

**NEW MEXICO LOTTERY AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 and 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



New Mexico Lottery Authority

**OFFICIAL ROSTER**

June 30, 2018

**BOARD OF DIRECTORS**

Dr. Dan Salzwedel	Chairman
Mark Koson	Vice Chairman
John Kubiak, CPA	Secretary/Treasurer
Amy Bailey, Esq.	Asst. Secretary/Treasurer
Salvatore Baragiola	Member
Dr. Paul Guerin	Member
Aubrey McGowen	Member

Note: Claude Austin served as a New Mexico Lottery Authority Board of Director until September 22, 2017.

**OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY**

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

## **ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY**

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

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

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

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

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees.

The Administration Division, under the direction of the Chief of Staff/Director of Administration, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; retailer accounts receivable and debt collection; capital asset accounting; game accounting; payroll and benefit preparation, accounting, payment, and review; and tax reporting and payment. In addition, the division provides financial reporting, disclosure, and compliance with generally accepted accounting practices and budget compilation, including the quarterly and annual financial reporting of revenues, expenses, and net revenues to the State of New Mexico; the financial audit and related compilation of financial statements, related notes, and the Management's Discussion and Analysis (MDA) for the fiscal year; the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year and the final (revised) proposed budget by division for Board of Directors' approval. Furthermore, the division is responsible for the procurement of materials and services; claims center payment of prizes and sales of tickets; and accounts payable. The warehouse component of the Administration Division is responsible for the packing and shipment of the Lottery's instant scratcher tickets and for the maintenance and shipping of Lottery premium and point of sale items. The division is also responsible for the management of building and grounds maintenance and vehicle fleet operations and maintenance.

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

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

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

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

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

The Security Division, under the direction of the Executive Vice President for Security, statutorily as a law enforcement agency is responsible for administering, enforcing and ensuring compliance with the security provisions of the New Mexico Lottery Act. The division conducts backgrounds of all prospective employees, lottery retailers, lottery vendors and lottery contractors. It also supervises ticket verification and conducts/oversees second chance drawings when the prize amount is more than \$5,000. The division functions as liaison among the Attorney General's Office, District Attorney Offices and law enforcement agencies in general. It is also responsible for building and employee security and safety.

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

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

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
New Mexico Lottery Authority and  
Mr. Wayne Johnson  
New Mexico State Auditor  
Albuquerque, New Mexico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority, a component unit of the State of New Mexico, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

Board of Directors  
New Mexico Lottery Authority and  
Mr. Wayne Johnson  
New Mexico State Auditor

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico Lottery Authority's basic financial statements. The Schedule of Percentage Return to the State of New Mexico is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Percentage Return to the State of New Mexico 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule 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.



Board of Directors  
New Mexico Lottery Authority and  
Mr. Wayne Johnson  
New Mexico State Auditor

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the New Mexico Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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.



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
October 8, 2018

## 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, 2018 and 2017 with comparative numbers for the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements, which begin on page 26.

#### FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2018, the Lottery's total current assets increased by \$905,887, or 10.1%, whereas at the end of fiscal year 2017, the Lottery's total current assets decreased by \$1,808,427, or (16.8)%, in comparison to June 30<sup>th</sup> of each previous fiscal year.
- Compared to the end of the two preceding fiscal years, the Lottery's total current liabilities increased by \$981,638, or 10.9%, in fiscal year 2018, and decreased by \$2,752,050, or (23.4)%, in fiscal year 2017.
- In fiscal year 2018, total net ticket sales were \$134,029,109, an increase of \$7,987,845, or 6.3%, compared to the previous fiscal year. In fiscal year 2017, total net ticket sales were \$126,041,264, a decrease of \$28,303,504, or (18.3)%, compared to net sales of \$154,344,768 in fiscal year 2016.
- From the prior fiscal years, total game expenses increased by \$6,358,395, or 7.6%, in fiscal year 2018, and decreased by \$19,195,673, or (18.6)%, in fiscal year 2017.
- Total operating expenses increased by \$105,147, or 3.4%, in fiscal year 2018, and decreased by \$520,273, or (14.2)%, in fiscal year 2017, each in comparison to the previous fiscal year.
- Non-operating income (expense) decreased by \$13,824, (62.5)%, and \$2,100, (8.7)%, in fiscal years 2018 and 2017, respectively, compared to each preceding fiscal year.
- In fiscal year 2018, net income was \$40,486,983, an increase of \$1,488,524, or 3.8%, over fiscal year 2017's net income. Whereas, in fiscal year 2017, net income was \$38,998,459, a decrease of \$8,566,698, or (18.0)%, compared to the previous fiscal year's net income of \$47,565,157.
- Beginning July 1, 2007, the Lottery was required by the New Mexico Lottery Act to transmit at least twenty-seven percent of its gross revenues to the State of New Mexico and then at least 30% beginning in January 2009. In each fiscal year of 2018 and 2017, the Lottery transmitted 30.00% in net return to the State. In addition, in each of the last two fiscal years, the Lottery met the 30% required gross revenue return each month.
- Including the final transfer on July 31, 2018 of June 2018's net return; the Lottery has transferred \$778,934,897 to the State of New Mexico since the commencement of sales in April 1996.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**Financial Statements.** The Statements of Net Position on Page 26 and the Statements of Revenues, Expenses, and Changes in Net Position on page 27 report the Lottery's assets, liabilities, revenues and expenses in comparative format for fiscal year 2018 and fiscal year 2017. The Statements of Cash Flows on pages 28 and 29 report the sources and uses of cash for fiscal years 2018 and 2017. The Statements of Fiduciary Net Position on page 30 and Statements of Changes in Fiduciary Net Position on page 31 report the balances and activity of the Lottery's Retirement Plans for fiscal years 2018 and 2017.

**Notes to Financial Statements.** The Notes to Financial Statements on pages 32 to 53 provide additional information that is essential for a full understanding of the financial statements and provide more detailed data.

**Schedules of Percentage Return to the State of New Mexico.** The Schedules of Percentage Return to the State of New Mexico on page 54 reports the percentages of gross revenues that were returned to the State of New Mexico for fiscal years 2018 and 2017 in compliance with the New Mexico Lottery Act.

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

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS**

**Total Net Position**

At the end of fiscal years 2018 and 2017, the Lottery's net position was \$2,939,000 and \$2,671,000, respectively.

**Total Assets**

Table 1  
Total Assets

	2018	2017	2016	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018	Increase (Decrease) \$ Change 2016 to 2017	Increase (Decrease) % Change 2016 to 2017
Cash and cash equivalents	\$ 4,931,472	\$ 4,660,713	\$ 6,381,875	\$ 270,759	5.8%	\$ (1,721,162)	(27.0)%
Accounts receivable, (net of allowance for doubtful accounts)	1,252,217	736,905	742,846	515,312	69.9	(5,941)	(0.8)
Reserves on deposit	3,347,517	3,217,539	3,308,537	129,978	4.0	(90,998)	(2.8)
Inventory	105,906	188,110	156,721	(82,204)	(43.7)	31,389	20.0
Prepaid expenses	229,844	157,802	179,517	72,042	45.7	(21,715)	(12.1)
<b>Total current assets</b>	<b>9,866,956</b>	<b>8,961,069</b>	<b>10,769,496</b>	<b>905,887</b>	<b>10.1</b>	<b>(1,808,427)</b>	<b>(16.8)</b>
Capital assets, net	3,323,396	3,228,247	3,248,070	95,149	2.9	(19,823)	(0.6)
<b>Total assets</b>	<b>\$ 13,190,352</b>	<b>\$ 12,189,316</b>	<b>\$ 14,017,566</b>	<b>\$ 1,001,036</b>	<b>8.2%</b>	<b>\$ (1,828,250)</b>	<b>(13.0)%</b>

Compared to each prior fiscal year, the Lottery's cash and cash equivalents increased by \$270,759, a 5.8% increase, at the end of fiscal year 2018; while at the end of fiscal year 2017 cash and cash equivalents decreased by \$1,721,162, a (27.0)% decrease. The changes in cash and cash equivalents relate mainly to changes in accounts receivable, accounts payable, prizes payable and net position at the end of each fiscal year compared to the prior fiscal year. At the end of fiscal year 2018, cash had increased due to the increase in prizes payable along with the Lottery's net position. At the end of fiscal year 2017, cash had decreased due to prizes payable also decreasing. During fiscal year 2017, much of the balance of unclaimed prizes was transferred to meet the 30% return mandate, reducing the balance of unclaimed prizes from \$2,553,494 down to \$1,307,897.

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 collected each Thursday through electronic bank transfers. Receivables are equal to sales by retailers net of any prizes paid by the retailers and any commissions earned; less the allowance for bad debts plus any miscellaneous receivables from any other source. The accounts receivable balance at the end of fiscal year 2018 was \$515,312 greater than in fiscal year 2017. This change in accounts receivable compared to the previous year is due to having approximately \$560,000 more in sales during the last week of June 2018 in comparison to the last week in fiscal year 2017. The accounts receivable balances at the end of fiscal year 2017 and the end of fiscal year 2016 are comparable with less than a \$6,000 difference between the two years.

The Lottery has amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as required by the Powerball® (Powerball), Hot Lotto® (Hot Lotto), Mega Millions® (Mega Millions), and Lotto America® game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts in fiscal year 2018 of an increase of \$129,978 and in fiscal year 2017 of a decrease of \$90,998 were caused by the receipts of interest earned and other income on the deposits with MUSL; payments of game expenses; changes to the Power Ball, Mega Millions, Hot Lotto, and Lotto America reserve accounts, as required by the Powerball, Mega Millions, Hot Lotto, and Lotto America game rules; and the re-balancing of the reserve accounts.

The inventory balance at the end of fiscal year 2018 decreased by \$82,204, (43.7)%, while the balance increased by \$31,389, a 20.0% increase in fiscal year 2017. The Lottery has agreements signed with a primary instant ticket printer in March 2010 and amended in March 2014 and another agreement signed in March 2018, whereby the tickets printed are owned by the vendor with the Lottery having an obligation to pay for the tickets when the tickets are sold. Therefore, these tickets are not included in the Lottery's inventory. But, under an agreement signed with a secondary instant ticket printer in March 2010 and amended in March 2014, the Lottery began purchasing the instant tickets printed by this vendor. The Lottery has accounted for games printed under this agreement as ticket inventory using the specific identification method at the lower of cost or market. At the end of each of the two fiscal years 2018 and 2017, the Lottery had remaining inventory purchased under this agreement of \$102,607 and \$184,189 for fourteen and eleven games, respectively in each year. In addition, at the end of fiscal years 2018 and 2017, the Lottery had inventory of \$3,299 and \$3,921, respectively, for one and two promotional instant games purchased for each fiscal year, respectively.

The changes in capital assets in fiscal years 2018 and 2017 are primarily attributable to \$294,087 and \$168,055 in capital asset purchases and \$196,580 and \$186,593 in depreciation, for the two fiscal years, respectively.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Liabilities**

Table 2  
Total Liabilities

	2018	2017	2016	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018	Increase (Decrease) \$ Change 2016 to 2017	Increase (Decrease) % Change 2016 to 2017
<b>Current Liabilities</b>							
Accounts payable and other current liabilities	\$ 1,904,502	\$ 1,979,997	\$ 1,760,948	\$ (75,495)	(3.8)%	\$ 219,049	12.4%
Current portion of note payable	248,614	239,717	231,644	8,897	3.7	8,073	3.5
Prizes payable	4,808,213	3,748,021	6,331,639	1,060,192	28.3	(2,583,618)	(40.8)
Due to Lottery Tuition Fund	3,032,577	3,044,533	3,440,087	(11,956)	(0.4)	(395,554)	(11.5)
Total current liabilities	9,993,906	9,012,268	11,764,318	981,638	10.9	(2,752,050)	(23.4)
<b>Long-term Liabilities</b>							
Noncurrent portion of note payable	257,446	506,048	745,248	(248,602)	(49.1)	(239,200)	(32.1)
Total liabilities	\$ 10,251,352	\$ 9,518,316	\$ 12,509,566	\$ 733,036	7.7%	\$ (2,991,250)	(23.9)%

Accounts payable and other current liabilities decreased in fiscal year 2018 by \$75,495, (3.8)%, and increased in fiscal year 2017 by \$219,049, a 12.4% increase. In both fiscal years, the changes compared to the prior fiscal year were mainly due to amounts owed to five vendors for advertising, the on-line gaming system, instant ticket printing fees, and the lottery's share of prizes payable to MUSL for Powerball, Hot Lotto, Lotto America, and Mega Millions. Sales during the last weeks of each fiscal year and advertising incurred, but not billed, will generally determine the amounts owed at the end of each fiscal year to these vendors and whether that amount is higher or lower than in the prior fiscal year.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw game and instant games, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2018, prizes payable increased by \$1,060,192, or a 28.3% increase, while in fiscal year 2017, prizes payable decreased by \$2,583,618, (40.8)%.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Total Liabilities - Continued**

These differences relate to the changes of prizes payable on individual Lottery games between the fiscal years as a result of sales in each fiscal year and prizes not yet claimed. In addition, in both fiscal years 2018 and 2017, the Lottery had to use unclaimed prizes to enable it to meet the 30% return to the Legislative Lottery Scholarship Fund and to supplement the prizes in scratcher (instant ticket) games to maximize sales in ten and eleven of the twelve months in each fiscal year, respectively. The unclaimed prize fund balance was \$1,651,204 and \$1,307,897 at the end of fiscal years 2018 and 2017, respectively.

At the end of fiscal years 2018 and 2017, respectively, \$3,032,577 and \$3,044,533 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.

At the end of both fiscal year 2018 and 2017, respectively, the Lottery reflected a current portion of a note payable of \$248,614 and \$239,717 and a noncurrent portion of a note payable of \$257,446 and \$506,048, respectively for each fiscal year. These amounts represented the amounts owed to a local bank for financing the purchase of the Lottery's corporate offices and warehouse, which the Lottery purchased at the end of fiscal year 2015. At the end of fiscal years 2018 and 2017, respectively, the note payable totaled \$506,060 and \$745,765.

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

2018	Net Ticket Sales	Prize Expense
Instant ticket	\$ 72,291,175	\$ 40,734,467
Powerball	29,611,869	14,961,648
Mega Millions	13,159,344	6,602,007
Roadrunner Cash	7,652,785	4,678,220
Pick 3	5,624,439	3,294,600
Lotto America	2,810,197	1,340,379
Hot Lotto	1,973,815	945,267
Quicksters	785,565	510,662
Lucky Numbers Bingo	119,920	75,228
Total	<u>\$ 134,029,109</u>	<u>\$ 73,142,478</u>
2017	Net Ticket Sales	Prize Expense
Instant ticket	\$ 72,398,832	\$ 38,861,016
Powerball	26,329,419	13,164,850
Mega Millions	9,655,935	4,886,749
Roadrunner Cash	7,141,187	4,362,676
Pick 3	5,364,936	3,151,910
Hot Lotto	4,294,146	2,195,738
Quicksters	741,067	488,009
Lucky Numbers Bingo	115,742	73,202
Total	<u>\$ 126,041,264</u>	<u>\$ 67,184,150</u>
2016	Net Ticket Sales	Prize Expense
Instant ticket	\$ 83,105,873	\$ 47,531,599
Powerball	43,321,879	21,660,960
Mega Millions	10,509,262	5,270,102
Roadrunner Cash	7,394,565	4,695,036
Pick 3	4,891,153	2,853,765
Hot Lotto	4,283,277	2,202,208
Quicksters	691,531	446,528
Lucky Numbers Bingo	147,228	94,185
Total	<u>\$ 154,344,768</u>	<u>\$ 84,754,383</u>
\$ Increase from FY 2017 to FY 2018	<u>\$ 7,987,845</u>	<u>\$ 5,958,328</u>
% Increase from FY 2017 to FY 2018	<u>6.3%</u>	<u>8.9%</u>
\$(Decrease) from FY 2016 to FY 2017	<u>\$ (28,303,504)</u>	<u>\$ (17,570,233)</u>
% (Decrease) from FY 2016 to FY 2017	<u>(18.3)%</u>	<u>(20.7)%</u>

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



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

Table 3 provides net ticket sales and prize expense for each lottery game for fiscal years 2018, 2017, and 2016. In fiscal year 2018 net sales and the related prize expense increased for Powerball, Mega Millions, Roadrunner Cash, Pick 3, Quicksters and Lucky Numbers Bingo. The Hot Lotto game ended in October 2017 and the Lotto America game started in November 2017; sales for the two games combined exceeded the sales for Hot Lotto in the previous fiscal year. Net sales for instant tickets decreased in fiscal year 2018 compared to fiscal year 2017. In fiscal year 2017 net sales and the related prize expense increased for Pick 3 and Quicksters, while net sales and the related prize expense decreased for instant tickets, Powerball, Mega Millions, Roadrunner Cash and Lucky Numbers Bingo. In fiscal year 2017, Hot Lotto sales increased, but prize expense decreased in comparison to the prior year.

***Net Ticket Sales***

In fiscal year 2018, draw game net sales were \$61.7 million, compared to \$53.6 million in fiscal year 2017, an increase of \$8.1 million, or a 15.1% increase, while in fiscal year 2017 net draw game sales decreased by \$17.6 million, or (24.7)%, compared to fiscal year 2016's net draw game sales of \$71.2 million. In fiscal year 2018, net sales for instant tickets were \$72.3 million compared to \$72.4 million in fiscal year 2017, a decrease of over \$100,000, or (.15)%, while in fiscal year 2017, net sales decreased \$10.7 million, (12.9)%, compared to fiscal year 2016's net instant ticket sales of \$83.1. Overall, net sales increased by nearly \$8 million or 6.3% in fiscal year 2018, while net sales decreased by \$28.3 million, (18.3)%, in fiscal year 2017.

Higher draw game sales may occur when the jackpots start climbing. Unfortunately, the Lottery has no influence over the amount that jackpots will grow and cannot predict when jackpot run-ups will happen. In some fiscal years, the jackpots will roll to extremely high jackpots, such as in fiscal year 2016 where the jackpot climbed to nearly \$1.6 billion, and in those fiscal years, the net draw game sales will be extremely high and the return to the Legislative Lottery Scholarship will be higher than normal. But in other years, even with multi-hundred million-dollar jackpots, net draw game sales don't grow even with these higher jackpots, as was the case in fiscal year 2017.

The Lottery can achieve higher year-over-year instant ticket sales by implementing higher prize payouts in instant games. This is a business model followed by virtually all successful lotteries in the United States; most recently by the Oklahoma Lottery, where in fiscal year 2018 this lottery's sales grew by 47% and contributed \$10 million additional dollars to their beneficiaries. Changes in the Oklahoma Lottery's statute allowed an increase in prizes thus generating more sales and increasing the profits going to education. But, due to the 30% return

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

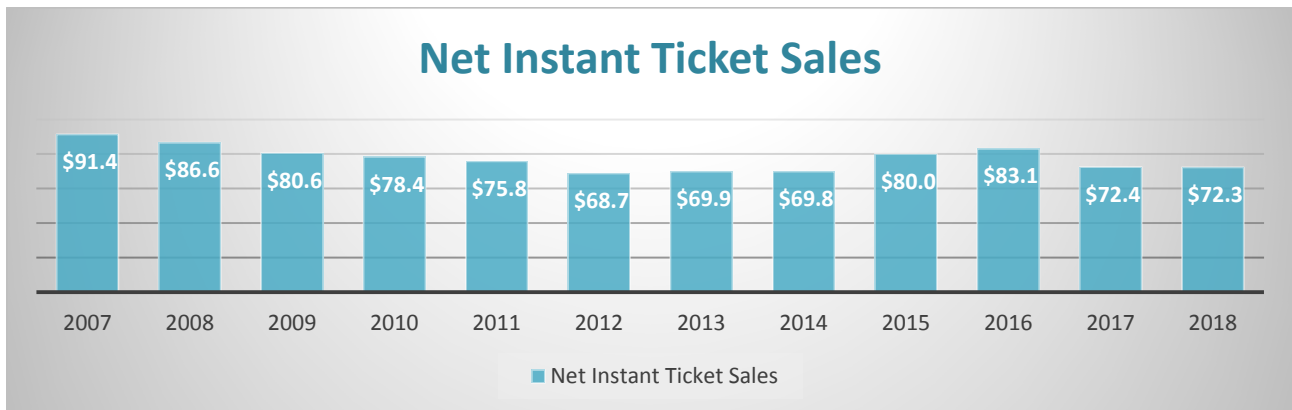
**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

mandate for the New Mexico Lottery and smaller unclaimed prize fund balances, prizes in instant games have been reduced causing instant ticket sales to fall in fiscal years 2018 and 2017. In fiscal year 2018, increased sales for draw games helped the Lottery return \$40.2 million to the Legislative Lottery Scholarship, otherwise the return would have been similar to the \$37.8 return in fiscal year 2017. Whereas, instant ticket sales should be the foundation for year-over-year sales growth for the Lottery with high jackpots for draw games adding incremental sales, with the instability of growth for instant ticket sales caused by low prize structures due to the 30% return, this is not the case in New Mexico.

***NET INSTANT TICKET SALES – FYs 2007 Through 2018***



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

Unfortunately, in fiscal years 2018 and 2017, the Lottery was forced to substantially reduce supplemental funding of instant ticket prize payouts to meet the statutory mandated return of 30%. The Lottery reduced the prizes in instant ticket games and could not afford to launch a \$20 instant ticket game causing net instant sales in fiscal year 2017 to fall by \$10.7 million or 12.9% and by an additional \$100,000 in fiscal year 2018. This reduction in net instant ticket

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

sales caused the return to the Legislative Lottery Scholarship Fund to be nearly \$6.5 million less in combined return for fiscal years 2018 and 2017 compared to where they could have been if the Lottery had been able to maintain the growth that occurred in fiscal years 2015 and 2016.

The Lottery has continued to use the customer relationship management (CRM) system for placing instant game tickets at retailer locations. The Lottery's customer service representatives have continued placing calls each week to each retailer location, reviewing the inventory at each location with the retailer, and placing orders as needed based on the inventory turnover at each location. In fiscal year 2018, thirty-eight new instant ticket games were launched – 11 - \$1, 11 - \$2, 5 - \$3, 7 - \$5, 4 - \$10 and 0 - \$20 – 1 more \$1, 2 more \$2, 1 less \$3, 4 less \$5, and 3 less \$10 than in fiscal year 2017. In fiscal year 2017, forty-three new instant ticket games were launched – 10 - \$1, 9 - \$2, 6 - \$3, 11 - \$5, 7 - \$10, and 0 - \$20 price point games – 4 less \$1, 2 less \$2, 3 less \$3, the same number of \$5, 3 more \$10 and 1 less \$20 game than in fiscal year 2016. In fiscal year 2018, the Lottery launched 20 games with free (prize) tickets and 18 games without prize tickets, while in fiscal year 2017, the Lottery launched 17 games with prize tickets and 26 games without prize tickets.

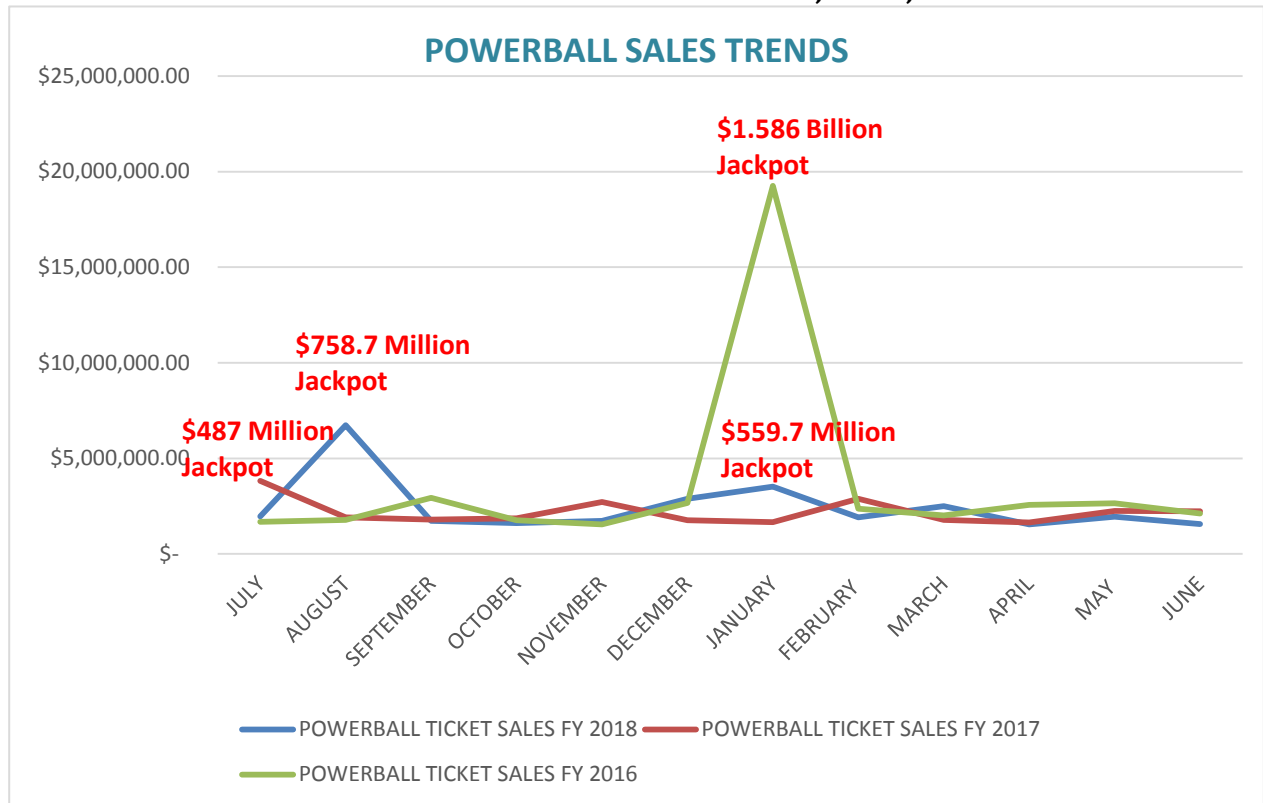
**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

**POWERBALL TICKET SALES – FYs 2018, 2017, & 2016**



Powerball sales are driven by the advertised jackpot. As time passes, the jackpot that will influence the casual players into buying a jackpot ticket keeps growing. Fiscal year 2018 started off in August 2017 with a \$758.7 million jackpot followed by a \$559.7 million jackpot in January, a \$456.7 million jackpot in March, and a \$315.3 million jackpot in May along with three jackpots in the \$100 millions and one jackpot of \$55.9 million during the rest of the fiscal year. During the months with jackpot run-ups, sales grew for Powerball. Due to these jackpot run-ups, Powerball ended the year nearly \$3.3 million ahead of fiscal year 2017 or with a 12.5% increase in sales in fiscal year 2018.

For fiscal year 2017, except for the first month of sales, which had a jackpot run-up to \$487 million, the first eight months of the year were approximately 74% to 96% of the projected year-to-date budget with jackpots during those months also growing to \$87, \$246.8, \$420.9, \$121.6 and \$435.3 million. In March 2017, the Powerball sales budget was revised downward from \$36 million to \$28 million. During the rest of the year the jackpots were \$156.2, \$60, and \$447.8 million. Powerball sales ended the fiscal year nearly \$17 million less than in fiscal year 2016 or (39.2)% less.

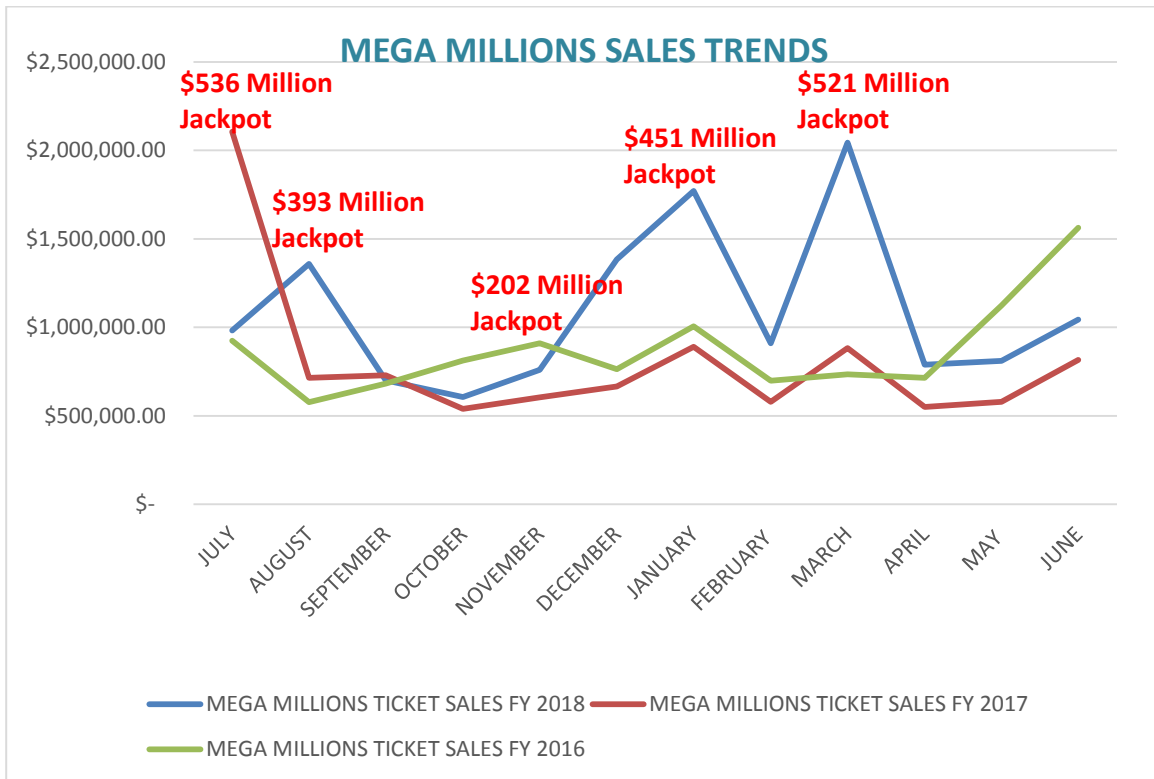
**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

**MEGA MILLIONS TICKET SALES – FYs 2018, 2017, & 2016**



Mega Millions sales are also driven by the jackpot amount and the game has also been experiencing jackpot fatigue, where players keep looking for bigger and bigger jackpots before they buy a ticket. Fiscal year 2018 had its first jackpot run-up in August 2017 with a \$393 million jackpot followed by a \$451 million jackpot in January, a \$521 million jackpot in March along with two jackpots in the \$100 million and one jackpot of \$42 million. Mega Millions ended the year \$3.5 million ahead of fiscal year 2017 or 36.3% ahead; this increase in sales may be attributable to both the jackpots during the year, as well as, the game being changed to a two-dollar price point on October 28, 2017. Fiscal year 2017 started the year with the one and only large jackpot run-up of \$536 million. July gave the Lottery a good head start for Mega Millions sales because the rest of the year’s jackpots were smaller at \$25, \$15, \$134, \$49, \$83, \$191, \$177, and \$61 million. The annual budget for Mega Millions sales was increased by half a million dollars to \$9.5 million due to the sales in July. Sales for the year grew to nearly \$9.7 million; \$853,000 less than in fiscal year 2016, or (8.1)% less.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

Like Powerball and Mega Millions games, Roadrunner Cash sales are driven by the jackpot (top) prize amount. In fiscal year 2018, the top prize climbed to \$633,000, \$350,000, \$349,000, and \$333,000 along with a top prize of \$205,000, five top prizes over 138,000 and two top prizes that were less than \$62,000. Sales for the fiscal year of nearly \$7.7 million surpassed the fiscal year 2017 sales by nearly \$512,000, or 7.2%. In fiscal year 2017 there was one jackpot that grew to \$420,000, one that grew to \$407,000, followed by one that grew to \$350,000, four that were over \$222,000, two that were over \$160,000 and six that were less than \$100,000. Sales for the fiscal year of \$7.1 million were \$253,000, (3.4%), less than in fiscal year 2016.

The MUSL game, Hot Lotto, is another smaller national jackpot game that was offered by the Lottery. Sales for this game also track with the jackpot. The game Hot Lotto ended on October 28, 2017 without any jackpots being won in fiscal year 2018 and with a jackpot of just over \$12 million when the game ended. Sales for Hot Lotto during these four months in fiscal year 2018 were nearly \$2 million. In fiscal year 2017, the jackpot for Hot Lotto started the year at \$3.7 million and grew to \$4.9 million before being won in August. It grew to \$1.2 million and was hit again at the end of August. It started rolling again at \$1 million and grew until the end of the year to nearly \$7.8 without being won. Sales for the year were nearly \$4.3 million, only \$11,000 more than in fiscal year 2016, a .25% increase.

Lotto America is a new game that started in November 2017 after Hot Lotto ended. Lotto America started with a special \$15 million jackpot that grew to \$22.8 million before being won in March 2018. The jackpot started at \$2 million at that time and grew to \$4.3 million and was again won in May 2018. The jackpot grew once more to \$4.3 million by year end. Lotto America sales were \$2.8 million for the fiscal year.

Pick 3 sales continued to grow in fiscal year 2018 by more than \$259,000, a 4.8% increase, to more than \$5.6 million and in fiscal year 2017 by nearly \$474,000, a 9.7% increase, to nearly \$5.4 million. Pick 3 has remained a core game for the Lottery bringing in steady monthly average net sales; in fiscal year 2018 ranging from \$431,000 to \$529,000 each month and in fiscal year 2017 ranging from \$408,000 to \$503,000 each month.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Net Ticket Sales – Continued***

The Quickster games were started in March 2012. Quicksters are instant-win games, similar to instant ticket games, but produced by the same lottery sales terminals as draw game tickets and with no scratching needed to reveal the prizes. In fiscal year 2018, Quickster net sales increased by \$44,000 to \$786,000, a 6% increase, over the previous fiscal year. In fiscal year 2017, Quickster net sales increased by nearly \$50,000 to \$741,000, an increase of 7.2%.

In November 2014, the Lottery introduced a new game, Lucky Numbers Bingo. Lucky Numbers Bingo is a draw game that offers two ways to play and two ways to win either through the Bingo numbers or through the Lucky Numbers. In fiscal year 2017, Lucky Numbers Bingo sales dropped by more than \$31,000, (21.4)%, to nearly \$116,000, but sales increased by \$4,000 to nearly \$120,000 in fiscal year 2018.

***Prize Expense***

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

In fiscal years 2018 and 2017, the prize payout decreased by approximately .79% and .87%, prior to the application of unclaimed prizes. The decreases in fiscal years 2018 and 2017 were mainly due to a lowering of prize payout on instant games by .74% and 2.54%, respectively, in each year compared to the previous fiscal year, which inversely affected the growth of net instant game sales for each year.

At the end of the claim period for each game, unclaimed prizes for the Lottery's instant games and draw games are paid into the "Prize Fund," in accordance with the New Mexico Lottery Act.

These unclaimed prizes from the Lottery's prize fund have been used to meet the 30% return most months by supplementing the prizes in instant and draw games and for second chance drawings and, thereby, reducing the prize expense for Lottery products, which in turn has helped the Lottery maximize its sales and its return to education. Unclaimed prizes were used to supplement prizes to meet the 30% return in fiscal year 2018 and 2017 for ten and eleven months in each fiscal year, respectively and in the last eleven years have been used 83% of the

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Net Ticket Sales and Prize Expense – Continued**

***Prize Expense – Continued***

time to meet the mandated percentage return to the Legislative Lottery Scholarship Fund; without the unclaimed prizes the return percentage would not have been met.

***Prize Tickets***

In fiscal year 2018, tickets provided as prizes (Prize or free tickets) claimed for instant games increased by nearly \$51,000, an increase of 2.3%, while in fiscal year 2017, prize tickets decreased by nearly \$515,000, an (18.6)% decrease. Prize tickets are generally placed in the prize structure of the game in lieu of the breakeven prizes. Prize tickets give a player a prize of another instant game ticket of the same price point as the instant ticket that had the winning prize ticket. Each fiscal year, the Lottery continues to study the market to determine the optimum quantity of prize tickets to place in its instant ticket games to optimize its instant ticket sales.

**Game Expenses**

Table 4  
Game Expenses

	2018	2017	2016	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018	Increase (Decrease) \$ Change 2016 to 2017	Increase (Decrease) % Change 2016 to 2017
Prize expense	\$ 73,142,478	\$ 67,184,150	\$ 84,754,383	\$ 5,958,328	8.9%	\$ (17,570,233)	(20.7)%
Retailer							
commissions	8,693,661	8,196,191	10,035,060	497,470	6.1	(1,838,869)	(18.3)
On-line vendor							
fees	4,863,896	4,612,157	4,284,035	251,739	5.5	328,122	7.7
Advertising	1,768,393	2,126,939	2,053,906	(358,546)	(16.9)	73,033	3.6
Ticket vendor							
fees	1,246,929	1,172,844	1,314,494	74,085	6.3	(141,650)	(10.8)
Other game							
expenses	592,281	656,962	703,038	(64,681)	(9.8)	(46,076)	(6.6)
Total game							
expenses	<u>\$ 90,307,638</u>	<u>\$ 83,949,243</u>	<u>\$ 103,144,916</u>	<u>\$ 6,358,395</u>	7.6%	<u>\$ (19,195,673)</u>	(18.6)%

The changes in retailer commissions for fiscal years 2018 and 2017 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.49% and 6.50% of gross revenues for each year, respectively. Retailer commissions are paid to the Lottery's retailers for



**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Game Expenses – Continued**

selling Lottery tickets, cashing Lottery prizes and for selling a jackpot/grand prize for Powerball, Mega Millions, Lotto America, or Hot Lotto, for selling a match 5 prize for Powerball or Mega Millions, and for selling a jackpot prize of more than \$100,000 for Roadrunner Cash.

Since November 21, 2008, the on-line vendor fee has been a fixed percentage of net sales, plus applicable gross receipts taxes, with no additional terminal fees as in previous agreements. The on-line fee increases or decreases as draw game and instant ticket net sales increase or decrease. Effective November 22, 2015, the Lottery entered into an agreement for on-line vendor services following the issuance of a Request for Proposals in May 2015. Only one of the three on-line vendors provided a proposal for these services. The system includes the supply, installation, maintenance, service, and operation of a communication network, a new back office accounting system, new lottery terminals and peripheral equipment for the Lottery's existing and future retailers, ticket scanners to enable players to check their tickets for prizes, self-service ticket vending machines that sell both instant and draw game tickets, disaster recovery services, and various employees to operate the system and provide sales and marketing support to the Lottery. For fiscal years 2018 and 2017, the changes in the on-line vendor fees for the two fiscal years are consistent with the changes in draw game and instant ticket net sales for the fiscal years along with the increase in the vendor contract pricing as of November 2015 and are equivalent to 3.63% and 3.66% of gross revenues for the two years, respectively.

Advertising money is expended to market the Lottery and its products to the public and to inform the public about the games that are available, the jackpot and top prize amounts for the draw games, to provide security tips and gambling awareness for our players, and benefit messages to New Mexico students and their families, and to keep the lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.32% and 1.69% of gross revenues, respectively, for fiscal years 2018 and 2017 and stayed within the Lottery Board approved budgets of \$2,026,000 and \$2,261,000, respectively, for each fiscal year. In fiscal year 2018 and 2017, the advertising dollars were again maximized by purchasing advertising for the entire year at the beginning of the year. In fiscal years 2018 and 2017, the annual buys and cost savings provided nearly \$2.1 million and \$2.3 million, respectively, of additional advertising without any added cost.

In fiscal year 2010 the Lottery signed a new contract with its primary ticket printer effective in March of that year. Under this contract, the instant tickets are owned by the vendor with the Lottery expensing the cost to ticket vendor fees and paying for the tickets as a percentage of net instant sales when the tickets are sold. In addition, in March 2010, the Lottery signed a contract

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Game Expenses - Continued**

with a secondary printer, whereby the Lottery would be purchasing the tickets printed. These tickets are included in inventory with the cost of the tickets being recorded as ticket vendor fees as the tickets are consigned to retailers. Both contracts were extended for four additional years in March 2014. In March 2018, the Lottery signed a new contract with its primary vendor; again, paying for the tickets as a percentage of net instant sales when the tickets are sold. In addition, in both fiscal year 2018 and 2017, the cost for any licensing fees or special printing costs are also included in ticket vendor fees. The ticket vendor fees for both fiscal year 2018 and 2017 are .93% of gross revenues.

Included in other game expenses are shipping and postage, promotions, retailer equipment, responsible gaming, and game membership expenses. Fiscal year 2018 reflects a decrease of \$64,681, or (9.8)%, and fiscal year 2017 reflects a decrease of \$46,076, or (6.6)%. These changes came about because in fiscal year 2017 additional play stations were purchased for new retailers, but a lesser quantity was purchased then in the prior fiscal year, therefore, reducing the cost of retailer equipment for the fiscal year, while in fiscal year 2018, no additional play stations were purchased and in addition, the cost of events and promotions was reduced by more than \$20,000.

**Operating Expenses**

Table 5  
Operating Expenses

	2018	2017	2016	Increase (Decrease) \$ Change 2017 to 2018	Increase (Decrease) % Change 2017 to 2018	(Decrease) \$ Change 2016 to 2017	(Decrease) % Change 2016 to 2017
Salaries, wages, and benefits	\$ 2,453,339	\$ 2,350,058	\$ 2,609,094	\$ 103,281	4.4%	\$ (259,036)	(9.9)%
Utilities and maintenance	238,869	223,841	313,846	15,028	6.7	(90,005)	(28.7)
Leases and insurance	114,425	113,646	145,591	779	0.7	(31,945)	(21.9)
Other operating expenses	430,866	444,807	584,094	(13,941)	(3.1)	(139,287)	(23.8)
Total operating expenses	\$ 3,237,499	\$ 3,132,352	\$ 3,652,625	\$ 105,147	3.4%	\$ (520,273)	(14.2)%

Operating expenses are made up of salaries, wages and benefits, utilities and maintenance, leases and insurance, and other operating expenses, which include depreciation and amortization, professional fees, materials and supplies, travel, and other expenses. In fiscal

## New Mexico Lottery Authority

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED

#### FINANCIAL ANALYSIS - CONTINUED

##### Operating Expenses - Continued

year 2018, operating expenses increased by \$105,147, or 3.4%, and in fiscal year 2017, operating expenses were reduced by \$520,273, or (14.2)%.

The change in fiscal year 2018 was mainly due to an increase in salaries, wages, and benefits. This increase was due to the re-shuffling of positions during the year and changes in salaries along with increases in the cost of health insurance and the retirement plan. In fiscal year 2017, salaries, wages and benefits were reduced by more than \$259,000, (9.9)%. This reduction was a result of a reduction in force in fiscal year 2016. The Lottery started fiscal year 2016 with 50 full-time and part-time employees and ended the year with 34 full-time and part-time employees; a reduction of force occurred during the year involving 15 full-time employee positions along with having a few other vacancies during the fiscal year. The savings for these employees continued for the full year in fiscal year 2017. In addition, in the fiscal years since 2015, the Lottery has been able to save an average of \$200,000 per year in expenses for its corporate offices and warehouse through the purchase of the building in June 2015. Additionally, in fiscal year 2017 with the replacement of light fixtures in the warehouse with LED lights, the Lottery saved over \$11,000 in utility costs; this savings continued into fiscal year 2018 with the replacement of office lights with LED lights and helped to produce an additional savings of more than \$15,000 in utility costs.

##### Non-Operating Income

Non-operating income decreased in both fiscal years 2018 and 2017. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2018 or 2017.

##### Non-Operating Expense

Due to the purchase of the Lottery's corporate offices and warehouse at the end of fiscal year 2015, there was interest expense of \$23,136 and \$31,719 in fiscal years 2018 and 2017, respectively, on the loan financing the purchase of the facility.

New Mexico Lottery Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Net Income**

Table 6  
Net Income

	<u>Total Operating Revenues</u>	<u>Net Income Before Transfers</u>
Fiscal Year 2018	<u>\$ 134,023,834</u>	<u>\$ 40,486,983</u>
Fiscal Year 2017	<u>\$ 126,057,944</u>	<u>\$ 38,998,459</u>
Fiscal Year 2016	<u>\$ 154,338,488</u>	<u>\$ 47,565,157</u>
Increase from FY 2017 to FY 2018	<u>\$ 7,965,890</u>	<u>\$ 1,488,524</u>
% Increase from FY 2017 to FY 2018	<u>6.3%</u>	<u>3.8%</u>
(Decrease) from FY 2016 to FY 2017	<u>\$ (28,280,544)</u>	<u>\$ (8,566,698)</u>
% (Decrease) from FY 2016 to FY 2017	<u>(18.3)%</u>	<u>(18.0)%</u>

Effective July 1, 2007, the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, was changed to require the Lottery to transmit at least twenty-seven percent of its gross revenues to the State Treasurer until December 31, 2008 and at least thirty percent of its gross revenues thereafter. In fiscal years 2018 and 2017, the Lottery transmitted a 30 percent return each month, totaling \$40,218,983 and \$37,835,459, respectively.

The changes in net income for fiscal years 2018 and 2017 were related to the changes in sales for the Lottery's games during the two years netted against savings in the cost of the product and operating expenses during the two fiscal years, which has been reviewed in the previous pages of this Management's Discussion and Analysis.

New Mexico Lottery Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

**Budgetary Comparison**

Table 7  
Budgetary Comparison

	2018				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 124,488,000	\$ 127,890,000	\$ 134,023,834	\$ 6,133,834	4.8%
Total game expenses	83,386,000	86,035,000	90,307,638	4,272,638	5.0
Total operating expenses	<u>3,734,000</u>	<u>3,483,000</u>	<u>3,237,499</u>	<u>(245,501)</u>	(7.0)
Operating income	37,368,000	38,372,000	40,478,697	2,106,697	5.5
Total non-operating income (expense)	<u>(14,000)</u>	<u>4,000</u>	<u>8,286</u>	<u>4,286</u>	107.2
Net income before transfers to Lottery Tuition Fund	<u>\$ 37,354,000</u>	<u>\$ 38,376,000</u>	<u>\$ 40,486,983</u>	<u>\$ 2,110,983</u>	5.5%
	2017				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	% Variance with Final Budget
Total operating revenues	\$ 143,988,000	\$ 125,148,000	\$ 126,057,944	\$ 909,944	0.7%
Total game expenses	96,780,000	84,129,000	83,949,243	(179,757)	(0.2)
Total operating expenses	<u>3,984,000</u>	<u>3,447,000</u>	<u>3,132,352</u>	<u>(314,648)</u>	(9.1)
Operating income	43,224,000	37,572,000	38,976,349	1,404,349	3.7
Total non-operating income (expense)	<u>(24,000)</u>	<u>(24,000)</u>	<u>22,110</u>	<u>46,110</u>	(192.1)
Net income before transfers to Lottery Tuition Fund	<u>\$ 43,200,000</u>	<u>\$ 37,548,000</u>	<u>\$ 38,998,459</u>	<u>\$ 1,450,459</u>	3.9%

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**Budgetary Comparison - Continued**

In fiscal year 2018, the original annual budget was revised to reflect the better performance in sales for some of the draw games; Powerball was increased by \$1 million or 3.6%, Mega Millions was increased by \$1.5 million or 15.8%, Roadrunner Cash was increased by \$150,000 or 2.2%, Lotto America was increased by \$1 million or 50%, Pick 3 was increased by \$300,000 or 5.9%, and Quicksters was increased by \$300,000 or 75%. Instant ticket sales were reduced by \$500,000 or (0.7)% and the related tickets provided as prizes were reduced by \$300,000 or (10.7)%. Hot Lotto was reduced by \$50,000 since it ended in October 2017 and did not quite reach its budgetary goal. The Miss/Match game sales were reduced to zero since the game was not launched in fiscal 2018. Overall, there was an increase of \$3.4 million in net ticket sales or an increase of 2.7%. Game expenses were reduced, but remained close in percentage to what they had been in the fiscal year 2018 original annual budget. All operating expenses were reduced except for materials and supplies which increased minimally by \$4,000. Salaries, wages, and benefits were reduced by \$118,000 or (4.4)%, professional fees by \$66,000 or (33.0)%, and travel was reduced by \$25,000 or (46.3)%. All in all, operating expenses were reduced by \$251,000 or (6.7)%

Fiscal year 2018 ended with net instant ticket sales surpassing the final (revised) budget by nearly \$2.4 million, Powerball by \$612,000, Mega Millions by nearly \$2.2 million, Roadrunner Cash by \$803,000, Pick 3 by nearly \$225,000, Hot Lotto by nearly \$24,000, Quicksters by \$86,000, and Lucky Numbers Bingo by \$10,000, while Lotto America did not meet its budget by \$189,000. Over all, net sales surpassed the final budget by more than \$6.1 million. Directly affected by sales, which surpassed the budget by 4.8%, game expenses were over the budget by a comparable 5%. Operating expenses were less than the final budget by 0.7%.

In fiscal year 2017, the original annual budget was revised to reflect the projected performance of sales for the fiscal year. Instant ticket sales were reduced by \$14.5 million, (16.6)%, Powerball sales were reduced by \$8 million, (22.2)%, Mega Millions sales were increased by \$500,000, Roadrunner Cash sales by \$300,000, Hot Lotto sales by \$1.95 million, Pick 3 by \$200,000, Lucky Numbers Bingo by \$10,000 and Quicksters by \$400,000 and the two new games were eliminated since neither would be launching in fiscal year 2017. Along with the reduction in instant sales, tickets provided as prizes were reduced by \$2.6 million and spoiled, stolen and promotional tickets were reduced by \$100,000. The overall reduction to net ticket sales was \$18.84 million, or a reduction of (13.1)%. Direct game expense line items were reduced due to the changes in sales, but remained close to the same percentages that they had been in the fiscal year 2017 original annual budget. Retailer equipment was reduced by \$270,000, promotions by \$47,000 and shipping and postage by \$19,000. The overall decrease to game expenses was 13.1%, which was the same as the change in net ticket sales of 13.1%. All operating expenses were reduced, including salaries, wages and benefits, which was reduced by \$323,000. The final return to the Legislative Lottery Scholarship remained at 30% with these changes, but was reduced by \$5,652,000, or (13.1)%.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED**

**FINANCIAL ANALYSIS – CONTINUED**

**Budgetary Comparison – Continued**

Fiscal year 2017 ended with net instant ticket sales out-performing the final budget by nearly \$1.3 million, Mega Millions by \$156,000, Roadrunner Cash by \$442,000, Hot Lotto by nearly \$345,000, Pick 3 by \$265,000, Lucky Numbers Bingo by \$6,000 and Quicksters by nearly \$42,000, but Powerball missed its sales budget by nearly \$1.7 million. Altogether, net ticket sales exceeded the budget by approximately \$881,000. Once again jackpot fatigue may have played a part in players not being excited with the Powerball jackpots during the year and therefore, kept Powerball sales from meeting the original budget and the revised budget. Compared to the previous fiscal year, the ticket sales were \$28.3 million dollars less and produced nearly \$8.5 million less for the Legislative Lottery Scholarship program. All in all, because of the sales performance, gross revenues ended the fiscal year at 100.8% of the revised budget, game expenses at 99.8% of the revised budget, and operating expenses at 90.9% of the revised budget.

**Requests for Additional Financial Information**

This financial report is designed to provide the executive and legislative branches of the State of New Mexico, the public, the Lottery's retailers, vendors, creditors, and other interested parties with a general overview of the financial position of the Lottery as of June 30, 2018 and 2017, and results of its operations, cash flows, and percentage return to the state for the years then ended and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Administration at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

New Mexico Lottery Authority

**STATEMENTS OF NET POSITION**

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,931,472	\$ 4,660,713
Accounts receivable (net of allowance for doubtful accounts)	1,252,217	736,905
Reserves on deposit	3,347,517	3,217,539
Inventory	105,906	188,110
Prepaid expenses	<u>229,844</u>	<u>157,802</u>
Total current assets	9,866,956	8,961,069
<b>CAPITAL ASSETS, NET</b>	<u>3,323,396</u>	<u>3,228,247</u>
Total assets	<u><u>\$ 13,190,352</u></u>	<u><u>\$ 12,189,316</u></u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities	\$ 1,904,502	\$ 1,979,997
Current portion of note payable	248,614	239,717
Prizes payable	4,808,213	3,748,021
Due to Lottery Tuition Fund	<u>3,032,577</u>	<u>3,044,533</u>
Total current liabilities	9,993,906	9,012,268
<b>LONG-TERM LIABILITIES</b>		
Noncurrent portion of note payable	<u>257,446</u>	<u>506,048</u>
Total liabilities	<u><u>\$ 10,251,352</u></u>	<u><u>\$ 9,518,316</u></u>
<b>NET POSITION</b>		
Net Investment in capital assets	\$ 2,817,336	\$ 2,482,482
Unrestricted surplus	<u>121,664</u>	<u>188,518</u>
Total net position	<u><u>\$ 2,939,000</u></u>	<u><u>\$ 2,671,000</u></u>

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



New Mexico Lottery Authority

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Years ended June 30, 2018 and 2017

	2018	2017
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$ 72,291,175	\$ 72,398,832
Powerball sales	29,611,869	26,329,419
Mega Millions sales	13,159,344	9,655,935
Roadrunner Cash sales	7,652,785	7,141,187
Pick 3 sales	5,624,439	5,364,936
Lotto America sales	2,810,197	-
Hot Lotto sales	1,973,815	4,294,146
Quickster sales	785,565	741,067
Lucky Numbers Bingo sales	119,920	115,742
Net ticket sales	134,029,109	126,041,264
Retailer fees	18,725	11,800
Instant game gift card commissions	-	4,880
Bad debts	(24,000)	-
Total operating revenues	134,023,834	126,057,944
<b>GAME EXPENSES</b>		
Prize expense	73,142,478	67,184,150
Retailer commissions	8,693,661	8,196,191
On-line vendor fees	4,863,896	4,612,157
Advertising	1,768,393	2,126,939
Ticket vendor fees	1,246,929	1,172,844
Shipping and postage	301,705	289,581
Promotions	95,114	122,588
Retailer equipment	82,067	114,539
Responsible gaming	70,750	70,250
Game membership	42,645	60,004
Total game expenses	90,307,638	83,949,243
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	2,453,339	2,350,058
Utilities and maintenance	238,869	223,841
Depreciation and amortization	196,580	186,593
Leases and insurance	114,425	113,646
Professional fees	109,552	154,181
Materials and supplies	60,638	46,313
Other	55,016	47,131
Travel	9,080	10,589
Total operating expenses	3,237,499	3,132,352
<b>OPERATING INCOME</b>	<b>40,478,697</b>	<b>38,976,349</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest expense	(23,136)	(31,719)
Interest income	18,662	33,641
Other income	12,760	20,188
Total non-operating income	8,286	22,110
Net income before transfers	40,486,983	38,998,459
Transfers to Lottery Tuition Fund	40,218,983	37,835,459
Change in net position	268,000	1,163,000
Net position at beginning of year	2,671,000	1,508,000
Net position at end of year	\$ 2,939,000	\$ 2,671,000

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

New Mexico Lottery Authority

**STATEMENTS OF CASH FLOWS**

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 124,774,633	\$ 117,839,738
Cash payments:		
To prize winners and related taxes	(60,271,147)	(55,530,784)
To MUSL	(11,811,139)	(14,236,984)
To suppliers of goods or services	(9,673,756)	(9,201,817)
To employees for services and related taxes	(1,981,833)	(1,923,647)
	<u>41,036,758</u>	<u>36,946,506</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities		
Transfers to Lottery Tuition Fund	(40,230,939)	(38,231,013)
Cash flows from capital and related financing activities		
Purchases of capital assets	(291,729)	(180,953)
Principal paid on capital debt	(239,705)	(231,127)
Interest paid on capital debt	(23,256)	(31,835)
	<u>(554,690)</u>	<u>(443,915)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities		
Receipts of interest	6,870	6,878
Other	12,760	382
	<u>19,630</u>	<u>7,260</u>
Net cash provided by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	270,759	(1,721,162)
Cash and cash equivalents at beginning of year	<u>4,660,713</u>	<u>6,381,875</u>
Cash and cash equivalents at end of year	<u>\$ 4,931,472</u>	<u>\$ 4,660,713</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 40,478,697	\$ 38,976,349
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	196,580	186,593
Vendor's non-cash transactions	(11,672)	66,902
Interest on MUSL unreserved account	11,792	4,825
Net changes in assets and liabilities:		
Accounts receivable	(555,540)	(22,015)
Reserves on deposit	(77,958)	108,095
Inventory	82,204	(31,389)
Prepaid expenses	(72,042)	21,715
Accounts payable and other liabilities	(75,495)	219,049
Prizes payable	<u>1,060,192</u>	<u>(2,583,618)</u>
Net cash provided by operating activities	<u>\$ 41,036,758</u>	<u>\$ 36,946,506</u>

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

New Mexico Lottery Authority

**STATEMENTS OF FIDUCIARY NET POSITION**

Years ended June 30, 2018 and 2017

	2018			2017		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 92,851	\$ -	\$ 92,851	\$ 200,835	\$ -	\$ 200,835
Marketable securities and other investments	5,315,301	558,510	5,873,811	4,558,557	364,799	4,923,356
Contribution receivable	35,879	4,607	40,486	11,028	-	11,028
Total assets	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>	<u>\$ 4,770,420</u>	<u>\$ 364,799</u>	<u>\$ 5,135,219</u>
<b>NET POSITION</b>						
Held in Trust for Pension plan participants' benefits	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>	<u>\$ 4,770,420</u>	<u>\$ 364,799</u>	<u>\$ 5,135,219</u>

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

New Mexico Lottery Authority

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

Years ended June 30, 2018 and 2017

	2018			2017		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
<b>ADDITIONS</b>						
Net Gain in fair value of investments	\$ 351,547	\$ 37,156	\$ 388,703	\$ 529,823	\$ 35,276	\$ 565,099
Dividends	244,137	18,393	262,530	196,159	11,995	208,154
Employer contributions	263,628	-	263,628	233,876	-	233,876
Employee contributions	-	146,664	146,664	-	75,686	75,686
Total additions	<u>859,312</u>	<u>202,213</u>	<u>1,061,525</u>	<u>959,858</u>	<u>122,957</u>	<u>1,082,815</u>
<b>DEDUCTIONS</b>						
Distributions to participants	184,421	3,640	188,061	898,998	10,564	909,562
Other activity	1,280	255	1,535	810	150	960
Total deductions	<u>185,701</u>	<u>3,895</u>	<u>189,596</u>	<u>899,808</u>	<u>10,714</u>	<u>910,522</u>
Change in net position	673,611	198,318	871,929	60,050	112,243	172,293
Net position - beginning	<u>4,770,420</u>	<u>364,799</u>	<u>5,135,219</u>	<u>4,710,370</u>	<u>252,556</u>	<u>4,962,926</u>
Net position - ending	<u>\$ 5,444,031</u>	<u>\$ 563,117</u>	<u>\$ 6,007,148</u>	<u>\$ 4,770,420</u>	<u>\$ 364,799</u>	<u>\$ 5,135,219</u>

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

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting Entity

The financial reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement 14 (as amended by GASB *Statement 61*) consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government."

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

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

2. Basis of Presentation

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

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

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation – Continued

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2018 and 2017 there were no restricted resources.

3. Budgets and Budgetary Accounting

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

4. Cash and Cash Equivalents

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. At June 30, 2018 and 2017, an allowance for doubtful accounts of \$35,545 and \$32,076, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2018 and 2017, ten retail customers (493 and 500 retailers) represented 63% and 62% of sales for each year, respectively, and 68% and 80% of accounts receivable for each year, respectively.

6. Reserves on Deposit

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating lotteries. MUSL currently operates the POWERBALL® (Powerball), Hot Lotto® (Hot Lotto), Lotto America® (Lotto America) and Mega Millions® (Mega Millions) games for the Lottery. The Lottery sells Powerball, Hot Lotto, 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, Hot Lotto 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.



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Reserves on Deposit – Continued

As of October 1, 2013, the Powerball prize reserve deduction was set to begin at two percent (2%) when the annuity jackpot, as determined after sales are known, exceeds \$120 million, and four percent (4%) when the annuity jackpot, as determined after sales are known, exceeds \$250 million. Powerball has two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA). The maximum amounts designated by the MUSL Powerball product group for the PRA is \$80 million and for the SPRA is \$40 million for all member lotteries. At June 30, 2018 and 2017, the Lottery's share in the Powerball PRA was \$849,363 and \$942,823, respectively, and in the SPRA was \$347,853 and \$409,923, respectively. Both Powerball reserve funds were fully funded at the end of 2017, but only the PRA was fully funded at the end of fiscal year 2018 with the SPRA requiring an additional \$45,051 to be fully funded.

Hot Lotto ended on October 28, 2017. Until that time, MUSL included up to 3% of the Lottery's Hot Lotto drawing period's sales, depending on the annuitized value of the Grand Prize, into a Prize Reserve Account (PRA). The MUSL product group had set the maximum Hot Lotto PRA balance at \$9 million for all party lotteries. At June 30, 2018 and 2017, the Lottery's share in the Hot Lotto PRA was \$553,815 and \$512,166, respectively. The Lottery's Hot Lotto prize reserve was fully funded at the end of June 2018, but had not met its requirement of \$553,815 at the end of fiscal year 2017. The date for the return of any Hot Lotto PRA balance following the game's ending had not been determined by the MUSL Board of Directors at the end of fiscal year 2018.

MUSL may include an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales into the Mega Millions Prize Reserve Account (PRA). The MUSL product group increased the maximum PRA balance in October 2017 from the previous maximum amount of \$45 million to \$100 million for all party lotteries. At June 30, 2018 and 2017 the Lottery's share in the Mega Millions PRA was \$617,243 and \$447,493, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of June 2017, but had not met its requirement of \$937,309 as of June 30, 2018.

The game Lotto America began on November 12, 2017. MUSL includes up to 4% of the Lottery's Lotto America drawing period's sales, depending on the annuitized value of the Grand Prize, as determined after sales are known, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Lotto America PRA balance at \$12 million for all party lotteries. At June 30, 2018, the Lottery's share in the Lotto America PRA was \$64,735. The Lotto America PRA was not fully funded at the end of fiscal year 2018.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Reserves on Deposit – Continued

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. At June 30, 2018 and 2017, the Lottery's share of the unreserved fund was \$914,508 and \$905,134, respectively.

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

Starting on May 12, 2013, the Hot Lotto advertised grand prize was paid as a withholding taxes paid single, cash payment prize where the estimated advertised grand prize was grossed up to include federal and state tax withholdings and the prize winner received the net prize after tax withholdings.

7. Inventory

Since 2010, the Lottery has entered into various agreements with its primary instant ticket printers, whereby the printers have retained title to the instant ticket inventory until the instant tickets are sold. Under these agreements, the Lottery pays the printer a fee based on a fixed percentage of the net instant tickets sold; net instant tickets sold represents instant ticket sales less prize, spoiled, stolen, and promotional tickets. In addition, the Lottery signed an agreement in 2010 with a secondary instant ticket printer, whereby the Lottery purchased and owns the tickets printed. These tickets are carried at the lower of cost or market using the specific identification method. At the end of fiscal years 2018 and 2017, the Lottery was distributing games printed under the various agreements. As of June 30, 2018 and 2017, \$105,906 and \$188,110, respectively, of instant tickets are included in inventory.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

8. Capital Assets

Capital assets, which include land, building, works of art, data processing software and hardware, building improvements, land improvements and infrastructure, vehicles, furniture and fixtures, intellectual property, and equipment, are stated at cost net of any accumulated depreciation. The Lottery capitalizes all assets that have a cost greater than \$5,000 and an expected useful life of more than one year. Land and works of art, which have a perpetual or undeterminable life, are not depreciated. The building will be depreciated over its effective useful life of thirty-eight years with a residual value of ten percent. Significant building improvements are amortized over the remaining life of the building at the time of purchase of the improvement or if insignificant over 7 years; and intellectual property is amortized over the remaining life at the time of acquisition or at the time of development. For all other capital assets placed into service on or after July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 4 to 10 years. For any assets placed into service prior to July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 2 to 5 years. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

9. Revenue and Accounts Receivable Recognition

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

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

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Revenue and Accounts Receivable Recognition – Continued

	2018	2017
OPERATING REVENUES		
Instant ticket sales	\$ 74,650,523	\$ 74,700,077
Powerball sales	29,612,236	26,329,700
Mega Millions sales	13,159,364	9,656,053
Roadrunner Cash sales	7,652,809	7,141,226
Pick 3 sales	5,624,468	5,364,976
Lotto America sales	2,810,226	-
Hot Lotto sales	1,973,831	4,294,247
Quickster sales	785,584	741,067
Lucky Numbers Bingo sales	119,920	115,742
Less tickets provided as prizes	(2,307,754)	(2,256,949)
Less spoiled, stolen, and promotional tickets	(52,098)	(44,875)
Net ticket sales	134,029,109	126,041,264
Retailer fees	18,725	11,800
Instant game gift card commissions	-	4,880
Bad debts	(24,000)	-
Total operating revenues	\$ 134,023,834	\$ 126,057,944

10. Prizes

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

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

14. Custodial Credit Risk and Interest Rate Risk

At June 30, 2018 and 2017, respectively, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at this financial institution.

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

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

The Lottery’s custodial risk for investments is in accordance with Article 10, NMSA, 1978 Compilation. The Lottery’s investments are made in overnight repurchase agreements. Investments are made through a local financial institution and are held in safekeeping at the Federal Reserve Bank. Repurchase agreements are collateralized by Government Securities with a market value of at least 102% of the principal and are used for overnight investment only. Collateral must meet State of New Mexico “Security of Public Money” standards and be held in third party safekeeping. As of June 30, 2018 and 2017, the Lottery’s balances of \$4,997,545 and \$4,727,172, respectively, were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the banks’ name	-	-
Collateral held by the pledging bank’s trust department in the Lottery’s name	<u>4,997,545</u>	<u>4,727,172</u>
	<u>\$ 4,997,545</u>	<u>\$ 4,727,172</u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

14. Custodial Credit Risk and Interest Rate Risk – Continued

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

At June 30, 2018 and 2017, the Lottery had overnight yield repurchase agreements with one-day maturities.

15. Bank Accounts

At June 30, 2018:

Description	Bank	Balance per Bank
Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 4,997,545
Operating account – checking	Wells Fargo Bank, NA	-
Total amount deposited in bank		4,997,545
Less: FDIC coverage		-
*Total uninsured funds – deposits and overnight repurchase agreement		<u>\$ 4,997,545</u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 5,097,496
* Total pledged security		<u>(5,097,496)</u>
Amount under (over) requirement at June 30, 2018		<u>\$ -</u>

\*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3128MJTQ3 (cost \$4,968,758), matures November 01, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Bank Accounts - Continued

Cash and cash equivalents per bank at June 30, 2018	\$ 4,997,545
Less reconciling items--outstanding checks	<u>( 76,873)</u>
Reconciled cash in bank at June 30, 2018	4,920,672
Cash in vault	<u>10,800</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 4,931,472</u></u>

At June 30, 2017:

<u>Description</u>	<u>Bank</u>	<u>Balance per Bank</u>
Operating account - overnight repurchase agreement	Wells Fargo Bank, NA	\$ 4,727,172
Operating account - checking	Wells Fargo Bank, NA	<u>-</u>
Total amount deposited in bank		4,727,172
Less: FDIC coverage		<u>-</u>
*Total uninsured funds - deposits and overnight repurchase agreement		<u><u>\$ 4,727,172</u></u>
102% pledged collateral requirement per statute for repurchase agreement		\$ 4,821,716
* Total pledged security		<u>(4,821,716)</u>
Amount under (over) requirement at June 30, 2017		<u><u>\$ -</u></u>

\*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3138NXES2 (cost \$4,797,059), matures January 01, 2043. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Bank Accounts – Continued

Cash and cash equivalents per bank at June 30, 2017	\$ 4,727,172
Less reconciling items--outstanding checks	<u>( 72,209)</u>
Reconciled cash in bank at June 30, 2017	4,654,963
Cash in vault	<u>5,750</u>
Total cash and cash equivalents per Statements of Net Position	<u><u>\$ 4,660,713</u></u>

16. Risk Management

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

17. Shipping and Handling Costs

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

18. Net Position

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

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

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



New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

18. Net Position – Continued

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

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time period established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes have been applied against prize expense to supplement prizes in the Lottery's games and to promotions to increase sales. As of June 30, 2018 and 2017, the Lottery had unclaimed prizes in the amount of \$1,651,204 and \$1,307,897, respectively, reported as prizes payable that had not yet been applied against prize expense. The \$1,651,204 and \$1,307,897, respectively, in the unclaimed prize fund have already been committed and continue to supplement the prizes on instant games that have been printed and that are offered for sale. Any unclaimed prizes will continue to be a portion of the thirty percent return to the Legislative Lottery Scholarship Fund.

20. Use of Estimates in Preparation of Financial Statements

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

21. Compensated Absences Payable

Annual leave and sick leave are accrued at rates specified by the Lottery's Business and Operational Policy. Annual leave is awarded based on the employee's lottery and governmental years of service, leave status, and employment status (full-time or part-time) and sick leave is awarded at 3.7 hours biweekly for full-time employees. The maximum number of annual leave hours that full-time employees may carry over and retain in their annual leave bank varies from 80 hours for an employee with less than 5 years of service up to a maximum of 320 hours for an employee with fifteen or more years of service. The maximum number of sick leave hours that a full-time employee may carry over from year-to-year is 480 hours. Part-time employees receive leave and carry over and retain leave in their leave banks based on their percentage of employment.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

21. Compensated Absences Payable – Continued

Upon separation from service, employees with at least one year of service will be compensated for their annual leave balance, not to exceed the maximum annual leave bank based on their years of service. Accrued sick leave hours will not be paid to an employee upon separation from service. During the years ended June 30, 2018 and 2017, the following changes occurred in the compensated absences liabilities:

<u>Balance July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2018</u>
\$ 165,910	\$ 17,838	\$ (7,108)	\$ 176,640
<u>Balance July 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2017</u>
\$ 158,012	\$ 14,561	\$ (6,663)	\$ 165,910

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

22. Long-term Liabilities

During the years ended June 30, 2018 and 2017, the following changes occurred in long-term obligations:

	<u>Balance July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
Note payable	\$ 745,765	\$ -	\$ (239,705)	\$ 506,060	\$ 248,614
	<u>Balance July 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Note payable	\$ 976,892	\$ -	\$ (231,127)	\$ 745,765	\$ 239,717

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

22. Long-term Liabilities – Continued

A promissory note payable to Wells Fargo Bank, NA for the purchase of the building used as the Lottery’s facility and warehouse was issued on June 26, 2015. Principal and interest payments are due monthly on the 26<sup>th</sup> day of the month. The note bears interest at 3.6% and matures on June 26, 2020. The outstanding balance at June 30, 2018 and 2017 is \$506,060 and \$745,765, of which \$248,614 and \$239,717 are due within one year, respectively.

23. Debt Service Requirements for Note Payable

Debt service requirements on note payable as of June 30, 2018, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 248,614	\$ 14,347	\$ 262,961
2020	257,446	5,128	262,574
	<u>\$ 506,060</u>	<u>\$ 19,475</u>	<u>\$ 525,535</u>

24. Accounts Payable and Other Current Liabilities

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

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 1,352,858	\$ 1,206,369
Accrued liabilities, vendors*	200,709	469,173
Accrued liabilities, retailers*	7,500	12,500
Accrued payroll, and payroll taxes and benefits	166,795	126,045
Compensated absences	176,640	165,910
	<u>\$ 1,904,502</u>	<u>\$ 1,979,997</u>

\* The Lottery has accrued an estimated amount of services delivered by its vendors and deposits for its retailers as of June 30, 2018 and 2017, respectively.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE B – CAPITAL ASSETS**

Capital assets at June 30, 2018 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Building	1,975,163	-	-	-	1,975,163
Data processing software	2,193,682	-	-	-	2,193,682
Data processing equipment	702,932	(17,868)	-	-	685,064
Equipment - Security and disaster recovery	701,267	-	35,152	-	736,419
Vehicles	210,932	-	34,306	(77,081)	168,157
Furniture and fixtures	232,265	-	-	-	232,265
Intellectual property	179,073	-	-	-	179,073
Equipment - communications	160,507	-	-	-	160,507
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	29,018	-	-	-	29,018
Building improvements	97,574	-	201,496	-	299,070
Land improvements & infrastructure	-	-	23,133	-	23,133
Obsolete capital assets	<u>836,637</u>	<u>17,868</u>	<u>-</u>	<u>-</u>	<u>854,505</u>
Capital assets	<u>8,133,924</u>	<u>-</u>	<u>294,087</u>	<u>(77,081)</u>	<u>8,350,930</u>
Building	(93,560)	-	(46,780)	-	(140,340)
Data processing software	(2,137,386)	-	(7,717)	-	(2,145,103)
Data processing equipment	(596,998)	17,868	(20,872)	-	(600,002)
Equipment - Security and disaster recovery	(587,079)	-	(32,975)	-	(620,054)
Vehicles	(153,096)	-	(26,050)	74,723	(104,423)
Furniture and fixtures	(222,738)	-	(2,382)	-	(225,120)
Intellectual property	(111,149)	-	(24,700)	-	(135,849)
Equipment - communications	(73,452)	-	(21,764)	-	(95,216)
Equipment - warehouse	(71,174)	-	-	-	(71,174)
Equipment - office	(20,512)	-	(2,126)	-	(22,638)
Building improvements	(1,896)	-	(11,086)	-	(12,982)
Land improvements & infrastructure	-	-	(128)	-	(128)
Obsolete capital assets	<u>(836,637)</u>	<u>(17,868)</u>	<u>-</u>	<u>-</u>	<u>(854,505)</u>
Accumulated depreciation	<u>(4,905,677)</u>	<u>-</u>	<u>(196,580)</u>	<u>74,723</u>	<u>(5,027,534)</u>
Capital assets, net	<u>\$ 3,228,247</u>	<u>\$ -</u>	<u>\$ 97,507</u>	<u>\$ (2,358)</u>	<u>\$ 3,323,396</u>

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018 and 2017

**NOTE B – CAPITAL ASSETS – CONTINUED**

Capital assets at June 30, 2017 consisted of:

	Beginning Balance	Reclass- ification	Increases	Decreases	Ending Balance
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of Art	13,700	-	-	-	13,700
Building	1,975,163	-	-	-	1,975,163
Data processing software	2,193,682	-	-	-	2,193,682
Data processing equipment	676,551	(21,639)	48,020	-	702,932
Equipment - Security and disaster recovery	620,944	-	97,543	(17,220)	701,267
Vehicles	210,932	-	-	-	210,932
Furniture and fixtures	232,265	-	-	-	232,265
Intellectual property	179,073	-	-	-	179,073
Equipment - communications	160,507	-	-	-	160,507
Equipment - warehouse	71,174	-	-	-	71,174
Equipment - office	29,018	-	-	-	29,018
Building improvements	76,367	-	22,492	(1,285)	97,574
Obsolete capital assets	845,650	21,639	-	(30,652)	836,637
Capital assets	<u>8,015,026</u>	<u>-</u>	<u>168,055</u>	<u>(49,157)</u>	<u>8,133,924</u>
Building	(46,779)	-	(46,781)	-	(93,560)
Data processing software	(2,121,054)	-	(16,332)	-	(2,137,386)
Data processing equipment	(601,767)	21,639	(16,870)	-	(596,998)
Equipment - Security and disaster recovery	(573,509)	-	(30,790)	17,220	(587,079)
Vehicles	(130,070)	-	(23,026)	-	(153,096)
Furniture and fixtures	(220,357)	-	(2,381)	-	(222,738)
Intellectual property	(86,449)	-	(24,700)	-	(111,149)
Equipment - communications	(51,689)	-	(21,763)	-	(73,452)
Equipment - warehouse	(71,174)	-	-	-	(71,174)
Equipment - office	(18,386)	-	(2,126)	-	(20,512)
Building improvements	(72)	-	(1,824)	-	(1,896)
Obsolete capital assets	<u>(845,650)</u>	<u>(21,639)</u>	<u>-</u>	<u>30,652</u>	<u>(836,637)</u>
Accumulated depreciation	<u>(4,766,956)</u>	<u>-</u>	<u>(186,593)</u>	<u>47,872</u>	<u>(4,905,677)</u>
Capital assets, net	<u>\$ 3,248,070</u>	<u>\$ -</u>	<u>\$ (18,538)</u>	<u>\$ (1,285)</u>	<u>\$ 3,228,247</u>

Land and works of art are non-depreciable assets.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

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

	Due to Lottery Tuition Fund
	<hr/>
Balance at June 30, 2016	\$ 3,440,087
Prior year 30% return	37,835,459
Prior year transfers	<u>(38,231,013)</u>
Balance at June 30, 2017	3,044,533
Current year 30% return	40,218,983
Current year transfers	<u>(40,230,939)</u>
Balance at June 30, 2018	<u><u>\$ 3,032,577</u></u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least thirty percent of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2018 and 2017, the Lottery has transferred \$40,218,983 and \$37,835,459, respectively, for the years ended June 30, 2018 and 2017 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. Fifty-three and fifty-four current and former employees of the Lottery were participants in the plan at the end of fiscal years 2018 and 2017, respectively.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE D - RETIREMENT PLANS - CONTINUED**

Plan Descriptions and Funding- Continued

*Money Purchase Pension Plan - Continued*

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

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2018 and 2017, the Lottery recognized \$263,628 and \$233,876 of pension expense for the plan on eligible compensation of \$1,989,644 and \$1,765,101, respectively. There were no forfeitures of employee balances for the years ended June 30, 2018 and 2017, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years have been paid to the plan by June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Lottery recognized a contribution liability of \$35,879 and \$11,028, 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") that allows both pre-tax and Roth (after tax) contributions by employees for their retirement up to applicable annual Internal Revenue Code limits commenced. Newport Group (formerly Verisight Trust Company) is the trustee for the 457(b) plan. This plan, like the money purchase pension plan, allows employees to self-direct their investments into any of the forty-one investment funds. Thirty-two current and former employees were participants in the plan at the end of fiscal years 2018 and 2017. All amounts withheld from employee compensation for Section 457(b) contributions have been paid to the plan by June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Lottery recognized a contribution liability of \$4,607 and zero, respectively, for contributions owed, but not paid, for the last few days of each fiscal year.

Fair Value Measurement of Retirement Plan Investments

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This Statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The Lottery has implemented the standard for the fiscal years ending June 30, 2018 and 2017.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018 and 2017

**NOTE D - RETIREMENT PLANS- CONTINUED**

Fair Value Measurement of Retirement Plan Investments – Continued

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

The Lottery has the following fair value measurements as of June 30, 2018 and 2017:

*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, 2018 and 2017, in the amount of \$988,447 and \$691,381, respectively, with varying investment quality ratings and maturities. The maturities averaged between six and ten years with an average rating of primarily A on the underlying investments.



New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2018 and 2017

**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:

	2018		2017	
	Money Purchase Pension Plan	457(b) Retirement Plan	Money Purchase Pension Plan	457(b) Retirement Plan
Total Investments by fair value measurement:				
Level 1 - Quoted prices in active markets				
<u>Mutual funds:</u>				
US Equity				
Value	\$ 687,105	\$ 145,132	\$ 711,090	\$ 125,483
Blend	219,507	66,295	221,127	43,741
Growth	321,052	78,464	652,131	40,719
Total US Equity	1,227,664	289,891	1,584,348	209,943
Bonds	273,795	727	108,216	721
Target Date	1,554,493	128,755	1,023,701	101,909
Balanced Asset Allocation	1,104,828	41,619	1,050,645	14,202
Foreign Equity	253,388	7,060	294,711	5,036
Specialty/Other	901,133	90,458	496,936	32,988
Total Level 1	5,315,301	558,510	4,558,557	364,799
Level 2 - Similar observable assets	-	-	-	-
Level 3 - Significant unobservable sources	-	-	-	-
Total investments by fair value measurement	5,315,301	558,510	4,558,557	364,799
Other Plan Assets exempt from the fair value measurement:				
Money market/cash	92,851	-	200,835	-
Contribution receivable	35,879	4,607	11,028	-
Total Plan Assets	\$ 5,444,031	\$ 563,117	\$ 4,770,420	\$ 364,799

The balances and activity of both Plans as of and for the years ended June 30, 2018 and 2017 are presented in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plans.

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE E - CREDIT AGREEMENT**

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

This line matured on May 14, 2016, 2015, 2014, and 2013 and was renewed for another year under the same terms and conditions each year. For 2017, the line matured on May 15, 2017, but the renewal was still in process as of June 30, 2017. On August 23, 2017, the line was renewed through May 15, 2018 under the same terms and conditions. On May 15, 2018, the line was renewed through May 15, 2019 with an interest rate of Wells Fargo Bank prime plus zero percent. Wells Fargo Bank prime rate was 5% as of June 30, 2018. For the years ended June 30, 2018 and 2017, the Lottery had no outstanding borrowings against the line-of-credit.

**NOTE F - COMMITMENT**

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

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

New Mexico Lottery Authority

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

**NOTE G - OTHER EXPENSES**

Other expenses at June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Registrations and memberships	\$ 30,490	\$ 23,430
Training	13,206	8,063
Other	10,944	13,773
Publications and subscriptions	376	1,865
	<u>\$ 55,016</u>	<u>\$ 47,131</u>

New Mexico Lottery Authority

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

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Instant ticket sales	\$ 72,291,175	\$ 72,398,832
Powerball sales	29,611,869	26,329,419
Mega Millions sales	13,159,344	9,655,935
Roadrunner Cash sales	7,652,785	7,141,187
Pick 3 sales	5,624,439	5,364,936
Lotto America sales	2,810,197	-
Hot Lotto sales	1,973,815	4,294,146
Quickster sales	785,565	741,067
Lucky Numbers Bingo sales	119,920	115,742
Net ticket sales	<u>134,029,109</u>	<u>126,041,264</u>
Retailer fees	18,725	11,800
Instant game gift card commissions	-	4,880
Bad debts	(24,000)	-
Total operating revenues	<u>134,023,834</u>	<u>126,057,944</u>
<b>NON-OPERATING INCOME</b>		
Interest income	18,662	33,641
Other income	12,760	20,188
Total non-operating income	<u>31,422</u>	<u>53,829</u>
<b>GROSS REVENUES</b>	<u>134,055,256</u>	<u>126,111,773</u>
<b>GAME EXPENSES</b>		
Prize expense	73,142,478	67,184,150
Retailer commissions	8,693,661	8,196,191
On-line vendor fees	4,863,896	4,612,157
Advertising	1,768,393	2,126,939
Ticket vendor fees	1,246,929	1,172,844
Shipping and postage	301,705	289,581
Promotions	95,114	122,588
Retailer equipment	82,067	114,539
Responsible gaming	70,750	70,250
Game membership	42,645	60,004
Total game expenses	<u>90,307,638</u>	<u>83,949,243</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages, and benefits	2,453,339	2,350,058
Utilities and maintenance	238,869	223,841
Depreciation and amortization	196,580	186,593
Leases and insurance	114,425	113,646
Professional fees	109,552	154,181
Materials and supplies	60,638	46,313
Other	55,016	47,131
Travel	9,080	10,589
Operational Reserve Fund expense	268,000	1,163,000
Total operating expenses	<u>3,505,499</u>	<u>4,295,352</u>
<b>OPERATING INCOME</b>	<u>40,210,697</u>	<u>37,813,349</u>
<b>NON-OPERATING EXPENSE</b>		
Interest expense	23,136	31,719
Total nonoperating expense	<u>23,136</u>	<u>31,719</u>
<b>NET INCOME</b>	<u>\$ 40,218,983</u>	<u>\$ 37,835,459</u>
<b>GROSS REVENUE PERCENTAGE RETURN</b>	<u>30.00%</u>	<u>30.00%</u>

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

Board of Directors  
New Mexico Lottery Authority and  
Mr. Wayne Johnson  
New Mexico State Auditor  
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority, as of and for the year ended June 30, 2018, 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 8, 2018.

**Internal Control Over Financial Reporting**

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

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

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

Board of Directors  
New Mexico Lottery Authority and  
Mr. Wayne Johnson  
New Mexico State Auditor

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the New Mexico Lottery Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-001.

### **New Mexico Lottery Authority's Response to Finding**

The New Mexico Lottery Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. New Mexico Lottery Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
October 8, 2018

**SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended June 30, 2018

**2018-001 Capital Asset Disposal (Other Non-Compliance)**

**Condition:** During fiscal year 2018, the NMLA sold a vehicle, which was not presented to and approved by the Board of Directors to sell the usable asset. In addition, the NMLA did not notify the State Auditor at least 30 day prior to the disposal of the vehicle.

**Criteria:** Per the Capital Asset Management Policy approved by the NMLA Board, the Lottery shall present to the Board of Directors for approval to sell usable items and to dispose of unusable, broken or damaged items. Furthermore, the NM Audit Rule requires that 30 days prior to any disposition of property included on the agency inventory, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action shall be sent to the state auditor.

**Effect:** The Lottery was not in compliance with the NMLA Capital Asset Management Policy along with the NM Audit Rule.

**Cause:** Based on our discussion with management, the NMLA overlooked the approval required for the vehicle sale as other vehicles within the same time were treated as trade-ins, thus did not require Board approval or acknowledgment letter to the State Auditor.

**Recommendation:** It is recommended that management and key personnel review the Capital Asset Management Policy and ensure adequate procedures and approvals are in place prior to asset disposals.

**Management's Response:** To prevent this issue from reoccurring in the future, at a New Mexico Lottery Authority's Board of Directors' meeting in the next few months, the Capital Asset Management Policy will be presented for approval with a revision to the section, Trade-in, Transfer, or Disposal of Assets, to state that vehicles will only be traded in on the purchase of other vehicles, unless otherwise approved by the Board.

New Mexico Lottery Authority

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year Ended June 30, 2018

There were no findings for the year ended June 30, 2017.



New Mexico Lottery Authority

**EXIT CONFERENCE**

For the Year Ended June 30, 2018

An exit conference was held at the New Mexico Lottery Authority on October 10, 2018. The following individuals participated:

<u>Name</u>	<u>Title</u>
<i>New Mexico Lottery Authority Finance/Audit Committee</i>	
<b>Aubrey McGowen</b>	<b>Board of Directors Member</b>
<b>Dr. Dan Salzwedel</b>	<b>Board Chairman</b>
<b>John Kubiak, CPA</b>	<b>Board Secretary/Treasurer</b>
<i>New Mexico Lottery Authority Employees</i>	
<b>David M. Barden, Esq.</b>	<b>Chief Executive Officer</b>
<b>Sylvia Ann Jaramillo, CPA</b>	<b>Director of Administration</b>
<b>Carolyn Cabell</b>	<b>Chief Operations Officer</b>
<b>Kevin Duda, CPA</b>	<b>Deputy Director of Administration</b>
<i>CliftonLarsonAllen LLP</i>	
<b>Matt Bone, CPA, CGFM, CGMA</b>	<b>Principal</b>
<b>Elizabeth Nunez, CPA</b>	<b>Senior Associate</b>

**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.