



NEW MEXICO LOTTERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2023 and 2022

NEW MEXICO LOTTERY AUTHORITY

OFFICIAL ROSTER (UNAUDITED)

June 30, 2023

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

David M. Barden, Esq.	Chief Executive Officer
Carolyn Cabell	Chief Operating Officer
Jay Siegel, CPA	Director of Finance
Randy Bertram	Executive Vice President for Security
Wendy Ahlm	Director of Advertising and Marketing
Karla Wilkinson	Director of Gaming Products
Evelyn McKnight	Director of Human Resources
Darren Geffre	Director of Information Technology
Pam Poteat	Director of Sales

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY (UNAUDITED)

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 (UNAUDITED)

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; accounts payable; 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.

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.

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY (UNAUDITED)

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. The Sales Division is also responsible for the Claims Center's payment of prizes to players and ticket sales.

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 Division, under the direction of the Director of Information Technology, 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 division.

The Internal Audit Department, under the direction of the Senior 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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Report of Independent Auditors

Board of Directors
New Mexico Lottery Authority
and
Mr. Joseph M. Maestas, P.E.
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinions

We have audited 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, 2023, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery 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 opinions.

Emphasis of Matters

2022 Financial Statements

The financial statements of the New Mexico Lottery Authority for the year ended June 30, 2022, were audited by other auditors whose report dated October 28, 2022, expressed an unmodified opinion on those financial statements.

Reporting Entity

As discussed in Note 1, the financial statements of the New Mexico Lottery Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of New Mexico that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2023, the change in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.

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.

Auditor's 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 auditor's report that includes our opinions. 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 GAAS 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 GAAS 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 24 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 New Mexico Lottery Authority's basic financial statements. The schedules of percentage return to the State of New Mexico are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 of the introductory section but does not include the basic financial statements and our auditor’s 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2023 on our consideration of the New Mexico Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Mexico Lottery Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Mexico Lottery Authority's internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 27, 2023

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, 2023 and 2022 with comparative numbers for the fiscal year ended June 30, 2021. Please read it in conjunction with the financial statements, which begin on page 25.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2023, the Lottery's total current assets of \$20,780,377 increased by \$3,450,794, an increase of 19.9%, while 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%, each fiscal year in comparison to June 30th of the previous fiscal year.
- At the end of fiscal year 2023, the Lottery's total current liabilities of \$17,328,889 increased by \$2,116,300, an increase of 13.9%, while 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%, each fiscal year in comparison to the end of the respective previous fiscal year.
- In fiscal year 2023, the total net ticket sales were \$168,459,314, an increase of \$31,585,727, or a 23.1% increase. In fiscal year 2022, the total net ticket sales were \$136,873,587, a decrease of \$18,011,316, or an 11.6% decrease, compared to total net ticket sales of \$154,884,903 in fiscal year 2021.
- Compared to the prior fiscal years, total prize expenses of \$91,874,928 increased in fiscal year 2023 by \$17,761,318, or 24.0%, but decreased in fiscal year 2022 by \$10,655,476, or 12.6%, to \$74,113,610 compared to \$84,769,086 in fiscal year 2021.
- Total operating expenses of \$3,988,140 increased by \$232,586, or 6.2%, in fiscal year 2023, and increased by \$212,015, a 6.0% increase, to \$3,755,554 in fiscal year 2022, each fiscal year in comparison to the previous fiscal year.
- Non-operating income (expense) decreased by \$375, a 1.9% decrease, to \$19,363 in fiscal year 2023 and decreased by \$22,306, a 53.1% decrease, to \$19,738 in fiscal year 2022, each fiscal year compared to each preceding fiscal year.
- In fiscal year 2023, net income was \$51,792,509, an increase of \$10,522,001, or 25.5%, compared to fiscal year 2022. In fiscal year 2022, net income was \$41,270,508, a decrease of \$5,964,960, or 12.6%, compared to fiscal year 2021's net income of \$47,235,468.
- In fiscal years 2023 and 2022, the Lottery transmitted thirty percent of gross revenues to the State pursuant to statute in each month during the two fiscal years.
- Including the final transfer on July 31, 2023 of June 2023's net return, the Lottery has transferred \$998,303,865 to the State of New Mexico for education since the commencement of sales in April 1996.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery was established in 1995 as a public body, politic and corporate, separate and apart from the State of New Mexico and constituting a governmental instrumentality and, therefore, is accounted for as such, reporting all 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 25 and the Statements of Revenues, Expenses, and Changes in Net Position on page 26 report the Lottery's assets, liabilities, revenues, and expenses in comparative format for fiscal year 2023 and fiscal year 2022. The Statements of Cash Flows on pages 27 and 28 report the sources and uses of cash for fiscal years 2023 and 2022. The Statements of Fiduciary Net Position on page 29 and Statements of Changes in Fiduciary Net Position on page 30 report the balances and activity of the Lottery's Retirement Plans for fiscal year 2023 and fiscal year 2022.

Notes to Financial Statements. The Notes to Financial Statements on pages 31 to 51 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 52 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2023 and 2022 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 2023 and 2022, the Lottery's net position was \$7,067,590 and \$5,834,100, respectively, with unrestricted net position of \$3,454,536 and \$2,469,944 for each fiscal year, respectively.

Total Assets

Table 1
Total Assets

	2023	2022	2021	Increase	Increase	Increase	Increase
				(Decrease)	(Decrease)	(Decrease)	(Decrease)
				\$ Change	% Change	\$ Change	% Change
	2022 to	2022 to	2021 to	2022 to	2022 to	2021 to	2021 to
	2023	2023	2022	2022	2023	2022	2022
Current assets							
Cash and cash equivalents	\$ 16,329,530	\$ 13,254,842	\$ 10,607,465	\$ 3,074,688	23.2 %	\$ 2,647,377	25.0 %
Accounts receivable, (net of allowance for doubtful accounts)	1,073,789	801,802	2,031,183	271,987	33.9 %	(1,229,381)	(60.5) %
Reserves on deposit	3,104,969.00	2,977,831	2,889,313	127,138	4.3 %	88,518	3.1 %
Inventory	16,757	17,294	2,620	(537)	(3.1) %	14,674	560.1 %
Prepaid expenses	<u>255,332</u>	<u>277,814</u>	<u>429,533</u>	<u>(22,482)</u>	(8.1) %	<u>(151,719)</u>	(35.3) %
Total current assets	20,780,377	17,329,583	15,960,114	3,450,794	19.9 %	1,369,469	8.6 %
Net capital assets	<u>3,619,250</u>	<u>3,723,302</u>	<u>3,041,604</u>	<u>(104,052)</u>	(2.8) %	<u>681,698</u>	22.4 %
Total assets	<u>\$ 24,399,627</u>	<u>\$ 21,052,885</u>	<u>\$ 19,001,718</u>	<u>\$ 3,346,742</u>	15.9 %	<u>\$ 2,051,167</u>	10.8 %

Compared to the prior fiscal years, the Lottery's cash and cash equivalents increased in both fiscal year 2023 and 2022 by \$3,074,688 or 23.2% and \$2,647,377 or 25.0%, 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 2023, the change in cash relates mainly to an increase in accounts receivable due mainly to the last week of June 2023 collections occurring in the first week of July 2023, with increases in accounts payable and other current liabilities, prizes payable, and net position. 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.

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 2023, the receivables balance increased by \$271,987 or 33.9% in comparison to the previous fiscal year because the receivables for the prior week were collected on June 30, 2023, leaving only six days of receivables. 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.

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 \$127,138, or an increase of 4.3%, in fiscal year 2023 and an increase of \$88,518, or an increase of 3.1%, in fiscal year 2022 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 2023 decreased by \$537, or 3.1%, while the balance of fiscal year 2022 increased by \$14,674, or 560.1%. 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 2023 and 2022, the Lottery had inventory of \$16,757 and \$17,294, respectively, for these promotional instant games.

The changes in net capital assets in fiscal years 2023 and 2022 are primarily attributable to \$159,310 and \$869,654 in capital asset purchases and \$263,360 and \$187,956 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							
				Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022
	2023	2022	2021				
Current liabilities							
Accounts payable and other							
current liabilities	\$ 2,014,127	\$ 2,370,675	\$ 1,865,244	\$ (356,548)	(15.0) %	\$ 505,431	27.1 %
Current portion of lease liability	3,048	2,950	2,856	98	3.3 %	94	3.3 %
Prizes payable	11,575,141	9,444,566	8,090,607	2,130,575	22.6 %	1,353,959	16.7 %
Due to Lottery Tuition Fund	<u>3,736,573</u>	<u>3,394,398</u>	<u>3,398,865</u>	<u>342,175</u>	10.1 %	<u>(4,467)</u>	(0.1) %
Total current liabilities	17,328,889	15,212,589	13,357,572	2,116,300	13.9 %	1,855,017	13.9 %
Long-term liabilities							
Noncurrent portion of lease liability	<u>3,148</u>	<u>6,196</u>	<u>9,146</u>	<u>(3,048)</u>	(49.2) %	<u>(2,950)</u>	(32.3) %
Total liabilities	<u>\$ 17,332,037</u>	<u>\$ 15,218,785</u>	<u>\$ 13,366,718</u>	<u>\$ 2,113,252</u>	13.9 %	<u>\$ 1,852,067</u>	13.9 %

Accounts payable and other current liabilities decreased by \$356,548 or 15.0% in fiscal year 2023 and increased by \$505,431 or 27.1% in fiscal year 2022. In fiscal year 2023, accounts payable and other current liabilities decreased due to a payment made in the amount of \$350,000 that was owed to the online vendor for self-service-lottery sales terminals that were purchased during fiscal year 2022.

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 2023, prizes payable increased by \$2,130,575 or 22.6% and in fiscal year 2022, prizes payable increased by \$1,353,959 or 16.7%.

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 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. In fiscal year 2023, the Lottery used unclaimed prizes of \$3,927,000 to meet the 30% return to the Lottery Tuition Fund in nine of the twelve months of the fiscal year. During fiscal year 2023, the unclaimed prize fund increased by \$619,165 from \$6,216,745 at the beginning of the fiscal year to \$6,835,910 on June 30, 2023.

At the end of fiscal years 2023 and 2022, respectively, \$3,736,573 and \$3,394,398 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.

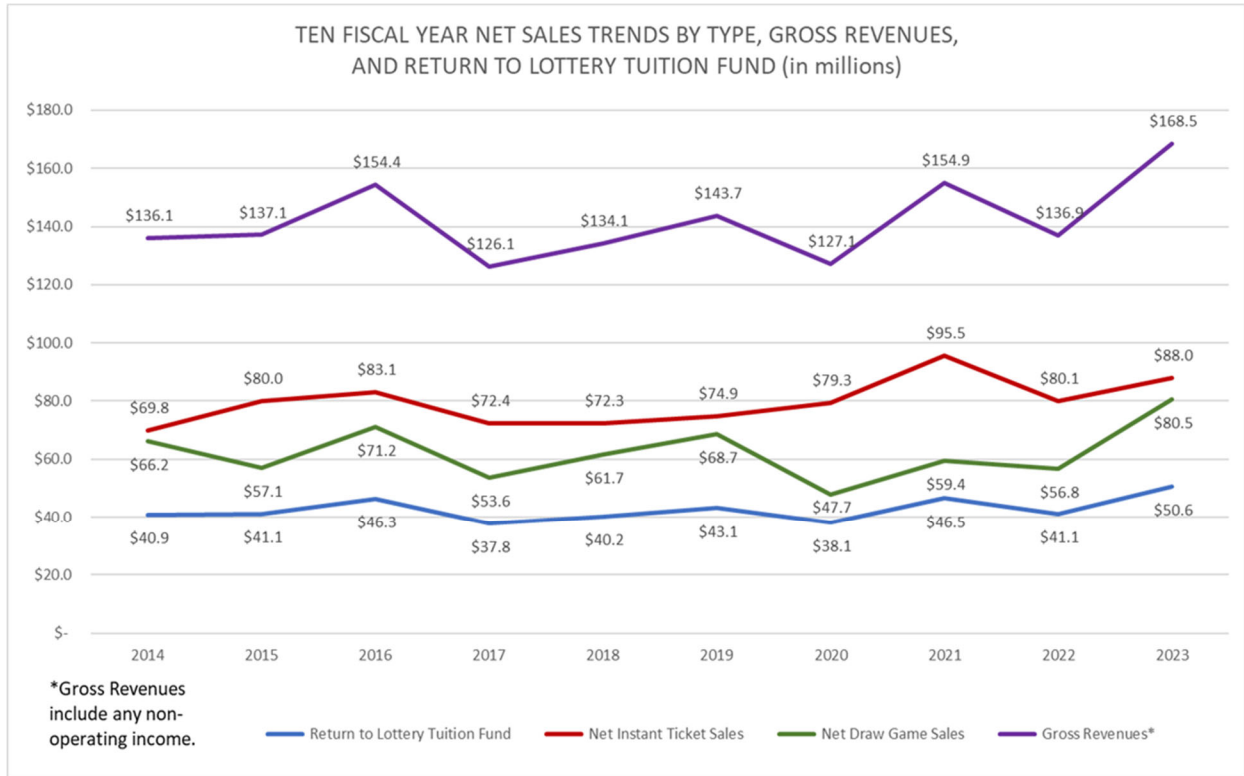
Reflected in total liabilities in fiscal year 2023 and 2022 was a current portion of lease liability of \$3,048 and \$2,950, respectively, and a non-current portion of lease liability of \$3,148 and \$6,196, respectively. These amounts represent the remaining liability of a capitalized lease for a postage 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
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%
2023	\$2.04 B	\$1.348B	2023	58.81%

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 2023 and 2022, the Lottery transmitted a 30 percent return each month, totaling \$50,559,019 and \$41,071,408, respectively.

The graph on page 11 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 percent return on the gross revenues for that fiscal year. During this 10-year period, three fiscal years (2016, 2021, and 2023), were the years with the three highest returns to the Lottery Tuition Fund in the Lottery's twenty-eight fiscal years.

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

2023	Net Ticket Sales	Prize Expense
Instant ticket	\$ 87,992,086	\$ 51,223,189
Powerball	33,693,900	16,847,354
Mega Millions	25,999,956	13,013,733
Roadrunner Cash	6,798,608	3,765,069
Pick 3 Plus	4,855,587	2,427,793
Lotto America	6,073,748	2,882,117
Pick 4 Plus	1,928,279	964,140
Fast Play	1,117,150	751,533
Total	<u>\$ 168,459,314</u>	<u>\$ 91,874,928</u>
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>
\$ Increase from FY 2022 to FY 2023	<u>\$ 31,585,727</u>	<u>\$ 17,761,318</u>
% Increase from FY 2022 to FY 2023	<u>23.1%</u>	<u>24.0%</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>

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 2023, 2022, and 2021. In fiscal year 2023, net instant ticket, Powerball, Mega Millions, Lotto America, and Fast Play sales and the related prize expense increased, while Roadrunner Cash, Pick 3 Plus, and Pick 4 Plus sales and the related prize expense decreased in comparison to fiscal year 2022. In fiscal year 2022, Powerball and Roadrunner Cash sales and the related prize expense increased, while net instant ticket, 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.

Net Ticket Sales

In fiscal year 2023, net sales increased by \$31.59 million or 23.1% to \$168.46 million, while net sales had decreased by \$18.01 million or 11.6% to \$136.87 million in fiscal year 2022 compared to net sales of \$154.88 million in fiscal year 2021.

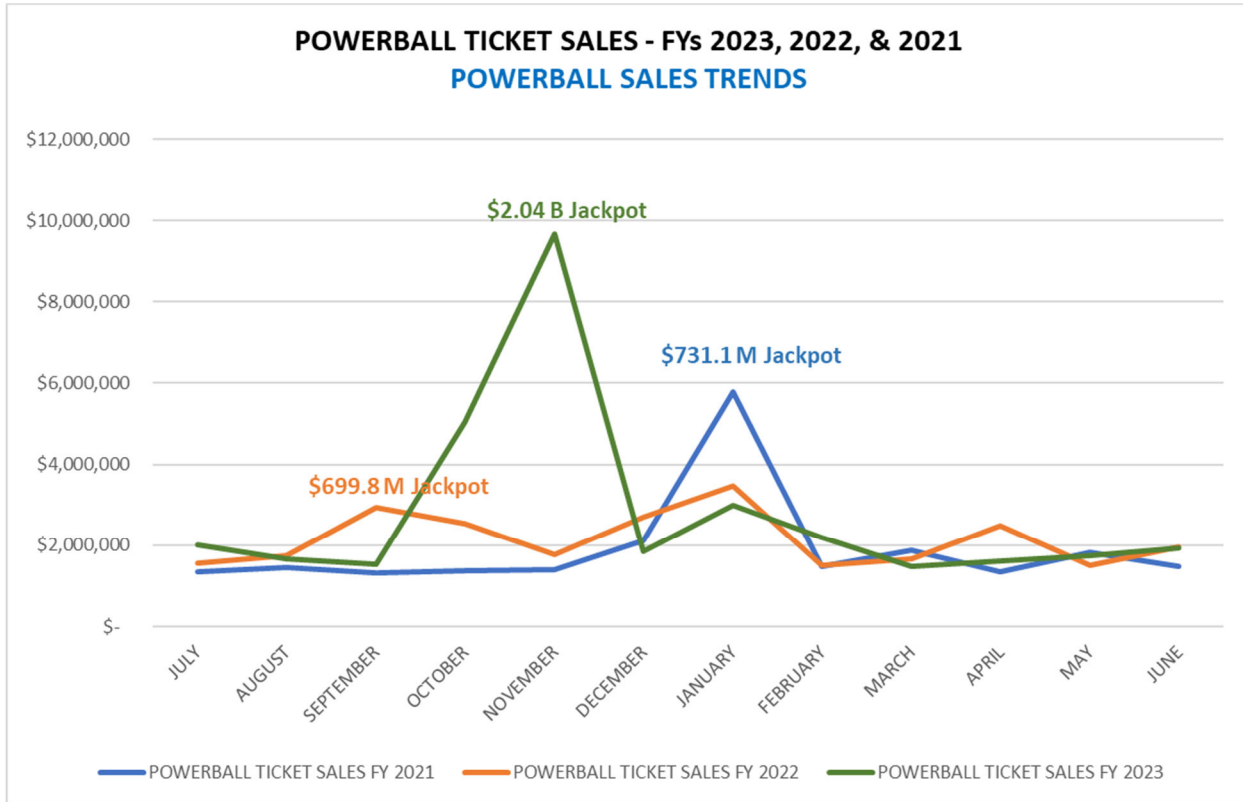
NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Powerball Ticket Sales



Powerball sales were driven by the advertised jackpots in both fiscal years 2023 and 2022. The jackpot level that will convince casual players to buy a ticket continued to increase. In fiscal year 2023, in addition to other jackpot winners, there was one major jackpot winner in the amount of \$2.04 billion.

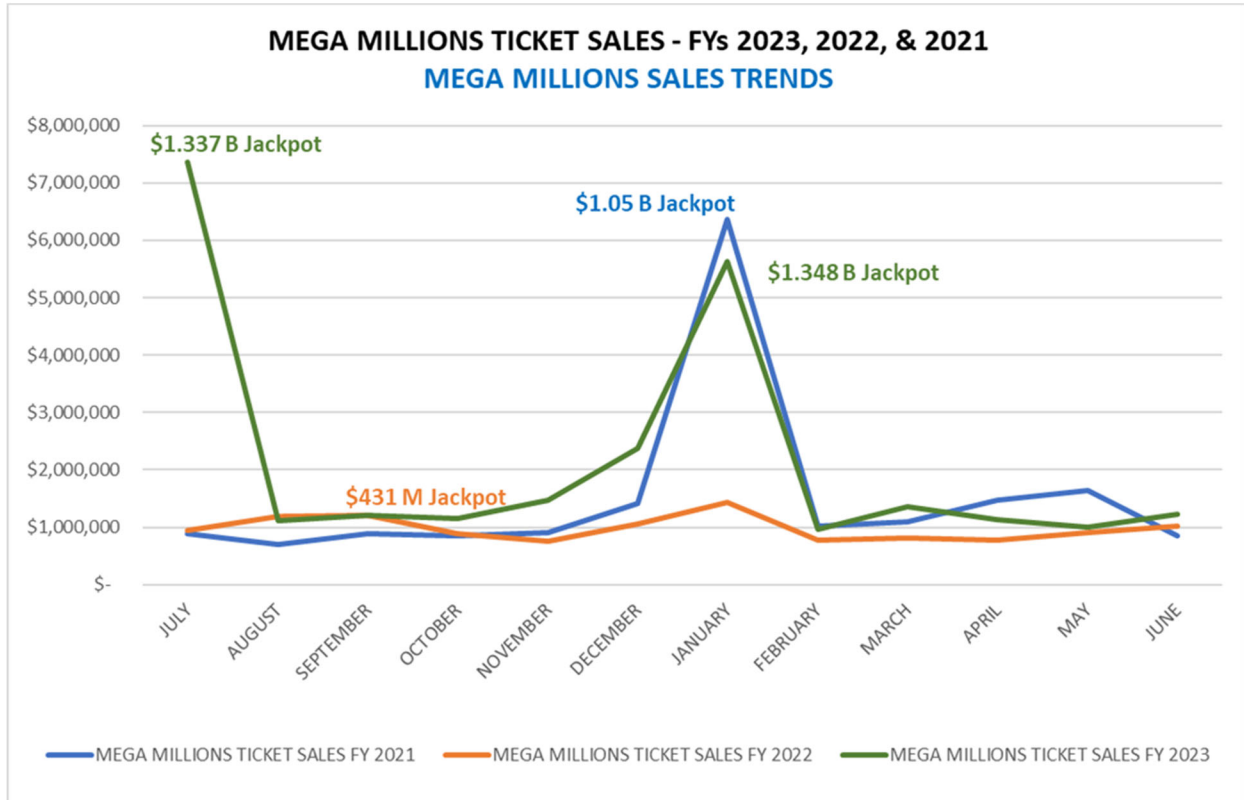
NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Mega Millions Ticket Sales



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. There were two major Mega Millions jackpots in fiscal year 2023, reaching \$1.337 billion in July 2022 and \$1.348 billion in January 2023.

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 Fast Play is determined by the prizes won for each 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.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

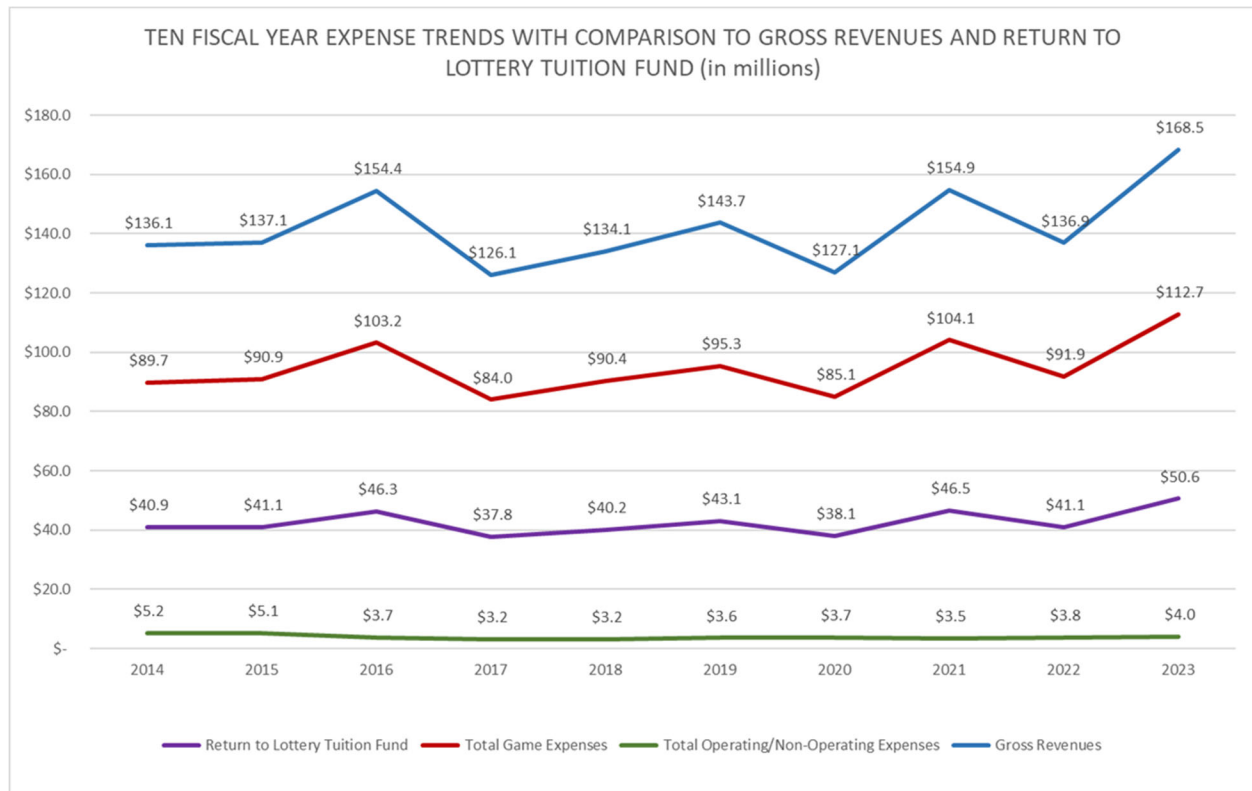
FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Tickets

In fiscal year 2023, tickets provided as prizes (prize or free tickets) claimed on instant games decreased by just over \$37,201 or a reduction of 1.6% to \$2,275,379 million. 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 years 2023 and 2022, the amounts claimed for prize tickets were predominantly in \$1, \$2, \$3, and \$5 instant games.

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 this Management’s Discussion Analysis.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 4
Game Expenses

				Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023</u>	<u>2023</u>	<u>2022</u>	<u>2022</u>
Prize expense	\$ 91,874,932	\$ 74,113,610	\$ 84,769,086	\$ 17,761,322	24.0 %	\$ (10,655,476)	(12.6) %
Retailer commissions	10,807,603	8,892,882	10,089,595	1,914,721	21.5 %	(1,196,713)	(11.9) %
On-line vendor fees	5,663,619	4,810,545	5,376,587	853,074	17.7 %	(566,042)	(10.5) %
Advertising	2,063,589	2,015,419	1,829,704	48,170	2.4 %	185,715	10.2 %
Ticket vendor fees	1,663,391	1,516,694	1,624,886	146,697	9.7 %	(108,192)	(6.7) %
Other game expenses	<u>635,264</u>	<u>526,652</u>	<u>466,137</u>	<u>108,612</u>	20.6 %	<u>60,515</u>	13.0 %
Total game expenses	<u>\$ 112,708,398</u>	<u>\$ 91,875,802</u>	<u>\$ 104,155,995</u>	<u>\$ 20,832,596</u>	22.7 %	<u>\$ (12,280,193)</u>	(11.8) %

The changes in retailer commissions for fiscal years 2023 and 2022 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 online 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 online 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 online 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% on those amounts above the \$146.5 million for the remainder of the fiscal year in which the \$146.5 million is attained.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses – Continued

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 2023 and 2022, the changes in the online vendor fees for the two fiscal years are consistent with the changes in net draw game and instant ticket sales for the fiscal years. Online vendor fees were 3.4% and 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 1.2% and 1.5% of gross revenues, respectively, for fiscal years 2023 and 2022, and stayed within the Lottery Board approved budgets of \$2,100,000 and \$2,100,000, 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 2023 and 2022, the cost for any licensing fees or special printing costs were also included in ticket vendor fees. The ticket vendor fees for fiscal years 2023 and 2022 were 1.0% and 1.1%, 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 2023 reflects an increase of \$136,651 or 26.0%, while fiscal year 2022 reflects an increase of \$60,515 or 13.0%. The increase in fiscal year 2023 is mainly due to an increase in the cost of shipping effective at the end of March 2022, which increased shipping by \$121,955, along with an increase in game membership expense of \$41,023.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 5
Operating Expenses

				Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023	Increase (Decrease) \$ Change 2021 to 2022	Increase (Decrease) % Change 2021 to 2022
	2023	2022	2021	2023	2023	2022	2022
Salaries, wages, and benefits	\$ 3,019,908	\$ 2,936,217	\$ 2,768,150	\$ 83,691	2.9 %	\$ 168,067	6.1 %
Utilities and maintenance	276,513	254,304	250,569	22,209	8.7 %	3,735	1.5 %
Leases and insurance	163,498	148,182	126,584	15,316	10.3 %	21,598	17.1 %
Other operating expenses	528,221	416,851	398,236	111,370	26.7 %	18,615	4.7 %
Total operating expenses	\$ 3,988,140	\$ 3,755,554	\$ 3,543,539	\$ 232,586	6.2 %	\$ 212,015	6.0 %

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 2023, total operating expenses increased by \$232,586 or 6.2%, while in fiscal year 2022, total operating expenses increased by \$212,015 or 6.0%.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses – Continued

In fiscal year 2023, salaries, wages, and benefits increased by \$83,691 or 2.9%, while in fiscal year 2022, salaries, wages, and benefits increased by \$168,067 or 6.1%. In fiscal year 2023, there were thirty-three employees at the end of the fiscal year. Fiscal year 2022 started with thirty-two employees, and there were thirty-three employees at the end of the fiscal year. In fiscal year 2023, thirty-one employees received cost-of-living adjustments averaging 4.37%. In addition, in both fiscal years 2023 and 2022, due to the COVID-19 pandemic, insurance premiums were not increased and remained the same as for fiscal year 2021. 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.

In fiscal years 2023 and 2022, leases and insurances increased by \$15,316 or 10.3% and \$21,598 or 17.1%, respectively. These increases were primarily due to increases in various premiums upon renewal, including for employment practices, cyber, and crime insurances. In fiscal year 2023, other operating expenses increased by \$111,370 or 26.7%. 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.

Non-Operating Revenues

Non-operating revenues decreased in both fiscal year 2023 and 2022. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2023 or 2022.

Non-Operating Expense

In fiscal years 2023 and 2022, there was interest expense of \$254 and \$348, 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
2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>% Variance with Final Budget</u>
Total operating revenues	\$ 136,309,000	\$ 164,861,000	\$ 168,469,684	\$ 3,608,684	2.2 %
Total game expenses	90,590,000	110,440,000	112,708,398	2,268,398	2.1 %
Total operating expenses	<u>4,832,000</u>	<u>4,977,000</u>	<u>3,988,140</u>	<u>(988,860)</u>	4.9 %
Operating income	40,887,000	49,444,000	51,773,146	2,329,146	2.2 %
Total non-operating income	<u>14,000</u>	<u>22,000</u>	<u>19,363</u>	<u>(2,637)</u>	(12.0) %
Net income before transfers to Lottery Tuition Fund	<u>\$ 40,901,000</u>	<u>\$ 49,466,000</u>	<u>\$ 51,792,509</u>	<u>\$ 2,326,509</u>	2.2 %

2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>% Variance with Final Budget</u>
Total operating revenues	\$ 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) %

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

In fiscal year 2023, the original budget was revised to reflect the sales performance for the Lottery's games. Instant ticket sales increased by \$3.5 million or 4.3%; Powerball sales were increased by \$11 million or 46.1%; Mega Millions sales increased by \$12.9 million or 102.4%; Lotto America sales were increased by \$2.2 million or 57.9%; and Roadrunner Cash sales were decreased by \$700,000 or 10.0%. Pick 3 Plus, Pick 4 Plus, and Fast Play sales were adjusted by smaller amounts in the final (revised) budget. Net ticket sales and gross revenues were increased by \$28.6 million or 20.9%. Game expense line items for prize expense, retailer commissions, online vendor fees, and ticket vendor fees were increased due to the increase in sales. The percentages for these direct costs generally stayed close as a percentage to what they had been in the fiscal year 2023 original budget. The overall increase of nearly \$19.8 million to game expenses was 21.9%, which was within 2.0% of the change in net ticket sales. Operating expenses increased by \$145,000 or 3%. The final budget was projected to return \$8.6 million or 20.9% more to the Lottery Tuition Fund.

Fiscal year 2023 ended with gross revenues exceeding the final budget by \$3.6 million or 2.2%. Compared to the revised budget, instant ticket sales were \$3.6 million or 4.3% higher; Powerball sales were \$1.2 million or 3.4% lower; Mega Millions sales were \$500,000 or 2.0% higher; Roadrunner Cash sales were \$499,000 or 7.9% higher; Lotto America sales were \$74,000 or 1.2% higher; Pick 3 Plus sales were \$44,000 or 0.9% lower; Pick 4 Plus were \$128,800 or 7.2% higher; and Fast Play sales were \$17,600 or 1.6% higher. Directly affected by net ticket sales, which were more than the revised budget by 2.2%, game expenses were more than the revised budget by 2.1%. Operating expenses were more than the revised budget at 3.0% of the budget. Fiscal year 2023 returned \$1.09 million or 2.2% more than the revised budget to the Lottery Tuition Fund.

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 online 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 0.2% of the change in net ticket sales. Operating expenses were reduced by \$24,000 or 0.6%. The final budget was projected to return \$1.28 million or 3.1% more to the Lottery Tuition Fund.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

Fiscal year 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.

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, 2023 and 2022, 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,329,530	\$ 13,254,842
Accounts receivable (net of allowance for doubtful accounts)	1,073,789	801,802
Reserves on deposit - restricted	3,104,969	2,977,831
Inventory	16,757	17,294
Prepaid expenses	<u>255,332</u>	<u>277,814</u>
Total current assets	<u>20,780,377</u>	<u>17,329,583</u>
NONCURRENT ASSETS		
Capital assets		
Non-depreciable	743,700	743,700
Depreciable, net of accumulated depreciation	2,869,912	2,971,145
Intangible right-to-use, net of accumulated amortization	<u>5,638</u>	<u>8,457</u>
Net capital assets	<u>3,619,250</u>	<u>3,723,302</u>
Total assets	<u>\$ 24,399,627</u>	<u>\$ 21,052,885</u>
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 2,014,127	\$ 2,370,675
Current portion of lease liability	3,048	2,950
Prizes payable	11,575,141	9,444,566
Due to Lottery Tuition Fund	<u>3,736,573</u>	<u>3,394,398</u>
Total current liabilities	17,328,889	15,212,589
LONG-TERM LIABILITIES		
Noncurrent portion of lease liability	<u>3,148</u>	<u>6,196</u>
Total liabilities	<u>\$ 17,332,037</u>	<u>\$ 15,218,785</u>
NET POSITION		
Net investment in capital assets	\$ 3,613,054	\$ 3,364,156
Unrestricted	<u>3,454,536</u>	<u>2,469,944</u>
Total net position	<u>\$ 7,067,590</u>	<u>\$ 5,834,100</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Instant ticket sales	\$ 87,992,086	\$ 80,131,691
Powerball sales	33,693,900	25,838,880
Mega Millions sales	25,999,956	11,744,153
Roadrunner Cash sales	6,798,608	7,321,667
Pick 3 and Pick 3 Plus sales	4,855,587	4,900,574
Lotto America sales	6,073,748	3,922,863
Pick 4 and Pick 4 Plus sales	1,928,279	1,941,728
Fast Play sales	<u>1,117,150</u>	<u>1,072,031</u>
Net ticket sales	168,459,314	136,873,587
Retailer fees	<u>10,370</u>	<u>8,539</u>
Total operating revenues	<u>168,469,684</u>	<u>136,882,126</u>
GAME EXPENSES		
Prize expense	91,874,932	74,113,610
Retailer commissions	10,807,603	8,892,882
On-line vendor fees	5,663,619	4,810,545
Advertising	2,063,589	2,015,419
Ticket vendor fees	1,663,391	1,516,694
Shipping and postage	438,770	316,815
Responsible gaming	70,000	72,250
Retailer equipment	41,225	59,944
Promotions	50,210	56,222
Game membership	<u>35,059</u>	<u>21,421</u>
Total game expenses	<u>112,708,398</u>	<u>91,875,802</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	3,019,908	2,936,217
Utilities and maintenance	276,513	254,304
Depreciation and amortization	263,360	187,956
Leases and insurance	163,498	148,182
Professional fees	146,848	137,035
Other	<u>118,013</u>	<u>91,860</u>
Total operating expenses	<u>3,988,140</u>	<u>3,755,554</u>
OPERATING INCOME	<u>51,773,146</u>	<u>41,250,770</u>
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(254)	(348)
Interest income	27,267	18,375
Other (expense) income	<u>(7,650)</u>	<u>1,711</u>
Total non-operating income	<u>19,363</u>	<u>19,738</u>
NET INCOME BEFORE TRANSFERS	51,792,509	41,270,508
TRANSFERS TO LOTTERY TUITION FUND	<u>50,559,019</u>	<u>41,071,408</u>
CHANGE IN NET POSITION	1,233,490	199,100
NET POSITION AT BEGINNING OF YEAR	<u>5,834,100</u>	<u>5,635,000</u>
NET POSITION AT END OF YEAR	<u>\$ 7,067,590</u>	<u>\$ 5,834,100</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 157,390,094	\$ 129,218,625
Cash payments:		
To prize winners and related taxes	(72,526,802)	(59,165,822)
To MUSL	(17,217,555)	(13,593,829)
To suppliers of goods or services	(11,742,039)	(9,795,597)
To employees for services and related taxes	<u>(2,471,336)</u>	<u>(2,433,495)</u>
Net cash provided by operating activities	<u>53,432,362</u>	<u>44,229,882</u>
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	<u>(50,216,844)</u>	<u>(41,075,875)</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(159,308)	(519,654)
Principal paid on finance lease	(2,950)	(2,856)
Interest paid on finance lease	<u>(254)</u>	<u>(348)</u>
Net cash used in capital related financing activities	<u>(162,512)</u>	<u>(522,858)</u>
Cash flows from investing activities		
Receipts of interest	29,332	14,517
Other	<u>(7,650)</u>	<u>1,711</u>
Net cash provided by investing activities	<u>21,682</u>	<u>16,228</u>
Net increase in cash and cash equivalents	3,074,688	2,647,377
Cash and cash equivalents at beginning of year	<u>13,254,842</u>	<u>10,607,465</u>
Cash and cash equivalents at end of year	<u>\$ 16,329,530</u>	<u>\$ 13,254,842</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, 2023 and 2022

	2023	2022
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 51,773,146	\$ 41,250,770
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	263,360	187,956
Vendors' non-cash transactions	-	(353,858)
Interest on MUSL unreserved account	-	3,858
Net changes in assets and liabilities:		
Accounts receivable	(271,987)	1,229,381
Reserves on deposit - restricted	(129,203)	(84,660)
Inventory	537	(14,674)
Prepaid expenses	22,482	151,719
Accounts payable and other current liabilities	(356,548)	505,431
Prizes payable	2,130,575	1,353,959
Net cash provided by operating activities	\$ 53,432,362	\$ 44,229,882

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

NEW MEXICO LOTTERY AUTHORITY
STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2023 and 2022

	2023			2022		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 68,930	\$ -	\$ 68,930	\$ 51,006	\$ -	\$ 51,006
Marketable securities and other investments	8,099,235	1,666,205	9,765,440	7,484,953	1,339,904	8,824,857
Contribution receivable	11,302	5,431	16,733	45,615	7,346	52,961
Total assets	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>	<u>\$ 7,581,574</u>	<u>\$ 1,347,250</u>	<u>\$ 8,928,824</u>
NET POSITION						
Held in Trust for Pension plan participants' benefits	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>	<u>\$ 7,581,574</u>	<u>\$ 1,347,250</u>	<u>\$ 8,928,824</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years Ended June 30, 2023 and 2022

	2023			2022		
	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	\$ 1,053,410	\$ 239,490	\$ 1,292,900	\$ -	\$ -	\$ -
Dividends	226,503	34,071	260,574	852,381	92,289	944,670
Employer contributions	277,951	-	277,951	295,547	-	295,547
Employee contributions	-	169,297	169,297	-	182,818	182,818
Total additions	<u>1,557,864</u>	<u>442,858</u>	<u>2,000,722</u>	<u>1,147,928</u>	<u>275,107</u>	<u>1,423,035</u>
DEDUCTIONS						
Net loss in fair value of investments	-	-	-	2,544,525	365,166	2,909,691
Distributions to participants	959,141	118,397	1,077,538	39,756	-	39,756
Fees	830	75	905	198	-	198
Total deductions	<u>959,971</u>	<u>118,472</u>	<u>1,078,443</u>	<u>2,584,479</u>	<u>365,166</u>	<u>2,949,645</u>
Change in net position	597,893	324,386	922,279	(1,436,551)	(90,059)	(1,526,610)
NET POSITION - BEGINNING	<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>
NET POSITION - ENDING	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>	<u>\$ 7,581,574</u>	<u>\$ 1,347,250</u>	<u>\$ 8,928,824</u>

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

Years Ended June 30, 2023 and 2022

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. The Newport Group is the trustee which, 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 2023 and 2022, 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

Years Ended June 30, 2023 and 2022

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, 2023 and 2022, an allowance for doubtful accounts of \$10,000 and \$38,545, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2023 and 2022, ten retail customers (586 and 504 retailers) represented 66% and 64% of sales for each fiscal year, respectively, and 80% and 83% of accounts receivable at the end of each fiscal year, respectively.

6. Reserves on Deposit – Restricted

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

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Reserves on Deposit – Restricted – 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, 2023 and 2022, the Lottery's share in the Powerball PRA was \$714,261 and \$715,944, respectively, and in the SPRA was \$312,962 and \$311,280, respectively. The Powerball PRA was fully funded at the end of fiscal years 2023 and 2022. The SPRA was also fully funded at the end of fiscal year 2023 and 2022.

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, 2023 and 2022, the Lottery's share in the Mega Millions PRA was \$750,874 and \$715,016, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of fiscal years 2023 and 2022.

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, 2023 and 2022, the Lottery's share in the Lotto America PRA was \$528,068 and \$373,311, respectively. The Lotto America PRA had not met its requirements of \$745,530 and \$766,787 as of June 30, 2023 and 2022, respectively.

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. As of June 30, 2023 and 2022, the Lottery's share of the unreserved fund was \$798,804 and \$862,280, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Reserves on Deposit – Restricted – Continued

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, 2023 and 2022, \$16,757 and \$17,294, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2023 and 2022, there were no amounts in prize inventory, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

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. In accordance with GASB 87, 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Revenue and Accounts Receivable Recognition – Continued

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.

	2023	2022
OPERATING REVENUES		
Instant ticket sales	\$ 90,313,073	\$ 82,482,123
Powerball sales	33,693,900	25,838,945
Mega Millions sales	25,999,956	11,744,173
Roadrunner Cash sales	6,798,608	7,321,682
Pick 3 and Pick 3 Plus sales	4,855,587	4,900,584
Lotto America sales	6,073,748	3,922,863
Pick 4 and Pick 4 Plus sales	1,928,279	1,941,728
Fast Play sales	1,117,150	1,072,031
Less tickets provided as prizes	(2,275,379)	(2,312,580)
Less spoiled, stolen, and promotional tickets	<u>(45,608)</u>	<u>(37,962)</u>
Net ticket sales	168,459,314	136,873,587
Retailer fees	10,370	8,539
Total operating revenues	<u><u>\$ 168,469,684</u></u>	<u><u>\$ 136,882,126</u></u>

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. In June 2023 a PRA of \$50,000 was established for Jackpot 7s. 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, 2023 and 2022 were \$192,378 and \$261,740, respectively, for Roadrunner Cash, \$38,414 and \$190,760, respectively, for Pick 3 Plus, \$128,228 and \$74,238, respectively, for Pick 4 Plus, and \$50,000 for Jackpot 7s.

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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

14. Custodial Credit Risk and Interest Rate Risk

As of June 30, 2023 and 2022, 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Custodial Credit Risk and Interest Rate Risk – Continued

As of June 30, 2023 and 2022, the Lottery’s balances of \$16,434,192 and \$13,295,023, respectively, were exposed to custodial credit risk as follows:

	2023	2022
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the Lottery’s name	16,434,192	13,295,023
Total operating revenues	<u>\$ 16,434,192</u>	<u>\$ 13,295,023</u>

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, 2023 and 2022, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2023:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 16,434,192
Operating account - checking	Wells Fargo Bank, NA	-
Total amount deposited in bank		<u>16,434,192</u>
Less: FDIC coverage		-
Total uninsured funds - deposits and overnight repurchase agreement		<u>\$ 16,434,192</u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 16,762,876
*Total pledged security		<u>(16,762,876)</u>
Amount under (over) requirement at June 30, 2023		<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 3140KAYT7 (cost \$16,434,273), 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

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2023	\$ 16,434,692
Less reconciling items--outstanding checks	<u>(113,837)</u>
Reconciled cash in bank at June 30, 2023	16,320,855
Cash in vault	<u>8,675</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 16,329,530</u></u>

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
*Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 13,295,023
Operating account - checking	Wells Fargo Bank, NA	<u>-</u>
Total amount deposited in bank		13,295,023
Less: FDIC coverage		<u>-</u>
Total uninsured funds - deposits and overnight repurchase agreement		<u><u>\$ 13,295,023</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 13,560,924
*Total pledged security		<u>(13,560,924)</u>
Amount under (over) requirement at June 30, 2022		<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 3140KAYT7 (cost \$15,562,658), matures August 1, 2049. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

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>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2023 and 2022, the Lottery had unclaimed prizes in the amount of \$6,835,910 and \$6,216,745, 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 five 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

Years Ended June 30, 2023 and 2022

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, 2023 and 2022, the following changes occurred in the compensated absences liabilities:

<u>Balance</u> <u>July 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2023</u>
\$ 226,437	\$ 12,025	\$ (33,956)	\$ 204,506
<u>Balance</u> <u>July 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2022</u>
\$ 220,512	\$ 15,631	\$ (9,706)	\$ 226,437

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:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u>
2024	\$ 3,048	\$ 156	\$ 3,204
2025	3,148	56	3,204
	<u>\$ 6,196</u>	<u>\$ 212</u>	<u>\$ 6,408</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

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>2023</u>	<u>2022</u>
Accounts payable	\$ 1,351,173	\$ 1,309,773
Accrued liabilities, vendors*	346,599	686,129
Accrued liabilities, retailers*	5,000	5,000
Accrued payroll, and payroll taxes and benefits	106,849	143,336
Compensated absences	<u>204,506</u>	<u>226,437</u>
	<u>\$ 2,014,127</u>	<u>\$ 2,370,675</u>

* The Lottery has accrued an estimated amount for services delivered by its vendors and deposits for its retailers as of June 30, 2023 and 2022, respectively.

24. 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.

25. Adoption of New Accounting Standard

The Lottery has implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), for the year ended June 30, 2023. This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset-an intangible asset and a corresponding subscription liability. Provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA and requires note disclosure regarding a SBITA. Adoption of this statement did not have an impact to the Lottery's financial statements.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2023, consisted of:

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
<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	2,364,188	-	98,000	-	2,462,188
Data processing equipment and software	563,834	-	34,114	-	597,948
Equipment	1,720,153	-	-	-	1,720,153
Vehicles	168,157	-	27,196	(23,129)	172,224
Furniture and fixtures	218,533	-	-	-	218,533
Land improvements & infrastructure	60,366	-	-	-	60,366
Obsolete capital assets	316,961	-	-	-	316,961
Total depreciable capital assets	<u>5,412,192</u>	<u>-</u>	<u>159,310</u>	<u>(23,129)</u>	<u>5,548,373</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(458,988)	-	(82,245)	-	(541,233)
Data processing equipment and software	(353,671)	-	(62,960)	-	(416,631)
Equipment	(918,440)	-	(109,614)	-	(1,028,054)
Vehicles	(168,157)	-	(1,700)	23,129	(146,728)
Furniture and fixtures	(218,533)	-	-	-	(218,533)
Land improvements & infrastructure	(6,297)	-	(4,024)	-	(10,321)
Obsolete capital assets	(316,961)	-	-	-	(316,961)
Total accumulated depreciation	<u>(2,441,047)</u>	<u>-</u>	<u>(260,543)</u>	<u>23,129</u>	<u>(2,678,461)</u>
Net depreciable capital assets	<u>2,971,145</u>	<u>-</u>	<u>(101,233)</u>	<u>-</u>	<u>2,869,912</u>
<u>Intangible right-to-use assets</u>					
Leased equipment	14,096	-	-	-	14,096
Less accumulated amortization	(5,639)	-	(2,819)	-	(8,458)
Intangible right-to-use assets, net	<u>8,457</u>	<u>-</u>	<u>(2,819)</u>	<u>-</u>	<u>5,638</u>
NET CAPITAL ASSETS	<u>\$ 3,723,302</u>	<u>\$ -</u>	<u>\$ (104,052)</u>	<u>\$ -</u>	<u>\$ 3,619,250</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE B – CAPITAL ASSETS – CONTINUED

Capital assets at June 30, 2022, consisted of:

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
<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	162,314	208,174	-	(53,527)	316,961
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	(162,314)	(208,174)	-	53,527	(316,961)
Total accumulated depreciation	<u>(2,309,438)</u>	<u>-</u>	<u>(185,136)</u>	<u>53,527</u>	<u>(2,441,047)</u>
Net depreciable capital assets	<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	(2,819)	-	(2,820)	-	(5,639)
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

Years Ended June 30, 2023 and 2022

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

	<u>Due to Lottery Tuition Fund</u>
Balance at June 30, 2021	\$ 3,398,865
Prior year 30% return	41,071,408
Prior year transfers	<u>(41,075,875)</u>
Balance at June 30, 2022	\$ 3,394,398
Current year 30% return	50,559,019
Current year transfers	<u>(50,216,844)</u>
Balance at June 30, 2023	<u>\$ 3,736,573</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, 2023 and 2022, the Lottery has transferred \$50,559,019 and \$41,071,408, respectively, for the years ended June 30, 2023 and 2022 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 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. And thirty-six and fifty-six current and former employees of the Lottery (or their beneficiaries) were participants in the plan at the end of fiscal years 2023 and 2022, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

NOTE D – RETIREMENT PLANS – CONTINUED

Plan Descriptions and Funding – Continued

Money Purchase Pension Plan – Continued

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

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2023 and 2022, the Lottery recognized \$277,951 and \$295,547 of pension expense for the plan on eligible compensation of \$2,253,481 and \$2,230,543, respectively. There were no forfeitures of employee balances for the years ended June 30, 2023 and 2022, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years had been paid to the plan by June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, the Lottery recognized a contribution liability of \$43,241 and \$45,615, 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. Nineteen and thirty-six current and former employees of the Lottery were participants in the plan at the end of fiscal years 2023 and 2022, 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, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, the Lottery recognized a contribution liability of \$5,431 and \$7,346, 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

Years Ended June 30, 2023 and 2022

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, 2023 and 2022:

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, 2023 and 2022, in the amount of \$1,482,643 and \$1,455,532, respectively, with varying investment quality ratings and maturities. The maturities averaged between three and nine years with an average rating of primarily A on the underlying investments.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2023 and 2022

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:

	2023		2022	
	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	\$ 523,757	\$ 175,367	\$ 462,336	\$ 149,161
Blend	652,385	238,462	534,949	189,679
Growth	571,248	173,609	348,809	204,031
Total US Equity	1,747,390	587,438	1,346,094	542,871
Bonds	335,262	39,721	394,193	33,626
Target Date	3,081,415	511,184	2,646,737	381,205
Balanced asset allocation	382,152	6,160	823,476	25,651
Foreign Equity	245,482	5,785	239,753	2,208
Specialty/Other	2,307,534	515,917	2,034,700	354,343
Total Level 1	8,099,235	1,666,205	7,484,953	1,339,904
Total investments in the fair value measurement	8,099,235	1,666,205	7,484,953	1,339,904
Other plan assets exempt from the fair value measurement:				
Money market/cash	68,930	-	51,006	-
Contribution receivable	11,302	5,431	45,615	7,346
Total plan assets	\$ 8,179,467	\$ 1,671,636	\$ 7,581,574	\$ 1,347,250

The balances and activity of both Plans as of and for the years ended June 30, 2023 and 2022 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

Years Ended June 30, 2023 and 2022

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.

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 8.25% and 4.75%, respectively, for June 30, 2023 and June 30, 2022. For the years ended June 30, 2023 and 2022, 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 online gaming system for a total of eight years. The system includes the supply, maintenance, service, and operation of a communication network; a 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

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

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Instant ticket sales	\$ 87,992,086	\$ 80,131,691
Powerball sales	33,693,900	25,838,880
Mega Millions sales	25,999,956	11,744,153
Roadrunner Cash sales	6,798,608	7,321,667
Pick 3 and Pick 3 Plus sales	4,855,587	4,900,574
Lotto America sales	6,073,748	3,922,863
Pick 4 and Pick 4 Plus sales	1,928,279	1,941,728
Fast Play sales	1,117,150	1,072,031
Net ticket sales	<u>168,459,314</u>	<u>136,873,587</u>
Retailer fees	10,370	8,539
Total operating revenues	<u>168,469,684</u>	<u>136,882,126</u>
NON-OPERATING INCOME		
Interest income	27,267	18,375
Other income	-	1,711
Total non-operating income	<u>27,267</u>	<u>20,086</u>
GROSS REVENUES	<u>168,496,951</u>	<u>136,902,212</u>
GAME EXPENSES		
Prize expense	91,874,932	74,113,610
Retailer commissions	10,807,603	8,892,882
On-line vendor fees	5,663,619	4,810,545
Advertising	2,063,589	2,015,419
Ticket vendor fees	1,663,391	1,516,694
Shipping and postage	438,770	316,815
Responsible gaming	70,000	72,250
Retailer equipment	41,225	59,944
Promotions	50,210	56,222
Game membership	35,059	21,421
Total game expenses	<u>112,708,398</u>	<u>91,875,802</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	3,019,908	2,936,217
Utilities and maintenance	276,513	254,304
Depreciation and amortization	263,360	187,956
Leases and insurance	163,498	148,182
Professional fees	146,848	137,035
Other	118,013	91,860
Operational Reserve Fund expense	1,233,490	199,100
Total operating expenses	<u>5,221,630</u>	<u>3,954,654</u>
OPERATING INCOME	<u>50,539,656</u>	<u>41,051,670</u>
NON-OPERATING EXPENSE		
Interest expense	254	348
Other expense	7,650	-
Total non-operating income	<u>7,904</u>	<u>348</u>
NET INCOME	<u>\$ 50,559,019</u>	<u>\$ 41,071,408</u>
GROSS REVENUE PERCENTAGE RETURN	<u>30.00%</u>	<u>30.00%</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
New Mexico Lottery Authority
and
Mr. Joseph M. Maestas, P.E.
New Mexico State Auditor

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) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the New Mexico Lottery Authority's basic financial statements, and have issued our report thereon dated October 27, 2023.

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 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 2023-001.

New Mexico Lottery Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the New Mexico Lottery Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The New Mexico Lottery Authority'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.



Albuquerque, New Mexico
October 27, 2023

NEW MEXICO LOTTERY AUTHORITY

SUMMARY OF AUDIT RESULTS (AS REQUIRED BY 2.2.2.10 NMAC (L)(1)(f))

June 30, 2023

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Compliance and other matters noted? Yes No

NEW MEXICO LOTTERY AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2023

SECTION II: FINANCIAL STATEMENT FINDINGS

None noted.

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

2023-001 – Other Matters – Logical Security and Access (IT Non-Compliance)

Condition: During our audit, we noted that the New Mexico Lottery lacked the following IT Controls:

- Per IT and Business Management, user access reviews are not being performed.
- IT controls related to user termination access. The New Mexico Lottery Authority did not terminate user access within the five (5) business days. The Executive VP for Security had an effective termination date of 1/5/2023; however, this user's access was not deactivated/removed until 9/12/2023—250 days after the effective date. The Director of Finance had an effective termination date of 2/7/2023; however, this user's access was not deactivated/removed until 7/11/2023—154 days after the effective date.
- We noted that the New Mexico Lottery Authority does not have controls designed for segregation of duties reviews. Per IT and Business Management, an annual segregation of duties review of users is not being performed.
- We noted that the New Mexico Lottery Authority does not have a control to review changes made to on-prim and third party hosted in-scope systems. Per IT and Business Management, a change management activity review is not being performed. We noted that the New Mexico Lottery Authority was not able to provide a population of changes to the Microsoft Great Plains application, the associated database and infrastructure, supported and managed in-house by New Mexico Lottery Association IT. Microsoft Great Plains (GP) is the New Mexico Lottery's financial system of record. This application is on premises and managed by the New Mexico Lottery Authority. Associated with this application layer, is a Windows SQL database, and the Windows Server infrastructure. New Mexico Lottery Authority was unable to provide any documentation to verify if any of these three in-scope systems had been updated, patched, or if any changes had been made within the audit period.
- We noted that the New Mexico Lottery Authority does not currently document its analysis of the CUECs—those controls that the third-party vendor requires the user entity (New Mexico Lottery Authority).

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2023

Criteria: Formal user access reviews are required management reviews that are performed on an at least semi-annually (preferably quarterly) basis. Detective controls are the safety nets for the preventative controls. A formal segregation of duties review is a required management review that is performed on an annual basis. Detective controls are the safety nets for the preventative controls. The New Mexico Lottery Authority's in-scope systems perform financially and operationally significant processes, record transactions, and stores information that is vital to its daily operations and certain systems contain critical information. It is critical that systems are secured to only authorized users via timely removal of application access. A formal change management program must be designed and implemented across all in-scope systems, those on premises and SaaS, to include normal change activities, emergency maintenance, and patches. The change process must be managed in a controlled and formalized manner. Changes are logged, assessed, and authorized prior to implementation and reviewed against planned outcomes following the implementation. This process assures mitigation of the risks of negatively impacting the stability or integrity of the production environment. The New Mexico Lottery Authority uses a combination of on-premises and third party hosted in-scope systems. Management must perform a review of the third party SOC 1 and Bridge Letters.

Effect: Without termination control(s) that are designed, implemented, and operating effectively, in-scope systems are not secured, allowing for potentially unauthorized users access to vital in-scope systems and financial data. Detective security controls should be designed to detect, log, and alert after an event has occurred. Detective controls are a foundational part of governance frameworks and are the guardrails (i.e. a second line of defense) notifying Management of security issues that bypassed the preventative controls.

Without an effective change management control, there are high risks that New Mexico Lottery Authority could be exposed to unauthorized changes, unrecorded changes, system and application failures and downtime, inefficient business processes, inconsistent results and results that are prone to error, and misstated reports and misstatements within the financial statements.

Management from both IT and Business should participate in the review of third party SOC 1 and Bridge Letters. The SOC 1 covers over Detective change management controls should be designed to detect, log, and alert management to any change activities that were not authorized, documented using required processes and procedures, and identify possible gaps in the change management process of third-party hosted systems.

Cause: New Mexico Lottery Authority does not have proper IT policies and controls in place.

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2023

Recommendation: To ensure the Logical Security environment at the New Mexico Lottery Authority provides the framework for systems to maintain least privileged, authorized users, management should ensure the following:

- New Mexico Lottery Authority Management must design, implement, and ensure operating effectiveness for user access reviews.
- Review the design and implementation of the termination control.
- Assess the termination processes and procedures.
- Ensure the design, implementation, processes and procedures align with the IT and Business Risk Assessments, are in alignment with risk appetite, and align with the day-to-day execution of termination processes.

To ensure the change management program around both on-premises and SaaS systems addresses change management risks, the New Mexico Lottery Authority should ensure the following:

- Assess the change activities that are performed by the New Mexico Lottery Authority IT Department for the Great Plains application, database, and infrastructure layers.
- Review and revise the change management process, from initiation of the change, documentation of the change request(s), review, approval, development of the change, testing, impacts to any key reports and interfaces, security and segregation of duties considerations, testing, final review and approval ahead of pushing the change into production.
- Design and implement a change review control (detective) to ensure all change activities are captured by tickets. This activity will involve pulling an all object change log from the GP system, and the ticketing log, and performing a comparison to identify any changes that lack documentation.

New Mexico Lottery Authority Management must design, implement, and ensure operating effectiveness for an IT and Business Management SOC 1 Review control.

Agency Response: The New Mexico Lottery Authority strives to maintain effective and efficient processes related to information technology. We plan to work with an information technology expert to review current policies and procedures and determine what enhancements may be needed. The Lottery's Information Technology Division will attempt to engage such an expert to begin during calendar year 2024.

NEW MEXICO LOTTERY AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2023

2022-001-Prepayments (Other Noncompliance) – Resolved

NEW MEXICO LOTTERY AUTHORITY

EXIT CONFERENCE

For the Year Ended June 30, 2023

An exit conference was held at the New Mexico Lottery Authority on October 25, 2023. The following individuals participated:

<u>Name</u>	<u>Title</u>
<i>New Mexico Lottery Authority</i>	
<i>Board of Directors:</i>	
Paul Guerin, PhD	Board Secretary/Treasurer & Finance and Audit Committee Chair
Leo M. Romero, Esq.	Board Member & Finance and Audit Committee
Othiamba Umi, Esq.	Board Member & Finance and Audit Committee
<i>New Mexico Lottery Authority Employees:</i>	
David M. Barden, Esq.	Chief Executive Officer
Carolyn Cabell	Chief Operations Officer
Michael Boland, CPA	Senior Internal Auditor
Jay Siegel, CPA	Director of Finance
Wilma Atencio	Operations Coordinator
<i>Moss Adams LLP:</i>	
Sheila Herrera, CPA	Engagement Partner
Elizabeth Nunez, CPA	Engagement Manager

Financial Statement Preparation

The New Mexico Lottery Authority's financial statements, notes, and management's discussion and analysis have been prepared by the New Mexico Lottery Authority's accountants with the assistance of Moss Adams LLP.