells Fargo Bank, NA	-
Total amount deposited in bank		13,295,023
Less: FDIC coverage		-
Total uninsured funds – deposits and overnight repurchase agreement		\$ 13,295,023
102% pledged collateral requirement per statute for repurchase agreement		\$ 13,560,924
* Total pledged security		(13,560,924)
Amount under (over) requirement at June 30, 2022		\$ -

*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3140KAYT7 (cost \$15,562,658), matures June 01, 2051. 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, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2022	\$ 13,295,023
Less reconciling items--outstanding checks	<u>(55,181)</u>
Reconciled cash in bank at June 30, 2022	13,239,842
Cash in vault	<u>15,000</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 13,254,842</u></u>

At June 30, 2021:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase Agreement	Wells Fargo Bank, NA	\$ 10,645,581
Operating account – checking	Wells Fargo Bank, NA	<u>-</u>
Total amount deposited in bank		10,645,581
Less: FDIC coverage		<u>-</u>
Total uninsured funds – deposits and overnight repurchase agreement		<u><u>\$ 10,645,581</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 10,858,492
* Total pledged security		<u>(10,858,492)</u>
Amount under (over) requirement at June 30, 2021		<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 31334YCD7 (cost \$10,343,181), matures August 1, 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, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2021	\$ 10,645,581
Less reconciling items--outstanding checks	<u>(51,466)</u>
Reconciled cash in bank at June 30, 2021	10,594,115
Cash in vault	<u>13,350</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 10,607,465</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, construction, 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Net Position – Continued

Unrestricted – consists of the net amount of assets, and liabilities 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 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 and second-chance drawings to increase sales. As of June 30, 2022 and 2021, the Lottery had unclaimed prizes in the amount of \$6,216,745 and \$4,337,306, respectively, reported as prizes payable that had not yet been applied against prize expense. 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 Leave 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 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Compensated Absences Payable – Continued

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, 2022 and 2021, the following changes occurred in the compensated absences liabilities:

Balance July 1, 2021	Increase	Decrease	Balance June 30, 2022
\$ 220,512	\$ 15,631	\$ (9,706)	\$ 226,437

Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021
\$ 217,693	\$ 17,593	\$ (14,774)	\$ 220,512

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.

22. Lease Liability

The Lottery leased a postage machine for a period of sixty months, beginning on July 1, 2020 and ending on June 30, 2025. The lease was recorded using an incremental interest rate of 3.25%. Payments are due quarterly. The first year's payments were \$630 per quarter; thereafter the payments are \$801 per quarter for the remaining four years.

Future liability on leases with original terms of one year or more are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2023	\$ 2,950	\$ 254	\$ 3,204
2024	3,048	156	3,204
2025	3,148	56	3,204
	\$ 9,146	\$ 466	\$ 9,612

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Accounts payable	\$ 1,309,773	\$ 1,194,732
Accrued liabilities, vendors*	686,129	254,619
Accrued liabilities, retailers*	5,000	6,500
Accrued payroll, and payroll taxes and benefits	143,336	188,881
Compensated absences	<u>226,437</u>	<u>220,512</u>
	<u>\$ 2,370,675</u>	<u>\$ 1,865,244</u>

* The Lottery has accrued an estimated amount for services delivered by its vendors and deposits for its retailers as of June 30, 2022 and 2021 respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2022 consisted of:

	<u>Beginning Balances</u>	<u>Reclass- ification</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Non-depreciable capital assets</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Total non-depreciable capital assets	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Depreciable capital assets</u>					
Building and building improvements	2,348,032	-	16,156	-	2,364,188
Data processing equipment and software	495,711	(23,221)	91,344	-	563,834
Equipment	995,232	-	724,921	-	1,720,153
Vehicles	168,157	-	-	-	168,157
Furniture and fixtures	224,413	(5,880)	-	-	218,533
Intellectual property	179,073	(179,073)	-	-	-
Land improvements & infrastructure	23,133	-	37,233	-	60,366
Obsolete capital assets	<u>162,314</u>	<u>208,174</u>	<u>-</u>	<u>(53,527)</u>	<u>316,961</u>
Total depreciable capital assets	<u>4,596,065</u>	<u>-</u>	<u>869,654</u>	<u>(53,527)</u>	<u>5,412,192</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(379,985)	-	(79,003)	-	(458,988)
Data processing equipment and software	(327,291)	23,221	(49,601)	-	(353,671)
Equipment	(866,308)	-	(52,132)	-	(918,440)
Vehicles	(165,300)	-	(2,857)	-	(168,157)
Furniture and fixtures	(224,413)	5,880	-	-	(218,533)
Intellectual property	(179,073)	179,073	-	-	-
Land improvements & infrastructure	(4,754)	-	(1,543)	-	(6,297)
Obsolete capital assets	<u>(162,314)</u>	<u>(208,174)</u>	<u>-</u>	<u>53,527</u>	<u>(316,961)</u>
Total accumulated depreciation	<u>(2,309,438)</u>	<u>-</u>	<u>(185,136)</u>	<u>53,527</u>	<u>(2,441,047)</u>
Total depreciable capital assets, net	<u>2,286,627</u>	<u>-</u>	<u>684,518</u>	<u>-</u>	<u>2,971,145</u>
<u>Intangible right-to-use assets:</u>					
Leased equipment	14,096	-	-	-	14,096
Less accumulated amortization	<u>(2,819)</u>	<u>-</u>	<u>(2,820)</u>	<u>-</u>	<u>(5,639)</u>
Intangible right-to-use assets, net	<u>11,277</u>	<u>-</u>	<u>(2,820)</u>	<u>-</u>	<u>8,457</u>
NET CAPITAL ASSETS	<u><u>\$3,041,604</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 681,698</u></u>	<u><u>\$ -</u></u>	<u><u>\$3,723,302</u></u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE B – CAPITAL ASSETS - CONTINUED

Capital assets at June 30, 2021 consisted of:

	<u>Beginning Balances</u>	<u>Reclass- ification</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Non-depreciable capital assets</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Total non-depreciable capital assets	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Depreciable capital assets</u>					
Building and building improvements	2,348,032	-	-	-	2,348,032
Data processing equipment and software	407,627	(24,950)	113,034	-	495,711
Equipment	959,794	-	35,438	-	995,232
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	3,333,540	24,950	-	(3,196,176)	162,314
Total depreciable capital assets	<u>7,643,769</u>	<u>-</u>	<u>148,472</u>	<u>(3,196,176)</u>	<u>4,596,065</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(300,982)	-	(79,003)	-	(379,985)
Data processing equipment and software	(318,924)	24,950	(33,317)	-	(327,291)
Equipment	(795,029)	-	(71,279)	-	(866,308)
Vehicles	(156,723)	-	(8,577)	-	(165,300)
Furniture and fixtures	(222,294)	-	(2,119)	-	(224,413)
Intellectual property	(179,073)	-	-	-	(179,073)
Land improvements & infrastructure	(3,212)	-	(1,542)	-	(4,754)
Obsolete capital assets	<u>(3,333,540)</u>	<u>(24,950)</u>	<u>-</u>	<u>3,196,176</u>	<u>(162,314)</u>
Total accumulated depreciation	<u>(5,309,777)</u>	<u>-</u>	<u>(195,837)</u>	<u>3,196,176</u>	<u>(2,309,438)</u>
Total depreciable capital assets, net	<u>2,333,992</u>	<u>-</u>	<u>(47,365)</u>	<u>-</u>	<u>2,286,627</u>
<u>Intangible right-to-use assets:</u>					
Leased equipment	-	-	14,096	-	14,096
Less accumulated amortization	<u>-</u>	<u>-</u>	<u>(2,819)</u>	<u>-</u>	<u>(2,819)</u>
Intangible right-to-use assets, net	<u>-</u>	<u>-</u>	<u>11,277</u>	<u>-</u>	<u>11,277</u>
 NET CAPITAL ASSETS	 <u>\$3,077,692</u>	 <u>\$ -</u>	 <u>\$ (36,088)</u>	 <u>\$ -</u>	 <u>\$3,041,604</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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

	Due to Lottery Tuition Fund
Balance at June 30, 2020	\$ 3,554,423
Prior year 30% return	46,481,668
Prior year transfers	<u>(46,637,226)</u>
Balance at June 30, 2021	\$ 3,398,865
Current year 30% return	41,071,408
Current year transfers	<u>(41,075,875)</u>
Balance at June 30, 2022	<u><u>\$ 3,394,398</u></u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least thirty percent of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2022 and 2021, the Lottery has transferred \$41,071,408 and \$46,481,668, respectively, for the years ended June 30, 2022 and 2021 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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

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-six and fifty-four current and former employees of the Lottery (or their beneficiaries) were participants in the plan at the end of fiscal years 2022 and 2021, 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 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, 2022 and 2021, the Lottery recognized \$295,547 and \$280,027 of pension expense for the plan on eligible compensation of \$2,230,543 and \$2,113,411, respectively. There were no forfeitures of employee balances for the years ended June 30, 2022 and 2021, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years had been paid to the plan by June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, the Lottery recognized a contribution liability of \$45,615 and \$43,293, 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 investment funds. Thirty-six and thirty-five current and former employees of the Lottery were participants in the plan at the end of fiscal years 2022 and 2021, respectively. All amounts withheld from employee compensation during the respective fiscal year for Section 457(b) contributions had been paid to the plan by June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, the Lottery recognized a contribution liability of \$7,346 and \$6,459, 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, 2022 and 2021

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, 2022 and 2021:

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, 2022 and 2021, in the amount of \$1,455,532 and \$1,522,563, 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, 2022 and 2021

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:

	2022		2021	
	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	\$ 462,336	\$ 149,161	\$ 433,698	\$ 155,526
Blend	534,949	189,679	385,959	117,381
Growth	348,809	204,031	718,122	292,887
Total US Equity	1,346,094	542,871	1,537,779	565,794
Bonds	394,193	33,626	418,760	46,588
Target Date	2,646,737	381,205	2,845,770	357,438
Balanced Asset Allocation	823,476	25,651	928,130	28,890
Foreign Equity	239,753	2,208	292,589	1,000
Specialty/Other	2,034,700	354,343	2,866,530	431,140
Total Level 1	7,484,953	1,339,904	8,889,558	1,430,850
Level 2 - Similar observable assets	-	-	-	-
Level 3 - Significant unobservable sources	-	-	-	-
Total investments in the fair value measurement	7,484,953	1,339,904	8,889,558	1,430,850
Other plan assets exempt from the fair value measurement:				
Money market/cash	51,006	-	85,274	-
Contribution receivable	45,615	7,346	43,293	6,459
Total plan assets	\$ 7,581,574	\$ 1,347,250	\$ 9,018,125	\$ 1,437,309

The balances and activity of both Plans as of and for the years ended June 30, 2022 and 2021 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, 2022 and 2021

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.

Annually in May of each year the line of credit matured and had been renewed from 2013 – 2020 under the same terms and conditions. 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 4.38% and 3.25%, respectively, for June 30, 2022 and June 30, 2021. For the years ended June 30, 2022 and 2021, 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 November 22, 2015, the Lottery entered into an agreement with INTRALOT, Inc., a Georgia-based company, to provide an on-line gaming system for a total of eight years. The system includes the supply, maintenance, service, and operation of a communication network; a new back-office accounting system; 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, including a fifteen-member lottery sales team. On October 30, 2018, the Lottery entered into an agreement to extend the term for two additional years for a total of ten years ending on November 21, 2025.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022 and 2021

NOTE G - OTHER EXPENSES

Other expenses at June 30 consisted of:

	<u>2022</u>	<u>2021</u>
Registrations and memberships	\$ 36,401	\$ 31,990
Other	17,553	11,223
Training	6,726	2,211
Publications and subscriptions	<u>2,638</u>	<u>2,388</u>
	<u>\$ 63,318</u>	<u>\$ 47,812</u>

NEW MEXICO LOTTERY AUTHORITY

SUPPLEMENTARY INFORMATION SCHEDULES OF PERCENTAGE RETURN TO THE STATE OF NEW MEXICO

Years ended June 30

	2022	2021
OPERATING REVENUES		
Instant ticket sales	\$ 80,131,691	\$ 95,472,037
Powerball sales	25,838,880	22,803,259
Mega Millions sales	11,744,153	18,083,921
Roadrunner Cash sales	7,321,667	5,810,006
Pick 3 and Pick 3 Plus sales	4,900,574	5,884,493
Lotto America sales	3,922,863	3,767,239
Pick 4 and Pick 4 Plus sales	1,941,728	1,948,544
Fast Play sales	1,072,031	1,115,404
Net ticket sales	136,873,587	154,884,903
Retailer fees	8,539	8,055
Total operating revenues	136,882,126	154,892,958
NON-OPERATING INCOME		
Interest income	18,375	16,806
Other income	1,711	25,665
Total non-operating income	20,086	42,471
GROSS REVENUES	136,902,212	154,935,429
GAME EXPENSES		
Prize expense	74,113,610	84,769,086
Retailer commissions	8,892,882	10,089,595
On-line vendor fees	4,810,545	5,376,587
Advertising	2,015,419	1,829,704
Ticket vendor fees	1,516,694	1,624,886
Shipping and postage	316,815	291,509
Responsible gaming	72,250	72,250
Retailer equipment	59,944	67,906
Promotions	56,222	34,472
Game membership	21,421	-
Total game expenses	91,875,802	104,155,995
OPERATING EXPENSES		
Salaries, wages, and benefits	2,936,217	2,768,150
Utilities and maintenance	254,304	250,569
Depreciation and amortization	187,956	198,656
Leases and insurance	148,182	126,584
Professional fees	137,035	118,106
Other	63,318	47,812
Materials and supplies	21,638	32,690
Travel	6,904	972
Operational Reserve Fund expense	199,100	753,800
Total operating expenses	3,954,654	4,297,339
OPERATING INCOME	41,051,670	46,439,624
NON-OPERATING EXPENSE		
Interest expense	348	427
Total nonoperating expense	348	427
NET INCOME	\$ 41,071,408	\$ 46,481,668
GROSS REVENUE PERCENTAGE RETURN	30.00%	30.00%

**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**

Mr. Brian S. Colón, Esq.,
New Mexico State Auditor
Board of Directors
New Mexico Lottery Authority
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 (the "Lottery"), a component unit of the State of New Mexico, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 28, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) as a basis for designing 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 the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery'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 financial statements. 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*.

We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that has been described in the accompanying schedule of findings and responses as item 2022-001.

Lottery's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Lottery's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Lottery's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, NM
October 28, 2022

NEW MEXICO LOTTERY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2022 and 2021

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted? | No |

SECTION II: FINANCIAL STATEMENT FINDINGS

None noted.

NEW MEXICO LOTTERY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2022 and 2021

SECTION III: SECTION 12-6-5 NMSA 1978 FINDINGS

2022-001 – Prepayments (Other Noncompliance)

Condition: The New Mexico Lottery Authority (the “Authority”) made prepayments to a vendor for the purchase of tangible personal property in the amount of \$250,000.

Criteria: Per section 13-1-158(A) NMSA 1978, no warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office (defined as the office within the state agency or local public body responsible for the control of procurement of items of tangible personal property, services, or construction) or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications or unless prepayment is permitted under Section 13-1-98 NMSA 1978 by exclusion of the purchase from the Procurement Code.

Per Section 13-1-98 NMSA 1978, the provisions of the Procurement Code shall not apply to purchases not exceeding ten thousand dollars (\$10,000) consisting of magazine subscriptions, web-based or electronic subscriptions, conference registration fees and other similar purchases where prepayments are required.

Effect: The Authority was in violation of the New Mexico State Procurement Code.

Cause: The Authority was unaware of the limitations on prepayments under the Procurement Code at the time the tangible personal property was ordered and when the prepayment was made.

Auditors’ Recommendation: The Authority should review the statute referenced above with the Certified Purchasing Officer and other individuals involved in initiating purchases throughout the entity.

Views of Responsible Officials and Planned Corrective Action: In 2015, the NMLA entered into a contract with a major gaming vendor for a lottery gaming system and associated products and services. The NMLA makes weekly payments to the vendor for products and services within that contract, which totaled approximately \$4.2 million in Fiscal Year 2022. The NMLA decided to exercise an option within the contract to request additional vending machines to accommodate the onboarding of a major retail chain as a lottery retailer. Because the vendor contract had been ongoing since 2015 and there had been a regular payment structure for products and services during the contract period, the NMLA did not view paying the vendor in phases for the vending machines as a prepayment per the Procurement Code.

In fact, pursuant to Section 6-24-6 A. NMSA 1978, Powers of the Authority, the Legislature recognized the uniqueness of the Authority by acknowledging NMLA’s entrepreneurial purposes. The legislature gave the Authority great flexibility to both contract with vendors and finance projects. See excerpts below from 6-24-6 A.:

- A. The authority shall have all powers necessary or convenient to carry out and effectuate the purposes and provisions of the New Mexico Lottery Act [6-24-1 NMSA 1978] that are not in conflict with the constitution of New Mexico and that are generally exercised by corporations engaged in entrepreneurial pursuits, including the power to:

NEW MEXICO LOTTERY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2022 and 2021

SECTION III: SECTION 12-6-5 NMSA 1978 FINDINGS (Continued)

2022-001 – Prepayments (Other Noncompliance)(Continued)

(9) enter into contracts to incur debt and borrow money in its own name and enter into financing agreements with the state, with agencies or instrumentalities of the state or with any commercial bank or credit provider;

(13) select and contract with lottery vendors and lottery retailers; [and]

(15) enter into contracts of all types on such terms and conditions [emphasis added] as the authority may determine; . . .

NMLA Management does not believe the limitation cited in Section 13-1-158(A) NMSA 1978 was intended to limit the Authority's ability to procure necessary equipment from the Lottery's vendor under an existing contract, but instead should be interpreted in harmony with all existing statutory provisions. However, in the future, any payments for services, construction, or items of tangible personal property, regardless of existing contractual arrangements, will be made once the services, construction, or items of tangible personal property have been received and meet specification or unless prepayment is permitted by exclusion of the purchase from the Procurement Code.

Responsible Official: NMLA Central Purchasing Officer

Timeline and Estimated Completion Date: Based upon the Auditors' Recommendation above, the referenced statute was reviewed and discussed by NMLA management and the Chief Procurement Officer in October 2022. In addition, clarifying updates will be made to internal policies.

SECTION IV: PRIOR YEAR AUDIT FINDINGS

There were no prior year findings for fiscal years 2021 and 2020.

NEW MEXICO LOTTERY AUTHORITY

EXIT CONFERENCE

For the Year Ended June 30, 2022

An exit conference was held at the New Mexico Lottery Authority on October 28, 2022. The following individuals participated:

Name	Title
<i>New Mexico Lottery Authority Board of Directors:</i>	
Paul Guerin	Board Secretary-Treasurer & Finance and Audit Committee Chair
Leo M. Romero, Esq.	Board Member
Othiamba Umi, Esq.	Board Member
<i>New Mexico Lottery Authority Employees:</i>	
David M. Barden, Esq.	Chief Executive Officer
Sylvia Ann Jaramillo, CPA	Director of Finance
Carolyn Cabell	Chief Operating Officer
Michael Boland, CPA	Internal Auditor
Carr Riggs & Ingram, CPAs	
Corrine Zajac-Clarkson, CPA	Engagement Partner
Eric Spurlin, CPA	Engagement Senior 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.