



NEW MEXICO LOTTERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2025 and 2024



NEW MEXICO LOTTERY AUTHORITY

OFFICIAL ROSTER (UNAUDITED)

June 30, 2025

BOARD OF DIRECTORS

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

OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

David M. Barden, Esq.	Chief Executive Officer
Carolyn Cabell	Chief Operating Officer
Linh Coonan	Director of Finance
Randy Bertram	Executive Vice President for Security
Wendy Ahlm	Director of Advertising and Marketing
Karla Wilkinson	Director of Gaming Products
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 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 \$75,000 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) – CONTINUED

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees. Within the Executive Division, the Chief Operating Officer serves as the organization's chief of staff and directly oversees the activities of all the divisions and departments of the Lottery, except for the Human Resources and the Internal Audit departments. The Executive Division is also designated as the Lottery's Central Purchasing Office. In addition, within the Executive Division, the Human Resources Coordinator 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; and the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year 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 communications area also oversees the Lottery's responsible gaming initiatives.

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) – CONTINUED**

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, and 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.

TABLE OF CONTENTS

NEW MEXICO LOTTERY AUTHORITY

INTRODUCTORY	i-iv
REPORT OF INDEPENDENT AUDITORS.....	1-4
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED).....	5-23
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	24
Statements of Revenues, Expenses, and Changes in Net Position.....	25
Statements of Cash Flows	26-27
Statements of Fiduciary Net Position	28
Statements of Changes in Fiduciary Net Position.....	29
Notes to Financial Statements	30-53
SUPPLEMENTARY INFORMATION	
Schedules of Percentage Return to the State of New Mexico	54
OTHER INFORMATION	
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 <i>Government Auditing Standards</i>	55-56
Summary of Audit Results (As Required by 2.2.2.10 NMAC (L)(1)(f))	57
Schedule of Findings and Responses.....	58-59
Summary Schedule of Prior Audit Findings	60
Exit Conference.....	61

Report of Independent Auditors

Board of Directors
New Mexico Lottery Authority
and
Mr. Joseph M. Maestas, PE, CFE
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 years ended June 30, 2025 and 2024, 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, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 Matter

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, 2025 and 2024, the change in the financial position, or, where applicable, its' cash flows for the years 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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

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 23 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 23, 2025, 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.

Baker Tilly US, LLP

Albuquerque, New Mexico
October 23, 2025

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, 2025 and 2024, with comparative numbers for the fiscal year ended June 30, 2023. Please read it in conjunction with the financial statements, which begin on page 24.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2025, the Lottery's total current assets of \$13,852,055 decreased by \$5,478,239, a 28.3% reduction, while at the end of fiscal year 2024, the Lottery's total current assets of \$19,330,294 decreased by \$1,450,083, a 7.0% reduction, each year compared to the previous fiscal year.
- At the end of fiscal year 2025, the Lottery's total current liabilities of \$10,768,392 decreased by \$4,827,477, a 31.0% reduction, while at the end of fiscal year 2024, the Lottery's total current liabilities of \$15,595,869 decreased by \$1,671,668, a 9.7% reduction, each year compared to the previous fiscal year.
- In fiscal year 2025, the total net ticket sales were \$148,883,600, a decrease of \$21,353,608, or 12.5%. In fiscal year 2024, the total net ticket sales were \$170,237,208, up by \$1,777,894, or 1.1%, compared to \$168,459,314 in the previous fiscal year.
- In fiscal year 2025, the total prize expenses of \$80,485,797 decreased by \$13,067,308, or 14.0%. In fiscal year 2024, the total prize expenses were \$93,553,105, an increase of \$1,678,173, or 1.8%, compared to \$91,874,932 in the previous fiscal year.
- In fiscal year 2025, the total operating expenses of \$4,652,785 increased by \$245,296, or 5.6%. In fiscal year 2024, the total operating expenses of \$4,407,489 increased by \$419,349, or 10.5%, compared to \$3,988,140 in the previous fiscal year.
- In fiscal year 2025, the non-operating income/(expense) of \$66,056 increased by \$31,043, or 88.7%. In fiscal year 2024, the non-operating income/(expense) of \$35,013 increased by \$15,650, or 80.8%, compared to \$19,363 in the previous fiscal year.
- In fiscal year 2025, net income before transfers were \$43,777,795, a decrease of \$7,306,274, or 14.3%, compared to fiscal year 2024. In fiscal year 2024, net income before transfers were \$51,084,069, a decrease of \$708,440, or 1.4%, compared to fiscal year 2023's net income of \$51,792,509.
- In fiscal years 2025 and 2024, the Lottery transmitted 30% of gross revenues to the State pursuant to statute in each month during the two fiscal years.
- Since the commencement of sales in April 1996, the Lottery has transferred \$1,094,076,389 to the State of New Mexico for education, including the final transfer of June 2025's net return on July 31, 2025.

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 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 and the Statements of Revenues, Expenses, and Changes in Net Position report the Lottery's assets, liabilities, revenues, and expenses in comparative format for fiscal years 2025 and 2024. The Statements of Cash Flows report the sources and uses of cash for fiscal years 2025 and 2024. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the balances and activity of the Lottery's Retirement Plans for fiscal years 2025 and 2024.

Notes to Financial Statements. The Notes to Financial Statements 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 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2025 and 2024 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 2025 and 2024, the Lottery's net position was \$6,156,930 and \$7,067,600, respectively, with unrestricted net position of \$3,020,657 and \$3,671,961 for each fiscal year, respectively.

Total Assets

Table 1 Total Assets							
				Increase (Decrease) \$ Change 2024 to 2025	Increase (Decrease) % Change 2024 to 2025	Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024
	2025	2024	2023				
Current assets							
Cash and cash equivalents	\$ 8,380,080	\$ 14,483,771	\$ 16,329,530	\$ (6,103,691)	(42.1) %	\$ (1,845,759)	(11.3) %
Accounts receivable, (net of allowance for doubtful accounts)	1,403,450	1,228,638	1,073,789	174,812	14.2 %	154,849	14.4 %
Reserves on deposit	3,753,128	3,213,571	3,104,969	539,557	16.8 %	108,602	3.5 %
Inventory	15,684	16,103	16,757	(419)	(2.6) %	(654)	(3.9) %
Prepaid expenses	299,713	388,211	255,332	(88,498)	(22.8) %	132,879	52.0 %
Total current assets	13,852,055	19,330,294	20,780,377	(5,478,239)	(28.3) %	(1,450,083)	(7.0) %
Net capital assets	3,151,488	3,398,787	3,619,250	(247,299)	(7.3) %	(220,463)	(6.1) %
Total assets	\$ 17,003,543	\$ 22,729,081	\$ 24,399,627	\$ (5,725,538)	(25.2) %	\$ (1,670,546)	(6.8) %

Compared to the previous fiscal year, the Lottery's cash and cash equivalents decreased in fiscal year 2025 by \$6,103,691 or 42.1% from 2024 and decreased by \$1,845,759 or 11.3% in fiscal year 2024 from the prior year. The changes in cash and cash equivalents each year mainly result from fluctuations in accounts receivable, accounts payable, other current liabilities, prizes payable, and net position at the end of each fiscal year compared to the previous year.

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 calculated as sales net of any prizes paid by the retailers and any commissions earned, less the allowance for bad debts, plus any miscellaneous receivables from other sources. At the end of fiscal year 2025, the receivables balance increased by \$174,812, representing a 14.2% increase compared to the previous fiscal year, attributable to the collection of receivables for the prior week on June 30, 2025, thereby leaving nine days of receivables. Similarly, at the end of fiscal year 2024, the receivables balance increased by \$154,849, or 14.4%, in comparison to the previous fiscal year, due to the collection of receivables for the preceding week on June 30, 2024, leaving eight days of receivables. The accounts receivable balance at the close of fiscal year 2023 was \$1,073,789.

The Lottery is required to maintain reserve amounts on deposit with the Multi-State Lottery Association (MUSL), as specified in the game rules for Powerball, Mega Millions, and Lotto America. Additionally, an unreserved account is maintained for paying expenses and recording receipts of interest and other income related to these deposits. The accounts increased by \$539,557, or 16.8%, in fiscal year 2025, and by \$108,602, or 3.5%, in fiscal year 2024. These increases were caused by interest earned on MUSL deposits, payments of game expenses, adjustments to the Powerball, Mega Millions, and Lotto America reserve accounts as required by the MUSL rules, and re-balancing of the reserve accounts.

The inventory balance at the end of fiscal year 2025 decreased by \$419, representing a 2.6% decrease. Similarly, for fiscal year 2024, the reduction amounted to \$654, or 3.9%. As of the end of fiscal years 2025 and 2024, the Lottery maintained inventories valued at \$15,684 and \$16,103, respectively, on \$1 and \$5 promotional instant games.

The net capital asset changes for the fiscal years 2025 and 2024 predominantly stem from capital asset purchases of \$70,175 and \$95,859, respectively, coupled with depreciation expenses of \$332,444 and \$316,322 for those respective years.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities

Table 2 Total Liabilities							
				Increase (Decrease) \$ Change 2024 to 2025	Increase (Decrease) % Change 2024 to 2025	Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024
	2025	2024	2023	2025	2025	2024	2024
Current liabilities							
Accounts payable and other current liabilities	\$ 1,461,097	\$ 1,887,358	\$ 1,809,621	\$ (426,261)	(22.6) %	\$ 77,737	4.3 %
Current portion of compensated absences liability	155,180	153,095	143,154	2,085	1.4 %	9,941	6.9 %
Current portion of lease liability	3,500	3,148	3,048	352	11.2 %	100	3.3 %
Prizes payable	6,007,895	10,165,344	11,575,141	(4,157,449)	(40.9) %	(1,409,797)	(12.2) %
Due to Lottery Tuition Fund	<u>3,140,720</u>	<u>3,386,924</u>	<u>3,736,573</u>	<u>(246,204)</u>	(7.3) %	<u>(349,649)</u>	(9.4) %
Total current liabilities	10,768,392	15,595,869	17,267,537	(4,827,477)	(31.0) %	(1,671,668)	(9.7) %
Long-term liabilities							
Noncurrent portion of compensated absences liability	66,506	65,612	61,352	894	1.4 %	4,260	6.9 %
Noncurrent portion of lease liability	<u>11,715</u>	<u>-</u>	<u>3,148</u>	<u>11,715</u>	100.0 %	<u>(3,148)</u>	(100.0) %
Total long-term liabilities	<u>78,221</u>	<u>65,612</u>	<u>64,500</u>	<u>12,609</u>	19.2 %	<u>1,112</u>	1.7 %
Total liabilities	<u>\$ 10,846,613</u>	<u>\$ 15,661,481</u>	<u>\$ 17,332,037</u>	<u>\$ (4,814,868)</u>	(30.7) %	<u>\$ (1,670,556)</u>	(9.6) %

In fiscal year 2025, accounts payable and other current liabilities decreased by \$426,261, or 22.6%, whereas in fiscal year 2024, they increased by \$77,737, or 4.3%. During both years, these liabilities were attributable to four vendors involved in advertising, the online gaming system, and instant ticket printing. The closing balances for each year are primarily influenced by sales and advertising expenses incurred in the closing weeks of the fiscal year, which may not yet have been billed. This timing influences whether the amounts owed to these vendors are higher or lower relative to the previous year.

The prizes payable consists of amounts accrued according to the Lottery's game designs and prize structures for both draw games and instant games. This includes the applicable federal and state taxes withheld on claimed prizes, as well as any unclaimed prizes remaining in the prize fund. At the end of the fiscal years 2025 and 2024, prizes payable decreased by \$4,157,449, or 40.9%, and by \$1,409,797, or 12.2%, respectively.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities – Continued

These differences pertain to changes in prizes payable on individual Lottery game sales between each fiscal year, as well as unclaimed prizes and the balances in the unclaimed prize fund. In fiscal year 2025, the Lottery used \$9,698,573 of unclaimed prizes to meet the 30% return to the Lottery Tuition Fund and to supplement prizes in Scratchers (instant ticket) games to maximize sales in 11 of the 12 months. During fiscal year 2025, the unclaimed prize fund decreased by \$3,015,987, from \$5,655,340 at the start of the year to \$2,639,353 as of June 30, 2025. In fiscal year 2024, the Lottery used \$5,623,181 of unclaimed prizes to meet the 30% return to the Lottery Tuition Fund in 11 of the 12 months. During fiscal year 2024, the unclaimed prize fund decreased by \$1,180,570, from \$6,835,910 at the start of the year to \$5,655,340 as of June 30, 2024.

At the end of fiscal years 2025 and 2024, respectively, \$3,140,720 and \$3,386,924 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.

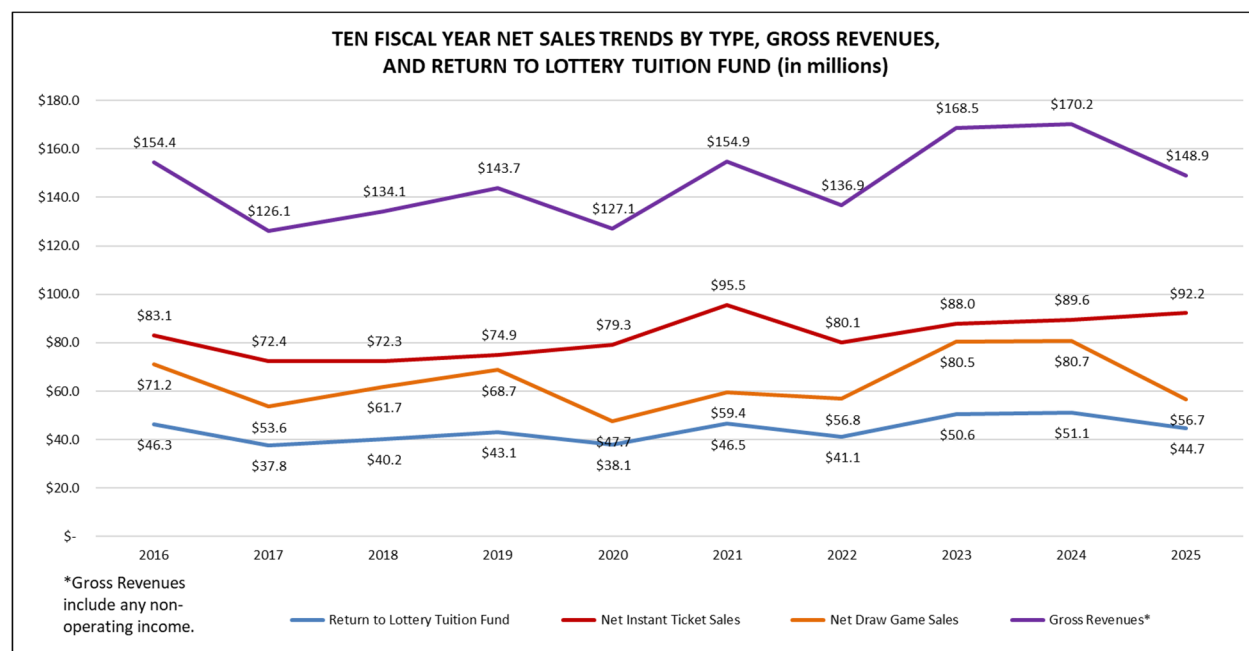
Reflected in total liabilities for fiscal years 2025 and 2024 were a current lease liability of \$3,500 and \$3,148, respectively, and a noncurrent lease liability of \$11,715 and \$0, respectively. These amounts represent the remaining liability of a capitalized lease for a postage machine acquired in January 2025.

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
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	\$1.348 B	2023	58.81%
2024	\$1.765 B	\$1.602 B	2024	63.89%
2025	\$526.5 M	\$1.269 B	2025	64.75%

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 amended to require the Lottery to transmit at least 27% of its gross revenues to the State Treasurer until December 31, 2008, and at least 30% of its gross revenues thereafter. In fiscal years 2025 and 2024, the Lottery transmitted a 30% return each month, totaling \$44,688,465 and \$51,084,059, respectively. The 30% return mandate, and its resulting limitation on prizes for players, has had the effect of impeding the Lottery's ability to maximize revenues for the Lottery Tuition Fund.

The graph on page 11 displays the last ten years of net sales for both instant and draw games, gross revenues, and the amount returned to the Lottery Tuition Fund, along with the highest Powerball and Mega Millions jackpots for each fiscal year and the average instant ticket payout percentage for each year. Each fiscal year shows at least a 30% return on gross revenues. Over this period, three fiscal years—2021, 2023, and 2024—had the highest returns to the Lottery Tuition Fund in the Lottery's thirty fiscal years.

For the fiscal year 2025, the Lottery's return of \$44.7 million decreased by approximately \$6.4 million compared to the previous fiscal year. This drop was mainly due to the absence of large Powerball and Mega Millions jackpots, which saw sales decrease by about \$18.9 million and \$5.8 million, respectively. Although instant ticket sales increased by about \$2.7 million, the Lottery couldn't sustain a higher instant ticket prize payout while allocating 30% of gross revenues to the Lottery Tuition Fund. After reducing instant ticket payouts, a decline in instant ticket sales was observed during the last three months of fiscal year 2025.

Generally, the sales of instant tickets during these fiscal years have been a key factor in the Lottery's year-over-year sales growth, with high jackpots for draw games contributing additional incremental sales. However, without large jackpots and given the 30% of gross revenue monthly mandate, the Lottery faced limitations on growth.

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

2025	Net Ticket Sales	Prize Expense
Instant ticket	\$ 92,223,711	\$ 51,381,778
Powerball	19,526,650	9,724,392
Mega Millions	16,423,048	8,140,796
Roadrunner Cash	5,690,902	3,243,697
Lotto America	5,830,537	2,863,973
Pick 3 Plus	4,885,489	2,490,579
Pick 4 Plus	1,925,544	1,106,553
Fast Play	2,377,719	1,534,029
Total	<u>\$ 148,883,600</u>	<u>\$ 80,485,797</u>
2024	Net Ticket Sales	Prize Expense
Instant ticket	\$ 89,560,751	\$ 52,586,243
Powerball	38,482,929	19,245,410
Mega Millions	22,213,456	11,109,865
Roadrunner Cash	7,180,365	3,976,487
Lotto America	4,175,914	2,064,790
Pick 3 Plus	5,016,396	2,508,208
Pick 4 Plus	1,948,777	974,389
Fast Play	1,658,620	1,087,713
Total	<u>\$ 170,237,208</u>	<u>\$ 93,553,105</u>
2023	Net Ticket Sales	Prize Expense
Instant ticket	\$ 87,992,086	\$ 51,223,192
Powerball	33,693,900	16,847,354
Mega Millions	25,999,956	13,013,733
Roadrunner Cash	6,798,608	3,765,069
Lotto America	6,073,748	2,882,117
Pick 3 Plus	4,855,587	2,427,794
Pick 4 Plus	1,928,279	964,140
Fast Play	1,117,150	751,533
Total	<u>\$ 168,459,314</u>	<u>\$ 91,874,932</u>
\$ Increase from FY 2024 to FY 2025	<u>\$ (21,353,608)</u>	<u>\$ (13,067,308)</u>
% Increase from FY 2024 to FY 2025	<u>-12.5%</u>	<u>-14.0%</u>
\$ Increase from FY 2023 to FY 2024	<u>\$ 1,777,894</u>	<u>\$ 1,678,173</u>
% Increase from FY 2023 to FY 2024	<u>1.1%</u>	<u>1.8%</u>

Note: Instant ticket sales are net of tickets provided as prizes, stolen, and promotional tickets; Powerball, Mega Millions, Roadrunner Cash, Lotto America, Pick 3 Plus, 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 presents the net ticket sales and prize expenses for each Lottery game across the fiscal years 2025, 2024, and 2023. In fiscal year 2025, there was an increase in net Instant ticket sales, accompanied by a reduction in prize expenses due to the utilization of the Unclaimed Prize Fund to meet the 30% return to the Lottery Tuition Fund. Sales and related prize expenses for Lotto America and Fast Play experienced growth, whereas sales and expenses for Powerball, Mega Millions, Roadrunner Cash, Pick 3 Plus, and Pick 4 Plus declined relative to fiscal year 2024. Conversely, in fiscal year 2024, net sales and associated prize expenses for Instant tickets, Powerball, Roadrunner Cash, Pick 3 Plus, Pick 4 Plus, and Fast Play increased, while Mega Millions and Lotto America sales and prize expenses decreased compared to fiscal year 2023.

Net Ticket Sales

In the fiscal year 2025, net sales declined by \$21.4 million, representing a decrease of 12.5%, reaching \$148.9 million. Conversely, in the fiscal year 2024, net sales experienced an increase of \$1.8 million, or 1.1%, totaling \$170.2 million, compared to \$168.5 million in fiscal year 2023.

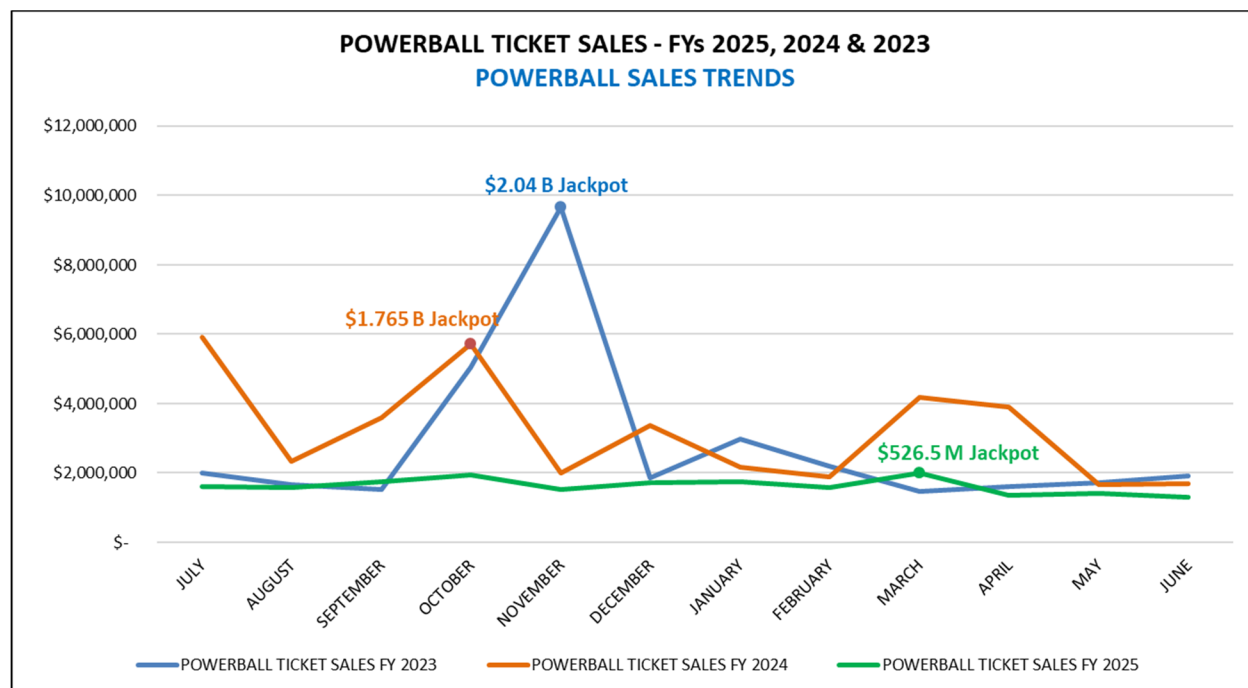
NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Powerball Ticket Sales



Powerball sales in the fiscal year 2025 did not reach the levels recorded in previous fiscal years 2024 and 2023. In fiscal year 2025, there was a single significant jackpot winner, who claimed an amount of \$526.5 million, in contrast to the jackpot winners in 2024 and 2023, which totaled \$1.765 billion and \$2.04 billion, respectively.

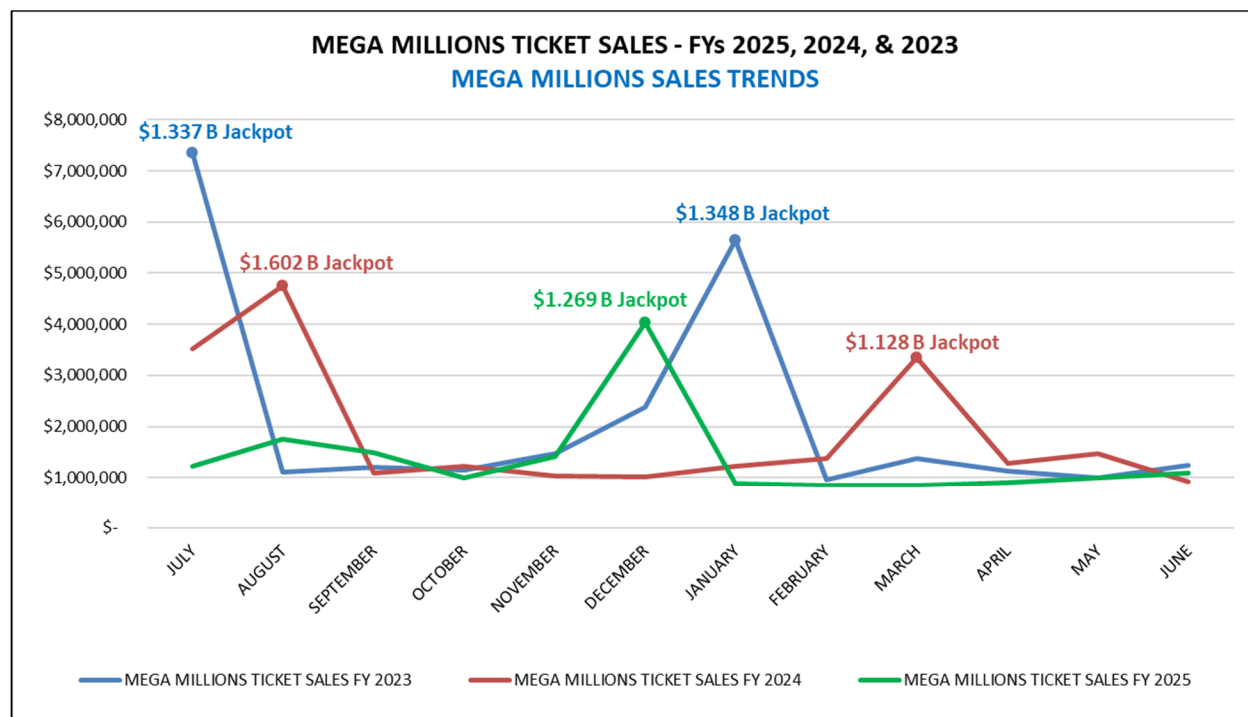
NEW MEXICO LOTTERY AUTHORITY

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 large jackpots. In fiscal year 2025, the Mega Millions jackpot reached \$1.269 billion in December 2024. During fiscal year 2024, two significant jackpots were recorded, amounting to \$1.602 billion in August 2023 and \$1.128 billion in March 2024.

Prize Expense

Prize expense for the draw games of Powerball, Mega Millions, Roadrunner Cash, Lotto America, Pick 3 Plus, and Pick 4 Plus is based on the overall prize payout according to 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 printed for each instant game define the prize expense for instant games. Generally, prize expense increases or decreases from year to year in relation to the changes in sales for each Lottery product and the prize structures of the games.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

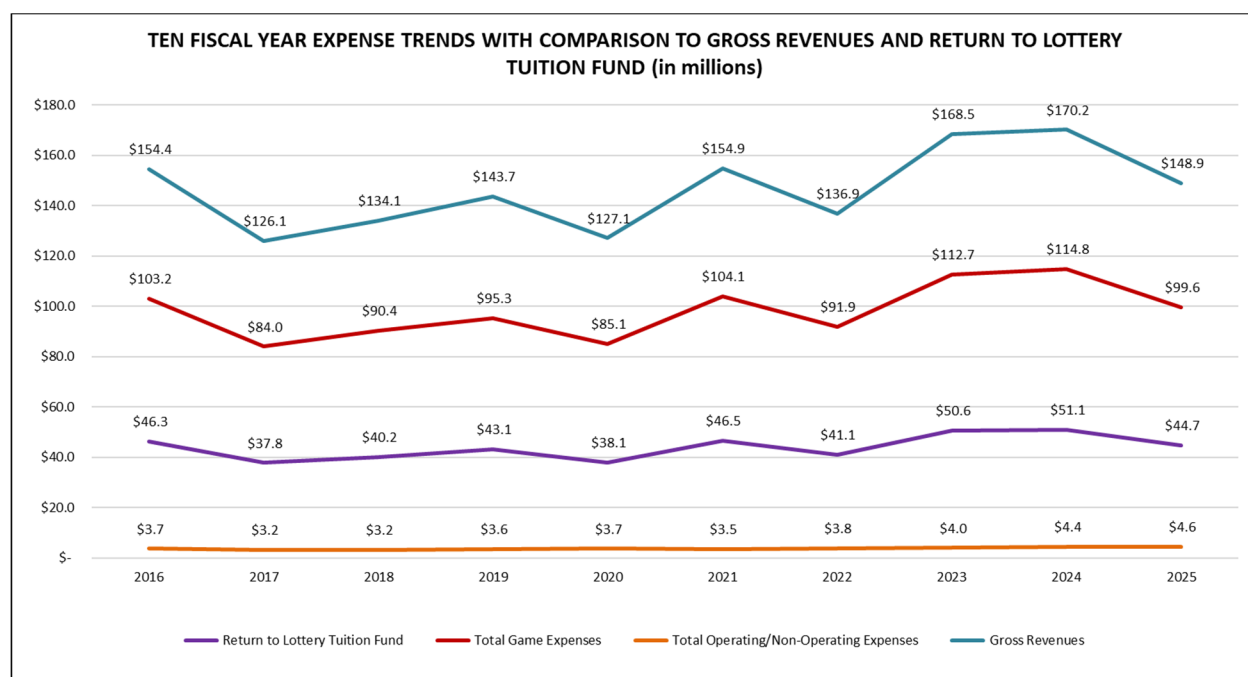
FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Tickets

In fiscal year 2025, the number of prize or free tickets claimed on instant games decreased by \$132,745, or 6.3%, to \$1,983,164. In fiscal year 2024, tickets claimed for prizes decreased by \$159,470, or 7.0%, to \$2,115,909. During fiscal years 2025 and 2024, the claimed prize tickets were primarily in \$1, \$2, \$3, \$5, \$10, and \$15 instant games.

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



The above chart illustrates the trends in game expenses and operating/non-operating expenses over the past ten years. Generally, game expenses fluctuate in correlation with sales performance. Operating and non-operating expenses are typically fixed and have remained stable over the last ten years. Additional information regarding gaming expenses and operating/non-operating expenses is provided in the subsequent Management's Discussion and Analysis.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 4
Game Expenses

				Increase (Decrease) \$ Change 2024 to	Increase (Decrease) % Change 2024 to	Increase (Decrease) \$ Change 2023 to	Increase (Decrease) % Change 2023 to
	2025	2024	2023	2025	2025	2024	2024
Prize expense	\$ 80,485,797	\$ 93,553,105	\$ 91,874,932	\$ (13,067,308)	(14.0) %	\$ 1,678,173	1.8 %
Retailer commissions	9,607,431	10,887,326	10,807,603	(1,279,895)	(11.8) %	79,723	0.7 %
Online vendor fees	5,153,434	5,709,685	5,663,619	(556,251)	(9.7) %	46,066	0.8 %
Advertising	1,985,145	1,979,017	2,063,589	6,128	0.3 %	(84,572)	(4.1) %
Ticket vendor fees	2,575,075	1,995,726	1,663,391	579,349	29.0 %	332,335	20.0 %
Other game expenses	724,854	668,829	635,264	56,025	8.4 %	33,565	5.3 %
Total game expenses	<u>\$ 100,531,736</u>	<u>\$ 114,793,688</u>	<u>\$ 112,708,398</u>	<u>\$ (14,261,952)</u>	(12.4) %	<u>\$ 2,085,290</u>	1.9 %

The changes in retailer commissions for fiscal years 2025 and 2024 align with the gross ticket sales for those years and amount to 6.4% of gross revenues each year. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets; cashing Lottery prizes; selling a jackpot or grand prize for Powerball, Mega Millions, or Lotto America; selling a Match 5 prize for Powerball or Mega Millions; and 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 adjusts based on increases or decreases in net draw games and instant ticket sales. Effective November 22, 2015, the Lottery entered into an agreement for online vendor services following a Request for Proposals issued in May 2015, agreeing 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 system; new lottery terminals and peripheral equipment for current and future retailers; ticket scanners to enable players to check their tickets for prizes; self-service ticket vending machines selling both instant and draw game tickets; disaster recovery services; and various employees to operate the system and provide sales and marketing support. Additionally, 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 amounts above \$146.5 million for the remainder of that fiscal year.

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, which states that starting November 22, 2020, the rate paid to the vendor was reduced to 2.89% of total net sales. This rate does not include other specifically priced options, such as any sports lottery offered for sale to the public by the Lottery, which will remain at 2.9988% of total net sales during the duration of the 2015 agreement.

For the fiscal years 2025 and 2024, the changes in the online vendor fees are aligned with the changes in net draw game and instant ticket sales for these respective periods. Online vendor fees accounted for 3.4% of gross revenues in both fiscal years 2025 and 2024.

Advertising funds are allocated to promote the Lottery and its associated products to the general public; to inform the public regarding games, including jackpot and top prize amounts; to provide security tips and raise awareness of responsible gambling among players; to disseminate benefit messages to New Mexico students and their families; and to maintain public awareness of lottery products, all with the objective of optimizing sales. Advertising expenditures amounted to approximately 1.3% of gross revenues for fiscal year 2025 and 1.2% for 2024, remaining within the budgets approved by the Lottery Board, which were \$2,100,000 for fiscal years 2025 and 2024.

In April 2018, the Lottery signed a contract with an instant ticket printer, where payment is based on a percentage of net instant sales when the tickets are sold. In fiscal years 2025 and 2024, the costs for any licensing fees or special printing costs were also included in the ticket vendor fees. The ticket vendor fees for fiscal years 2025 and 2024 were 1.7% and 1.2%, respectively, of net instant ticket sales.

Other game expenses include shipping and postage, responsible gaming, retailer equipment, promotions, and game membership costs. In fiscal year 2025, these expenses rose by \$56,025, or 8.4%, compared to the previous year, while fiscal year 2024 saw an increase of \$33,565, or 5.3%. The primary reason for these increases in both years is the ongoing rise in shipping costs.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 5
Operating Expenses

				Increase (Decrease) \$ Change 2024 to 2025	Increase (Decrease) % Change 2024 to 2025	Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024
	2025	2024	2023	2025	2025	2024	2024
Salaries, wages, and benefits	\$ 3,464,881	\$ 3,211,691	\$ 3,019,908	\$ 253,190	7.9 %	\$ 191,783	6.4 %
Utilities and maintenance	306,980	285,828	276,513	21,152	7.4 %	9,315	3.4 %
Leases and insurance	186,199	166,555	163,498	19,644	11.8 %	3,057	1.9 %
Other operating expenses	<u>694,725</u>	<u>743,415</u>	<u>528,221</u>	<u>(48,690)</u>	(6.5) %	<u>215,194</u>	40.7 %
Total operating expenses	<u>\$ 4,652,785</u>	<u>\$ 4,407,489</u>	<u>\$ 3,988,140</u>	<u>\$ 245,296</u>	5.6 %	<u>\$ 419,349</u>	10.5 %

Operating expenses include salaries, wages, and benefits; utilities and maintenance; leases and insurance; and other operating costs such as depreciation and amortization, professional fees, registration and memberships, materials and supplies, and travel expenses. In fiscal years 2025 and 2024, total operating expenses increased by \$245,296 or 5.6%, and \$419,349 or 10.5%, respectively.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses – Continued

In fiscal year 2025, salaries, wages, and benefits increased by \$253,190, or 7.9%, whereas in fiscal year 2024, these increased by \$191,783, or 6.4%. At the end of fiscal year 2025, there were 36 employees, up from 34 at the end of fiscal year 2024. In fiscal year 2025, 32 employees received cost-of-living adjustments averaging 3.0%. Additionally, insurance premiums increased by 10% in 2025 compared to previous years, which maintained the same cost. In both fiscal years, the changes in salaries, wages, and benefits were influenced by new hires, position changes, employee compensation adjustments, and related modifications to payroll taxes and benefits.

In fiscal years 2025 and 2024, leases and insurance costs increased by \$19,644, or 11.8%, and \$3,057, or 1.9%, respectively. These increases were mainly due to higher premiums upon renewal, including for employment practices, cyber, and crime insurances.

In fiscal year 2025, other operating expenses decreased by \$48,690 or 6.5%, due to lower spending on registrations and memberships, materials and supplies, and travel. In fiscal year 2024, these expenses increased by \$215,194 or 40.7%. This increase was mainly driven by higher professional fees, depreciation and amortization, materials and supplies, and travel costs, offset by a decrease in registrations and memberships.

Non-operating Revenues

Non-operating revenues increased in fiscal year 2025 by \$31,641 from \$35,169 to \$66,810. Interest rates paid on deposits increased compared to prior year. No significant other income was received in either fiscal year 2025 or 2024.

Non-operating Expense

In fiscal years 2025 and 2024, the interest expenses were \$754 and \$156, respectively, for a postage machine capitalized under GASB 87.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison

Table 6 Budgetary Comparison 2025				
	Budget	Actual	Variance with Budget Positive (Negative)	% Variance with Budget
Total operating revenues	\$ 151,661,000	\$ 148,896,260	\$ (2,764,740)	(1.8) %
Total game expenses	100,619,000	100,531,736	(87,264)	(0.1) %
Total operating expenses	<u>5,565,000</u>	<u>4,652,785</u>	<u>(912,215)</u>	(16.4) %
Operating income	45,477,000	43,711,739	(1,765,261)	(3.9) %
Total non-operating income	<u>23,000</u>	<u>66,056</u>	<u>43,056</u>	187.2 %
Net income before transfers to Lottery Tuition Fund	<u>\$ 45,500,000</u>	<u>\$ 43,777,795</u>	<u>\$ (1,722,205)</u>	(3.8) %
2024				
	Budget	Actual	Variance with Budget Positive (Negative)	% Variance with Budget
Total operating revenues	\$ 141,711,000	\$ 170,250,233	\$ 28,539,233	20.1 %
Total game expenses	93,825,000	114,793,688	20,968,688	22.3 %
Total operating expenses	<u>5,395,000</u>	<u>4,407,489</u>	<u>(987,511)</u>	(18.3) %
Operating income	42,491,000	51,049,056	8,558,056	20.1 %
Total non-operating income	<u>23,000</u>	<u>35,013</u>	<u>12,013</u>	52.2 %
Net income before transfers to Lottery Tuition Fund	<u>\$ 42,514,000</u>	<u>\$ 51,084,069</u>	<u>\$ 8,570,069</u>	20.2 %

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

Fiscal year 2025 concluded with operating revenues falling short of the annual budget by \$2.8 million, representing a 1.8% decrease. When compared to the budget, instant ticket sales exceeded projections by \$4.8 million, or 5.5%. Powerball sales declined by \$8.3 million, or 30.0%; Mega Millions sales decreased by \$76.4 thousand, or 0.5%; Roadrunner Cash sales dropped by \$1.3 million, or 18.7%; Lotto America sales increased by \$1.6 million, or 38.8%; Pick 3 Plus sales were lower by \$114 thousand, or 2.2%; Pick 4 Plus sales decreased by \$74 thousand, or 3.7%; and Fast Play sales rose by \$378 thousand, or 39.9%. Total game expenses were under budget by \$87 thousand, or 0.1%. Operating expenses were \$912 thousand, or 16.4%, lower than the budget. The fiscal year 2025 returned \$1.7 million, or 3.8% less than the projected amount, to the Lottery Tuition Fund.

In fiscal year 2024, operating revenues surpassed the budget by \$28.5 million, or 20.1%. Compared to the budget, instant ticket sales were \$6.1 million, or 7.4% higher; Powerball sales were \$12.6 million, or 48.7% higher; Mega Millions sales increased by \$8.2 million, or 58.7%; Roadrunner Cash sales were \$681 thousand, or 10.5% higher; Lotto America sales grew by \$376 thousand, or 9.9%; Pick 3 Plus sales were up \$17 thousand, or 0.3%; Pick 4 Plus sales increased by \$49 thousand, or 2.6%; and Fast Play sales rose by \$409 thousand, or 32.7%. Game expense line items for prize expense, retailer commissions, online vendor fees, and ticket vendor fees increased due to higher sales. Total game expenses exceeded the budget by 22.3%. Operating expenses were 18.3% below the budget. Fiscal year 2024 returned \$8.6 million, or 20.2% more than the 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, 2025 and 2024, 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, 2025 and 2024

	2025	2024
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,380,080	\$ 14,483,771
Accounts receivable (net of allowance for doubtful accounts)	1,403,450	1,228,638
Reserves on deposit - restricted	3,753,128	3,213,571
Inventory	15,684	16,103
Prepaid expenses	299,713	388,211
Total current assets	13,852,055	19,330,294
NONCURRENT ASSETS		
Capital assets		
Nondepreciable	743,700	743,700
Depreciable, net of accumulated depreciation	2,393,252	2,652,268
Intangible right-to-use, net of accumulated amortization	14,536	2,819
Net capital assets	3,151,488	3,398,787
Total assets	\$ 17,003,543	\$ 22,729,081
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 1,461,097	\$ 1,887,358
Current portion of compensated absences liability	155,180	153,095
Current portion of lease liability	3,500	3,148
Prizes payable	6,007,895	10,165,344
Due to Lottery Tuition Fund	3,140,720	3,386,924
Total current liabilities	10,768,392	15,595,869
LONG-TERM LIABILITIES		
Noncurrent portion of compensated absences liability	66,506	65,612
Noncurrent portion of lease liability	11,715	-
Total long-term liabilities	78,221	65,612
Total liabilities	\$ 10,846,613	\$ 15,661,481
NET POSITION		
Net investment in capital assets	\$ 3,136,273	\$ 3,395,639
Unrestricted	3,020,657	3,671,961
Total net position	\$ 6,156,930	\$ 7,067,600

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, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Instant ticket sales, net	\$ 92,223,711	\$ 89,560,751
Powerball sales	19,526,650	38,482,929
Mega Millions sales	16,423,048	22,213,456
Roadrunner Cash sales	5,690,902	7,180,365
Lotto America sales	5,830,537	4,175,914
Pick 3 Plus sales	4,885,489	5,016,396
Pick 4 Plus sales	1,925,544	1,948,777
Fast Play sales	2,377,719	1,658,620
Total net ticket sales	148,883,600	170,237,208
Retailer fees	12,660	13,025
Total operating revenues	148,896,260	170,250,233
GAME EXPENSES		
Prize expense	80,485,797	93,553,105
Retailer commissions	9,607,431	10,887,326
Online vendor fees	5,153,434	5,709,685
Advertising	1,985,145	1,979,017
Ticket vendor fees	2,575,075	1,995,726
Shipping and postage	532,564	485,203
Responsible gaming	70,000	70,000
Retailer equipment	24,604	34,560
Promotions	68,274	79,066
Game membership	29,412	-
Total game expenses	100,531,736	114,793,688
OPERATING EXPENSES		
Salaries, wages, and benefits	3,464,881	3,211,691
Utilities and maintenance	306,980	285,828
Depreciation and amortization	332,444	316,322
Leases and insurance	186,199	166,555
Professional fees	203,769	199,343
Other	158,512	227,750
Total operating expenses	4,652,785	4,407,489
OPERATING INCOME	43,711,739	51,049,056
NONOPERATING INCOME (EXPENSE)		
Interest expense	(754)	(156)
Interest income	66,819	34,888
Other (expense) income	(9)	281
Net nonoperating income	66,056	35,013
NET INCOME BEFORE TRANSFERS	43,777,795	51,084,069
TRANSFERS TO LOTTERY TUITION FUND	44,688,465	51,084,059
CHANGE IN NET POSITION	(910,670)	10
NET POSITION AT BEGINNING OF YEAR	7,067,600	7,067,590
NET POSITION AT END OF YEAR	\$ 6,156,930	\$ 7,067,600

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 139,114,017	\$ 159,207,369
Cash payments:		
To prize winners and related taxes	(71,067,870)	(73,150,363)
To MUSL	(13,575,376)	(21,812,537)
To suppliers of goods or services	(12,821,507)	(12,032,025)
To employees for services and related taxes	<u>(2,809,621)</u>	<u>(2,590,966)</u>
Net cash provided by operating activities	<u>38,839,643</u>	<u>49,621,478</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Lottery Tuition Fund	<u>(44,934,669)</u>	<u>(51,433,708)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(70,175)	(65,494)
Principal paid on finance lease	(4,546)	(3,048)
Interest paid on finance lease	<u>(754)</u>	<u>(156)</u>
Net cash used in capital related financing activities	<u>(75,475)</u>	<u>(68,698)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Receipts of interest	66,819	34,888
Other	<u>(9)</u>	<u>281</u>
Net cash provided by investing activities	<u>66,810</u>	<u>35,169</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(6,103,691)</u>	<u>(1,845,759)</u>
Cash and cash equivalents at beginning of year	<u>14,483,771</u>	<u>16,329,530</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,380,080</u></u>	<u><u>\$ 14,483,771</u></u>

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

NEW MEXICO LOTTERY AUTHORITY
STATEMENTS OF CASH FLOWS – CONTINUED

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 43,711,739	\$ 51,049,056
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	332,444	316,322
Vendors' noncash transactions	(10,424)	(27,307)
Net changes in assets and liabilities:		
Accounts receivable	(174,812)	(154,859)
Reserves on deposit - restricted	(539,557)	(108,602)
Inventory	419	654
Prepaid expenses	88,498	(132,879)
Accounts payable and other current liabilities	(411,215)	88,888
Prizes payable	<u>(4,157,449)</u>	<u>(1,409,795)</u>
Net cash provided by operating activities	<u>\$ 38,839,643</u>	<u>\$ 49,621,478</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF FIDUCIARY NET POSITION PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUND

June 30, 2025 and 2024

	2025			2024		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 72,278	\$ 4	\$ 72,282	\$ 64,197	\$ -	\$ 64,197
Marketable securities and other investments	8,692,707	1,936,720	10,629,427	9,199,352	1,904,515	11,103,867
Contribution receivable	37,400	-	37,400	48,868	6,016	54,884
Total assets	<u>\$ 8,802,385</u>	<u>\$ 1,936,724</u>	<u>\$ 10,739,109</u>	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>
NET POSITION						
Held in Trust for Pension plan participants' benefits	<u>\$ 8,802,385</u>	<u>\$ 1,936,724</u>	<u>\$ 10,739,109</u>	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUND

Years Ended June 30, 2025 and 2024

	2025			2024		
	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	\$ 881,620	\$ 192,912	\$ 1,074,532	\$ 1,203,947	\$ 259,955	\$ 1,463,902
Dividends	328,506	61,491	389,997	232,615	39,299	271,914
Employer contributions	333,520	-	333,520	357,008	-	357,008
Employee contributions	-	159,477	159,477	-	163,121	163,121
Total additions	<u>1,543,646</u>	<u>413,880</u>	<u>1,957,526</u>	<u>1,793,570</u>	<u>462,375</u>	<u>2,255,945</u>
DEDUCTIONS						
Distributions to participants	2,050,482	387,380	2,437,862	660,375	223,405	883,780
Fees	3,196	307	3,503	245	75	320
Total deductions	<u>2,053,678</u>	<u>387,687</u>	<u>2,441,365</u>	<u>660,620</u>	<u>223,480</u>	<u>884,100</u>
Change in net position	(510,032)	26,193	(483,839)	1,132,950	238,895	1,371,845
NET POSITION - BEGINNING	<u>9,312,417</u>	<u>1,910,531</u>	<u>11,222,948</u>	<u>8,179,467</u>	<u>1,671,636</u>	<u>9,851,103</u>
NET POSITION - ENDING	<u>\$ 8,802,385</u>	<u>\$ 1,936,724</u>	<u>\$ 10,739,109</u>	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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 (U.S. GAAP).

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, 2025 and 2024

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 an Ascensus Company 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 2025 and 2024, 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. 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 90 days or less, and overnight repurchase agreements.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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. Accounts receivable are stated at their net realizable value and their past due status is based upon contractual terms. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. As of June 30, 2025 and 2024, an allowance for doubtful accounts of \$10,000 for both years, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2025 and 2024, ten retail customers (605 and 578 retailers) represented 65% and 67% of sales for each fiscal year, respectively, and 73% and 62% 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, Lotto America and 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, 2025 and 2024

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, 2025 and 2024, the Lottery's share in the Powerball PRA was \$649,735 and \$683,176, respectively, and in the SPRA was \$294,654 and \$280,080, respectively. The Powerball PRA was fully funded at the end of fiscal years 2025 and 2024. The SPRA was also fully funded at the end of fiscal years 2025 and 2024.

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, 2025 and 2024, the Lottery's share in the Mega Millions PRA was \$734,803 and \$747,856, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of fiscal years 2025 and 2024.

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, 2025 and 2024, the Lottery's share in the Lotto America PRA was \$844,289 and \$551,236, respectively. The Lotto America PRA was fully funded at the end of fiscal year 2025. For fiscal year 2024, the Lotto America PRA had not met its requirements of \$782,238.

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, 2025 and 2024, the Lottery's share of the unreserved fund was \$1,229,647 and \$951,223, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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; therefore, they 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, 2025 and 2024, \$15,684 and \$16,103, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2025 and 2024, there were no amounts in prize inventory, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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 nonfinancial 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 38 years with a residual value of 10%. Significant building improvements are amortized over the remaining life of the building at the time of purchase of the improvement or, if insignificant, over seven 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 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Revenue 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.

	2025	2024
OPERATING REVENUES		
Instant ticket sales	\$ 94,251,628	\$ 91,731,613
Powerball sales	19,526,830	38,482,929
Mega Millions sales	16,423,082	22,213,456
Roadrunner Cash sales	5,690,905	7,180,365
Lotto America sales	5,830,537	4,175,914
Pick 3 Plus sales	4,885,489	5,016,396
Pick 4 Plus sales	1,925,544	1,948,777
Fast Play sales	2,377,739	1,658,620
Less tickets provided as prizes	(1,983,164)	(2,115,909)
Less spoiled, stolen, and promotional tickets	(44,990)	(54,953)
Net ticket sales	148,883,600	170,237,208
Retailer fees	12,660	13,025
Total operating revenues	<u>\$ 148,896,260</u>	<u>\$ 170,250,233</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 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, 2025 and 2024, were \$300,000 and \$146,543, respectively, for Roadrunner Cash, \$83,000 and \$83,872, respectively, for Pick 3 Plus, \$25,000 and (\$54,844), respectively, for Pick 4 Plus, and \$30,000 and \$71,450, respectively, for Jackpot 7s. The PRA account balance for Roadrunner Cash, Pick 3 Plus, Pick 4 Plus, and Jackpot 7s are presented within prizes payable.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

14. Custodial Credit Risk and Interest Rate Risk

As of June 30, 2025 and 2024, 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Custodial Credit Risk and Interest Rate Risk – Continued

The Lottery’s custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery’s investments are made in overnight repurchase agreements. Investments are made through a local financial institution and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by Government Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico “Security of Public Money” standards and be held in third-party safekeeping.

As of June 30, 2025 and 2024, the Lottery’s balances of \$8,415,711 and \$14,507,638, respectively, were exposed to custodial credit risk as follows:

	<u>2025</u>	<u>2024</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the Lottery’s name	<u>8,415,711</u>	<u>14,507,638</u>
Total operating revenues	<u>\$ 8,415,711</u>	<u>\$ 14,507,638</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, 2025 and 2024, the Lottery had overnight yield repurchase agreements with one-day maturities.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts

At June 30, 2025:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase agreement-interest-bearing	Wells Fargo Bank, NA	\$ 8,415,711
Operating account - checking-non-interest-bearing	Wells Fargo Bank, NA	-
Total amount deposited in bank		8,415,711
Less: FDIC coverage		-
Total uninsured funds - deposits and overnight repurchase agreement		\$ 8,415,711
102% pledged collateral requirement per statute for repurchase agreement		\$ 8,584,025
*Total pledged security		(8,584,025)
Amount under (over) requirement at June 30, 2025		\$ -
*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 2% (cost \$8,415,778), matures June 1, 2051. 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, 2025		\$ 8,415,711
Less reconciling items--outstanding checks		(50,631)
Reconciled cash in bank at June 30, 2025		8,365,080
Cash in vault		15,000
Total cash and cash equivalents per Statements of Net Position		\$ 8,380,080

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts – Continued

At June 30, 2024:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase agreement-interest-bearing	Wells Fargo Bank, NA	\$ 14,507,638
Operating account - checking-non-interest-bearing	Wells Fargo Bank, NA	-
Total amount deposited in bank		14,507,638
Less: FDIC coverage		-
Total uninsured funds - deposits and overnight repurchase agreement		<u>\$ 14,507,638</u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 14,797,791
*Total pledged security		\$ (14,797,791)
Amount under (over) requirement at June 30, 2024		<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 2% (cost \$14,507,717), matures June 1, 2051. 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, 2024		\$ 14,507,638
Less reconciling items--outstanding checks		<u>(33,867)</u>
Reconciled cash in bank at June 30, 2024		14,473,771
Cash in vault		<u>10,000</u>
Total cash and cash equivalents per Statements of Net Position		<u>\$ 14,483,771</u>

Additionally, the Lottery held cash and cash equivalents related to fiduciary funds totaling \$72,282 and \$64,197 in trust accounts held by Ascensus Trust Company and Newport Trust Company, LLC, for the years ended June 30, 2025 and 2024, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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 provisions of the New Mexico Lottery Act.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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, 2025 and 2024, the Lottery had unclaimed prizes in the amount of \$2,639,353 and \$5,655,340, 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 30% return to the Lottery Tuition Fund.

20. Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with U.S. GAAP 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 Attendance 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 15 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

21. Compensated Absences Payable – Continued

Upon separation from service, employees 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.

Compensated absences payable are recognized when all of the following criteria are met: (1) employees have performed the services necessary to earn the leave, (2) the leave is carried forward to future reporting periods, and (3) it is more likely than not (greater than 50% probability) that the leave will be used or paid.

The compensated absences liability includes annual leave only; sick leave is excluded because it is not paid out upon separation. The liability is measured based on the pay rates and aggregate annual leave balances of June 30, 2025. Key assumptions include that 100% of accrued annual leave will be used or paid out, plus an additional 7.65% to cover salary-related fringe benefits, as determined by the Department of Finance and Administration.

During the years ended June 30, 2025 and 2024, the following changes occurred in the compensated absences liabilities:

<u>Balance</u> <u>July 1, 2024</u>	<u>Net change</u>	<u>Balance</u> <u>June 30, 2025</u>	<u>Amounts due</u> <u>within one year</u>
<u>\$ 218,707</u>	<u>\$ 2,979</u>	<u>\$ 221,686</u>	<u>\$ 155,180</u>
<u>Balance</u> <u>July 1, 2023</u>	<u>Net change</u>	<u>Balance</u> <u>June 30, 2024</u>	
<u>\$ 204,506</u>	<u>\$ 14,201</u>	<u>\$ 218,707</u>	

22. Lease Liability

The Lottery leased a postage machine for a period of 60 months, beginning on July 1, 2020, and ending on December 31, 2024. 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.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

22. Lease Liability - Continued

The Lottery leased another postage machine for a period of 48 months, beginning January 1, 2025, and ending on December 31, 2028. The lease was recorded using an incremental interest rate of 8.5%. Payments are due quarterly. The first year's payments are \$1,027 per quarter; thereafter, the payments are \$1,285 per quarter for the remaining three years.

During the years ended June 30, 2025 and 2024, the following changes occurred in the lease liability:

<u>Balance</u> <u>July 1, 2024</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2025</u>
\$ 3,148	\$ 16,613	\$ (4,546)	\$ 15,215

<u>Balance</u> <u>July 1, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2024</u>
\$ 6,196	\$ -	\$ (3,048)	\$ 3,148

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>
2026	\$ 3,500	\$ 1,124	\$ 4,624
2027	4,349	793	5,142
2028	4,796	346	5,142
2029	<u>2,570</u>	<u>-</u>	<u>2,570</u>
	<u><u>\$ 15,215</u></u>	<u><u>\$ 2,263</u></u>	<u><u>\$ 17,478</u></u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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:

	2025	2024
Accounts payable	\$ 1,053,776	\$ 1,417,270
Accrued liabilities, vendors*	54,031	331,184
Accrued liabilities, marketing*	225,605	-
Accrued liabilities, retailers*	3,500	3,500
Accrued payroll, and payroll taxes and benefits	124,185	135,404
	<u>\$ 1,461,097</u>	<u>\$ 1,887,358</u>

* The Lottery has accrued an estimated amount for services delivered by its vendors and deposits for its retailers as of June 30, 2025 and 2024, respectively.

24. New Accounting Pronouncement

GASB Statement No. 101 – Compensated Absences

For fiscal 2025, the New Mexico Lottery Authority adopted GASB Statement No. 101. The adoption of this statement prescribes the accounting and financial reporting of compensated absences.

GASB Statement No. 102 – Certain Risk Disclosures

For fiscal 2025, the New Mexico Lottery Authority adopted GASB Statement No. 102. The adoption of this statement is prescribes the financial reporting of certain risks related to a government’s vulnerabilities due to certain concentrations of constraints.

The implementation of these standards did not require adjustments or restatement to any amounts in the financial statements for fiscal year 2025 or 2024. The presentation of application transactions on the financial statements and in the notes to the financial statements was updated to comply with these new standards implemented.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

25. Subsequent Pronouncements

GASB Statement No. 103 – *Financial Reporting Model Improvements*

Effective date: The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

The Statement establishes new accounting financial reporting requirements or modifies exiting requirements related to the management discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in the basic financial statements, budgetary comparison information, and financial trends information in the statistical section.

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*

Effective date: The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

The Statement requires certain types of capital assets to be disclosed separate in the capital asset note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right to use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital asset note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset, and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2025, consisted of:

	Beginning Balances	Increases	Decreases	Transfers	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	2,510,761	6,258	-	-	2,517,019
Data processing equipment and software	606,681	-	(7,584)	-	599,097
Equipment	1,695,794	63,917	-	(20,000)	1,739,711
Vehicles	180,412	-	-	-	180,412
Furniture and fixtures	218,533	-	(244)	-	218,289
Land improvements & infrastructure	60,366	-	-	-	60,366
Obsolete capital assets	128,919	-	(172)	20,000	148,747
Total depreciable capital assets	<u>5,401,466</u>	<u>70,175</u>	<u>(8,000)</u>	<u>-</u>	<u>5,463,641</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(634,262)	(95,114)	-	-	(729,376)
Data processing equipment and software	(484,480)	(57,251)	7,586	-	(534,145)
Equipment	(1,142,284)	(156,367)	-	9,334	(1,289,317)
Vehicles	(126,375)	(16,437)	-	-	(142,812)
Furniture and fixtures	(218,533)	-	244	-	(218,289)
Land improvements & infrastructure	(14,345)	(4,024)	-	-	(18,369)
Obsolete capital assets	(128,919)	-	172	(9,334)	(138,081)
Total accumulated depreciation	<u>(2,749,198)</u>	<u>(329,193)</u>	<u>8,002</u>	<u>-</u>	<u>(3,070,389)</u>
Net depreciable capital assets	<u>2,652,268</u>	<u>(259,018)</u>	<u>2</u>	<u>-</u>	<u>2,393,252</u>
<u>Intangible right-to-use assets</u>					
Leased equipment	14,096	16,613	(14,096)	-	16,613
Less accumulated amortization	<u>(11,277)</u>	<u>(3,251)</u>	<u>12,451</u>	<u>-</u>	<u>(2,077)</u>
Intangible right-to-use assets, net	<u>2,819</u>	<u>13,362</u>	<u>(1,645)</u>	<u>-</u>	<u>14,536</u>
NET CAPITAL ASSETS	<u>\$ 3,398,787</u>	<u>\$ (245,656)</u>	<u>\$ (1,643)</u>	<u>\$ -</u>	<u>\$ 3,151,488</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE B – CAPITAL ASSETS – CONTINUED

Capital assets at June 30, 2024, consisted of:

	Beginning Balances	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>743,700</u>
<u>Depreciable capital assets</u>				
Building and building improvements	2,462,188	48,573	-	2,510,761
Data processing equipment and software	597,948	8,733	-	606,681
Equipment	1,720,153	-	(24,359)	1,695,794
Vehicles	172,224	38,553	(30,365)	180,412
Furniture and fixtures	218,533	-	-	218,533
Land improvements & infrastructure	60,366	-	-	60,366
Obsolete capital assets	<u>316,961</u>	<u>-</u>	<u>(188,042)</u>	<u>128,919</u>
Total depreciable capital assets	<u>5,548,373</u>	<u>95,859</u>	<u>(242,766)</u>	<u>5,401,466</u>
<u>Less accumulated depreciation</u>				
Building and building improvements	(541,233)	(93,029)	-	(634,262)
Data processing equipment and software	(416,631)	(67,849)	-	(484,480)
Equipment	(1,028,054)	(138,589)	24,359	(1,142,284)
Vehicles	(146,728)	(10,012)	30,365	(126,375)
Furniture and fixtures	(218,533)	-	-	(218,533)
Land improvements & infrastructure	(10,321)	(4,024)	-	(14,345)
Obsolete capital assets	<u>(316,961)</u>	<u>-</u>	<u>188,042</u>	<u>(128,919)</u>
Total accumulated depreciation	<u>(2,678,461)</u>	<u>(313,503)</u>	<u>242,766</u>	<u>(2,749,198)</u>
Net depreciable capital assets	<u>2,869,912</u>	<u>(217,644)</u>	<u>-</u>	<u>2,652,268</u>
<u>Intangible right-to-use assets</u>				
Leased equipment	14,096	-	-	14,096
Less accumulated amortization	<u>(8,458)</u>	<u>(2,819)</u>	<u>-</u>	<u>(11,277)</u>
Intangible right-to-use assets, net	<u>5,638</u>	<u>(2,819)</u>	<u>-</u>	<u>2,819</u>
NET CAPITAL ASSETS	<u>\$ 3,619,250</u>	<u>\$ (220,463)</u>	<u>\$ -</u>	<u>\$ 3,398,787</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

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

	Due to Lottery Tuition Fund
Balance at June 30, 2023	\$ 3,736,573
Prior year 30% return	51,084,059
Prior year transfers	<u>(51,433,708)</u>
Balance at June 30, 2024	3,386,924
Current year 30% return	44,688,465
Current year transfers	<u>(44,934,669)</u>
Balance at June 30, 2025	<u>\$ 3,140,720</u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least 30% 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, 2025 and 2024, the Lottery has transferred \$44,688,465 and \$51,084,059, respectively, for the years ended June 30, 2025 and 2024, 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. 53 and 52 current and former employees of the Lottery (or their beneficiaries) were participants in the plan at the end of fiscal years 2025 and 2024, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2025 and 2024

NOTE D – RETIREMENT PLANS – CONTINUED

Plan Descriptions and Funding – Continued

Money Purchase Pension Plan – Continued

Newport Group an Ascensus 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 40 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, 2025 and 2024, the Lottery recognized \$333,520 and \$357,008 of pension expense for the plan on eligible compensation of \$2,617,252 and \$2,443,138, respectively. There were no forfeitures of employee balances for the years ended June 30, 2025 and 2024, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years had been paid to the plan by June 30, 2025 and 2024, respectively. For the years ended June 30, 2025 and 2024, the Lottery recognized a contribution liability of \$37,400 and \$48,868, 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 an Ascensus 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 40 investment funds. 41 and 38 current and former employees of the Lottery were participants in the plan at the end of fiscal years 2025 and 2024, 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, 2025 and 2024, respectively. For the years ended June 30, 2025 and 2024, the Lottery recognized a contribution liability of \$0 and \$6,016, 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, 2025 and 2024

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 U.S. GAAP. 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, 2025 and 2024:

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, 2025 and 2024, in the amount of \$1,842,399 and \$1,655,199, 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, 2025 and 2024

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:

	2025		2024	
	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	\$ 717,169	\$ 239,862	\$ 627,649	\$ 146,098
Blend	969,614	384,132	825,995	69,098
Growth	718,984	299,525	564,432	329,389
Total US Equity	2,405,767	923,519	2,018,076	544,585
Bonds	394,581	63,310	358,493	53,148
Target Date	4,391,445	755,130	3,710,197	837,307
Balanced asset allocation	486,065	10,464	442,090	8,301
Foreign Equity	309,499	17,448	258,801	10,050
Specialty/Other	705,350	166,849	2,411,695	451,124
Total Level 1	8,692,707	1,936,720	9,199,352	1,904,515
Total investments in the fair value measurement	8,692,707	1,936,720	9,199,352	1,904,515
Other plan assets exempt from the fair value measurement:				
Money market/cash	72,278	4	64,197	-
Contribution receivable	37,400	-	48,868	6,016
Total plan assets	\$ 8,802,385	\$ 1,936,724	\$ 9,312,417	\$ 1,910,531

The balances and activity of both Plans as of and for the years ended June 30, 2025 and 2024, 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, 2025 and 2024

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, extended a second time through May 14, 2027, under the same terms and conditions. Wells Fargo Bank prime rate was 7.50% and 8.50%, respectively, for June 30, 2025 and 2024. For the years ended June 30, 2025 and 2024, 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 15-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.

On January 30, 2025, the Lottery entered into an agreement with Scientific Games, LLC, a Georgia-based company, to provide an online gaming system for a total of ten years to commence on November 22, 2025. 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.

NEW MEXICO LOTTERY AUTHORITY

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

Years Ended June 30, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Instant ticket sales	\$ 92,223,711	\$ 89,560,751
Powerball sales	19,526,650	38,482,929
Mega Millions sales	16,423,048	22,213,456
Roadrunner Cash sales	5,690,902	7,180,365
Lotto America sales	5,830,537	4,175,914
Pick 3 Plus sales	4,885,489	5,016,396
Pick 4 Plus sales	1,925,544	1,948,777
Fast Play sales	2,377,719	1,658,620
Total Net ticket sales	148,883,600	170,237,208
Retailer fees	12,660	13,025
Total operating revenues	148,896,260	170,250,233
NON-OPERATING INCOME		
Interest income	66,819	34,888
Other income	(9)	281
Total non-operating income	66,810	35,169
GROSS REVENUES	148,963,070	170,285,402
GAME EXPENSES		
Prize expense	80,485,797	93,553,105
Retailer commissions	9,607,431	10,887,326
On-line vendor fees	5,153,434	5,709,685
Advertising	1,985,145	1,979,017
Ticket vendor fees	2,575,075	1,995,726
Shipping and postage	532,564	485,203
Responsible gaming	70,000	70,000
Retailer equipment	24,604	34,560
Promotions	68,274	79,066
Game membership	29,412	-
Total game expenses	100,531,736	114,793,688
OPERATING EXPENSES		
Salaries, wages, and benefits	3,464,881	3,211,691
Utilities and maintenance	306,980	285,828
Depreciation and amortization	332,444	316,322
Leases and insurance	186,199	166,555
Professional fees	203,769	199,343
Other	158,512	227,750
Operational Reserve Fund expense	(910,670)	10
Total operating expenses	3,742,115	4,407,499
OPERATING INCOME	44,622,409	51,049,046
NON-OPERATING EXPENSE		
Interest expense	754	156
Net non-operating income	754	156
NET INCOME	\$ 44,688,465	\$ 51,084,059
GROSS REVENUE PERCENTAGE RETURN	30.00%	30.00%

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, PE, CFE
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, 2025, 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 23, 2025.

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 certain matters that are required to be reported per section 12-6-5 NMSA 1978 that has been described in the accompanying schedule of findings and responses as items 2025-001, 2025-002, and 2025-003.

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.

A handwritten signature in cursive script that reads "Baker Tilly US, LLP".

Albuquerque, New Mexico
October 23, 2025

NEW MEXICO LOTTERY AUTHORITY

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

June 30, 2025

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

Noncompliance material to financial statements noted? ☐ Yes ☒ No

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2025

SECTION II: FINANCIAL STATEMENT FINDINGS

None noted.

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

2025-001 – Internal Controls over Financial Close and Reporting (Other Non-Compliance)

Condition: During our testwork over net position, we identified that net position did not properly roll forward from the prior year by \$236,030.

Criteria: 6-5-2C NMSA 1978 states that an entity shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. Additionally, NMSA 1978 §6-5-2 requires state agencies to comply with the model accounting practices established by the Financial Control Division, and the administrative head of each agency to ensure that the model accounting practices are followed.

Cause: Management recorded an incorrect journal entry of \$236,030 to net position, resulting in the net position balance not rolling forward from the prior year.

Effect: The Department had to record an adjustment to properly rollforward net position.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management ensure that adequate internal controls are reviewed and updated surrounding the financial close and reporting process, which includes the reconciliation of net position to the prior year financial statements.

Agency Response: The Lottery's Finance Division, at the direction of the Director of Finance, will review internal controls and include the reconciliation of net position in the financial close and reporting process quarterly, beginning with the December 2025 financial close.

2025-002 – Cash Receipt not Deposited in 24 hours (Other Non-Compliance)

Condition: For one cash receipt tested, we noted that cash totaling \$56 was not deposited in the bank within twenty-four (24) hours or one banking day.

Criteria: Per 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury. It is the duty of every official or person in charge of any state agency receiving any money in cash or by check, draft or otherwise for or on behalf of the state or any agency thereof from any source, except as in Section 6-10-54 NMSA 1978 provided, to forthwith and before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the state treasurer.

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2025

Cause: Management noted that the delay in the cash deposit was due to timing of the cash receipt. Management received the cash late on Friday afternoon, and due to various circumstances, was unable to deposit the cash until the following Tuesday morning. Cash receipts are infrequent at the Lottery.

Effect: The New Mexico Lottery Authority is not in compliance with State of New Mexico statutes.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management establish policies over the cash receipts process to ensure timely deposits within 24 hours of receipt.

Agency Response: The Lottery's Finance Division, at the direction of the Direction of Finance, will update cash deposit procedures to include information about the 24-hour statutory requirements and train Finance staff regarding the requirements by December 2025.

2025-003 – Whistleblower Act (Other Non-Compliance)

Condition: A full copy of the Whistleblower Protection Act, including the provisions, was not posted at the New Mexico Lottery Authority office at the time of our walkthrough with management.

Criteria: Per NMSA 1978 10-16-C-5, posting of law and information-every public employer shall keep posted in a conspicuous place on the public employer's premises notices prepared by the employer that set forth the provisions of the Whistleblower Protection Act.

Cause: Management oversight.

Effect: The New Mexico Lottery Authority is not in compliance with State of New Mexico statutes.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management review the Whistleblower Protection Act and ensure the posting of law and information is visible at the New Mexico Lottery Authority office.

Agency Response: The required posting is now in a conspicuous location at the Lottery office, effective September 2025. The Lottery's Human Resources Coordinator has added confirming compliance with this posting to that department's general duties.

NEW MEXICO LOTTERY AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2025

2024-001-Logical Security and Access (IT Noncompliance) - Resolved

NEW MEXICO LOTTERY AUTHORITY

EXIT CONFERENCE

For the Year Ended June 30, 2025

An exit conference was held at the New Mexico Lottery Authority on October 23, 2025. The following individuals participated:

Name	Title
<i>New Mexico Lottery Authority</i>	
<i>Board of Directors:</i>	
Paul Guerin, PhD	Finance and Audit Committee Chair and Board Secretary/Treasurer
Leo Romero, Esq.	Board Member and Committee Member of Finance and Audit Committee
Othiamba Umi, Esq.	Board Member and Committee Member of Finance and Audit Committee
<i>New Mexico Lottery Authority Employees:</i>	
David Barden, Esq.	NMLA CEO
Michael Boland, CPA	Senior Internal Auditor
Linh Coonan	Director of Finance
Wilma Atencio	Operations Coordinator
<i>Baker Tilly US, LLP:</i>	
Sheila Herrera, CPA	Audit Engagement Principal
Elizabeth Nunez, CPA	Audit Engagement Senior Manager

Financial Statement Preparation

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

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