



NEW MEXICO LOTTERY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2024 and 2023

NEW MEXICO LOTTERY AUTHORITY

OFFICIAL ROSTER (UNAUDITED)

June 30, 2024

BOARD OF DIRECTORS

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

OFFICIALS OF THE NEW MEXICO LOTTERY AUTHORITY

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

ORGANIZATIONAL DIVISIONS OF THE NEW MEXICO LOTTERY AUTHORITY (UNAUDITED)

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

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

- adopt, amend, or repeal rules, policies, and procedures necessary for the operation of the Lottery;
- approve, disapprove, amend, or modify the original budget for the succeeding fiscal year and any revised budget during a fiscal year;
- review and discuss current financial information and the Lottery's performance to the approved budget for the fiscal year;
- approve or disapprove all procurements over \$75,000 and the resulting award of contracts;
- approve the financial audit contract after (or pending) Office of the State Auditor (State Auditor) approval, hold audit entrance and exit conferences with the independent public accountants (IPA) at an executive session of the Board or in the Finance and Audit Committee, and at an open meeting accept the fiscal year audit following release by the State Auditor and presentation by the IPA;
- listen to and discuss Lottery updates on sales, games, issues, etc.;
- review, discuss, and accept internal audit reports; and
- discuss, and when necessary, approve or disapprove other matters that should properly come before the Directors in their fiduciary duty for the efficient and effective operation, profitability, integrity, and security of the Lottery.

**ORGANIZATIONAL DIVISIONS
OF THE NEW MEXICO LOTTERY AUTHORITY (UNAUDITED) – CONTINUED**

The Executive Division, under the direction of the Chief Executive Officer, provides leadership for all activities of the Lottery to carry out its objectives and overall statutory mission to maximize net revenues for the Lottery's beneficiaries. The division establishes and directs the organization's day-to-day operating strategy and plan. In addition, the division performs as a liaison among the Board, the Governor, the Legislature, governmental entities, external providers of goods and services, retailers, the public, and Lottery divisions and employees. Within the Executive Division, the Chief Operating Officer serves as the organization's chief of staff and directly oversees the activities of all the divisions and departments of the Lottery, except for the Human Resources and the Internal Audit departments. The Executive Division is also designated as the Lottery's Central Purchasing Office. In addition, within the Executive Division, the Human Resources Coordinator oversees the development and implementation of human resources policies, programs, and services, including recruitment, selection, retention, legal compliance, employee benefits, employee insurance reconciliation, employee relations, employment practices and procedures, employee communications, and employee events.

The Finance Division, under the direction of the Director of Finance, performs all the activities associated with the financial and accounting functions of the Lottery, including the general ledger; cash management; accounts payable; retailer accounts receivable and debt collection; capital asset accounting; lease accounting; game accounting; payroll and benefit preparation, accounting, payment, and review; and tax reporting and payment. In addition, the division provides financial reporting, disclosure, and compliance with generally accepted accounting practices and budget compilation, including the quarterly and annual financial reporting of revenues, expenses, and net revenues to the State of New Mexico; the financial audit and related compilation of financial statements, related notes, and the Management's Discussion and Analysis (MDA) for the fiscal year; the statutorily required annual proposed operating budget for the Lottery for the succeeding fiscal year for Board of Directors' approval.

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

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

**ORGANIZATIONAL DIVISIONS
OF THE NEW MEXICO LOTTERY AUTHORITY (UNAUDITED) – CONTINUED**

The Sales Division, under the direction of the Director of Sales, is responsible for developing and implementing all sales activities and programs for the Lottery, including customer relationship management, ticket sales, inventory management, point of sales material distribution, retailer recruitment, arranging for retailer installations, promotional events. The Sales Division is also responsible for the Claims Center's payment of prizes to players and ticket sales.

The Security Division, under the direction of the Executive Vice President for Security, statutorily as a law enforcement agency is responsible for administering, enforcing, and ensuring compliance with the security provisions of the New Mexico Lottery Act. The division conducts background checks of all prospective employees, Lottery retailers, Lottery vendors, and Lottery contractors. It also supervises larger prize claim verifications and conducts and oversees second-chance drawings. The division functions as liaison among the Attorney General's Office, District Attorney Offices, and law enforcement agencies. It is also responsible for building and employee security and safety. The warehouse component of the Security Division is responsible for the packing and shipment of the Lottery's instant Scratcher tickets and for the storage and shipping of Lottery premium and point-of-sale items. The division is also responsible for the management of building and grounds maintenance and for vehicle fleet operations and maintenance.

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

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

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority (the Lottery), a component unit of the State of New Mexico, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority as of June 30, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of the New Mexico Lottery Authority are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the State of New Mexico that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2024 and 2023, the change in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico Lottery Authority's basic financial statements. The schedules of percentage return to the State of New Mexico are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of percentage return to the State of New Mexico is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises of the introductory section but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2024, on our consideration of the New Mexico Lottery Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Mexico Lottery Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Mexico Lottery Authority's internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 21, 2024

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, 2024 and 2023, with comparative numbers for the fiscal year ended June 30, 2022. Please read it in conjunction with the financial statements, which begin on page 25.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2024, the Lottery's total current assets of \$19,330,294 decreased by \$1,450,083, a decrease of 7.0%, while at the end of fiscal year 2023, the Lottery's total current assets of \$20,780,377 increased by \$3,450,794, an increase of 19.9%, each fiscal year in comparison to June 30th of the previous fiscal year.
- At the end of fiscal year 2024, the Lottery's total current liabilities of \$15,661,481 decreased by \$1,667,408, an increase of 9.6%, while at the end of fiscal year 2023, the Lottery's total current liabilities of \$17,328,889 increased by \$2,116,300, an increase of 13.9%, each fiscal year in comparison to the end of the respective previous fiscal year.
- In fiscal year 2024, the total net ticket sales were \$170,237,208, an increase of \$1,777,894, or a 1.1% increase. In fiscal year 2023, the total net ticket sales were \$168,459,314, an increase of \$31,585,727, or a 23.1% increase, compared to total net ticket sales of \$136,873,587 in fiscal year 2022.
- Compared to the prior fiscal years, total prize expenses of \$93,533,105 increased in fiscal year 2024 by \$1,678,173, or 1.8%, but increased in fiscal year 2023 by \$17,761,322, or 24.0%, to \$91,874,932 compared to \$74,113,610 in fiscal year 2022.
- In fiscal year 2024, the total operating expenses of \$4,407,489 increased by \$419,349, or 10.5%. In fiscal year 2023, the total operating expenses of \$3,988,140 increased by \$232,586, a 6.2% increase, compared to \$3,755,554 the previous fiscal year.
- Non-operating income (expense) decreased by \$15,650, a 80.8% increase, to \$35,013 in fiscal year 2024 and decreased by \$375, or 1.9% decrease, to \$19,363 in fiscal year 2023, each fiscal year compared to each preceding fiscal year.
- In fiscal year 2024, net income before transfers was \$51,084,069, a decrease of \$708,440, or 1.4%, compared to fiscal year 2023. In fiscal year 2023, net income before transfers was \$51,792,509, an increase of \$10,522,001, or 25.5%, compared to fiscal year 2022's net income of \$41,270,508.
- In fiscal years 2024 and 2023, the Lottery transmitted 30% of gross revenues to the State pursuant to statute in each month during the two fiscal years.
- Including the final transfer on July 31, 2024, of June 2024's net return, the Lottery has transferred \$1,049,387,924 to the State of New Mexico for education since the commencement of sales in April 1996.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Financial Statements. The Statements of Net Position on page 25 and the Statements of Revenues, Expenses, and Changes in Net Position on page 26 report the Lottery's assets, liabilities, revenues, and expenses in comparative format for fiscal years 2024 and 2023. The Statements of Cash Flows on pages 27 and 28 report the sources and uses of cash for fiscal years 2024 and 2023. The Statements of Fiduciary Net Position on page 29 and Statements of Changes in Fiduciary Net Position on page 30 report the balances and activity of the Lottery's Retirement Plans for fiscal years 2024 and 2023.

Notes to Financial Statements. The Notes to Financial Statements on pages 31 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 2024 and 2023 in compliance with the New Mexico Lottery Act.

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS

Total Net Position

At the end of fiscal years 2024 and 2023, the Lottery's net position was \$7,067,600 and \$7,067,590, respectively, with unrestricted net position of \$3,671,961 and \$3,454,536 for each fiscal year, respectively.

Total Assets

Table 1
Total Assets

	2024	2023	2022	Increase	Increase	Increase	Increase
				(Decrease)	(Decrease)	(Decrease)	(Decrease)
				\$ Change	% Change	\$ Change	% Change
	2023 to	2023 to	2022 to	2023 to	2022 to	2022 to	2023
	2024	2024	2023	2024	2024	2023	2023
Current assets							
Cash and cash equivalents	\$ 14,483,771	\$ 16,329,530	\$ 13,254,842	\$ (1,845,759)	(11.3) %	\$ 3,074,688	23.2 %
Accounts receivable, (net of allowance for doubtful accounts)	1,228,638	1,073,789	801,802	154,849	14.4 %	271,987	33.9 %
Reserves on deposit	3,213,571	3,104,969	2,977,831	108,602	3.5 %	127,138	4.3 %
Inventory	16,103	16,757	17,294	(654)	(3.9) %	(537)	(3.1) %
Prepaid expenses	388,211	255,332	277,814	132,879	52.0 %	(22,482)	(8.1) %
Total current assets	19,330,294	20,780,377	17,329,583	(1,450,083)	(7.0) %	3,450,794	19.9 %
Net capital assets	3,398,787	3,619,250	3,723,302	(220,463)	(6.1) %	(104,052)	(2.8) %
Total assets	\$ 22,729,081	\$ 24,399,627	\$ 21,052,885	\$ (1,670,546)	(6.8) %	\$ 3,346,742	15.9 %

Compared to the prior fiscal year, the Lottery's cash and cash equivalents decreased in fiscal year 2024 by \$1,845,759 or 11.3% from 2023 and increased by \$3,074,688 or 23.2% in fiscal year 2023 from prior year. The changes in cash and cash equivalents each year relate mainly to changes in accounts receivable, accounts payable and other current liabilities, prizes payable, and net position at the end of each fiscal year compared to the prior fiscal year.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Assets – Continued

Accounts receivable from the Lottery's retailers are generally collected each Thursday through electronic bank transfers. Receivables are equal to sales net of any prizes paid by the retailers and any commissions earned, less the allowance for bad debts plus any miscellaneous receivables from any other source. At the end of fiscal year 2024, the receivables balance increased by \$154,849 or 14.4% in comparison to the previous fiscal year because the receivables for the prior week were collected on June 30, 2024, leaving only eight days of receivables. At the end of fiscal year 2023, the receivables balance increased by \$271,987 or 33.9% in comparison to the previous fiscal year because the receivables for the prior week were collected on June 30, 2023, leaving only six days of receivables. The accounts receivable balance at the end of fiscal 2022 was \$801,802.

The Lottery is required to have amounts on deposit with the Multi-State Lottery Association (MUSL) called reserves on deposit, as determined by the Powerball® (Powerball), Mega Millions® (Mega Millions), and Lotto America® (Lotto America) game rules and an unreserved account for payment of expenses and to record receipts of interest and other income on the deposits. The changes in these accounts of an increase of \$108,602, or an increase of 3.5%, in fiscal year 2024 and an increase of \$127,138, or an increase of 4.3%, in fiscal year 2023 were caused by the receipts of interest earned on the deposits with MUSL; payments of game expenses; changes to the Powerball, Mega Millions, and Lotto America reserve accounts, as required by the MUSL game rules; and the re-balancing of the reserve accounts.

The inventory balance at the end of fiscal year 2024 decreased by \$654, or 3.9%, while the balance of fiscal year 2023 decreased by \$537, or 3.1%. At the end of fiscal years 2024 and 2023, the Lottery had inventory of \$16,103 and \$16,757, respectively, for these promotional instant games.

The changes in net capital assets in fiscal years 2024 and 2023 are primarily attributable to \$95,859 and \$159,310 in capital asset purchases and \$316,322 and \$263,360 in depreciation expense for the two fiscal years, respectively.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities

Table 2
Total Liabilities

				Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024	Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023
	2024	2023	2022				
Current liabilities							
Accounts payable and other							
current liabilities	\$ 2,106,065	\$ 2,014,127	\$ 2,370,675	\$ 91,938	4.5 %	\$ (356,548)	(15.0) %
Current portion of lease liability	3,148	3,048	2,950	100	3.3 %	98	3.3 %
Prizes payable	10,165,344	11,575,141	9,444,566	(1,409,797)	(12.2) %	2,130,575	22.6 %
Due to Lottery Tuition Fund	<u>3,386,924</u>	<u>3,736,573</u>	<u>3,394,398</u>	<u>(349,649)</u>	(9.4) %	<u>342,175</u>	10.1 %
Total current liabilities	15,661,481	17,328,889	15,212,589	(1,667,408)	(9.6) %	2,116,300	13.9 %
Long-term liabilities							
Noncurrent portion of lease liability	<u>-</u>	<u>3,148</u>	<u>6,196</u>	<u>(3,148)</u>	(100.0) %	<u>(3,048)</u>	(49.2) %
Total liabilities	<u>\$ 15,661,481</u>	<u>\$ 17,332,037</u>	<u>\$ 15,218,785</u>	<u>\$ (1,670,556)</u>	(9.6) %	<u>\$ 2,113,252</u>	13.9 %

Accounts payable and other current liabilities increased by \$91,938 or 4.5% in fiscal year 2024 and decreased by \$356,548 or 15.0% in fiscal year 2023. In fiscal year 2024, accounts payable and other current liabilities increased due to amounts owed to four vendors for advertising, the online gaming system, and instant ticket printing. In fiscal year 2023, accounts payable and other current liabilities decreased to a payment made in the amount of \$350,000 that was owed to the online vendor for self-service-lottery sales terminals that were purchased during fiscal year 2022.

Prizes payable is essentially comprised of amounts accrued based on the Lottery's game designs and prize structures for draw games and instant games, the related unremitted federal and state taxes withheld on prizes claimed, and any unclaimed prizes in the prize fund. At the end of fiscal year 2024, prizes payable decreased by \$1,409,797 or 12.2% and in fiscal year 2023, prizes payable increased by \$2,130,575 or 22.6%

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Total Liabilities – Continued

These differences relate to the changes in prizes payable on individual Lottery game sales between each fiscal year and prizes not yet claimed along with the balances in the unclaimed prize fund. In fiscal year 2024, the Lottery used unclaimed prizes of \$5,623,181 to enable it to meet the 30% return to the Lottery Tuition Fund and to supplement the prizes in Scratchers (instant ticket) games to maximize sales in 11 of the 12 months in the fiscal year. During fiscal year 2024, the unclaimed prize fund decreased by \$1,180,570 from \$6,835,910 at the beginning of the fiscal year to \$5,655,340 as of June 30, 2024. In fiscal year 2023, the Lottery used unclaimed prizes of \$3,927,000 to meet the 30% return to the Lottery Tuition Fund in 9 of the 12 months of the fiscal year. During fiscal year 2023, the unclaimed prize fund increased by \$619,165 from \$6,216,745 at the beginning of the fiscal year to \$6,835,910 on June 30, 2023.

At the end of fiscal years 2024 and 2023, respectively, \$3,386,924 and \$3,736,573 of net revenues for the month of June were due to the Lottery Tuition Fund. These funds were transferred to the New Mexico State Treasurer by the end of July of each year.

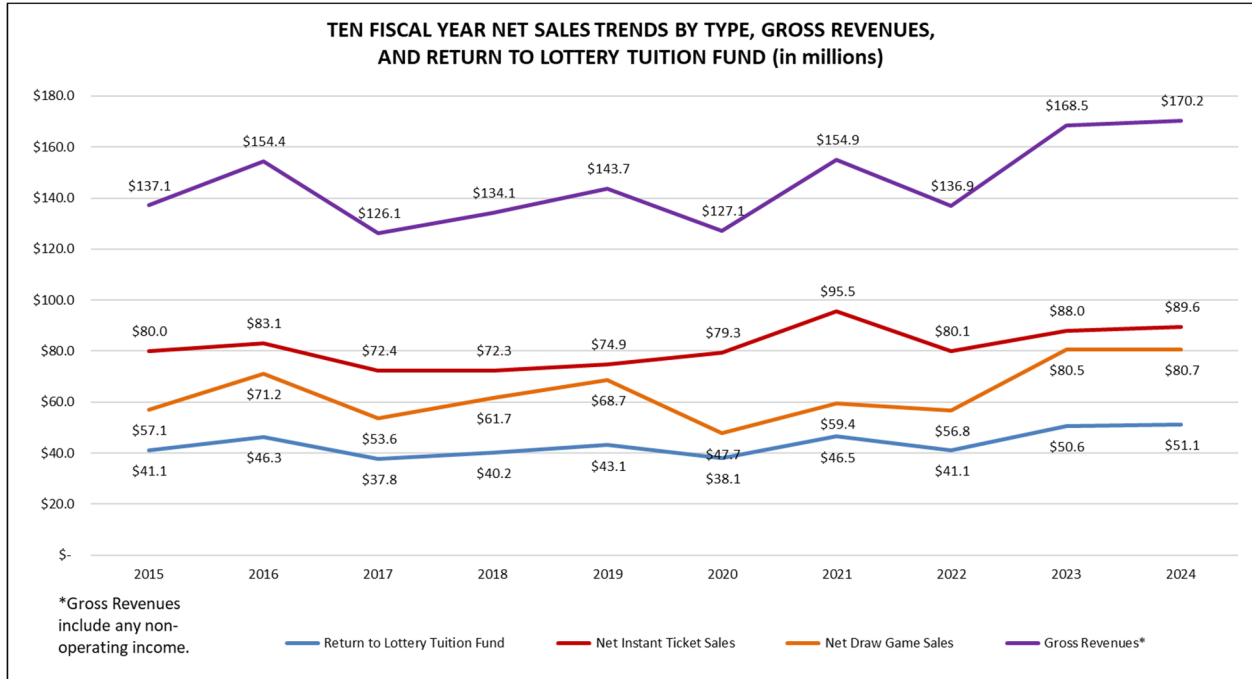
Reflected in total liabilities in fiscal years 2024 and 2023 was a current portion of lease liability of \$3,148 and \$3,048, respectively, and a noncurrent portion of lease liability of \$0 and \$3,148, respectively. These amounts represent the remaining liability of a capitalized lease for a postage machine that was acquired in July 2020.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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



Fiscal Year	Powerball (PB) Highest Jackpot in the Fiscal Year (M=Million; B=Billion)	Mega Millions (MM) Highest Jackpots in the Fiscal Year (M=Million; B=Billion)	Fiscal Year	Average Instant Ticket Prize Payout Percentages
2015	\$564.1 M	\$326 M	2015	63.75%
2016	\$1.586 B	\$202 M	2016	63.29%
2017	\$487 M	\$536.3 M	2017	60.75%
2018	\$758.7 M	\$533 M	2018	60.01%
2019	\$768.4 M	\$1.537 B	2019	61.37%
2020	\$396.9 M	\$414 M	2020	58.70%
2021	\$731.1 M	\$1.05 B	2021	55.74%
2022	\$699.8 M	\$431 M	2022	58.97%
2023	\$2.04 B	\$1.348 B	2023	58.81%
2024	\$1.725 B	\$1.602 B	2024	63.89%

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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

Effective July 1, 2007, the New Mexico Lottery Act, Chapter 6, Article 24 NMSA 1978, was changed to require the Lottery to transmit at least 27% of its gross revenues to the State Treasurer until December 31, 2008, and at least 30% of its gross revenues, thereafter. In fiscal years 2024 and 2023, the Lottery transmitted a 30% return each month, totaling \$51,084,059 and \$50,559,019, respectively.

The graph on page 11 reflects the last 10 years of net sales for both instant and draw games, gross revenues, and the return to the Lottery Tuition Fund along with the highest Powerball and Mega Millions jackpot for each fiscal year and the average instant ticket prize payout percentage for each fiscal year. Each fiscal year reflects at least a 30% return on the gross revenues for that fiscal year. During this 10-year period, three fiscal years (2021, 2023, and 2024), were the years with the three highest returns to the Lottery Tuition Fund in the Lottery's 29 fiscal years.

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense

Table 3
Net Ticket Sales and Prize Expense

2024	Net Ticket Sales	Prize Expense
Instant ticket	\$ 89,560,751	\$ 52,586,243
Powerball	38,482,929	19,245,410
Mega Millions	22,213,456	11,109,865
Roadrunner Cash	7,180,365	3,976,487
Pick 3 Plus	5,016,396	2,508,208
Lotto America	4,175,914	2,064,790
Pick 4 Plus	1,948,777	974,389
Fast Play	1,658,620	1,087,713
Total	<u>\$ 170,237,208</u>	<u>\$ 93,553,105</u>
2023	Net Ticket Sales	Prize Expense
Instant ticket	\$ 87,992,086	\$ 51,223,192
Powerball	33,693,900	16,847,354
Mega Millions	25,999,956	13,013,733
Roadrunner Cash	6,798,608	3,765,069
Pick 3 Plus	4,855,587	2,427,794
Lotto America	6,073,748	2,882,117
Pick 4 Plus	1,928,279	964,140
Fast Play	1,117,150	751,533
Total	<u>\$ 168,459,314</u>	<u>\$ 91,874,932</u>
2022	Net Ticket Sales	Prize Expense
Instant ticket	\$ 80,131,691	\$ 45,260,658
Powerball	25,838,880	12,864,873
Mega Millions	11,744,153	5,937,292
Roadrunner Cash	7,321,667	4,059,747
Pick 3 Plus	4,900,574	2,452,792
Lotto America	3,922,863	1,879,857
Pick 4 Plus	1,941,728	973,364
Fast Play	1,072,031	685,027
Total	<u>\$ 136,873,587</u>	<u>\$ 74,113,610</u>
\$ Increase from FY 2023 to FY 2024	<u>\$ 1,777,894</u>	<u>\$ 1,678,173</u>
% Increase from FY 2023 to FY 2024	<u>1.1%</u>	<u>1.8%</u>
\$ Increase from FY 2022 to FY 2023	<u>\$ 31,585,727</u>	<u>\$ 17,761,322</u>
% Increase from FY 2022 to FY 2023	<u>23.1%</u>	<u>24.0%</u>

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Table 3 provides net ticket sales and prize expense for each Lottery game for fiscal years 2024, 2023, and 2022. In fiscal year 2024, net instant ticket, Powerball, Roadrunner Cash, Pick 3 Plus, Pick 4 Plus, and Fast Play sales and the related prize expense increased, while Mega Millions and Lotto America sales and the related prize expense decreased in comparison to fiscal year 2023. In fiscal year 2023, net instant ticket, Powerball, Mega Millions, Lotto America, and Fast Play sales and the related prize expense increased, while Roadrunner Cash, Pick 3 Plus, and Pick 4 Plus sales and the related prize expense decreased in comparison to fiscal year 2022.

Net Ticket Sales

In fiscal year 2024, net sales increased by \$1.78 million or 1.1% to \$170.23 million, while net sales increased by \$31.59 million or 23.1% to \$168.46 million in fiscal year 2023 compared to net sales of \$136.87 million in fiscal year 2022.

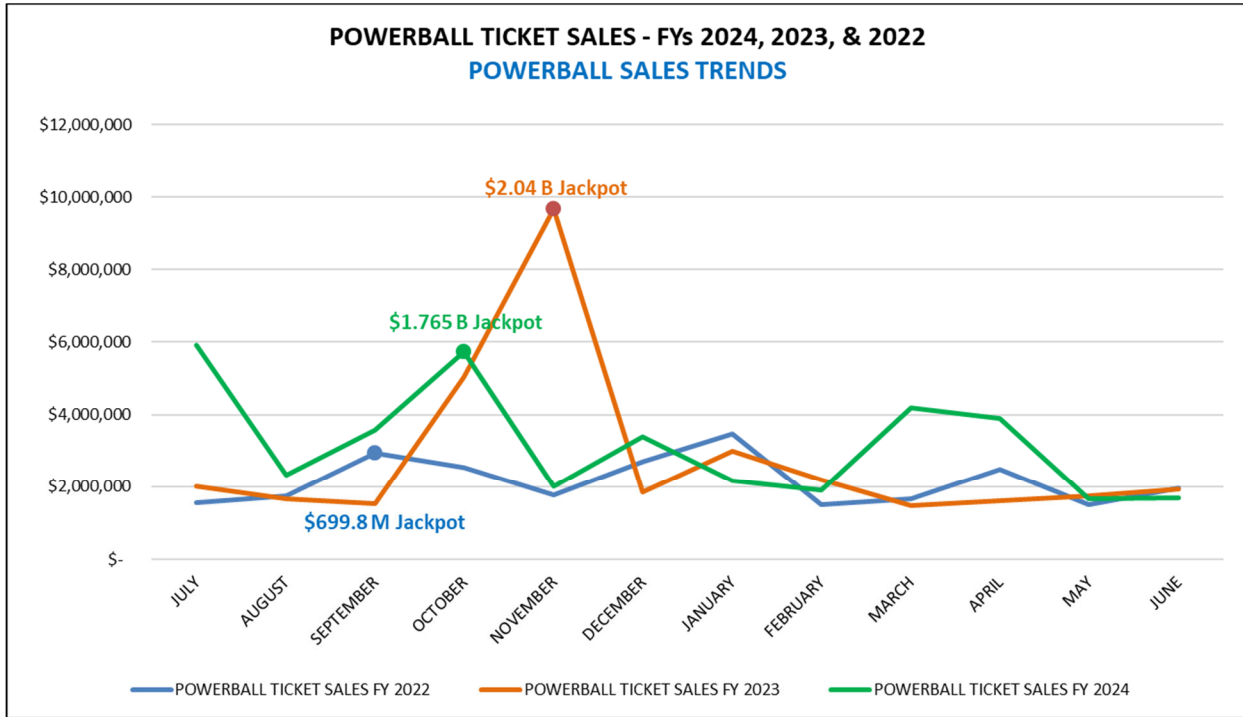
NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Powerball Ticket Sales



Powerball sales were driven by the advertised jackpots in both fiscal years 2024 and 2023. The jackpot level that will convince casual players to buy a ticket continued to increase. In fiscal year 2024, in addition to other jackpot winners, there was one major jackpot winner in the amount of \$1.765 billion.

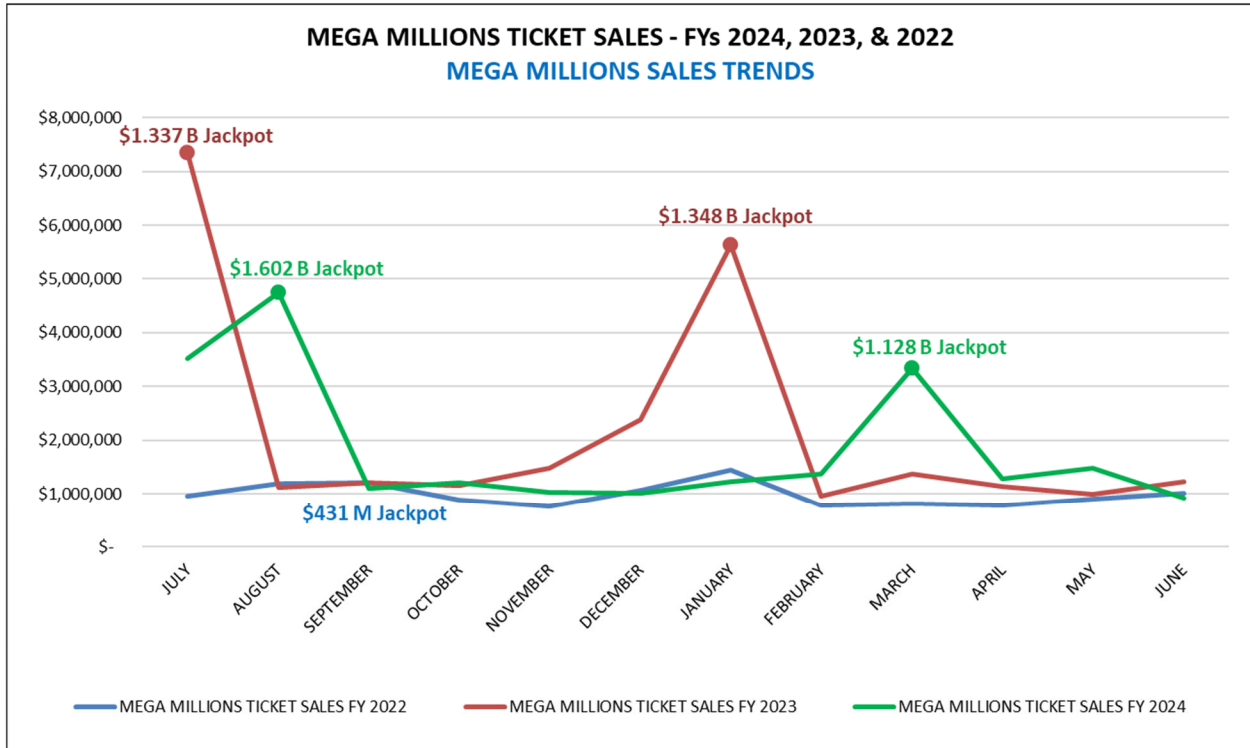
NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Mega Millions Ticket Sales



Mega Millions sales are also driven by the jackpot amount and the game has also been experiencing jackpot fatigue, where players keep looking for bigger and bigger jackpots before they buy a ticket. There were two major Mega Millions jackpots in fiscal year 2024, reaching \$1.602 billion in August 2023 and \$1.128 billion in March 2024.

Prize Expense

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

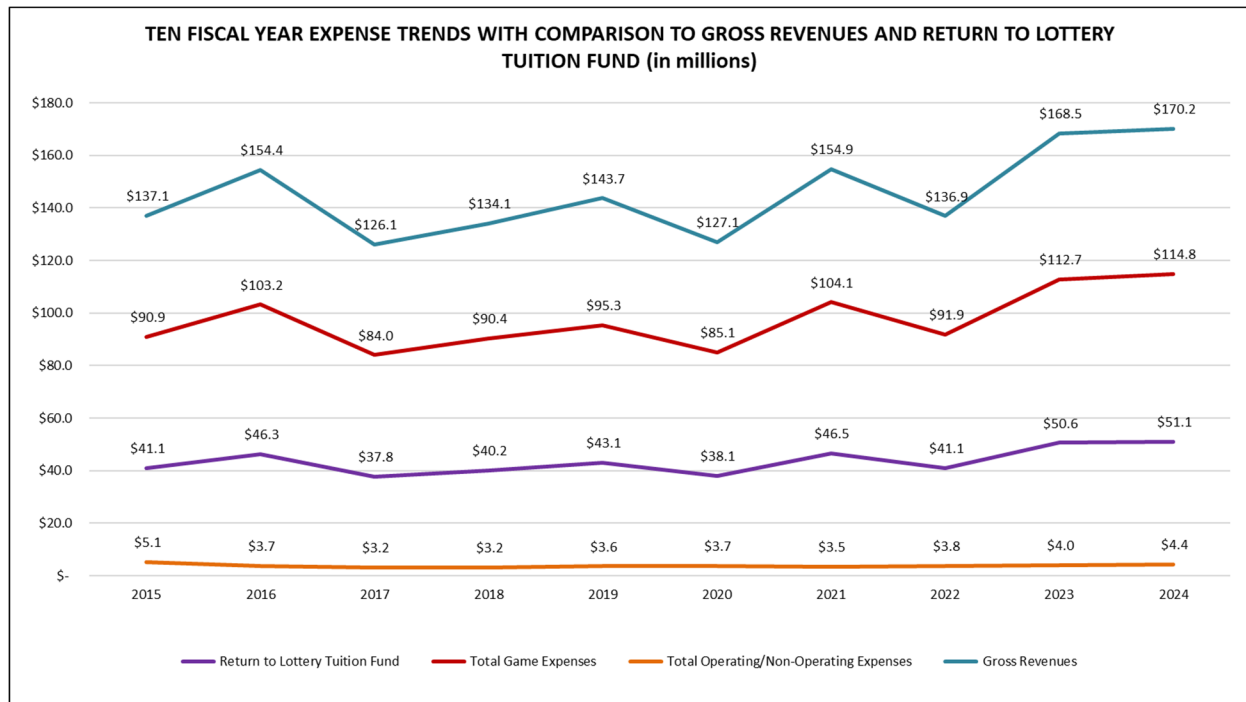
FINANCIAL ANALYSIS – CONTINUED

Net Ticket Sales and Prize Expense – Continued

Prize Tickets

In fiscal year 2024, tickets provided as prizes (prize or free tickets) claimed on instant games decreased by just over \$159,470 or a reduction of 7.0% to \$2,115,909. In fiscal year 2023, tickets provided as prizes (prize or free tickets) claimed on instant games decreased by just over \$37,201 or a reduction of 1.6% to \$2,275,379. In fiscal years 2024 and 2023, the amounts claimed for prize tickets were predominantly in \$1, \$2, \$3, and \$5 instant games.

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



The above chart shows the trends for game expenses and operating/non-operating expenses for the last 10 years. Generally, game expenses go up and down as sales go up and down. Operating/non-operating expenses are generally fixed expenses and have been reduced over the last 10 years. More information regarding gaming expenses and operating/non-operating expenses follows this Management’s Discussion and Analysis.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses

Table 4
Game Expenses

				Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024	Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023
	2024	2023	2022	2024	2024	2023	2023
Prize expense	\$ 93,553,105	\$ 91,874,932	\$ 74,113,610	\$ 1,678,173	1.8 %	\$ 17,761,322	24.0 %
Retailer commissions	10,887,326	10,807,603	8,892,882	79,723	0.7 %	1,914,721	21.5 %
Online vendor fees	5,709,685	5,663,619	4,810,545	46,066	0.8 %	853,074	17.7 %
Advertising	1,979,017	2,063,589	2,015,419	(84,572)	(4.1) %	48,170	2.4 %
Ticket vendor fees	1,995,726	1,663,391	1,516,694	332,335	20.0 %	146,697	9.7 %
Other game expenses	668,829	635,264	526,652	33,565	5.3 %	108,612	20.6 %
Total game expenses	<u>\$ 114,793,688</u>	<u>\$ 112,708,398</u>	<u>\$ 91,875,802</u>	<u>\$ 2,085,290</u>	1.9 %	<u>\$ 20,832,596</u>	(11.8) %

The changes in retailer commissions for fiscal years 2024 and 2023 are consistent with the changes in gross ticket sales for the two years and are equivalent to 6.4% of gross revenues for each year, respectively. Retailer commissions are paid to the Lottery's retailers for selling Lottery tickets; cashing Lottery prizes; for selling a jackpot/grand prize for Powerball, Mega Millions, or Lotto America; for selling a match 5 prize for Powerball or Mega Millions; and for selling a jackpot prize of more than \$100,000 for Roadrunner Cash.

Since November 21, 2008, the online vendor fee has been a fixed percentage of net sales, plus applicable gross receipts taxes, with no additional terminal fees as in previous agreements. The online fee increases or decreases as net draw game and instant ticket sales increase or decrease. Effective November 22, 2015, the Lottery entered into an agreement for online vendor services following the issuance of a Request for Proposals in May 2015 and agreed to pay a base rate of 2.9988% of total net sales. The system includes the supply, installation, maintenance, service and operation of a communication network; a new back office system; new lottery terminals and peripheral equipment for the Lottery's existing and future retailers; ticket scanners to enable players to check their tickets for prizes; self-service ticket vending machines that sell both instant and draw game tickets; disaster recovery services; and various employees to operate the system and provide sales and marketing support to the Lottery. In addition, as part of the 2015 agreement, if the Lottery's total net sales exceed \$146.5 million, the vendor will be paid at a discounted rate of 2.500% on those amounts above the \$146.5 million for the remainder of the fiscal year in which the \$146.5 million is attained.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Game Expenses – Continued

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

For fiscal years 2024 and 2023, the changes in the online vendor fees for the two fiscal years are consistent with the changes in net draw game and instant ticket sales for the fiscal years. Online vendor fees were 3.4% of gross revenues for both fiscal years 2024 and 2023.

Advertising money is expended to market the Lottery and its products to the public; to inform the public about games, including jackpot and top prize amounts; to provide security tips and gambling awareness for our players; to present benefit messages to New Mexico students and their families; and to keep lottery products fresh in the public's minds, all in order to maximize sales. Advertising expense was approximately 1.2% of gross revenues for both fiscal years 2024 and 2023, and stayed within the Lottery Board approved budgets of \$2,100,000, for both fiscal years 2024 and 2023.

In April 2018, the Lottery signed a contract with an instant ticket printer, whereby payment is made for tickets ordered as a percentage of net instant sales when the tickets are sold. In both fiscal years 2024 and 2023, the cost for any licensing fees or special printing costs were also included in ticket vendor fees. The ticket vendor fees for fiscal years 2024 and 2023 were 1.2% and 1.0%, respectively, of net instant ticket sales.

Included in other game expenses are shipping and postage, responsible gaming, retailer equipment, promotions, and game membership expenses. Fiscal year 2024 reflects an increase of \$33,565 or 5.3%, while fiscal year 2023 reflects an increase of \$108,612 or 20.6%. The increase in fiscal years 2024 and 2023 is mainly due to continual increase in shipping costs.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses

Table 5
Operating Expenses

				Increase (Decrease) \$ Change 2023 to 2024	Increase (Decrease) % Change 2023 to 2024	Increase (Decrease) \$ Change 2022 to 2023	Increase (Decrease) % Change 2022 to 2023
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2024</u>	<u>2024</u>	<u>2023</u>	<u>2023</u>
Salaries, wages, and benefits	\$ 3,211,691	\$ 3,019,908	\$ 2,936,217	\$ 191,783	6.4 %	\$ 83,691	2.9 %
Utilities and maintenance	285,828	276,513	254,304	9,315	3.4 %	22,209	8.7 %
Leases and insurance	166,555	163,498	148,182	3,057	1.9 %	15,316	10.3 %
Other operating expenses	<u>743,415</u>	<u>528,221</u>	<u>416,851</u>	<u>215,194</u>	40.7 %	<u>111,370</u>	26.7 %
Total operating expenses	<u>\$ 4,407,489</u>	<u>\$ 3,988,140</u>	<u>\$ 3,755,554</u>	<u>\$ 419,349</u>	10.5 %	<u>\$ 232,586</u>	6.2 %

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 year 2024, total operating expenses increased by \$419,349 or 10.5%, while in fiscal year 2023, total operating expenses increased by \$232,586 or 6.2%,

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Operating Expenses – Continued

In fiscal year 2024, salaries, wages, and benefits increased by \$191,783 or 6.4%, while in fiscal year 2023, salaries, wages, and benefits increased by \$83,691 or 2.9%. In fiscal year 2024, there were 34 employees at the end of the fiscal year. In fiscal year 2023, there were 33 employees at the end of the fiscal year. In fiscal year 2024, 32 employees received cost-of-living adjustments averaging 4.48%. In addition, in both fiscal years 2024 and 2023, insurance premiums were not increased and remained the same as for fiscal year 2022. In both fiscal years, additional employees, position changes, employee compensation changes and related changes to payroll taxes and benefits contributed to the changes in salaries, wages, and benefits compared to the prior fiscal year.

In fiscal years 2024 and 2023, leases and insurances increased by \$3,057 or 1.9% and \$15,316 or 10.3%, respectively. These increases were primarily due to increases in various premiums upon renewal, including for employment practices, cyber, and crime insurances.

In fiscal year 2024, other operating expenses increased by \$215,194 or 40.7%. In fiscal year 2023, other operating expenses increased by \$111,370 or 26.7%. This increase was primarily due to increases in professional fees, depreciation and amortization, materials and supplies, and travel netted against a reduction in registrations and memberships.

Non-operating Revenues

Non-operating revenues decreased in both fiscal years 2024 and 2023. Interest rates paid on deposits continue to be low during both fiscal years. No significant other income was received in either fiscal year 2024 or 2023.

Non-operating Expense

In fiscal years 2024 and 2023, there was interest expense of \$156 and \$254, respectively, for a five-year lease effective on July 1, 2020, for a postage machine that was capitalized under GASB 87.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison

Table 6
Budgetary Comparison
2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>% Variance with Final Budget</u>
Total operating revenues	\$ 141,711,000	\$ 141,711,000	\$ 170,250,233	\$ 28,539,233	20.1 %
Total game expenses	93,825,000	93,825,000	114,793,688	20,968,688	22.3 %
Total operating expenses	<u>5,395,000</u>	<u>5,395,000</u>	<u>4,407,489</u>	<u>(987,511)</u>	(18.3) %
Operating income	42,491,000	42,491,000	51,049,056	8,558,056	20.1 %
Total non-operating income	<u>23,000</u>	<u>23,000</u>	<u>35,013</u>	<u>12,013</u>	52.2 %
Net income before transfers to Lottery Tuition Fund	<u>\$ 42,514,000</u>	<u>\$ 42,514,000</u>	<u>\$ 51,084,069</u>	<u>\$ 8,570,069</u>	20.2 %

2023

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

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

Budgetary Comparison – Continued

Effective with fiscal year 2024, the Lottery will no longer be required to complete a Revised Budget. The Lottery will present significant changes to the Board as needed. The effective change was approved by the Board on December 13, 2023.

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

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

Fiscal year 2023 ended with gross revenues exceeding the final budget by \$3.6 million or 2.2%. Compared to the revised budget, instant ticket sales were \$3.6 million or 4.3% higher; Powerball sales were \$1.2 million or 3.4% lower; Mega Millions sales were \$500 thousand or 2.0% higher; Roadrunner Cash sales were \$499 thousand or 7.9% higher; Lotto America sales were \$74 thousand or 1.2% higher; Pick 3 Plus sales were \$44 thousand or 0.9% lower; Pick 4 Plus were \$129 thousand or 7.2% higher; and Fast Play sales were \$18 thousand or 1.6% higher. Directly affected by net ticket sales, which were more than the revised budget by 2.2%, game expenses were more than the revised budget by 2.1%. Operating expenses were more than the revised budget at 3.0% of the budget. Fiscal year 2023 returned \$1.09 million or 2.2% more than the revised budget to the Lottery Tuition Fund.

NEW MEXICO LOTTERY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

FINANCIAL ANALYSIS – CONTINUED

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, 2024 and 2023, and results of its operations, cash flows, and percentage return to the state for the years then ended and to demonstrate the Lottery's accountability for the revenues it receives. If you have any questions about this report or need additional information, contact the Director of Finance at the New Mexico Lottery Authority, P.O. Box 93130, Albuquerque, New Mexico 87199.

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,483,771	\$ 16,329,530
Accounts receivable (net of allowance for doubtful accounts)	1,228,638	1,073,789
Reserves on deposit - restricted	3,213,571	3,104,969
Inventory	16,103	16,757
Prepaid expenses	<u>388,211</u>	<u>255,332</u>
Total current assets	<u>19,330,294</u>	<u>20,780,377</u>
NONCURRENT ASSETS		
Capital assets		
Nondepreciable	743,700	743,700
Depreciable, net of accumulated depreciation	2,652,268	2,869,912
Intangible right-to-use, net of accumulated amortization	<u>2,819</u>	<u>5,638</u>
Net capital assets	<u>3,398,787</u>	<u>3,619,250</u>
Total assets	<u>\$ 22,729,081</u>	<u>\$ 24,399,627</u>
CURRENT LIABILITIES		
Accounts payable and other current liabilities	\$ 2,106,065	\$ 2,014,127
Current portion of lease liability	3,148	3,048
Prizes payable	10,165,344	11,575,141
Due to Lottery Tuition Fund	<u>3,386,924</u>	<u>3,736,573</u>
Total current liabilities	15,661,481	17,328,889
LONG-TERM LIABILITIES		
Noncurrent portion of lease liability	<u>-</u>	<u>3,148</u>
Total liabilities	<u>\$ 15,661,481</u>	<u>\$ 17,332,037</u>
NET POSITION		
Net investment in capital assets	\$ 3,395,639	\$ 3,613,054
Unrestricted	<u>3,671,961</u>	<u>3,454,536</u>
Total net position	<u>\$ 7,067,600</u>	<u>\$ 7,067,590</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Instant ticket sales	\$ 89,560,751	\$ 87,992,086
Powerball sales	38,482,929	33,693,900
Mega Millions sales	22,213,456	25,999,956
Roadrunner Cash sales	7,180,365	6,798,608
Pick 3 Plus sales	5,016,396	4,855,587
Lotto America sales	4,175,914	6,073,748
Pick 4 Plus sales	1,948,777	1,928,279
Fast Play sales	<u>1,658,620</u>	<u>1,117,150</u>
Total net ticket sales	170,237,208	168,459,314
Retailer fees	<u>13,025</u>	<u>10,370</u>
Total operating revenues	<u>170,250,233</u>	<u>168,469,684</u>
GAME EXPENSES		
Prize expense	93,553,105	91,874,932
Retailer commissions	10,887,326	10,807,603
Online vendor fees	5,709,685	5,663,619
Advertising	1,979,017	2,063,589
Ticket vendor fees	1,995,726	1,663,391
Shipping and postage	485,203	438,770
Responsible gaming	70,000	70,000
Retailer equipment	34,560	41,225
Promotions	79,066	50,210
Game membership	-	35,059
Total game expenses	<u>114,793,688</u>	<u>112,708,398</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	3,211,691	3,019,908
Utilities and maintenance	285,828	276,513
Depreciation and amortization	316,322	263,360
Leases and insurance	166,555	163,498
Professional fees	199,343	146,848
Other	<u>227,750</u>	<u>118,013</u>
Total operating expenses	<u>4,407,489</u>	<u>3,988,140</u>
OPERATING INCOME	<u>51,049,056</u>	<u>51,773,146</u>
NONOPERATING INCOME (EXPENSE)		
Interest expense	(156)	(254)
Interest income	34,888	27,267
Other income (expense)	<u>281</u>	<u>(7,650)</u>
Net nonoperating income	<u>35,013</u>	<u>19,363</u>
NET INCOME BEFORE TRANSFERS	51,084,069	51,792,509
TRANSFERS TO LOTTERY TUITION FUND	<u>51,084,059</u>	<u>50,559,019</u>
CHANGE IN NET POSITION	10	1,233,490
NET POSITION AT BEGINNING OF YEAR	<u>7,067,590</u>	<u>5,834,100</u>
NET POSITION AT END OF YEAR	<u>\$ 7,067,600</u>	<u>\$ 7,067,590</u>

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

NEW MEXICO LOTTERY AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received:		
From retailers-sales net of commissions, incentives, and prize, spoiled, and stolen ticket credits	\$ 159,207,369	\$ 157,390,094
Cash payments:		
To prize winners and related taxes	(73,150,363)	(72,526,802)
To MUSL	(21,812,537)	(17,217,555)
To suppliers of goods or services	(12,032,025)	(11,742,039)
To employees for services and related taxes	<u>(2,590,966)</u>	<u>(2,471,336)</u>
Net cash provided by operating activities	<u>49,621,478</u>	<u>53,432,362</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Lottery Tuition Fund	<u>(51,433,708)</u>	<u>(50,216,844)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(65,494)	(159,308)
Principal paid on finance lease	(3,048)	(2,950)
Interest paid on finance lease	<u>(156)</u>	<u>(254)</u>
Net cash used in capital related financing activities	<u>(68,698)</u>	<u>(162,512)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Receipts of interest	34,888	29,332
Other	<u>281</u>	<u>(7,650)</u>
Net cash provided by investing activities	<u>35,169</u>	<u>21,682</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,845,759)	3,074,688
Cash and cash equivalents at beginning of year	<u>16,329,530</u>	<u>13,254,842</u>
Cash and cash equivalents at end of year	<u>\$ 14,483,771</u>	<u>\$ 16,329,530</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, 2024 and 2023

	2024	2023
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 51,049,056	\$ 51,773,146
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	316,322	263,360
Vendors' noncash transactions	(27,307)	-
Net changes in assets and liabilities:		
Accounts receivable	(154,859)	(271,987)
Reserves on deposit - restricted	(108,602)	(129,203)
Inventory	654	537
Prepaid expenses	(132,879)	22,482
Accounts payable and other current liabilities	88,888	(356,548)
Prizes payable	(1,409,795)	2,130,575
Net cash provided by operating activities	\$ 49,621,478	\$ 53,432,362

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

NEW MEXICO LOTTERY AUTHORITY
STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2024 and 2023

	2024			2023		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ASSETS						
Cash and cash equivalents	\$ 64,197	\$ -	\$ 64,197	\$ 68,930	\$ -	\$ 68,930
Marketable securities and other investments	9,199,352	1,904,515	11,103,867	8,099,235	1,666,205	9,765,440
Contribution receivable	48,868	6,016	54,884	11,302	5,431	16,733
Total assets	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>
NET POSITION						
Held in Trust for Pension plan participants' benefits	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>

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, 2024 and 2023

	2024			2023		
	Money Purchase Pension Plan	Section 457(b) Plan	Total	Money Purchase Pension Plan	Section 457(b) Plan	Total
ADDITIONS						
Net gain in fair value of investments	\$ 1,203,947	\$ 259,955	\$ 1,463,902	\$ 1,053,410	\$ 239,490	\$ 1,292,900
Dividends	232,615	39,299	271,914	226,503	34,071	260,574
Employer contributions	357,008	-	357,008	277,951	-	277,951
Employee contributions	-	163,121	163,121	-	169,297	169,297
Total additions	<u>1,793,570</u>	<u>462,375</u>	<u>2,255,945</u>	<u>1,557,864</u>	<u>442,858</u>	<u>2,000,722</u>
DEDUCTIONS						
Distributions to participants	660,375	223,405	883,780	959,141	118,397	1,077,538
Fees	245	75	320	830	75	905
Total deductions	<u>660,620</u>	<u>223,480</u>	<u>884,100</u>	<u>959,971</u>	<u>118,472</u>	<u>1,078,443</u>
Change in net position	1,132,950	238,895	1,371,845	597,893	324,386	922,279
NET POSITION - BEGINNING	<u>8,179,467</u>	<u>1,671,636</u>	<u>9,851,103</u>	<u>7,581,574</u>	<u>1,347,250</u>	<u>8,928,824</u>
NET POSITION - ENDING	<u>\$ 9,312,417</u>	<u>\$ 1,910,531</u>	<u>\$ 11,222,948</u>	<u>\$ 8,179,467</u>	<u>\$ 1,671,636</u>	<u>\$ 9,851,103</u>

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

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

2. Basis of Presentation

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

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation – Continued

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Lottery's policy is to first apply the expense toward unrestricted resources and then toward restricted resources. At the end of fiscal years 2024 and 2023, there were no restricted resources.

3. Budgets and Budgetary Accounting

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

4. Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Lottery considers cash and cash equivalents to be cash on hand, demand deposits, time deposits with an original maturity of 90 days or less, and overnight repurchase agreements.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Accounts Receivable

Accounts receivable represent the unremitted receipts on ticket sales, net of retailer commissions and prizes paid by the retailers. Receipts are transferred weekly from retailer bank accounts to the Lottery. Accounts receivable are stated at their net realizable value and their past due status is based upon contractual terms. Credit losses relating to contracted retailers have been within management expectations. Generally, collateral is not required on receivables. As of June 30, 2024 and 2023, an allowance for doubtful accounts of \$10,000 for both years, respectively, has been provided to recognize future uncollectible billings. In fiscal years 2024 and 2023, ten retail customers (578 and 586 retailers) represented 67% and 66% of sales for each fiscal year, respectively, and 62% and 80% of accounts receivable at the end of each fiscal year, respectively.

6. Reserves on Deposit – Restricted

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

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Reserves on Deposit – Restricted – Continued

As of October 1, 2013, the Powerball prize reserve deduction was set to begin at two percent (2%) when the annuity jackpot, as determined after sales are known, exceeds \$120 million, and four percent (4%) when the annuity jackpot, as determined after sales are known, exceeds \$250 million. Powerball has two prize reserve accounts, the Powerball Prize Reserve Account (PRA) and the Set Prize Reserve Account (SPRA). The maximum amounts designated by the MUSL Powerball product group for the PRA is \$80 million and for the SPRA is \$40 million for all member lotteries. As of June 30, 2024 and 2023, the Lottery's share in the Powerball PRA was \$683,176 and \$714,261, respectively, and in the SPRA was \$280,080 and \$312,962, respectively. The Powerball PRA was fully funded at the end of fiscal years 2024 and 2023. The SPRA was also fully funded at the end of fiscal years 2024 and 2023.

MUSL may include an additional amount up to 5% of the Lottery's Mega Millions drawing period's sales into the Mega Millions Prize Reserve Account (PRA). The maximum amount designated by the MUSL product group for the PRA is \$100 million for all party lotteries. As of June 30, 2024 and 2023, the Lottery's share in the Mega Millions PRA was \$747,856 and \$750,874, respectively. The Lottery's Mega Millions prize reserve was fully funded at the end of fiscal years 2024 and 2023.

The game Lotto America began on November 12, 2017. MUSL includes up to 4% of the Lottery's Lotto America drawing period's sales, depending on the annuitized value of the Grand Prize, as determined after sales are known, into a Prize Reserve Account (PRA). The MUSL product group has set the maximum Lotto America PRA balance at \$12 million for all party lotteries. As of June 30, 2024 and 2023, the Lottery's share in the Lotto America PRA was \$551,236 and \$528,068, respectively. The Lotto America PRA had not met its requirements of \$782,238 and \$745,530 as of June 30, 2024 and 2023, respectively.

The Lottery also has an unreserved fund with MUSL. Interest earned on the MUSL funds and any unclaimed grand prizes may be deposited into the unreserved fund and game membership fees and other MUSL costs may be paid from this fund. As of June 30, 2024 and 2023, the Lottery's share of the unreserved fund was \$951,223 and \$798,804, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Reserves on Deposit – Restricted – Continued

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

7. Inventory

The Lottery has entered into various agreements with its primary instant ticket printers, whereby the printers have retained title to the instant ticket inventory until the instant tickets are sold. Under these agreements, the Lottery pays the printer a fee based on a fixed percentage of the net instant tickets sold. Net instant tickets sold represents instant ticket sales less prize, spoiled, stolen, and promotional tickets. In addition, the Lottery owns one game of promotional tickets that was purchased under a previous agreement and another game of promotional tickets purchased under the current printing agreement. These tickets are carried at the lower of cost or market using the specific identification method. As of June 30, 2024 and 2023, \$16,103 and \$16,757, respectively, of instant tickets are included in inventory. In addition, as of June 30, 2024 and 2023, there were no amounts in prize inventory, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Capital Assets

Capital assets, which include land, building, works of art, data processing equipment and software, building improvements, land improvements and infrastructure, vehicles, furniture and fixtures, intellectual property, and both purchased equipment and leased equipment, are stated at cost net of any accumulated depreciation. The Lottery capitalizes all assets that have a cost greater than \$5,000 and an expected useful life of more than one year. In accordance with GASB 87, the Lottery capitalizes leased nonfinancial assets that are measured at more than \$5,000 and provide the Lottery the right to use the underlying asset for a period of more than one year. Land and works of art, which have a perpetual or undeterminable life, are not depreciated. The building will be depreciated over its effective useful life of 38 years with a residual value of 10%. Significant building improvements are amortized over the remaining life of the building at the time of purchase of the improvement or if insignificant over seven years; and intellectual property is amortized over the remaining life at the time of acquisition or at the time of development. For all other capital assets placed into service on or after July 1, 2013, depreciation and amortization are computed using the straight-line method over the estimated useful lives of 4 to 15 years. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

9. Revenue Recognition

Lottery games are sold to the public by contracted retailers and directly by the Lottery. Revenues and accounts receivable for instant tickets are recognized when packs are settled and retailers are billed for the tickets. Revenues and accounts receivable for all draw games are recognized when drawings are held, except for Fast Play where the revenues and accounts receivable are recognized at the time the tickets are sold.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Revenue Recognition – Continued

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

	2024	2023
OPERATING REVENUES		
Instant ticket sales	\$ 91,731,613	\$ 90,313,073
Powerball sales	38,482,929	33,693,900
Mega Millions sales	22,213,456	25,999,956
Roadrunner Cash sales	7,180,365	6,798,608
Pick 3 Plus sales	5,016,396	4,855,587
Lotto America sales	4,175,914	6,073,748
Pick 4 Plus sales	1,948,777	1,928,279
Fast Play sales	1,658,620	1,117,150
Less tickets provided as prizes	(2,115,909)	(2,275,379)
Less spoiled, stolen, and promotional tickets	(54,953)	(45,608)
Net ticket sales	170,237,208	168,459,314
Retailer fees	13,025	10,370
Total operating revenues	\$ 170,250,233	\$ 168,469,684

10. Prizes

Prize expense for instant, Powerball, Mega Millions, Roadrunner Cash, Lotto America, Pick 3 Plus, and Pick 4 Plus games is recorded based on an estimate of the predetermined prize structure for each game. Prize expense for Fast Play games is recorded based on the actual prizes won for each game. In March 2021, a Prize Reserve Account (PRA) of \$300,000 was established for Roadrunner Cash and in April 2021 PRAs of \$200,000 and \$150,000 were established for the new games Pick 3 Plus and Pick 4 Plus, respectively. In June 2023, a PRA of \$50,000 was established for Jackpot 7s. These PRAs were established to enable the Lottery to pay prizes claimed for any drawing that exceeded the expected prizes per each game's prize structure. The balances in the PRAs as of June 30, 2024 and 2023, were \$146,543 and \$192,378, respectively, for Roadrunner Cash, \$83,872 and \$38,414, respectively, for Pick 3 Plus, (\$54,844) and \$128,228, respectively, for Pick 4 Plus, and \$71,450 and \$50,000, respectively, for Jackpot 7s. The PRA account balance for Roadrunner Cash, Pick 3 Plus, Pick 4 Plus, and Jackpot 7s are presented within prizes payable.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Commissions

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

12. Advertising Costs

Advertising costs are expensed as incurred.

13. Income Taxes

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

14. Custodial Credit Risk and Interest Rate Risk

As of June 30, 2024 and 2023, respectively, the Lottery maintained its cash balances in one financial institution. The balances for demand deposits were insured by the Federal Deposit Insurance Corporation up to \$250,000 at this financial institution.

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

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Custodial Credit Risk and Interest Rate Risk – Continued

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

As of June 30, 2024 and 2023, the Lottery’s balances of \$14,507,638 and \$16,434,192, respectively, were exposed to custodial credit risk as follows:

	<u>2024</u>	<u>2023</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateral held by the pledging bank’s trust department in the Lottery’s name	<u>14,507,638</u>	<u>16,434,192</u>
Total operating revenues	<u>\$ 14,507,638</u>	<u>\$ 16,434,192</u>

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

As of June 30, 2024 and 2023, the Lottery had overnight yield repurchase agreements with one-day maturities.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts

At June 30, 2024:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase agreement-interest-bearing	Wells Fargo Bank, NA	\$ 14,507,638
Operating account - checking-non-interest-bearing	Wells Fargo Bank, NA	-
Total amount deposited in bank		14,507,638
Less: FDIC coverage		-
Total uninsured funds - deposits and overnight repurchase agreement		\$ 14,507,638
102% pledged collateral requirement per statute for repurchase agreement		\$ 14,797,791
*Total pledged security		(14,797,791)
Amount under (over) requirement at June 30, 2024		\$ -
<p>*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3140KAYT7 2% (cost \$14,507,717), matures June 1, 2051. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.</p>		
Cash and cash equivalents per bank at June 30, 2024		\$ 14,507,638
Less reconciling items--outstanding checks		(33,867)
Reconciled cash in bank at June 30, 2024		14,473,771
Cash in vault		10,000
Total cash and cash equivalents per Statements of Net Position		\$ 14,483,771

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Bank Accounts – Continued

At June 30, 2023:

Description	Bank	Balance per Bank
*Operating account - overnight repurchase agreement-interest-bearing	Wells Fargo Bank, NA	\$ 16,434,192
Operating account - checking-non-interest-bearing	Wells Fargo Bank, NA	-
Total amount deposited in bank		16,434,192
Less: FDIC coverage		-
Total uninsured funds - deposits and overnight repurchase agreement		\$ 16,434,192
102% pledged collateral requirement per statute for repurchase agreement		\$ 16,762,876
*Total pledged security		(16,762,876)
Amount under (over) requirement at June 30, 2023		\$ -
<p>*Wells Fargo Bank, NA securities are held in safekeeping at the Federal Reserve Bank in San Francisco, CA. Presented at fair value, CUSIP Number 3140KAYT7 2% (cost \$16,434,273), matures June 1, 2051. The repurchase agreement is collateralized with securities held in the name of the New Mexico Lottery.</p>		
Cash and cash equivalents per bank at June 30, 2023		\$ 16,434,692
Less reconciling items--outstanding checks		(113,837)
Reconciled cash in bank at June 30, 2023		16,320,855
Cash in vault		8,675
Total cash and cash equivalents per Statements of Net Position		\$ 16,329,530

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Risk Management

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

17. Shipping and Handling Costs

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

18. Net Position

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

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

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

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

19. Unclaimed Prizes

The Act requires that prizes not claimed within the time established by the Lottery are forfeited and shall be paid into the prize fund (unclaimed prize liability accounts). Unclaimed prizes have been applied against prize expense to supplement prizes in the Lottery's games and to promotions and second-chance drawings to increase sales. As of June 30, 2024 and 2023, the Lottery had unclaimed prizes in the amount of \$5,655,340 and \$6,835,910, respectively, reported as prizes payable that had not yet been applied against prize expense. Any unclaimed prizes will continue to be a portion of the 30% return to the Lottery Tuition Fund.

20. Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

21. Compensated Absences Payable

Annual leave and sick leave are accrued at rates specified by the Lottery's Leave and Operational Policy. Annual leave is awarded based on the employee's lottery and governmental years of service, leave status, and employment status (full-time or part-time) and sick leave is awarded at 3.7 hours biweekly for full-time employees. The maximum number of annual leave hours that full-time employees may carry over and retain in their annual leave bank varies from 80 hours for an employee with less than five years of service up to a maximum of 320 hours for an employee with 15 or more years of service. The maximum number of sick leave hours that a full-time employee may carry over from year-to-year is 480 hours. Part-time employees receive leave and carry over and retain leave in their leave banks based on their percentage of employment.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

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, 2024 and 2023, the following changes occurred in the compensated absences liabilities:

<u>Balance</u> <u>July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2024</u>
<u>\$ 204,506</u>	<u>\$ 26,673</u>	<u>\$ (12,472)</u>	<u>\$ 218,707</u>
<u>Balance</u> <u>July 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2023</u>
<u>\$ 226,437</u>	<u>\$ 12,025</u>	<u>\$ (33,956)</u>	<u>\$ 204,506</u>

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; therefore is not presented separately.

22. Lease Liability

The Lottery leased a postage machine for a period of 60 months, beginning on July 1, 2020, and ending on June 30, 2025. The lease was recorded using an incremental interest rate of 3.25%. Payments are due quarterly. The first year’s payments were \$630 per quarter; thereafter, the payments are \$801 per quarter for the remaining four years.

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u>
2025	<u>\$ 3,148</u>	<u>\$ 56</u>	<u>\$ 3,204</u>
	<u>\$ 3,148</u>	<u>\$ 56</u>	<u>\$ 3,204</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

23. Accounts Payable and Other Current Liabilities

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

	<u>2024</u>	<u>2023</u>
Accounts payable	\$ 1,417,270	\$ 1,351,173
Accrued liabilities, vendors*	331,184	346,599
Accrued liabilities, retailers*	3,500	5,000
Accrued payroll, and payroll taxes and benefits	135,404	106,849
Compensated absences	<u>218,707</u>	<u>204,506</u>
	<u>\$ 2,106,065</u>	<u>\$ 2,014,127</u>

* The Lottery has accrued an estimated amount for services delivered by its vendors and deposits for its retailers as of June 30, 2024 and 2023, respectively.

24. New Accounting Pronouncement

GASB Statement No. 100 – *Accounting Changes and Error Correction – an amendment to GASB Statement No. 62.*

For fiscal 2024, the New Mexico Lottery Authority adopted GASB. Statement No. 100. The adoption of this statement prescribing the accounting and financial reporting of each type of accounting change, and error corrections, did not have an effect in the reporting entity for fiscal year 2024.

25. Subsequent Pronouncements

GASB Statement No. 101 – *Compensated Absences*

Effective date: The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

The Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This statement requires that liabilities for compensated absences including parental leave, military leave, and jury duty leave, not be recognized until the leave commences. This statement also establishes guidance for measuring a liability that has not been used, generally using an employee’s pay rate as of the date of the financial statements.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

25. Subsequent Pronouncements – Continued

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

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

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

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

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

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

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE B – CAPITAL ASSETS

Capital assets at June 30, 2024, consisted of:

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
<u>Non-depreciable capital assets</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of art	13,700	-	-	-	13,700
Total non-depreciable capital assets	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Depreciable capital assets</u>					
Building and building improvements	2,462,188	-	48,573	-	2,510,761
Data processing equipment and software	597,948	-	8,733	-	606,681
Equipment	1,720,153	-	-	(24,359)	1,695,794
Vehicles	172,224	-	38,553	(30,365)	180,412
Furniture and fixtures	218,533	-	-	-	218,533
Land improvements & infrastructure	60,366	-	-	-	60,366
Obsolete capital assets	316,961	-	-	(188,042)	128,919
Total depreciable capital assets	<u>5,548,373</u>	<u>-</u>	<u>95,859</u>	<u>(242,766)</u>	<u>5,401,466</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(541,233)	-	(93,029)	-	(634,262)
Data processing equipment and software	(416,631)	-	(67,849)	-	(484,480)
Equipment	(1,028,054)	-	(138,589)	24,359	(1,142,284)
Vehicles	(146,728)	-	(10,012)	30,365	(126,375)
Furniture and fixtures	(218,533)	-	-	-	(218,533)
Land improvements & infrastructure	(10,321)	-	(4,024)	-	(14,345)
Obsolete capital assets	(316,961)	-	-	188,042	(128,919)
Total accumulated depreciation	<u>(2,678,461)</u>	<u>-</u>	<u>(313,503)</u>	<u>242,766</u>	<u>(2,749,198)</u>
Net depreciable capital assets	<u>2,869,912</u>	<u>-</u>	<u>(217,644)</u>	<u>-</u>	<u>2,652,268</u>
<u>Intangible right-to-use assets</u>					
Leased equipment	14,096	-	-	-	14,096
Less accumulated amortization	(8,458)	-	(2,819)	-	(11,277)
Intangible right-to-use assets, net	<u>5,638</u>	<u>-</u>	<u>(2,819)</u>	<u>-</u>	<u>2,819</u>
NET CAPITAL ASSETS	<u><u>\$ 3,619,250</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (220,463)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,398,787</u></u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE B – CAPITAL ASSETS – CONTINUED

Capital assets at June 30, 2023, consisted of:

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
<u>Non-depreciable capital assets</u>					
Land	\$ 730,000	\$ -	\$ -	\$ -	\$ 730,000
Works of art	13,700	-	-	-	13,700
Total non-depreciable capital assets	<u>743,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>743,700</u>
<u>Depreciable capital assets</u>					
Building and building improvements	2,364,188	-	98,000	-	2,462,188
Data processing equipment and software	563,834	-	34,114	-	597,948
Equipment	1,720,153	-	-	-	1,720,153
Vehicles	168,157	-	27,196	(23,129)	172,224
Furniture and fixtures	218,533	-	-	-	218,533
Land improvements & infrastructure	60,366	-	-	-	60,366
Obsolete capital assets	316,961	-	-	-	316,961
Total depreciable capital assets	<u>5,412,192</u>	<u>-</u>	<u>159,310</u>	<u>(23,129)</u>	<u>5,548,373</u>
<u>Less accumulated depreciation</u>					
Building and building improvements	(458,988)	-	(82,245)	-	(541,233)
Data processing equipment and software	(353,671)	-	(62,960)	-	(416,631)
Equipment	(918,440)	-	(109,614)	-	(1,028,054)
Vehicles	(168,157)	-	(1,700)	23,129	(146,728)
Furniture and fixtures	(218,533)	-	-	-	(218,533)
Land improvements & infrastructure	(6,297)	-	(4,024)	-	(10,321)
Obsolete capital assets	(316,961)	-	-	-	(316,961)
Total accumulated depreciation	<u>(2,441,047)</u>	<u>-</u>	<u>(260,543)</u>	<u>23,129</u>	<u>(2,678,461)</u>
Net depreciable capital assets	<u>2,971,145</u>	<u>-</u>	<u>(101,233)</u>	<u>-</u>	<u>2,869,912</u>
<u>Intangible right-to-use assets</u>					
Leased equipment	14,096	-	-	-	14,096
Less accumulated amortization	<u>(5,639)</u>	<u>-</u>	<u>(2,819)</u>	<u>-</u>	<u>(8,458)</u>
Intangible right-to-use assets, net	<u>8,457</u>	<u>-</u>	<u>(2,819)</u>	<u>-</u>	<u>5,638</u>
NET CAPITAL ASSETS	<u>\$ 3,723,302</u>	<u>\$ -</u>	<u>\$ (104,052)</u>	<u>\$ -</u>	<u>\$ 3,619,250</u>

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

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

	Due to Lottery Tuition Fund
Balance at June 30, 2022	\$ 3,394,398
Prior year 30% return	50,559,019
Prior year transfers	<u>(50,216,844)</u>
Balance at June 30, 2023	3,736,573
Current year 30% return	51,084,059
Current year transfers	<u>(51,433,708)</u>
Balance at June 30, 2024	<u>\$ 3,386,924</u>

In accordance with the Lottery Act, no later than the last business day of each month, the Lottery shall transmit at least 30% of the gross revenue of the previous month, to the New Mexico State Treasurer, who shall deposit it into state agency number 950, New Mexico Higher Education Department, the Lottery Tuition Fund, SHARE fund number 63700. As of July 31, 2024 and 2023, the Lottery has transferred \$51,084,059 and \$50,559,019, respectively, for the years ended June 30, 2024 and 2023, 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. 52 and 50 current and former employees of the Lottery (or their beneficiaries) were participants in the plan at the end of fiscal years 2024 and 2023, respectively.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE D – RETIREMENT PLANS – CONTINUED

Plan Descriptions and Funding – Continued

Money Purchase Pension Plan – Continued

Newport Group an Ascensus Company has been the trustee of the retirement plan (the New Mexico Lottery Authority Retirement Plan) since August 15, 2014. As of this same date, new employees enter the retirement plan on their date of hire. The money purchase pension plan allows employees to self-direct their investments into any of the 40 investment funds.

The Lottery contributes 13.25% of compensation for each eligible employee to individual employee accounts for the money purchase pension plan. Employees are immediately 100% vested in the contributions and any earnings on those contributions. For the years ended June 30, 2024 and 2023, the Lottery recognized \$357,008 and \$277,951 of pension expense for the plan on eligible compensation of \$2,443,138 and \$2,253,481, respectively. There were no forfeitures of employee balances for the years ended June 30, 2024 and 2023, respectively. The entire pension amounts applicable to all compensation paid during the respective fiscal years had been paid to the plan by June 30, 2024 and 2023, respectively. For the years ended June 30, 2024 and 2023, the Lottery recognized a contribution liability of \$48,868 and \$11,302, respectively, for contributions owed on compensation earned, but not paid, for the last few days of each fiscal year.

457(b) Plan

Effective August 2, 2014, a Section 457(b) Plan, (the New Mexico Lottery Authority 457(b) Plan) commenced that allows both pre-tax and Roth (after tax) contributions by employees for their retirement up to applicable annual Internal Revenue Code limits. Newport Group an Ascensus Company is the trustee for the 457(b) plan. This plan, like the money purchase pension plan, allows employees to self-direct their investments into any of the 40 investment funds. 38 and 37 current and former employees of the Lottery were participants in the plan at the end of fiscal years 2024 and 2023, respectively. All amounts withheld from employee compensation during the respective fiscal year for Section 457(b) contributions had been paid to the plan by June 30, 2024 and 2023, respectively. For the years ended June 30, 2024 and 2023, the Lottery recognized a contribution liability of \$6,016 and \$5,431, respectively, for contributions owed, but not paid, for the last few days of each fiscal year.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE D – RETIREMENT PLANS – CONTINUED

Fair Value Measurement of Retirement Plan Investments

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

The Lottery has the following fair value measurements as of June 30, 2024 and 2023:

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, 2024 and 2023, in the amount of \$1,655,199 and \$1,482,643, respectively, with varying investment quality ratings and maturities. The maturities averaged between three and nine years with an average rating of primarily A on the underlying investments.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

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:

	2024		2023	
	Money Purchase Pension Plan	457(b) Retirement Plan	Money Purchase Pension Plan	457(b) Retirement Plan
Total investments in the fair value measurement:				
Level 1 - Quoted prices in active markets				
<u>Mutual funds</u>				
US Equity				
Value	\$ 627,649	\$ 146,098	\$ 523,757	\$ 175,367
Blend	825,995	69,098	652,385	238,462
Growth	564,432	329,389	571,248	173,609
Total US Equity	2,018,076	544,585	1,747,390	587,438
Bonds	358,493	53,148	335,262	39,721
Target Date	3,710,197	837,307	3,081,415	511,184
Balanced asset allocation	442,090	8,301	382,152	6,160
Foreign Equity	258,801	10,050	245,482	5,785
Specialty/Other	2,411,695	451,124	2,307,534	515,917
Total Level 1	9,199,352	1,904,515	8,099,235	1,666,205
Total investments in the fair value measurement	9,199,352	1,904,515	8,099,235	1,666,205
Other plan assets exempt from the fair value measurement:				
Money market/cash	64,197	-	68,930	-
Contribution receivable	48,868	6,016	11,302	5,431
Total plan assets	\$ 9,312,417	\$ 1,910,531	\$ 8,179,467	\$ 1,671,636

The balances and activity of both Plans as of and for the years ended June 30, 2024 and 2023, are presented in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. There are no separately issued financial statements available for the New Mexico Lottery Authority Retirement Plans.

NEW MEXICO LOTTERY AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED

Years Ended June 30, 2024 and 2023

NOTE E – CREDIT AGREEMENT

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

On August 28, 2020, the credit agreement was extended to May 14, 2024, extended a second time through May 14, 2027, under the same terms and conditions. Wells Fargo Bank prime rate was 8.50% and 8.25%, respectively, for June 30, 2024 and 2023. For the years ended June 30, 2024 and 2023, the Lottery had no outstanding borrowings against the line of credit.

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

NOTE F – COMMITMENT

Effective November 22, 2015, the Lottery entered into an agreement with INTRALOT, Inc., a Georgia-based company, to provide an online gaming system for a total of eight years. The system includes the supply, maintenance, service, and operation of a communication network; a back-office accounting system; lottery terminals and peripheral equipment for the Lottery's existing and future retailers; ticket scanners to enable players to check their tickets for prizes; self-service ticket vending machines that sell both instant and draw game tickets; disaster recovery services; and various employees to operate the system and provide sales and marketing support to the Lottery, including a 15-member lottery sales team. On October 30, 2018, the Lottery entered into an agreement to extend the term for two additional years for a total of 10 years ending on November 21, 2025.

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

Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Instant ticket sales	\$ 89,560,751	\$ 87,992,086
Powerball sales	38,482,929	33,693,900
Mega Millions sales	22,213,456	25,999,956
Roadrunner Cash sales	7,180,365	6,798,608
Pick 3 Plus sales	5,016,396	4,855,587
Lotto America sales	4,175,914	6,073,748
Pick 4 Plus sales	1,948,777	1,928,279
Fast Play sales	1,658,620	1,117,150
Total Net ticket sales	170,237,208	168,459,314
Retailer fees	13,025	10,370
Total operating revenues	170,250,233	168,469,684
NON-OPERATING INCOME		
Interest income	34,888	27,267
Other income	281	-
Total non-operating income	35,169	27,267
GROSS REVENUES	170,285,402	168,496,951
GAME EXPENSES		
Prize expense	93,553,105	91,874,932
Retailer commissions	10,887,326	10,807,603
On-line vendor fees	5,709,685	5,663,619
Advertising	1,979,017	2,063,589
Ticket vendor fees	1,995,726	1,663,391
Shipping and postage	485,203	438,770
Responsible gaming	70,000	70,000
Retailer equipment	34,560	41,225
Promotions	79,066	50,210
Game membership	-	35,059
Total game expenses	114,793,688	112,708,398
OPERATING EXPENSES		
Salaries, wages, and benefits	3,211,691	3,019,908
Utilities and maintenance	285,828	276,513
Depreciation and amortization	316,322	263,360
Leases and insurance	166,555	163,498
Professional fees	199,343	146,848
Other	227,750	118,013
Operational Reserve Fund expense	10	1,233,490
Total operating expenses	4,407,499	5,221,630
OPERATING INCOME	51,049,046	50,539,656
NON-OPERATING EXPENSE		
Interest expense	156	254
Other expense	-	7,650
Net non-operating income	156	7,904
NET INCOME	\$ 51,084,059	\$ 50,559,019
GROSS REVENUE PERCENTAGE RETURN	30.00%	30.00%

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the New Mexico Lottery Authority (the Lottery) as of and for the year ended June 30, 2024, 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 21, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

We noted a certain matter that is required to be reported per section 12-6-5 NMSA 1978 that has been described in the accompanying schedule of findings and responses as item 2024-001 (2023-001).

New Mexico Lottery Authority's Response to Findings

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

Purpose of this Report

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



Albuquerque, New Mexico
October 21, 2024

NEW MEXICO LOTTERY AUTHORITY

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

June 30, 2024

Financial Statements

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

Internal control over financial reporting:

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

Compliance and other matters noted? Yes No

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2024

SECTION II: FINANCIAL STATEMENT FINDINGS

None noted.

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

2024-001 (2023-001) – Logical Security and Access (Other non-compliance)

Condition: During our audit, we identified the following items related to the New Mexico Lottery Authority IT Controls:

- New Mexico Lottery Authority did not have documentation to show a formal user access review is performed over the BOS/Intralot system.
- We noted that the New Mexico Lottery Authority did not have formal documentation of an annual segregation of duties review over the BOS/Intralot system.

Management Progress: Management made progress by implementing controls over termination access, change management and review of controls related to third-party vendors.

Criteria: Formal user access reviews are required management reviews that should be performed on an at least semi-annual (preferably quarterly) basis. Detective controls are the safety nets for the preventative controls. A formal segregation of duties review is a required management review that is performed on an annual basis.

Effect: Without control(s) that are designed, implemented, operating effectively, and formally documented there is an IT security and access risk. Segregation of duties risk may not be identified timely if formal management reviews over user access rights are not performed and documented. Detective security controls should be designed to detect and alert after an event has occurred. Detective controls are a foundational part of governance frameworks and are the guardrails (i.e., a second line of defense) notifying management of security issues that bypassed the preventative controls.

Cause: New Mexico Lottery Authority has not developed a formal control or process to review user access or segregation of duties over the New Mexico Lottery Authority's BOS/Intralot system. Management focused efforts during the year related to IT over the Great Plains system and did not deem the IT over BOS/Intralot system to be significant.

Repeat Finding: This was previously reported as finding 2023-001.

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2024

Recommendation: To ensure the New Mexico Lottery Authority continues to develop and implement IT controls and maintains logs, tickets, reports, and other formal documentation to support execution of IT control procedures. Encourage the New Mexico Lottery Authority to continue to enhance its IT controls and environment and ensure the following security and access controls are implemented:

- New Mexico Lottery Authority management must design, implement, and ensure operating effectiveness over user access reviews not only over the BOS/Intralot system, but over each IT systems.
- Ensure that appropriate levels of management are involved in the user access review.
- User access rights are assessed for conflicts in segregation of duties. Document of rationale or assessment of user access rights granted to each user along with user defined roles within the BOS/Intralot system and all IT system which the New Mexico Lottery Authority operates.

Agency Response: The New Mexico Lottery Authority's operations are based on integrity and lottery industry's best practices. Without a specific statute, regulation, or even a cited industry standard to reference, the New Mexico Lottery Authority did not have clear direction of how to cure the finding.

The New Mexico Lottery Authority management found the prior year's finding to be vague, but the New Mexico Lottery Authority nonetheless successfully remediated all known issues. Management would have remediated the one remaining issue had it been clearly articulated in the finding. The original fiscal year 2023 finding cited Dynamics GP (the New Mexico Lottery Authority's accounting software, referred to as "Great Plains" by Moss Adams) numerous times and was the focus of the New Mexico Lottery Authority's successful remediation efforts. The fiscal year 2023 finding did not cite BOS (Back Office System)/Intralot even once, but the fiscal year 2024 carry-over finding now cites BOS/Intralot. Following the New Mexico Lottery Authority's criticisms of the 2023 finding, Moss Adams expanded the 2024 finding to "not only cover the BOS/Intralot system, but to include each IT systems." The New Mexico Lottery Authority finds this methodology unreasonable.

The BOS/Intralot system is primarily a reporting system used by employees to accomplish their specific job functions. The software that runs the system is proprietary code, and the New Mexico Lottery Authority has no authority or ability to change or modify the code. All system changes require the New Mexico Lottery Authority management review and approval at multiple levels with appropriate ticketed documentation.

When the New Mexico Lottery Authority migrated to BOS, the Executive Vice President for Security (EVP) met with management and Intralot to determine what permissions would be given to dedicated user roles with appropriate segregation of duties (SOD) implemented, so that user roles have built-in controls for SOD by design. For example, accountants would be given the "Finance" user role. The New Mexico Lottery Authority has operated under the procedure that built-in user roles are assigned as users start a position and removed when terminated from that position.

NEW MEXICO LOTTERY AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2024

The EVP is the only New Mexico Lottery Authority employee empowered to assign user roles on BOS or grant added permissions. Since the New Mexico Lottery Authority staffing remains constant, permissions seldom change, and if a new accountant were to be hired, that accountant would generally be assigned the same privileges as the previous accountant. Similarly, a new Director of Sales would have the same privileges as their predecessor. Having BOS permission(s) does not give an employee permission(s) on the Dynamics GP financial system. The risk to the New Mexico Lottery Authority operations by users of BOS is minimal. Management therefore disagrees with the 2024 finding.

Notwithstanding the New Mexico Lottery Authority's disagreement with the finding, management will take necessary steps to obviate the 2024 finding.

Moss Adams Response: Management noted that the risk of the system is minimal and that the above should be a recommendation and not a finding. While we recognize that at some point the user roles may have been reviewed at system implementation, there have been various roles and changes in the users throughout. As noted in the finding, we were unable to get comfortable through the documentation provided that these reviews were performed during the fiscal year. The operations of the BOS/Intralot system are considered significant to the New Mexico Lottery Authority as a whole as this system processes all of the point of sale data that drives the total sales amounts. This system was scoped in as a relevant IT system and was audited in both 2023 and 2024. The finding noted above relates to the 2024 fiscal year.

NEW MEXICO LOTTERY AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2024

2023-001-Logical Security and Access (IT Noncompliance) – Repeat and Modified as finding
2024-001

NEW MEXICO LOTTERY AUTHORITY

EXIT CONFERENCE

For the Year Ended June 30, 2024

An exit conference was held at the New Mexico Lottery Authority on October 16, 2024. The following individuals participated:

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

Financial Statement Preparation

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

