THE ADDITIONAL LOTTERY SYSTEM

(AN ENTERPRISE FUND OF THE COMMONWEALTH OF PUERTO RICO)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)

THE ADDITIONAL LOTTERY SYSTEM

(AN ENTERPRISE FUND OF THE COMMONWEALTH OF PUERTO RICO)

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TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Administrator of
The Additional Lottery System
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of **The Additional Lottery System** (from now on "the Lottery"), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net deficit and cash flows for the year then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2019 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis - of - Matter

Newly Adopted Standards

As discussed in Note 16 to the basic financial statements, the Lottery adopted new guidance of GASB Statement No. 73 "Accounting and Financial Reporting for Pension and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68" and GASB Statement No. 95 "Postponement of the Effective Dates of Certain Authoritative Guidance". Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis, on pages 4 through 23, and the schedule of proportionate share of the total pension liability and the related schedule of changes in total pension liability, as part of employees' retirement systems information, on pages 80 to 81, respectively, and the schedule of proportionate share of the other postemployment benefits liability other than pensions and the related schedule of changes in total other postemployment benefits liability, on pages 82 to 83, respectively, be presented to supplement the basic financial statements..

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated September 13, 2021, on our consideration of the Lottery's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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

Other Reporting Required by Government Auditing Standards (Continued)

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Lottery's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

September 13, 2021

Stamp **#E463133** of the
College of CPA's of
Puerto Rico is affixed
to the original.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2019 and 2018

Introduction

The following management's discussion and analysis of the financial performance and activity of **The Additional Lottery System** (from now on "the Lottery") provides an introduction and understanding of the basic financial statements of the Lottery for the fiscal years ended June 30, 2019 and 2018. This discussion was prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follows this section.

The Lottery was created by Law No. 10 of the Commonwealth of Puerto Rico (from now on "the Commonwealth") on May 24, 1989 and commenced operations effective June 1, 1990. The Lottery is an enterprise fund of the Commonwealth.

The Lottery originates its revenues from two product lines: draw games and instant games. The Lottery develops multiple games themed and prize structures to comply with its enabling legislation and customer demands. Currently, the Lottery administers eight (8) games: Pega 4, Pega 3, Pega 2 and their variations, (Powerball, Powerplay), (Lotto and Multipicador), Revancha, Kino and instant games. Kino was added during November 2016 with draws from Monday through Saturday of each week. The Powerball and Powerplay games were added during the year ended June 30, 2015 with draws on Wednesday and Saturday of each week. Independent and corporate retailers comprised principally of grocery and convenience stores, package food stores and restaurants serve as the primary distribution channel for online and instant lottery sales to the general public. Retailers received a commission of 5% of net sales plus 1% of net prizes paid on instant games.

As provided by Law No. 10, the Lottery must transfer to the Commonwealth the income for each fiscal year, adjusted for any amount specifically authorized by the Commonwealth.

The Lottery was established as a bureau of the Treasury Department of the Commonwealth (from now on "the Department"), which supervises and controls its operations.

Financial Highlights

- Payments to the Commonwealth were approximately $147.7 million in 2019 to $102.4 million in 2018, an increase of $45.3 million or 44.2% from than the previous year,
- Lottery ticket sales were approximately $466.2 million in 2019 and $338.6 million in 2018, an increase of $127.6 million or 37.7% from the previous year, and
- Prizes paid were approximately $257.1 million in 2019 and $178.8 million in 2018, an increase of $78.3 million or 43.8% from the previous year.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Basic Financial Statements

The basic financial statements provide information about the Lottery's activities. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

New Significant Accounting Standards Implemented

During fiscal year 2018-2019, the Lottery adopted, when applicable, the following new statements of financial accounting standards issued by the GASB:

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

Other statements includes:

GASB Statement No. 83, “Certain Asset Retirement Obligations”. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO’s, including obligations that may not have been previously reported.

GASB Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements”. This statement will improve the information that is disclosed in notes of governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

GASB Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance”. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 or later.

These are further explained on Note 16 to the basic financial statements.

The Additional Lottery System
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Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Overview of the Basic Financial Statements

The basic financial statements comprise three components: (1) management discussion and analysis, (2) basic financial statements, including statements of net deficits, statements of revenues, expenses, and changes in net deficits, statements of cash flows, and notes to the basic financial statements, and (3) required supplementary information. The basic financial statements were prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

- **Statements of Net Deficits**

The statements of net deficits reports all financial and capital resources of the Lottery. The statements are presented in the format where assets and deferred outflows of resources equal liabilities, deferred inflows of resources and net deficit. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current. The focus of the statements of net deficits is to show a picture of the liquidity and health of the Lottery's financial position as of the end of the fiscal years.

The Lottery's net deficits are reported in the following categories:

(a) Net Investment in Capital Assets - this component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, and
(b) Unrestricted - this component includes all net position (deficit) that does not meet the definition of net position invested in capital assets.

- **Statements of Revenues, Expenses, and Changes in Net Deficits**

The statements of revenues, expenses, and changes in net deficits include operating revenues, which consist of sales of tickets, and operating expenses, such as prizes, salaries and employees benefits, commissions paid to retailers, online service fee and other administrative expenses; and non-operating revenues, such as interests and investment income. The focus of the statements of revenues, expenses, and changes in net deficits are the change in net position. This is similar to net income or loss and reflects the results of operations of the Lottery for the entire operating periods.

Overview of the Basic Financial Statements (Continued)

- **Statements of Cash Flows**

The statements of cash flows disclose net cash provided by or used for operating activities, investing activities, noncapital and related financing activities, and from capital and related financing activities. These statements also reflects the health of the Lottery in that current cash flows are sufficient to pay current liabilities.

- **Notes to the Basic Financial Statements**

The notes to the basic financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, defined-benefit pension plans, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

- **Required Supplementary Information – Employee's Retirement System**

The annual financial report includes two required supplementary schedules after the notes to the Basic Financial Statements, the Schedule of Proportionate Share of the Total Pension Liability and Schedule of Changes in Total Pension Liability, as the result of the implementation of GASB Statement No. 73.

- **Required Supplementary Information – Postemployment Benefits Other Than Pensions (OPEB)**

The annual financial report includes two required supplementary schedules after the notes to the Basic Financial Statements, the Schedule of Proportionate Share of Other Postemployment Benefits Liability and Schedule of Changes in Other Postemployment Benefits Liability, as the result of the implementation of GASB Statement No. 75.

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The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Overview of the Basic Financial Statements (Continued)

Summary of Net Deficits (2019 and 2018)

The following presents the Lottery's condensed statements of net deficits as of June 30, 2019 and 2018:

	2019	2018	(Decrease)
Assets			
Current Assets	$76,511,579	$91,226,001	($14,714,422)
Non-Current Assets:			
Capital Assets	249,137	134,995	114,142
Prepaid Income Tax on Prizes	11,866,368	13,894,468	(2,028,100)
Due From MUSL	-	256,275	(256,275)
Prize Reserve to MUSL	2,688,173	2,105,726	582,447
Other	2,642	2,470	172
	91,317,899	107,619,935	(16,302,036)
Deferred Outflow			
Pension Related	7,713	4,164,092	(4,156,379)
Other Postemployment Benefits Related	1,200	-	1,200
	8,913	4,164,092	(4,155,179)
Total Assets and Deferred Outflows	91,326,812	111,784,027	(20,457,215)
Liabilities			
Current Liabilities	33,548,199	51,090,047	(17,541,848)
Non-Current Liabilities	63,614,289	83,949,608	(20,335,319)
Total Liabilities	97,162,488	135,039,655	(37,877,167)
Deferred Inflow			
Unamortized Investment in Employees Retirement System	19,114	201,411	(182,297)
Net Position (Deficits)			
Net Investment in Capital Assets	249,137	134,995	114,142
Unrestricted Deficits	(6,103,927)	(23,592,034)	17,488,107
Deficits	($5,854,790)	($23,457,039)	$17,602,249

Net position (assets and deferred outflows over liabilities and deferred inflows) may serve over time as a useful indicator of a governmental entity's financial position. Net Deficit decreased by 75% with respect to prior year.

Current assets consist of cash and cash equivalents and accounts receivable from retailers. Accounts receivable are generally settled on a weekly basis by a direct transfer from the retailers' bank account for the amount owned.

Summary of Net Deficits (2019 and 2018) (Continued)

During the fiscal year ended June 30, 2019, current assets decreased by $14.7 million in comparison to fiscal year ended June 30, 2018, principally due to a decrease in cash and cash equivalents. Cash decrease comes from transfers due for fiscal years 2016-2017 and 2017-2018 in the total amount of $18 million, which were transferred on April 5, 2019.

Non-current assets consist principally of amounts due by the Commonwealth. This amount consists principally of advances made during fiscal year 2019 based on estimates.

During the fiscal year ended June 30, 2019, non-current assets decreased by $1.6 million due principally to the decrease in prepaid income tax on prizes of $2 million. The Lottery prepaid certain amount of the tax on prizes, to be paid between twenty (20) and thirty (30) year annuities. These taxes are amortized as prize expenses over the life of the annuity.

Current liabilities consist principally of accounts payable and accrued liabilities, transfers due to the Commonwealth and the current portion of prizes payable.

During the fiscal year ended June 30, 2019, current liabilities decreased by $17.5 million, principally due to the payment of transfers due to the Commonwealth of Puerto Rico for fiscal years 2016-2017 and 2017-2018 in the total amount of $18 million, which were transferred on April 5, 2019.

Non-current liabilities consist principally of the long-term portion of the annuity prize obligations. These liabilities are generally paid in annual installments over a period of twenty (20) and thirty (30) years.

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The Additional Lottery System
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Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Summary of Net Deficits (2018 and 2017)

The following presents the Lottery's condensed statements of net deficits as of June 30, 2018 and 2017:

	2018	2017	Increase/ (Decrease)
Assets			
Current Assets	$ 91,226,001	$ 73,924,563	$ 17,301,438
Non-Current Assets:			
Capital Assets	134,995	171,819	(36,824)
Prepaid Income Tax on Prizes	13,894,468	16,188,942	(2,294,474)
Due from MUSL	256,275	1,583,923	(1,327,648)
Prize Reserve to MUSL	2,105,726	1,489,110	616,616
Other	2,470	2,500	(30)
	107,619,935	93,360,857	14,259,078
Deferred Outflow			
Contributions to ERS	4,164,092	4,164,092	-
Total Assets	111,784,027	97,524,949	14,259,078
Liabilities			
Current Liabilities	51,090,047	43,595,991	7,494,056
Non-Current Liabilities	83,949,608	97,276,586	(13,326,978)
Total Liabilities	135,039,655	140,872,577	(5,832,922)
Deferred Inflow			
Unamortized Investments in ERS	201,411	201,411	-
Net Position (Deficits)			
Net Investment in Capital Assets	134,995	171,819	(36,824)
Unrestricted Deficits, as Restated	(23,592,034)	(43,718,217)	20,126,183
Deficits	$ (23,457,039)	$ (43,546,398)	$ 20,089,359

Net position (assets and deferred outflows over liabilities and deferred inflows) may serve over time as a useful indicator of a governmental entity's financial position. Net Deficit for the year had a decrease of 46.1% with respect to prior year.

Current assets consist of cash and cash equivalents and accounts receivable from retailers. Accounts receivable are generally settled on a weekly basis by a direct transfer from the retailers' bank account for the amount owned.

During the fiscal year ended June 30, 2018, current assets increased by $17.3 million in comparison to fiscal year ended June 30, 2017, principally due to an increase in cash and cash equivalents and accounts receivable. Cash increase comes from transfer due for fiscal year 2016-2017 and 2017-2018 in the total amount of $18 million which was transferred on April 5, 2019.

The Additional Lottery System
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Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Summary of Net Deficits (2018 and 2017) (Continued)

Non-current assets consist principally of amounts due by the Commonwealth. This amount consists principally of advances made during fiscal year 2018 based on estimates.

During the fiscal year ended June 30, 2018, non-current assets decreased by $3 million due to the decrease in prepaid income tax on prizes of $2.3 million. The Lottery prepaid certain amount of the tax on prizes, to be paid between twenty (20) and thirty (30) year annuities. These taxes are amortized as prize expenses over the life of the annuity.

Current liabilities consist principally of accounts payable and accrued liabilities, transfers due to the Commonwealth and the current portion of prizes payable.

During the fiscal year ended June 30, 2018, current liabilities increased by $7.4 million, principally due to an increase of the transfer due to the Commonwealth of Puerto Rico in the amount of $6.8 million.

Non-current liabilities consist principally of the long-term portion of the annuity prize obligations. These liabilities are generally paid in annual installments over a period of twenty (20) and thirty (30) years.

Summary of Revenues, Expenses, and Changes in Net Deficits (2019 and 2018)

The following presents a condensed summary of the statements of revenues, expenses, and changes in net deficits for the fiscal years ended June 30, 2019 and 2018:

	2019	2018	(Decrease)
Operating Revenues	$466,189,560	$338,606,498	$127,583,062
Non-Operating Revenues	70,344	907,085	(836,741)
Total Revenues	466,259,904	339,513,583	126,746,321
Operating Expenses:			
Direct Costs	296,608,699	207,438,970	89,169,729
General and Administrative	4,274,672	9,367,889	(5,093,217)
Total Operating Expenses	300,883,371	216,806,859	84,076,512
Non-Operating Expenses	70,344	187,430	(117,086)
Income Before Payments to Commonwealth	165,306,189	122,519,294	42,786,895
Less Payments to Commonwealth	147,703,940	102,429,935	45,274,005
Change in Net Deficits	17,602,249	20,089,359	(2,487,110)
Net Deficits			
Beginning of Year	(23,457,039)	(43,546,398)	20,089,359
End of Year	($5,854,790)	($23,457,039)	$17,602,249

The Additional Lottery System
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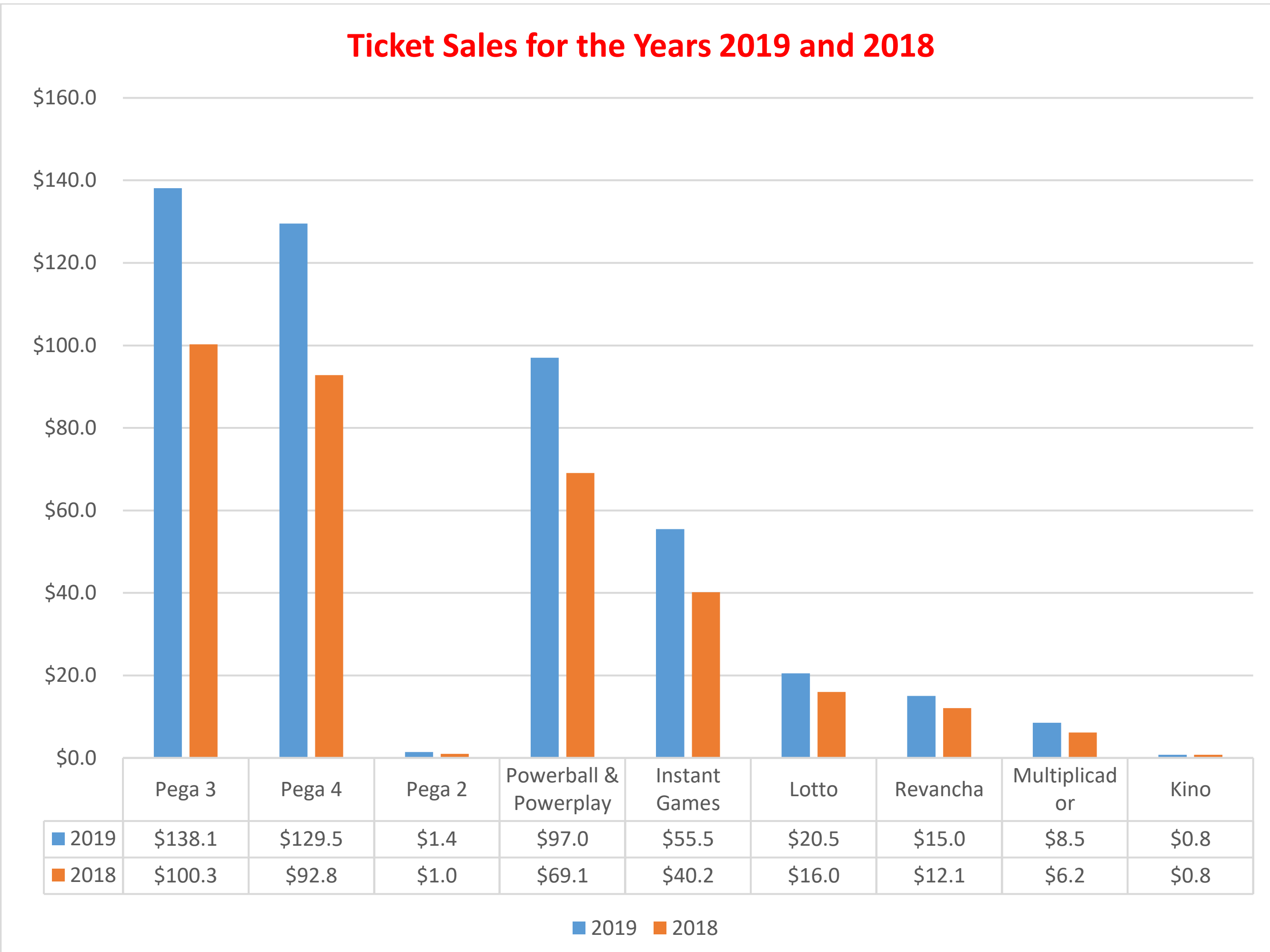
Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Summary of Revenues, Expenses, and Changes in Net Deficits (2019 and 2018) (Continued)

Operating revenues consist of the sales of the games tickets. The following chart summarizes the Lottery tickets sales for each game product for the years 2019 and 2018:



	Pega 3	Pega 4	Pega 2	Powerball & Powerplay	Instant Games	Lotto	Revancha	Multiplicador	Kino
2019	$138.1	$129.5	$1.4	$97.0	$55.5	$20.5	$15.0	$8.5	$0.8
2018	$100.3	$92.8	$1.0	$69.1	$40.2	$16.0	$12.1	$6.2	$0.8

When comparing year 2019 to year 2018, total tickets sales increased by approximately $127.6 million. Also, there is an increase in prizes paid to all games of approximately $78.3 million. The increase in ticket sales and prizes paid were due to signs of recovery from the economic recession that affected fiscal year 2018 as a result of the effects of Hurricanes Irma and Maria in the Puerto Rico economy.

The Additional Lottery System
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Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Summary of Revenues, Expenses, and Changes in Net Deficits (2018 and 2017)

The following presents a condensed summary of the statements of revenues, expenses, and changes in net deficit for the fiscal years ended June 30, 2018 and 2017:

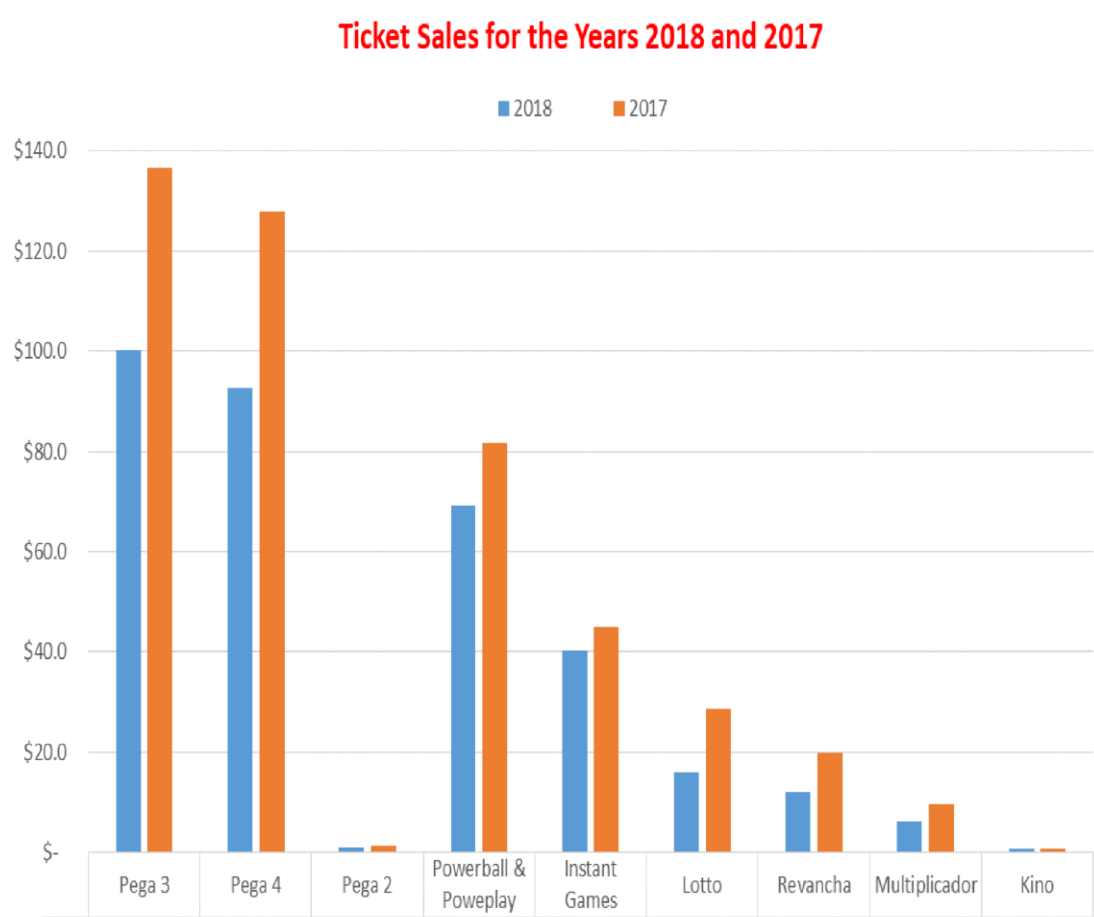
	2018	2017	Increase/ (Decrease)
Operating Revenues	$338,606,498	$451,436,981	$112,830,483)
Non-Operating Revenues	907,085	198,586	708,499
Total Revenues	339,513,583	451,635,567	112,121,984)
Operating Expenses:			
Direct Costs	207,438,970	286,558,465	(79,119,495)
General and Administrative	9,367,889	10,316,232	(948,343)
Total Operating Expenses	216,806,859	296,874,697	(80,067,838)
Non-Operating Expenses	187,430	151,006	36,424
Income Before Payments to the Commonwealth	122,519,294	154,609,864	(32,090,570)
Less: Payments to the Commonwealth	102,429,935	132,634,275	(30,204,340)
Change in Net Deficits	20,089,359	21,975,589	(1,886,230)
Net Deficits:			
Beginning of Year, as Restated	(43,546,398)	(65,521,987)	21,975,589
End of Year	$ (23,457,039)	$ (43,546,398)	$ 20,089,359

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Summary of Revenues, Expenses, and Changes in Net Deficits (2018 and 2017) (Continued)

Operating revenues consists of the sales of the games tickets. The following chart summarizes the Lottery tickets sales for each game product for the fiscal years 2018 and 2017:



	Pega 3	Pega 4	Pega 2	Powerball & Poweplay	Instant Games	Lotto	Revancha	Multiplicador	Kino
2018	$100.3	$92.8	$1.0	$69.1	$40.2	$16.0	$12.1	$6.2	$0.8
2017	$136.6	$127.7	$1.3	$81.7	$44.9	$28.5	$19.7	$9.7	$0.8

When comparing year 2018 to year 2017, total tickets sales decreased by approximately $112.8 million. Also, there is a decrease in prizes paid to all games of approximately $68 million. The decrease in ticket sales and prizes paid were due to economic recession during the year 2018 and the overall effects of Hurricanes Irma and Maria in the Puerto Rico economy.

The Additional Lottery System
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Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Net Ticket Sales (2019 and 2018)

Net ticket sales for the fiscal years ended June 30, were as follows:

	2019	2018	Increase/ (Decrease)
Pega 3			
Night Draw	$91,370,977	$67,699,159	$23,671,818
Day Draw	46,751,778	32,584,081	14,167,697
Pega 4			
Night Draw	91,354,088	66,390,275	24,963,813
Day Draw	38,130,357	26,384,065	11,746,292
Pega 2			
Night Draw	807,666	624,079	183,587
Day Draw	554,554	424,018	130,536
Powerball	66,995,301	48,068,922	18,926,379
Powerplay	29,957,148	21,069,280	8,887,868
Lotto	20,520,112	16,025,609	4,494,503
Revancha	14,985,220	12,137,508	2,847,712
Multiplicador	8,468,212	6,204,367	2,263,845
Kino	752,302	796,958	(44,656)
Instant Games	55,541,845	40,198,177	15,343,668
Total	$466,189,560	$338,606,498	$127,583,062

During the fiscal year ended June 30, 2019, there were eight (8) big winners of Powerball, Lotto, and Revancha as compared to four (4) big winners of Powerball, Lotto and Revancha in the fiscal year ended June 30, 2018 as follows:

	2019	2018
Lotto Grand Prize Winners:		
Annuity Payment	1	-
Lump Sum Payment	1	1
Unclaimed Prizes	-	-
Revancha Prize Winners:		
Lump Sum Payment	3	1
Unclaimed Prizes	-	-
Powerball & Powerplay Prize Winners:		
Annuity Payment	-	-
Lump Sum Payment	3	1
Unclaimed Prizes	-	1
Total	8	4

Net Ticket Sales (2019 and 2018) (Continued)

During the fiscal year ended June 30, 2019, the three (3) largest prizes awarded for Powerball amounted to $2.0 million each, three (3) large prizes were awarded for Revancha amounting to $3.55 million, $1.15 million and $0.2 million, respectively; and the two (2) largest prizes for Lotto amounted to $13 million and $2.45 million. In 2018, the two (2) largest prizes awarded for Powerball amounted to $2.0 million and $1 million each, one (1) large prize was awarded for Revancha amounted to $7.55 million and the largest prizes for Lotto amounted to $8.75 million.

Prize expenses include the actual amounts paid plus the amortization of interests on the prizes annuity obligations.

Prize expenses, by the different games offered by the Lottery, during the fiscal years ended June 30, 2019 and 2018, were as follows:

	2019	2018	Increase/ (Decrease)
Pega 3			
Night Draw	$48,012,900	$30,979,360	$17,033,540
Day Draw	25,441,260	15,637,520	9,803,740
Pega 4			
Night Draw	46,161,430	27,967,970	18,193,460
Day Draw	16,221,110	12,387,590	3,833,520
Pega 2			
Night Draw	377,325	332,325	45,000
Day Draw	276,525	234,525	42,000
Powerball	32,912,348	23,365,782	9,546,566
Powerplay	14,981,330	10,586,703	4,394,627
Lotto	21,647,076	19,842,547	1,804,529
Revancha	9,381,178	7,588,686	1,792,492
Multiplicador	5,715,944	3,791,722	1,924,222
Kino	403,726	432,037	(28,311)
Instant Games	35,584,280	25,664,036	9,920,244
Total	$257,116,432	$178,810,803	$78,305,629

Prize expenses, as a percentage of ticket sales, was 55.2% during the fiscal year ended June 30, 2019 as compared to 52.8% during the fiscal year ended June 30, 2018. The enabling law requires that at least 45% of the ticket sales be returned to players in the form of prizes.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Net Ticket Sales (2018 and 2017)

Net ticket sales for the fiscal years ended June 30, were as follows:

	2018	2017	Increase/ (Decrease)
Pega 3			
Night Draw	$ 67,699,159	$ 94,041,442	$ (26,342,283)
Day Draw	32,584,081	42,653,423	(10,069,342)
Pega 4			
Night Draw	66,390,275	92,942,404	(26,552,129)
Day Draw	26,384,065	34,866,245	(8,482,180)
Pega 2			
Night Draw	624,079	823,143	(199,064)
Day Draw	424,018	522,812	(98,794)
Powerball	48,068,922	56,850,347	(8,781,425)
Powerplay	21,069,280	24,958,388	(3,889,108)
Lotto	16,025,609	28,517,366	(12,491,757)
Revancha	12,137,508	19,762,304	(7,624,796)
Multiplicador	6,204,367	9,701,200	(3,496,833)
Kino	796,958	885,176	(88,218)
Instant Games	40,198,177	44,912,731	(4,714,554)
Total	$338,606,498	$451,436,981	$(112,830,483)

During the fiscal year ended June 30, 2018, there were four (4) big winners of Powerball, Lotto, and Revancha, as compared to eight (12) winners of Lotto and Revancha in the fiscal year ended June 30, 2017, as follows:

	2018	2017
Lotto Grand Prize Winners:		
Annuity Payment	-	-
Lump Sum Payment	1	4
Unclaimed Prizes	-	-
Revancha Prize Winners:		
Lump Sum Payment	1	2
Unclaimed Prizes	-	-
Powerball & Powerplay Prize Winners:		
Annuity Payment	-	-
Lump Sum Payment	1	6
Unclaimed Prizes	1	-
Total	4	12

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Net Ticket Sales (2018 and 2017) (Continued)

During the fiscal year ended June 30, 2018, the two (2) largest prizes awarded for Powerball amounted to $2.0 million and $1 million each, one (1) large prize was awarded for Revancha amounted to $7.55 million and the largest prizes for Lotto amounted to $8.75 million. In 2017, the six (6) largest prizes awarded for Powerball amounted to $2.0 million each and the largest prizes for Lotto amounted to $34.0 and $10.25 million.

Prize expenses include the actual amount paid, plus the amortization of interests on the prizes annuity obligations.

Prize expenses by the different games offered by the Lottery during the fiscal years ended June 30, 2018 and 2017, were as follows:

	2018	2017	Increase/ (Decrease)
Pega 3			
Night draw	$ 30,979,360	$ 50,787,800	$ (19,808,440)
Day draw	15,637,520	19,561,320	(3,923,800)
Pega 4			
Night draw	27,967,970	39,144,500	(11,176,530)
Day draw	12,387,590	14,857,580	(2,469,990)
Pega 2			
Night draw	332,325	409,000	(76,675)
Day draw	234,525	269,650	(35,125)
Powerball	23,365,782	27,574,489	(4,208,707)
Powerplay	10,586,703	12,424,388	(1,837,685)
Lotto	19,842,547	33,739,374	(13,896,827)
Revancha	7,588,686	11,426,953	(3,838,267)
Muliplicador	3,791,722	5,975,356	(2,183,634)
Kino	432,037	493,434	(61,397)
Instant Games	25,664,036	30,153,665	(4,489,629)
Total	$178,810,803	$246,817,509	$ (68,006,706)

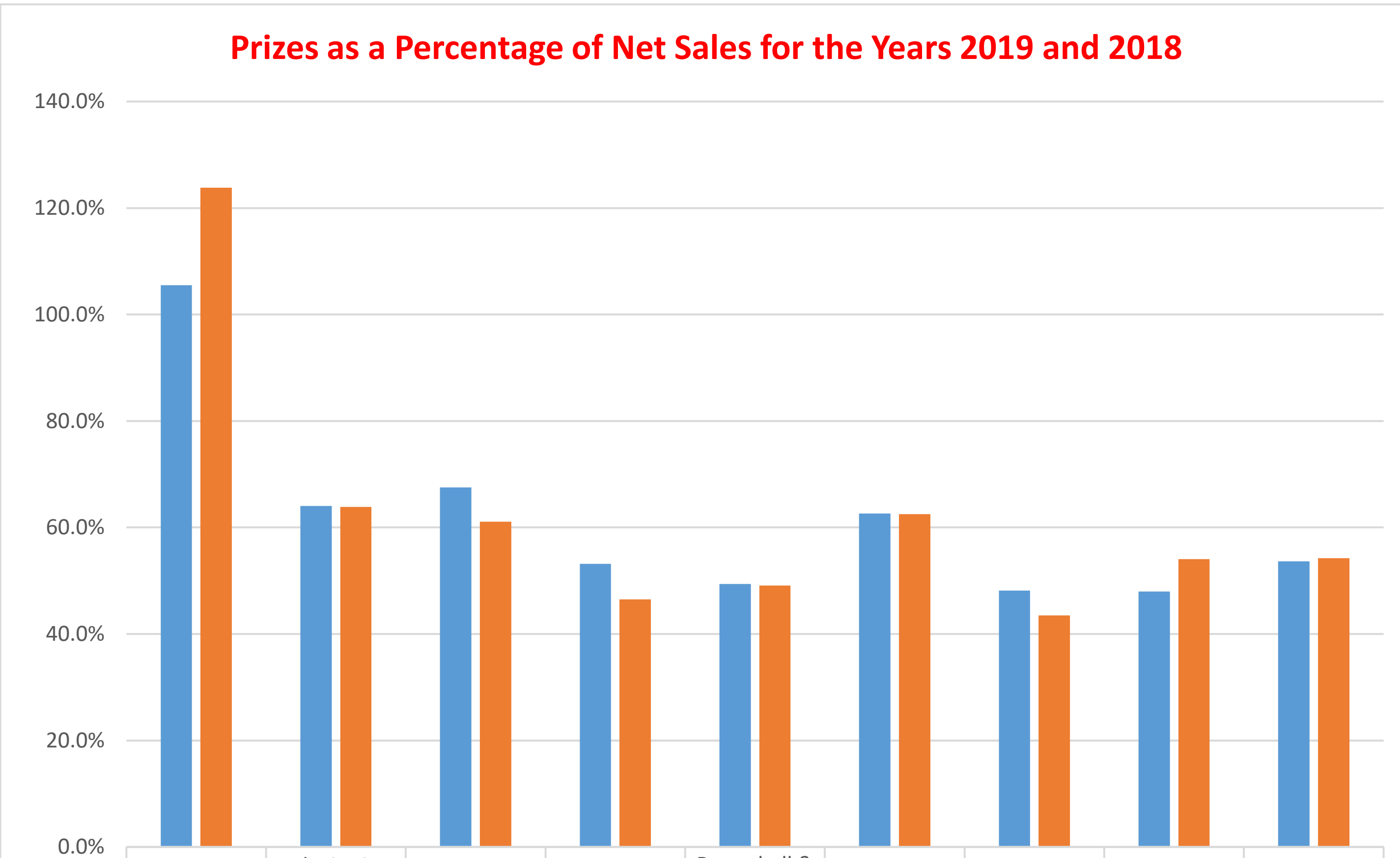
Prize expenses, as a percentage of ticket sales, was 52.8% during the fiscal year ended June 30, 2018 as compared to 54.6% during the fiscal year ended June 30, 2017. The enabling law requires that at least 45% of the ticket sales be returned to players in the form of prizes.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Prizes as a Percentage of Net Sales (2019 and 2018)

The following chart compare the prizes, as a percentage of net sales, for each game product for the fiscal years ended June 30, 2019 and 2018:



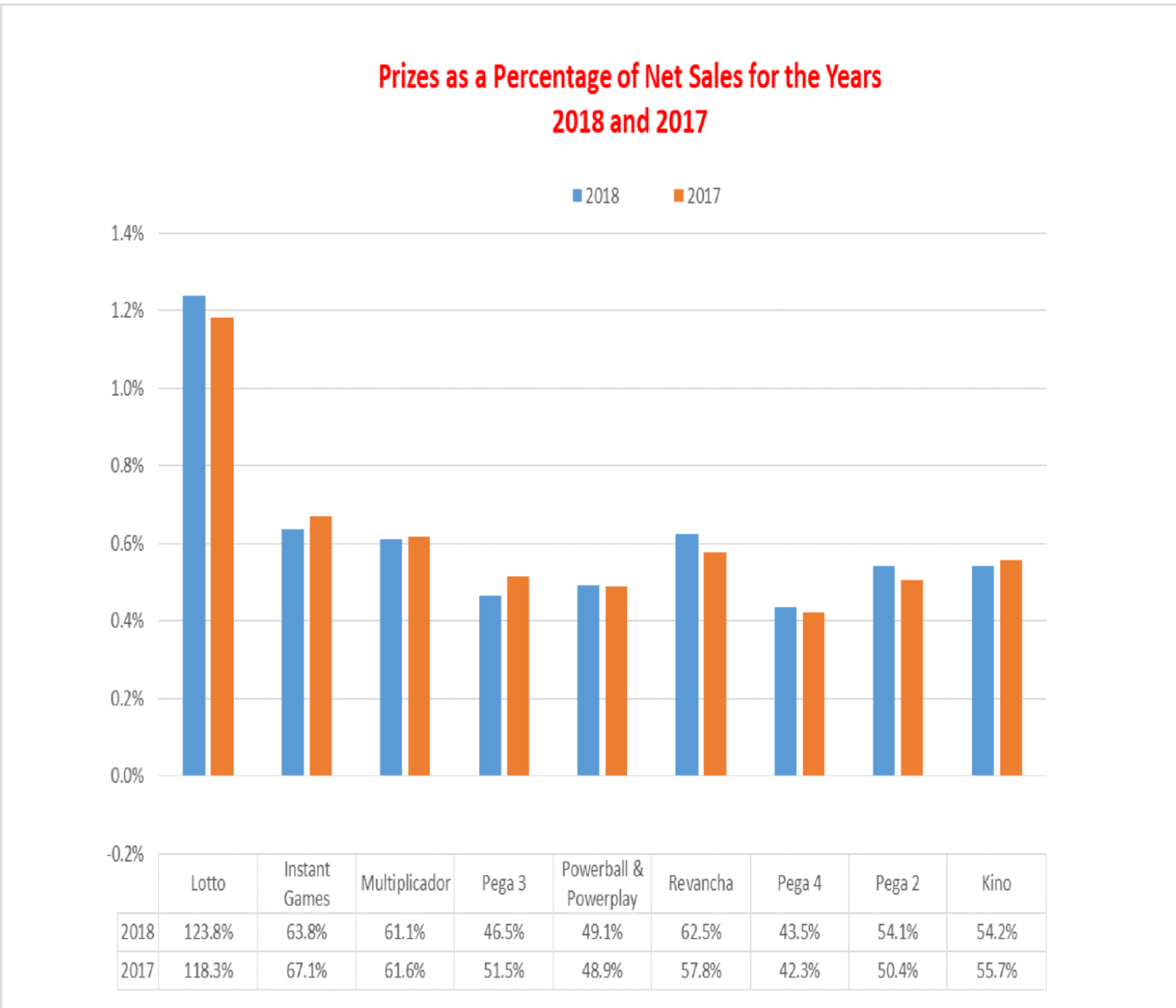
	Lotto	Instant Games	Multiplicador	Pega 3	Powerball & Powerplay	Revancha	Pega 4	Pega 2	Kino
2019	105.5%	64.1%	67.5%	53.2%	49.4%	62.6%	48.2%	48.0%	53.7%
2018	123.8%	63.8%	61.1%	46.5%	49.1%	62.5%	43.5%	54.1%	54.2%

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Prizes as a Percentage of Net Sales (2018 and 2017)

The following chart compare the prizes, as a percentage of net sales, for each game product for the fiscal years ended June 30, 2018 and 2017:



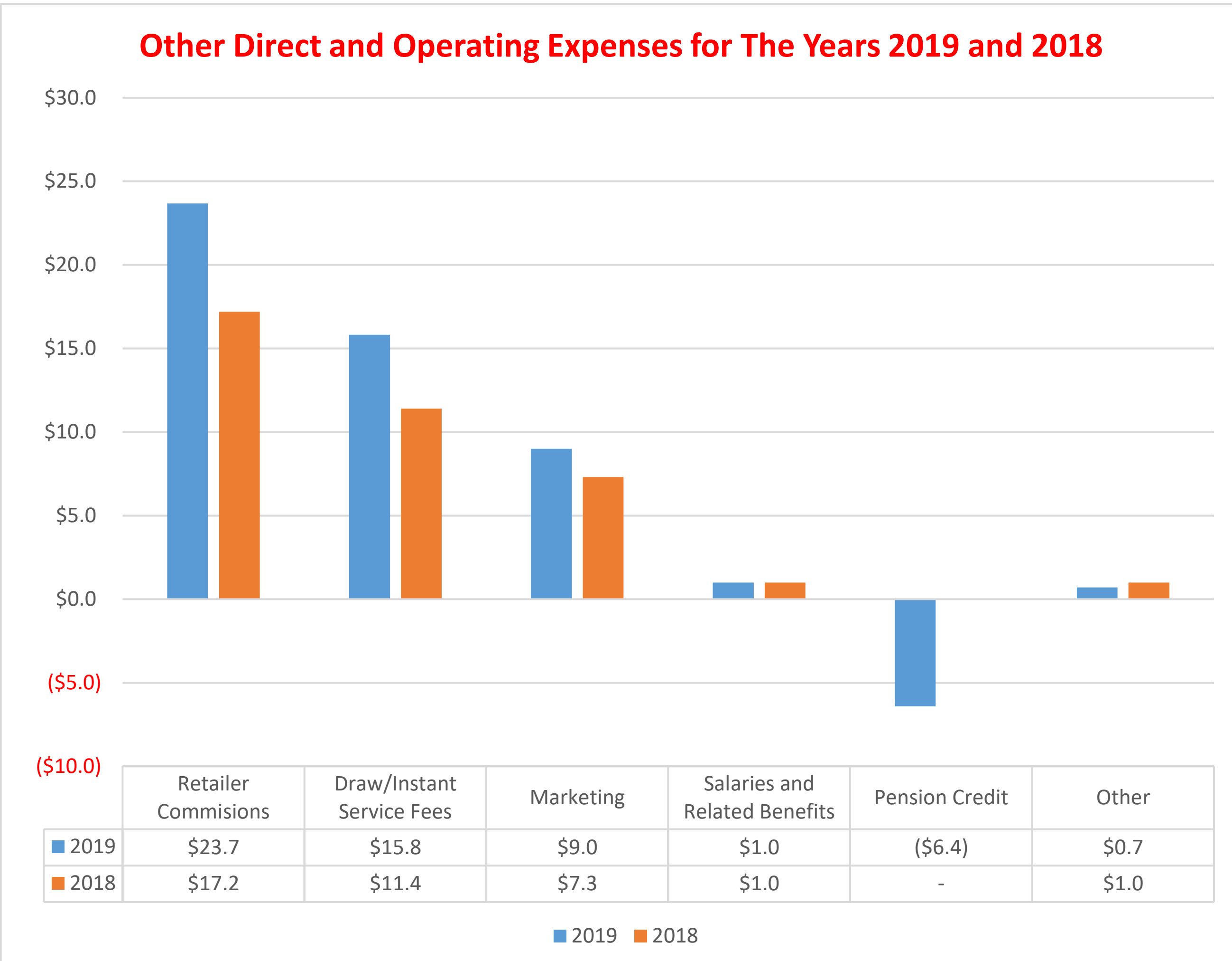
Kino game started during the fiscal year ended June 30, 2017.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Other Direct and Operating Expenses (2019 and 2018)

The following chart summarizes the composition of other direct and operating expenses for the fiscal years ended June 30, 2019 and 2018:



The Lottery pays 5% of net sales, of draw and instant games and 1% of net prizes paid on instant games, as commission to retailers.

The Lottery has a contract with Scientific Games Puerto Rico, Inc. (from now on "Scientific Games") for online systems, service and other related fees. The amount paid to Scientific Games is based on a percentage of net sales, as defined in the contracts. The online and instant games service fee, as a percentage of net ticket sales, during the fiscal years ended June 30, 2019 and 2018 was 3.4% for both fiscal years.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

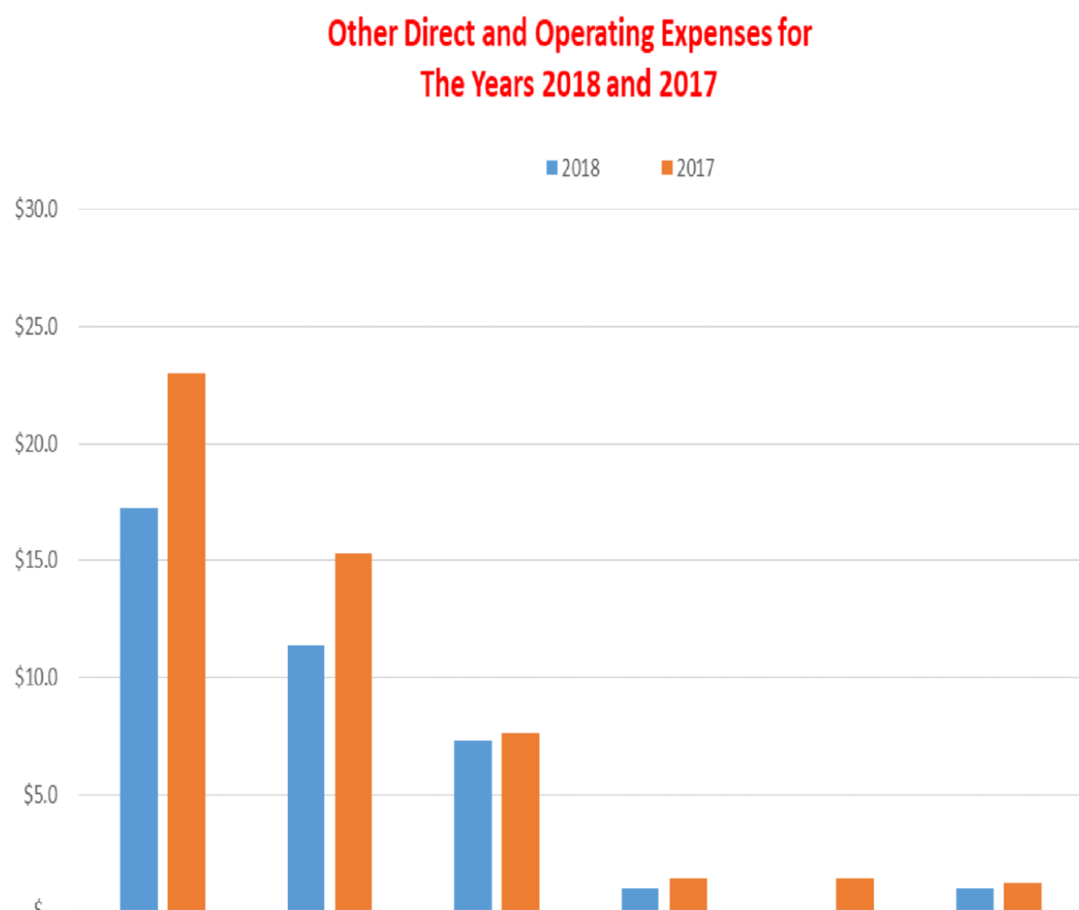
Management's Discussion and Analysis (Unaudited)(Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

Other Direct and Operating Expenses (2019 and 2018) (Continued)

The Lottery is required by law to transfer to the Commonwealth the net income after deducting the amounts required to pay for the current year annuity prize obligations. During the fiscal years ended June 30, 2019 and 2018, the Lottery recorded transfers in the amount of $147.7 million and $102.4 million, respectively. This increase in payments to the Commonwealth is principally due to an increase of $43.5 million in the net income from operations when compared to fiscal year ended June 30, 2018.

Other Direct and Operating Expenses (2018 and 2017)

The following chart summarizes the composition of other direct and operating expenses for the fiscal years ended June 30, 2018 and 2017:



	Retailer Commissions	Draw/Instant Service Fees	Marketing	Salaries and Related Benefits	Pension Expense	Other
2018	$17.2	$11.4	$7.3	$1.0	$-	$1.0
2017	$23.0	$15.3	$7.6	$1.4	$1.4	$1.2

Other Direct and Operating Expenses (2018 and 2017) (Continued)

The Lottery pays 5% of net sales, of draw and instant games and 1% of net prizes paid on instant games, as commission to retailers.

The Lottery has a contract with Scientific Games Puerto Rico, Inc. (from now on “Scientific Games”) for online systems, service and other related fees. The amount paid to Scientific Games is based on percentage of net sales, as defined in the contracts. The online and instant games service fee, as a percentage of net ticket sales, during the fiscal years ended June 30, 2018 and 2017 was 3.4% for both fiscal years.

Accumulated Deficits

As June 30, 2019 the Lottery has an accumulated deficit of $5.9 million. This deficit is the result of a special transfer in the amount of $200 million under Law 171 of the year 2005 and, in the opinion of management, is not an indication of financial difficulties as the Lottery has been and continues to be profitable. In addition funds for the payments of annuity prizes obligations comes from funds generated from operations. During the fiscal years ended June 30, 2019 and 2018, the Lottery has generated sufficient funds for the payment of prizes. Nevertheless, management is aware of the financial difficulties of the Commonwealth, which in turn, may impact the Lottery's ability to pay all liabilities when due.

Capital Assets

The Lottery's investment in capital assets as of June 30, 2019 and 2018 amounted to approximately $249,137 and $134,995, respectively, net of accumulated depreciation. Capital assets include machinery, equipment, furniture, and vehicles.

Contacting the Lottery's Financial Management

The management's discussion and analysis is designed to provide the citizens of Puerto Rico, the Commonwealth government officials, our players, retailers and other interested parties with an overview of the Lottery's financial activity for the fiscal years ended June 30, 2019 and 2018, and to demonstrate the Lottery's accountability for the money it received from the sale of the Lottery products. If you have any questions about this overview or need additional information, contact the Lottery's Finance Department at Fundación Angel Ramos Building, Suite 110, 383 Franklin D. Roosevelt Avenue, San Juan Puerto Rico, 00918-2143.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Statements of Net Deficits

June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets:		
Cash and Cash equivalents	$71,082,002	$85,986,589
Accounts Receivable	5,429,577	5,239,412
Total Current Assets	76,511,579	91,226,001
Non-Current Assets:		
Income Tax Prepaid to the Commonwealth of Puerto Rico	11,866,368	13,894,468
Due From MUSL	-	256,275
Prize Reserve MUSL	2,688,173	2,105,726
Capital Assets, Net of Accumulated Depreciation	249,137	134,995
Other	2,642	2,470
Total Non-Current Assets	14,806,320	16,393,934
Deferred Outflows of Resources:		
Pension Related	7,713	4,164,092
Other Postemployment Benefits Related	1,200	-
Total Deferred Outflows of Resources	8,913	4,164,092
Total Assets and Deferred Outflows of Resources	91,326,812	111,784,027
Liabilities		
Current Liabilities:		
Voluntary Retirement Benefits	86,388	86,388
Accrued Compensated Absences	66,740	67,611
Total Pension Liability	7,713	-
Other Postemployment Benefits Liability	1,200	-
Accounts Payable and Accrued Liabilities	3,639,365	6,672,146
Transfer Due to the Commonwealth of Puerto Rico	7,783,455	20,748,013
Due to MUSL	664,963	-
Prizes payable:		
Annuity Prize Obligation	11,442,147	13,062,339
Estimated Prize Obligation	3,650,000	3,500,000
Unclaimed	6,206,228	6,953,550
Total Current Liabilities	33,548,199	51,090,047
Non-Current Liabilities		
Annuity Prize Obligations	63,141,561	73,012,109
Total Pension Liability	120,976	10,523,422
Other Postemployment Benefits Liability	13,248	-
Accrued Compensated Absences	56,853	57,594
Voluntary Retirement Benefits	281,651	356,483
Total Non-Current Liabilities	63,614,289	83,949,608
Total Liabilities	97,162,488	135,039,655
Deferred Inflows of Resources :		
Unamortized Investment in Employees Retirement System	19,114	201,411
Total Liabilities and Deferred Inflows of Resources	97,181,602	135,241,066
Net Deficits		
Net Investment in Capital Assets	249,137	134,995
Unrestricted Deficit	(6,103,927)	(23,592,034)
Net Deficits	($5,854,790)	($23,457,039)

See accompanying notes which are an integral part of the Basic Financial Statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses, and Changes in Net Deficits
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Draw Games	$410,647,715	$298,408,320
Instant Games	55,541,845	40,198,178
Total Operating Revenues	466,189,560	338,606,498
Operating Expenses		
Direct Costs:		
Prize Expenses	257,116,432	178,810,803
Retailers Commissions	23,675,213	17,164,216
Draw and Instant Services Fees	15,817,054	11,463,951
Salaries and Related Benefits	986,127	975,790
Pension Expense (Credit)	(6,420,651)	-
Other Postemployment Benefits	13,248	-
Marketing Expenses	8,997,149	7,348,917
General and Administrative	698,799	1,043,182
Total Operating Expenses	300,883,371	216,806,859
Operating Income	165,306,189	121,799,639
Non-Operating Revenues (Expenses)		
Interest and Other Income	70,344	907,085
Custodial Credit Risk Loss on Deposits	(70,344)	(187,430)
Total Non-Operating Revenues (Expenses)	-	719,655
Income Before Payments to the Commonwealth	165,306,189	122,519,294
Payments to the Commonwealth	(147,703,940)	(102,429,935)
Change in Net Deficits	17,602,249	20,089,359
Net Deficits		
Net Deficit, Beginning of Year	(23,457,039)	(43,546,398)
End of Year	($5,854,790)	($23,457,039)

See accompanying notes which are an integral part of the Basic Financial Statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Cash Received From Retailers, Net of Commissions and Incentives	$430,280,862	$321,465,001
Cash Paid for Prizes and Related Taxes	(267,176,394)	(191,574,152)
Cash Paid to Suppliers for Goods and Services	(28,467,737)	(17,424,037)
Cash Paid to Employees	(1,645,018)	(1,603,154)
Net Cash Provided by Operating Activities	132,991,713	110,863,658
Cash Flows From Non-Capital Financing Activities		
Payments to the Commonwealth of Puerto Rico	(126,955,927)	(81,681,921)
Amount Due to the Commonwealth of Puerto Rico	(20,748,013)	(13,888,512)
Net Cash Used in Non-Capital Financing Activities	(147,703,940)	(95,570,433)
Cash Flows From Capital and Related Financing Activities		
Capital Expenditures and Net Cash Used in Financing Activities	(192,360)	(16,371)
Cash Flows From Investing Activities		
Interest and Other Miscellaneous Income	70,344	907,085
Impairment Loss	(70,344)	(187,430)
Net Cash Provided by Investing Activities	-	719,655
Net (Decrease/Increase) in Cash and Cash Equivalents	(14,904,587)	15,996,509
Cash and Cash Equivalents:		
Beginning of Year	85,986,589	69,990,080
End of Year	$71,082,002	$85,986,589

See accompanying notes which are an integral part of the Basic Financial Statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Statements of Cash Flows (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Provided Operating Activities		
Operating Income	$165,306,189	$121,799,639
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	78,218	53,195
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(190,165)	(1,304,929)
Prepaid Income Tax to the Commonwealth of Puerto Rico	2,028,100	2,294,474
Due to the Commonwealth of Puerto Rico	(12,964,558)	-
Due From MUSL	921,238	1,327,648
Prize Reserve MUSL	(582,447)	(616,616)
Deferred Outflows	4,155,179	-
Other Assets	(172)	30
Accounts Payable and Accrued Liabilities	(3,034,393)	2,398,268
Current Portion of Voluntary Retirement Benefits	(74,832)	(30,228)
Total Net Pension & Other Postemployment Benefits Liability	(10,380,285)	-
Deferred Inflows	(182,297)	-
Prizes Payable	(12,088,062)	(15,057,823)
Net Cash Provided by Operating Activities	$132,991,713	$110,863,658

See accompanying notes which are an integral part of the Basic Financial Statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018

1. ORGANIZATION

The **Additional Lottery System** (from now on "the Lottery") was created by Law No. 10 of the Commonwealth of Puerto Rico (from now on "the Commonwealth") on May 24, 1989 and commenced operations effective June 1, 1990. The Lottery is an enterprise fund of the Commonwealth.

The Lottery originates its revenues from two product lines: draw games and instant games. The Lottery develops multiple games themed and prizes structures to comply with its enabling legislation and customer demands. Currently the Lottery administers eight (8) games: Pega 4, Pega 3, Pega 2 and their variations, (Powerball, Powerplay), (Lotto and Multipicador), Revancha, Kino and instant games. During the year ended June 30, 2015, Powerball and Powerplay games were added with draws on Wednesday and Saturday each week. Independent and corporate retailers comprised principally of grocery and convenience stores, package foods stores, and restaurants serve as the primary distribution channel for online and instant lottery sales to the general public. Retailers received a commission of 5% of net sales plus 1% of net prizes paid on instant games.

As provided by Law No. 10, the Lottery must transfer to the Commonwealth the net income for each fiscal year, adjusted for any amount specifically authorized by the Commonwealth.

FINANCIAL REPORTING ENTITY

The financial reporting entity included in this report consists of the basic financial statements of the Lottery (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

GASB Accounting Standards Codification Section 2100, "Defining the Financial Reporting Entity", describes the criteria for determining which organizations, functions, and activities should be considered part of the Lottery for financial reporting purposes. Following GASB Sections 2100 and 2600 "Reporting Entity and Component Unit Presentation and Disclosure", there are two methods of presentation of the component unit in the basic financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Lottery's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Lottery's balances and transactions.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

1. ORGANIZATION (CONTINUED)

The basic criteria for deciding financial accountability are any one of the following:

- Financial dependency of the potential component unit on the primary government, or
- The primary government appoint a voting majority of the potential component unit's governing body and,

1. The primary government can impose its will on the potential component unit and/or,
2. A financial benefit/burden exists between the primary government and the potential component unit.

In addition, a legally separate, tax exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents,
- The primary government, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separates organization, and
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

GASB Statement 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

Based on the above criteria, the basic financial statements of the Lottery do not include any component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Lottery conform to accounting principles generally accepted in the United States of America (US GAS), as applicable to governmental entities. Such principles are prescribed by the Governmental Accounting Standard Boards (GASB), which is the standard setting body for establishing governmental accounting and financial reporting principles in the United States of America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Lottery is considered a special-purpose government engaged only in business-type activities under GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Accordingly, only those statements required for enterprise funds are presented as basic financial statements.

The Lottery follows GASB Statement No. 76, “The Hierarchy of Generally Accepted Principles for State and Local Governments”, in the preparation of its Basic Financial Statements. Following is a description of the Lottery's most significant accounting policies:

(a) Measurement Focus and Basis of Accounting

Financial Statements Presentation

The Lottery reports its financial position and results of operations as an enterprise fund. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business - type activities, which are financed mainly by fees and charges to users of the services provided by the funds operations, designed to recover its costs, including capital costs such as depreciation and debt service. Proprietary funds distinguish operating revenues and expenses from non - operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non - operating revenues and expenses.

Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", the Lottery recognized deferred outflows of resources in the basic financial statements. These items are a consumption of net position by the Lottery that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Lottery has items that are reportable on the Statement of Net Position that are related to outflows/inflows from changes in the Total Pension Liability (Note 11) as of financial statement date.

Required Supplementary Information - Management's Discussion and Analysis

Management’s discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Lottery’s financial activities.This analysis is similar to the analysis the private sector provides in their annual reports.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user’s full understanding of the data provided in the basic financial statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Measurement Focus and Basis of Accounting - (Continued)

Required Supplementary Information -

GASB Statement No. 73, "Accounting and Financial Reporting for Pension Plans not within the Scope of GASB 68", the required supplementary information include the Schedule of Proportionate Share of the Total Pension Liability and Schedule of Changes in Total Pension Liability.

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits other than Pensions", the required supplementary information include the Schedule of Proportionate Share of Total OPEB Liability and Schedule of Changes in Total OPEB Liability and Related Ratios.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

In the statement of cash flows, cash equivalents are defined as short-term, highly-liquid investments that are readily convertible to known amounts of cash and are so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. In particular, they include cash on hand and on deposit and short-term investments with maturities of three months or less.

(d) Operating Revenues and Expenses

The Lottery distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses, and Changes in Net Deficits. Operating revenues and expenses are those that result from providing services that correspond to the principal ongoing operations. Operating revenues consist principally of sales of tickets and operating expenses consist principally of prizes awarded, commissions to retailers, personnel costs and marketing expenses. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(e) Accounts Receivable

Accounts receivable represent the amount due from Lottery retailers, from the sales of lottery tickets, and is guaranteed by an insurance bond provided by the retailer. This amount is collected weeklyfrom the retailer bank account to the Lottery bank account. The Lottery utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectible of accounts

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Accounts Receivable (Continued)

receivable. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2019 and 2018, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

(f) Capital Assets and Depreciation Policy

Capital assets, which consist principally of motor vehicles and furniture and fixtures, are recorded at historical cost. A capital asset is defined by the Lottery as an asset with an initial cost of more than $500 and an estimated useful life of more than 2 years. Depreciation is computed on a straight-line method over the estimated useful life of the related asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and any applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives of the major classes of capital assets are as follows:

Office Furniture, Computers, Equipment and Fixtures	2-3 years
Motor Vehicles	5 years

(g) Accounting for the Impairment or Disposal of Long - Lived Assets

The Lottery follows GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2019, the Lottery evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in the Lottery’s basic financial statements. See also Note 4.

(h) Net Deficits

Net deficit is classified in the following two components in the accompanying statements of net deficits:

Net Investment in Capital Assets

The net investment in capital assets component of net deficits consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2019, there are no outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Net Deficits - (Continued)

Unrestricted (Deficits)

The unrestricted component of net deficits is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets.

(i) Revenue Recognition

Revenues from games are recognized in the month in which the related drawings are held. Revenues from sales of tickets and commission paid for future drawings are deferred until the drawings are held.

(j) Prizes

Regulation No. 7331 requires that 45% of ticket sales be awarded to the public in the form of prizes.

Prize expenses for draw games are recorded based on prizes won by the players, as revenue is recognized. Prize expenses for instant games are recognized based on the predetermined prize structure for each game, as revenue is recognized. Any prize that remains uncollected after 180 days after ending validation date is considered unclaimed.

Effective May 20, 2016, the annuities were paid over a period of 30 years or a lump sum payment equal to 50% of the Lotto jackpot prize and their variations. Annuity payments before this date, will remain over a period of 20 years or a lump sum payment equal to 45% of the Lotto jackpot. All other prizes are paid in a lump sum.

All prizes are recorded at the actual amounts except for annually funded prizes, which are paid out on a deferred basis. The actual prize expenses for this type of prize is based on the present value of an annuity using the rates as published by the Federal Reserve in the Treasury Constant Annuity for a 30 year annuity.

(k) Retailer Commissions

The Lottery compensates authorized operators of betting machines. The commission is computed at 5% of bets placed at each location on draw and instant games plus 1 % of net prizes paid on instant games.

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Compensated Absences

As of the effectiveness of Act No. 8 of February 26, 2017, named "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico", every government employee shall be entitled to accrue one and one-fourth (1¼) day of vacation leave for every month of service. The employees shall begin to accrue the vacation leave upon completion of a three (3) - month period and said leave shall be retroactive to the employment commencement date. Furloughed or part-time employees shall accrue vacation leave proportionately to the number of hours regularly worked. The vacation leave may be accrued up to a maximum of sixty (60) workdays at the end of any calendar year. Vacation leave is granted to employees in order to allow them a reasonable annual rest period. As a general rule, said leave shall be used during the calendar year in which it was accrued. Every agency or public instrumentality is required to devise a vacation plan for every calendar year, in collaboration with supervisors and employees, establishing the period during which employees shall enjoy their vacation time in the manner that is more compatible with the needs for service. Said plan shall be completed no later than on December 31st of every year, so that it takes effect on January 1st of the following year.

The Lottery accrued a liability for compensated absences, which meet the following criteria: (1) the Lottery’s obligation relating to employee’s right to receive compensation for future absences is attributable to employee’s services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, "Compensated Absences", the Lottery has accrued a liability for compensated absences, which has been earned but not taken by the Lottery’s employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective as of June 30, 2019. All vacation pay is accrued when incurred. The current portion presented in the statement of net deficits is the amount estimated to be used in the following year.

(m) Accounting for Pension Costs

For the year ended June 30, 2019, the Lottery implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting for Financial Reporting of Pensions", as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of GASB Statement No. 67, "Financial Reporting for Pension Plans", and Statement No. 68 for pension plans and pensions that are within their respective scopes.

Act No. 3 enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based on the fiscal crisis of the Commonwealth, was enacted Act No. 106 of 2017 to establish a New Define Contribution Plan and create the Pay-as-you-go (PayGo) scheme for payment of pensioners of the ERS and the other two retirement systems. As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required to apply the guidance on GASB Statement No. 73. See also Note 11.

Measurement Frequency and Valuation Requirements

The Total Pension Liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period (measurement date). The Total Pension Liability can be measured from an actuarial valuation as of the measurement date or roll forward amounts from an actuarial valuation as of a date no more than 30 months plus 1 day prior to the employer's most recent fiscal year-end. The actuarial valuation should be performed at least biennially.

(n) Accounting for Postemployment Benefit Costs Other than Pensions

Other postemployment benefits ("OPEB") expense is recognized and disclosed using the accrual basis of accounting. The Lottery recognized the total OPEB liability since the Lottery's OPEB program is funded on a pay-as-you-go basis, and not by an OPEB trust. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending nature of the change, in the period incurred. Those changes in the total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. The Lottery accounted for postemployment benefits other than pensions (OPEB) under the provisions of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". See also Note 12.

(o) Voluntary Termination Benefits

The Lottery accounts for termination benefits in accordance to the provisions of GASB Statement No. 47, "Accounting for Termination Benefits". This Statement establishes accounting standards for termination benefits Pursuant to this Statement, the Lottery should recognized a liability and expense for voluntary termination (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. See also Note 13.

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Risk Management

The Commonwealth purchases commercial insurance covering casualties, theft, tort, claims, and other losses, including the Lottery as an insured operation. The current insurance policies have not been cancelled or terminated. Workmen's compensation insurance is provided by the State Insurance Fund, a component unit of the Commonwealth. The Lottery has not settled any claims in excess of its insurance coverage during the past three (3) years.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2019 and 2018 consisted of the following:

	Bank Balance	Impairment Loss	Book Balance
2019			
Cash Deposited in Commercial Banks	$71,081,902	$ -	$71,081,902
Cash on Hand	100	-	100
Cash Equivalents:			
Deposit Account With:			
Government Development Bank of Puerto Rico	11,014,711	(11,014,711)	-
Total Cash and Cash Equivalents	$82,096,713	($11,014,711)	$71,082,002

	Bank Balance	Impairment Loss	Book Balance
2018			
Cash Deposited in Commercial Banks	$85,986,489	$ -	$85,986,489
Cash on Hand	100	-	100
Cash Equivalents:			
Deposit Account With:			
Government Development Bank of Puerto Rico	10,944,367	(10,944,367)	-
Total Cash and Cash Equivalents	$96,930,956	($10,944,367)	$85,986,589

The Lottery is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the same of the Lottery.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of bank failure, the Lottery's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Lottery's deposits in commercial banks as of June 30, 2019 and 2018 amounted to approximately $71.1 million and $86 million, respectively, which are fully collateralized as previously described. It is the Lottery's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

Impairment Loss on Deposits with Governmental Development Bank of Puerto Rico (GDB)

The Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due. Pursuant to enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to the GDB's ability to continue as a going concern.

On October 18, 2016, the Secretary of the Treasury Department (from now on "the Department") of the Commonwealth issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary recommended to all component units and other entities with deposits at GDB to evaluate the possibility of recognizing an impairment loss, as of June 30, 2016, for amounts held at GDB. See also Note 17.

As a result of the above matters, the Lottery recognized an impairment loss on deposits held with GDB of $70,344 and of approximately $187,430 as of June 30, 2019 and 2018, respectively.

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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

4. CAPITAL ASSETS

Capital assets activity as of June 30, 2019 and 2018 was as follows:

2019

	July 1, 2018	Increases	Decreases	June 30, 2019
Computers, Furniture's and Other Office Equipment	$ 781,415	$ 192,360	$ -	$ 973,775
Motor Vehicles	96,246	-	-	96,246
Total	877,661	192,360	-	1,070,021
Less Accumulated Depreciation	(742,666)	(78,218)	-	(820,884)
Capital Assets, net	$ 134,995	$ 114,142	$ -	$ 249,137

2018

	July 1, 2017	Increases	Decreases	June 30, 2018
Computers, Furniture's and Other Office Equipment	$ 765,044	$ 16,371	$ -	$ 781,415
Motor Vehicles	96,246	-	-	96,246
Total	861,290	16,371	-	877,661
Less Accumulated Depreciation	(689,471)	(53,195)	-	(742,666)
Capital Assets, Net	$ 171,819	$ (36,824)	$ -	$ 134,995

GASB No. 42 requires the recognition of capital asset impairments as soon as they occur. Losses from permanent impairments should berecognized in the Statement of Revenues, Expenses and Changes in Net Deficits in accordance with paragraphs 41-46, 55, 56, 101 and 102 of GASB No. 34. The restoration or replacement of the impaired capital asset should be reported as a separate transaction from the impairment loss and insurance recovery. Nevertheless, no capital assets were impaired as a result of these events.

5. INCOME TAX PREPAID TO COMMONWEALTH OF PUERTO RICO

The law requires the Lottery to remit withheld taxes to the Commonwealth on certain prizes. The tax is based on a progressive tax table up to 20% of the prize. In cases where the prize will be payable in annual annuities, the Lottery prepaid certain amount of the total tax that will be paid over the life of the annuity. This amount is recorded as a prepaid income tax and amortized on a straight-line basis over the life of the annuity, which generally is 20 or 30 years.

6. PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery became a member of the Multi-State Lottery Association (from now on "MUSL") on August 2014. MUSL is a non-profit government-benefit association created for the purpose of administering joint lottery games. MUSL includes thirty-five (35) states and territories lottery entities. Through membership in the association the Lottery is eligible to participate in Powerball with Powerplay game. The chief executive officer of each member lottery serves on the MUSL board of directors.

As member of MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative Powerball with Powerplay with sales levels. All remaining funds remitted, and the related interest earnings (net of administrative cost), will be returned to the Lottery upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the fund.

As of June 30, 2019 and June 30, 2018, the Lottery had deposits with MUSL of $2,688,173 and $2,105,726, respectively, representing the Lottery’s deposits of reserve funds.

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The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

7. PRIZES PAYABLE

Annuity Prize Obligations

The Lottery carries long-term annuity price obligations at present value. Presented below is a summary of long-term annuity price payment requirements for annuities payable to maturities:

Years Ending June 30,	Principal	Imputed Interests	Totals
2020	$11,442,147	$8,317,332	$19,759,479
2021	9,802,373	7,461,793	17,264,166
2022	8,680,295	6,958,871	15,639,166
2023	7,528,021	6,198,645	13,726,666
2024	6,594,625	5,532,042	12,126,667
2025-2029	21,428,413	16,429,921	37,858,334
2030-2034	8,512,789	6,170,544	14,683,333
2035-2039	241,026	167,307	408,333
2040-2044	208,144	200,190	408,334
2045-2048	145,875	180,791	326,666
	$74,583,708	$57,617,436	$132,201,144

This debt represents annual payments owned to Lotto jackpot winners. Annuity prizes will be paid over a period of 30 years. The imputed interest is based on the rates published by the Federal Reserve for 30 year annuities and ranged from 2.95% to 5.29% at June 30, 2019 and 2018. The amortization of the imputed interest is recorded as prize expense in the accompanying statement of revenues, expenses, and changes in net deficit. Activity of annuity prizes payable for the fiscal years ended June 30, 2019 and 2018 were as follows:

Years Ended	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
June 30, 2019	$ 86,074,448	$ 1,571,599	$ (13,062,339)	$ 74,583,708	$ 11,442,147
June 30, 2018	$ 101,313,489	$ -	$ (15,239,041)	$ 86,074,448	$ 13,062,339

Estimated Prize Liability

The estimated price liability as of June 30, 2019 and 2018 represents the Lottery's estimate of prizes payable related to games in process at year-end, based on the predetermined prize structure of each outstanding game.

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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

7. PRIZES PAYABLE (CONTINUED)

Unclaimed Prize Liability

Any prize that remains unclaimed at the end of 180 days following the draw is considered unclaimed and, in accordance with the enabling law, the unclaimed prize is paid or transferred to the Commonwealth of Puerto Rico. During the fiscal years ended June 30, 2019 and 2018, a total of approximately $9.161 million and $7.623 million, respectively, of unclaimed prizes were transferred to the Commonwealth.

8. TRANSFERS DUE TO THE COMMONWEALTH OF PUERTO RICO

The Lottery must transfer the net income, after deducting the amount required for payment of prize annuities and operating expenses to the Commonwealth. The following reconciles the amounts transferred to the Commonwealth during the fiscal years ended June 30, 2019 and 2018.

	2019	2018
Transfers Due at Beginning of Year	$ 20,748,013	$ 13,888,592
Add Net Income Available for Transfers	178,496,483	132,695,271
Less Amount Retained for the Payment of Prize Annuities	(17,602,251)	(19,949,510)
Total Amount Available for Transfers	181,642,245	126,634,353
Gross Transfers Made During the Year	173,858,790	105,886,340
Transfers Due at the End of the Year	$ 7,783,455	$ 20,748,013

In compliance with Act No. 10 of May 1989, as amended, the Lottery allocated the income available for transfer, net of amount retained for the payment of prizes annuities, during the fiscal years ended June 30, 2019 and 2018 to the following beneficiary funds of the Commonwealth:

	2019	2018
Commonwealth of Puerto Rico:		
Rent and Home Improvement Subsidy Fund	$ 12,023,428	$ 11,480,156
Compulsive Gamblers	250,000	250,000
Municipal Equivalency Fund	53,648,966	38,546,219
Commonwealth of Puerto Rico General Fund	64,659,637	37,344,046
Catastrophic Diseases	1,992,676	1,431,717
University of Puerto Rico Scholarships Fund	2,929,233	1,130,215
Chess Program	200,000	200,000
Olympic Village "German Rieckehoff Sampayo"	4,000,000	4,000,000
Olympic Committee	8,000,000	8,000,000
Total	$ 147,703,940	$ 102,382,353

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

9. PAYROLL AND RELATED BENEFITS

All Lottery personnel are employees of the Treasury Department of the Commonwealth. During the fiscal years ended June 30, 2019 and 2018, the Lottery incurred in $986 thousand and $1 million, respectively, each year for payroll and benefits costs, including pension, health insurance and other benefits costs paid to the Treasury Department who responsible for the administration of the benefit programs.

10. COMMITMENTS AND CONTINGENCIES

Servicing and Marketing Contract

The Lottery has a contract with Scientific Games Puerto Rico, Inc. (from now on "SG") to provide on-line gaming system and the associated services. The contract requires SG, among others, to provide terminals to all retailers, with the related software and communication systems. Payment under the contract is based on 3.4% of total lottery net sales, including services related to sales of instant games, at a rate of 3.4% of all such sales. The contract is effective from July 1, 2016 to June 30, 2024, subject to extension pursuant to the mutual agreement. During the fiscal years ended June 30, 2019 and 2018, SG charged the Lottery approximately $15.8 million and $11.4 million, respectively, for services performed under the contract.

11. PENSION PLAN

As described in Note 16, the Lottery implemented GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". As the ERS is a multiple employer plan and the benefits are not funded by a pension trust, GASB Statement No. 73 applies to the pension benefits provided to each participating employers' own employees.

Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for participants of the ERS was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees for the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the plan was administered by the ERS of the Government of the Commonwealth of Puerto Rico. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 And the Commonwealth implemented a pay-as-you-go (PayGo) system for pension payments. Also, pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Puerto Rico Treasury Department (PRTD) to pay pension benefits.

As a result of the implementation of the PayGo system, the plan does not meet the criteria in paragraph 4 of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions", to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, is required to apply the guidance in GASB Statement No. 73. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

11. PENSION PLAN (CONTINUED)

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside the ERS. This summary details the provisions under Act No. 3-2013, which was effective July 1, 2013 and under which the benefits to be paid to ERS members were determined. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Defined Contribution Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member’s account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Defined Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who on June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program.

Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member’s account semiannually. The Commonwealth does not guarantee benefits retirement age.

Participant Data

The following provides a brief summary of the number of participants included in the valuation in total:

Active Members	112,615
Inactive Members in Pay Status	120,441
Total	233,056

Eligibility for Membership

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447-1951. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contributory Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

11. PENSION PLAN (CONTINUED)

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include those in the following categories:

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors, of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employee.

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112-2004).

Definitions

- Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico
- Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-04).
- Employer: The Government of Puerto Rico, any public enterprise that has effected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).
- Employee: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).
- Creditable Service for Act No. 447-1951 members: the years and months for plan participation, during which contributions have been made, beginning on the later of date of hire or January 1, 1952, and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Note: All the days must be during the same month.

11. PENSION PLAN (CONTINUED)

Months in which less than 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

Creditable Service for Act No. 1-1990 members: the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

- Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the fund are based (Article 1-104).

- Average Compensation for Act No. 447-1951: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).

- Average Compensation for Act No. 1-1990: The average of the 5 highest years of compensation that the participant has received for Creditable Service. If annual compensation in the averaging period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation (Article 2-108).

- Contributions: The amount deducted from the compensation of a Member and the employer (Section 781).

- Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.

- Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (article 1-104).

11. PENSION PLAN (CONTINUED)

- Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary.

  For purposes of converting the Defined Contribution Hybrid Contribution account to lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

- Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.

- Social Security Retirement Age (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below:

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 year and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

- Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Savings Account (Article 3-107).

11. PENSION PLAN (CONTINUED)

- Credits to Retirement Savings Accounts: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

- Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.

  1. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
  2. System's Investment portfolio – The yield is equal to 90% (75% prior to July 1, 2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
  3. Other alternatives adopted by the Board of the System.

- Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Savings Account as of June 30, 2013.

- Credits to Defined Contribution Hybrid Contribution Account: The credits to the retirement savings amount include (1) the Retirement Savings Accounts as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to ERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to Pay-As-You-Go funding under Act 106-2017, no credits are applied after June 30, 2017.

Coordination with Social Security Act No. 447-1951 members

Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

11. PENSION PLAN (CONTINUED)

Pension Benefits

- Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

  Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service:

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High-Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

11. PENSION PLAN (CONTINUED)

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

- Benefit: An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

- Coordination with Social Security Act for Act No. 447-1951 Members – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

  If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

11. PENSION PLAN (CONTINUED)

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor credited service in excess of 20 years. Non-Mayor credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

  If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

  For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

11. PENSION PLAN (CONTINUED)

For Act No. 1-1990 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

Compulsory Retirement: All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

Service Retirement Annuity Benefits

- **Lump Sum Withdrawal**

  Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contributions account is $10,000 or less.

  Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

- **Deferred Retirement**

  Eligibility: A member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

  Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013.

Death Benefits

- **Pre-Retirement Death Benefit**

  Eligibility: Any current non-retired member is eligible.

  Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members.

- **High-Risk Death Benefit under Act No. 127-1958**

  Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958, as amended.

11. PENSION PLAN (CONTINUED)

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

- **Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013**

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105-1969, as amended by Act No. 4-2017):

1. For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

2. The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

- **Post-Retirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013**

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

11. PENSION PLAN (CONTINUED)

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

- **Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits**

Disability Benefits

- **Disability**

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

- **High-Risk Death Benefit under Act No. 127-1958**

Eligibility: Police, firefighters, and other employees in specified high-risk positions who disabled in the line of work due to reasons specified in Act No. 127-1958, as amended.

Benefit: 80% (100% for Act No. 447-1951 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127-1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

- **Disability Insurance**

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2019-2020 the disability insurance amounted to $13,161.

11. PENSION PLAN (CONTINUED)

Minimum Benefits

- Past Ad hoc Increases: The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

- No. 3-2013): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

- Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

Special "Bonus" Benefits

- Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013): An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

- Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013): An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

11. PENSION PLAN (CONTINUED)

Contributions

- Member Contributions: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

  From July 1, 2013 to June 30, 2017, contributions by members are 10% of compensation. However, for Act No. 447-1951 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

  Prior to July 1, 2013, contributions by Act No. 447-1951 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

- Employer Contributions: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

  Formerly – Prior to July 1, 2011, employer contributions were 9.275% of compensation. On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020 (Article 2-116 as amended by Act No. 116-2011 and Act No. 3-2013).

- **Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities.**

  Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447-1951 or Act No. 1-1990 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees (Act No. 3-2013).

- Additional Uniform Contribution: Not applicable. Eliminated July 1, 2017 by Act No. 106-2017.

  Formerly – During the 2013-2014 fiscal year, the System will receive an Additional Uniform Contribution of $120 million. During each year from 2014-2015 through 2032-2033 the System will receive an Additional Uniform Contribution certified by the external actuary of the System as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below $1 billion. The AUC will be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities (Act No. 32-2013).

11. PENSION PLAN (CONTINUED)

Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10-1992, Act No. 14-1981, Act No. 122-2000, Act No. 33-2007 and Act No. 203-2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contributory Account during the years of military leave prior to July 1, 2017.

Early Retirement Programs

On July 2, 2010, the Commonwealth Enacted Act No. 70 (Act No. 70-2010) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70-2010, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth).

Under Section 4B of Act No. 70-2010, active members who had at least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund/Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applied to final salary increases as under Act No. 116-2010 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C if Act No. 70-2010, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions,
- Act No. 32-2013 Additional Uniform Contribution,
- Act No. 3-2013 Supplemental Contributions, and
- Member Contributions.

11. PENSION PLAN (CONTINUED)

Total Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

1) Total Pension Liability and Actuarial Information

The Lottery's total Pension Liability for each plan program is measured as the proportionate share of the total Pension Liability. The Total Pension Liability of each of the plan program was measured as of July 1, 2017, and the Total Pension Liability for each plan program used to calculate the Total Pension Liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to July 1, 2018 using standard update procedures. The Lottery's proportion of the Total Pension Liability was based on the ratio of each component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

As June 30, 2019, the Lottery's used the proportional share of .00053%, which was the June 30, 2018 base as required by GASB No. 73:

Proportion - June 30, 2017	0.00057%
Proportion - June 30, 2018	0.00053%
Change - Decrease	(0.00004%)

As of June 30, 2019, the Lottery reported $128,689 as total Pension Liability for its proportionate shares of the total Pension Liability of ERS, as follows:

Total Pension Liability	Total	Proportional Share (0.00053%)
Total Pension Liability	$ 27,607,417,757	$ 128,689
Covered Payroll	$ 3,136,022,608	$ 14,618
Total Pension as a % of Covered Payroll	880.33%	880.33%

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

11. PENSION PLAN (CONTINUED)

Changes in Total Pension Liability

Balance as of June 30, 2017	$	161,414
Changes for the year:		
Service Cost		678
Interest on Total Pension Liability		9,044
Effect of Plan Changes		(16,649)
Effect of Economic/Demographic Gain or Losses		(9,463)
Effect of Assumption Changes or Inputs		(9,328)
Benefit Payments		(7,007)
Balance as of June 30, 2018	$	128,689

2) Pension Expense

For the fiscal year ended June 30, 2019, the Lottery recognized pension credit of $6,420,651. Pension expense represents the change in the method of benefits payment from "pay-as-you-go" system.

3) Deferred Outflows/Inflow of Resources

As of June 30, 2019, the Lottery reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

Description	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	-	$	3,892
Changes of assumptions		-		4,220
Changes in proportion		-		11,002
Benefits paid subsequent to measurement date		7,713		-
	$	7,713	$	19,114

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

11. RETIREMENT SYSTEM (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019 is provided below. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

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11. RETIREMENT SYSTEM (CONTINUED)

The actuarial valuation used the following actuarial assumptions:

Inflation Rate	Not Applicable
Actuarial cost method	Entry age normal
Municipal Bond Index	3.87% based on Bond Buyer General Obligation 20 - Bond Municipal Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Discount Rate	3.87%
Salary increase	3.00% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four year extension of Act No. 66-2014, and the current general economy.
Mortality	Pre-Retirement Mortality: for general employees not covered Under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on a generational basis. For members covered under Act 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after measurement date.
	Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equalto 92% of the rates from the UP-1994 Mortality Tables for Males and 95% of the rates from UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females, both projected from 1994 to 2010 using Scale AA. These base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after measurement date.

11. RETIREMENT SYSTEM (CONTINUED)

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014. While the Act No. 66 salary freeze only applies to Central Government employees, public corporations are mandated to achieve savings under Act No. 66, and actuaries have assumed that they will meet this mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015. After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS.

The ERS's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that result in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the ERS's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the ERS's fiduciary net position is not projected to be sufficient.

The discount rate on June 30, 2017 and 2018 was as follows:

	June 30,2017	June 30,2018
Discount Rate	3.58%	3.87%
Long-term expected rate of return net of investment expense	N/A%	N/A%
Municipal bond rate*	3.58%	3.87%

* Bond buyer General Obligation 20-Bond Municipal Index

As directed by the ERS, the asset basis for the date of depletion projection is the ERS's net assets (the gross assets less the Pension Obligation Bond proceeds). On this basis, net assets were exhausted in the 2014-2015 fiscal year and no projection was needed to be performed as of June 30, 2016, as the tax-free municipal bond index applies in all years, and is thus the single equivalent interest rate that is used as the discount rate in the determination of the Total Pension Liability.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

11. RETIREMENT SYSTEM (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Administration’s proportionate share of the Net Pension Liability, calculated using the discount rate of 3.87%, as well as what the Administration's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1 - percentage point lower or 1 - percentage point higher than the current rate:

Description	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% increase (4.87%)
Total Pension Liability	$ 146,438	$ 128,689	$ 114,285

Pay-As-You-Go Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (Pay-Go) mechanism for the ERS.

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106), which reformed the Commonwealth Retirement Systems. Act. No. 106 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106 modified the ERS’s governance. Under Act No. 106, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

Act No. 106-2017 also ordered a suspension of the ERS’s loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board’s discretion, the servicing of the ERS’s existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The “pay-go” funding needed in a given year is the difference between actual contributions and actual disbursements:

11. RETIREMENT SYSTEM (CONTINUED)

- Contributions to ERS are primarily based on statutory percentage of payroll.

- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

  Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for "pay-go" funding will be. While the ERS can set an expected "pay-go" amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

Pension Plan Fiduciary Net Position

The Employee's Retirement System of the Government of the Government of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Program Description and Membership

The Lottery provides postemployment benefits other than the pension benefits described in Note 11, for its retired employees (the "OPEB Program"). The plan is an unfunded, single employer defined benefit other postemployment healthcare and insurance coverage benefit plan. The plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75 "Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions".

The OPEB plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

Funding Policy

The obligations of the Plan members' employer are established by action of the Lottery pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Lottery currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Lottery.

Relationship Between Valuation Date, Measurement Date and Reporting Date

The valuation date is July 1, 2017. This is the date as of which the actuarial valuation is performed. The measurement date is June 30, 2018. This is the date as of which total OPEB liability is determined. The reporting date is the Lottery's fiscal year ending date. This report is for measurement year July 1, 2017 to June 30, 2018 for reporting periods ending June 30, 2018 through June 30, 2019.

Significant Changes

There have been no significant changes between the valuation date and measurement year end.

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Total OPEB Liability, Expense and Deferred Outflows/Inflows of Resources

As permitted by GASB, the Administration's unfunded total OPEB liability as of June 30, 2019 of approximately $4,628,083 was measured at June 30, 2018 by an actuarial valuation as of that date. An expected total OPEB liability was determined as of June 30, 2017, the valuation date, using standard roll back techniques. The roll back calculation begins with the total OPEB liability, as of the measurement date, June 30, 2018, adds the expected benefit payments for the year, deducts interest at the measurement date, June 30, 2018, adds the expected benefit payments for the year, deducts interest at the discount rate for the year, and then subtracts the annual normal cost (also called the service cost).

Changes in the total OPEB liability for the year ended June 30, 2019 are as follows:

Balance as of June 30, 2017	$	10,610
Changes for the year:		
Interest on Total OPEB Liability		544
Effect of Economic/Demographic Gain or Losses		1,731
Effect of Assumption Changes or Inputs		2,763
Benefit Payments		(1,200)
Balance as of June 30, 2018	$	14,448

For the year ended June 30, 2019, the Lottery recognized an OPEB expense of $13,248, included as part of other postemployment benefits expense in the accompanying Statement of Revenues, Expenses and Changes in Net Deficit.

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12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Source	Deferred Outflows of Resources
Differences between expected and actual experience	$ -
Changes of assumptions	-
Changes in proportion	-
Benefits paid subsequent to measurement date	1,200
Total Deferred Outflows	$ 1,200

Deferred outflows of resources related to OPEB resulting from the Lottery's benefit payments subsequent to the measurement date which amounted to $1,200 as of June 30, 2019 is recognized as a reduction of the total OPEB liability in the year ending June 30, 2020.

The Lottery's proportional share of the OPEB liability used was as follows:

Proportion - June 30, 2017	0.00115%
Proportion - June 30, 2018	0.00172%
Change - Increase	0.00057%

Discount Rate

The discount rate as of June 30, 2018 and 2017 were as follows:

	June 30, 2017	June 30, 2018
Discount Rate	3.58%	3.87%
Long-term expected rate of return net of investment expense	N/A%	N/A%
Municipal bond rate	3.58%	3.87%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB") (CONTINUED)

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability as of June 30, 2019 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

Measurement Date	June 30, 2018
Valuation Date	July 1, 2017
Actuarial cost method	Entry Age Normal
Medical Rate	Not Applicable
Salary increase	Current General Economy
Mortality	Pre-Retirement Mortality: for general employees not covered Under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after measurement date. Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equalto 92% of the rates from the UP-1994 Mortality Tables for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational tables, and it reflects mortality improvements both before and after the measurement date. Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience equal to 105% of the rates from the UP-1994 Mortality Table Males and 115% of the rates from the UP-1994 Mortality Table Females. No provision was made for future improvement for disabled retirees.

12. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”) (CONTINUED)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and actuarial value of assets.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower (2.87%) or 1 percent-point higher (4.87%) than the current rate:

Description	At 1% decrease (2.87%)	At current discount rate (3.87%)	At 1% increase (4.87%)
Other Postemployment Benefit Liability	$ 15,846	$ 14,448	$ 13,261

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13. VOLUNTARY TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows: Article 4(a) provides economic incentive based on the following parameters:

Years of Service in Public Sector	Incentive Gross Amount
Up to 1 Year	1 Month of Salary
From 1 Year and One Day Up to 3 Years	3 Months of Salary
From 3 Years and One Day and Up	6 Months of Salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payments are based on the following parameters:

Credited Years of Service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

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13. VOLUNTARY TERMINATION BENEFITS (CONTINUED)

The Lottery will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments. However, after July 1, 2017, and based on Retirement System's Circular Letter No. 2019-01 of October 29, 2018, the applicable employer and employee contributions being made by the Lottery were eliminated.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

The Lottery has four participants in the plan, and termination benefits are measured at the discount present value of expected future benefit payments. Benefits are based on 60% of average pay (meaning the highest annual average salary of the participant during any of three years of credited services), in addition to social security and Medicare computed at 7.65%, and retirement benefits based on a percentage ranging from 45% to 50% from 2016 to 2025. Termination benefits will be completed during fiscal year 2024-2025.

As of June 30, 2019, the present value of future incentive payments reported as a liability amounted to approximately $368,309. The long-term portion of the early termination obligation amounted to $281,921, with a current portion of $86,388. Such amounts are disclosed respectively, as short-term and long-term liabilities in the accompanying Statement of Net Deficit. The liability under this program was discounted at approximately 2.20%.

The following table summarizes the activity of voluntary termination benefits during the fiscal years ended June 30, 2019 and 2018:

Year Ended	Beginning Balance	Increases	Decreases	Ending Balance	Due Within
June 30, 2019	$ 442,871	$ 11,556	$ (86,388)	$ 368,039	$ 86,388
June 30, 2018	$ 732,281	$ -	$ (289,410)	$ 442,871	$ 86,388

14. ACCUMULATED DEFICIT

As of June 30, 2019 and June 30, 2018 the Lottery has accumulated deficits of $5.9 and of $23.5 million, respectively. These deficits are the result of a special transfer in the amount of $200 million under Law 171 of fiscal year 2005, and in the opinion of management, is not an indication of financial difficulties as the Lottery has been and continues to be profitable. In addition, management expects that funds for payments of annuity prize obligations will be totally covered from funds generated from operations. During the fiscal years ended June 30, 2019 and 2018, the Lottery has generated sufficient funds for the payment of prizes.

15. DATE OF MANAGEMENT'S REVIEW

The Lottery followed the provisions of FASB ASC topic “Subsequent Events”, which establishes general standards to be applied in accounting for, and disclosure of events that occur after the statement of position date, but before basic financial statements are issued or available to be issued. This standard introduces the concept of "financial statements available to be issued", which are financial statements that are complete in form and format, that complies with US GAAP and have obtained all approvals required for issuance.

It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for the date, whether it is the date the basic financial statements were issued or were available to be issued. This topic should be applied to the accounting and disclosure of subsequent events not addressed on other applicable US GAAP.

The Lottery's management evaluated subsequent events until September 13, 2021 date in which the basic financial statements are available to be issued. No events should be either recognized or disclosed in the basic financial statements. See also Note 17.

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16. NEW ACCOUNTING STANDARDS

a. GASB Implementation

The provisions of the following Governmental Accounting Standards Board (GASB) Statements are effective for financial statements for periods beginning after June 15, 2018 (FY 2018-2019) and have been implemented when applicable during the year ended June 30, 2019:

- GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

  This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

  The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

  This Statement addresses accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

16. NEW ACCOUNTING STANDARDS

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported,
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, and
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

- In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO's, including obligations that may not have been previously reported. The requirements of this statements are effective for financial statements for periods beginning after June 15, 2018. The Lottery has determined that GASB No. 83 is not applicable to its financial statements.

- In March 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". This statement will improve the information that is disclosed in notes of governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Lottery has determined that GASB No. 88 is not applicable to its financial statements.

- In May 2020, the GASB issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance". This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 or later.

b. Future Adoption

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2019. The Lottery is currently evaluating its accounting practices to determine the potential impact on the basic financial statements for the GASB Statements.

- In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018.

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16. NEW ACCOUNTING STANDARDS - (CONTINUED)

- In June 2017, the GASB issued Statement No. 87, “Leases”. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

- In June 2018, the GASB issued Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period”. This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

- In August 2018, the GASB issued Statement No. 90, “Majority Equity Interests”. This statement will improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

- In May 2019, the GASB issued Statement No. 91, “Conduit Debt Obligations”. This statements is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

- In January 2020, the GASB issued Statement No. 92, “Omnibus 2020”. This statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this statement are effective for reporting periods beginning after June 15, 2020.

- In March 2020, the GASB issued Statement No. 93, “Replacement of Interbank Offered Rates”. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after December 31, 2021.

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16. NEW ACCOUNTING STANDARDS - (CONTINUED)

- In March 2020, the GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

- In May 2020, the GASB issued Statement No. 96, "Subscription-Based Information Technology Arrangements". This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

- In June 2020, the GASB issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". This Statement is intended to (i) increase the comparability of the reporting of fiduciary component units in circumstances where a potential component unit doesn't have a governing board; (ii) mitigate financial reporting costs associated with certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, by clarifying the financial burden criteria in Statement No. 84, Fiduciary Activities; and (iii) extends the accounting and financial reporting requirements related to pension plans, to Section 457 plans that meet the definition of a pension plan. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

17. SUBSEQUENT EVENTS

EFFECTS OF THE CORONAVIRUS DISEASE

During the month of December 2019, a respiratory disease started to spread, caused by a novel virus called "Coronavirus" or COVID-19. The World Health Organization (WHO) declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic.

The effects of the disease have been swift. The pandemic has transformed economic outlooks, health, and social norms around the globe. Government and health care providers are working around the clock to slow the spread of the disease. The whole world is affected by the pandemic. Travel restrictions are in place, and global trade, commerce, tourism, investment, and supply chains are in disarray.

The Governor of the Commonwealth of Puerto Rico issued a lockdown starting on March 15, 2020. On May 20, 2021, the Governor issued Administrative Order OE-2021-036, lifting the lock down effective May 24, 2021. From July 5, 2021, all Administrative Orders related to the COVID-19 disease were eliminated.

For the third operational quarter of the year 2020, covering from January 1 to March 31, 2020, **The Lottery** presented the following reductions in projected sales and operational and administrative expenses (in millions):

	Projected	Actual	Difference
Sales Draw Games and Others	$ 116.24	$93.63	($22.61)
Operational Expenses	76.00	67.29	(8.71)
Administrative Expense	0.91	0.25	(0.66)
Net Operating Income	$ 39.33	$26.09	($13.24)

This reduction was due in part to the effects of the coronavirus disease lockdown, which started on March 15, 2020. In addition, the recurring earthquakes that started from December 27, 2019 through January 2020, resulted in the closing of governmental operations and the suspension of services, draws and sales. Also, due to the aforementioned lockdown and during that quarter, the Regulatory Board of the State Elections Commission (CEE) was not able to promptly provide approval to Lottery's advertisement campaign during such period, and therefore there were no Lottery advertisement nor sales from January 1 through February 13, 2020.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

17. SUBSEQUENT EVENTS (CONTINUED)

EFFECTS OF THE CORONAVIRUS DISEASE (CONTINUED)

For the fourth operational quarter of the year 2020, covering from April 1 to June 30, 2020, **The Lottery** presented the following reductions in projected sales and operational expenses (in millions):

	Projected	Actual	Difference
Sales Draw Games and Others	$ 111.45	$15.43	($96.02)
Operational Expenses	72.97	13.77	(59.20)
Administrative Expense (*)	2.24	3.10	0.86
Net Operating Income	$ 36.24	($1.44)	($37.68)

The effects of the coronavirus lockdown on operations during this quarter were more severe. Draw games like Powerball, KINO and instant games were resumed again on May 26, 2020. Other games like Pega 2, 3 and 4, Loto and Revancha were resumed on June 20, 2020.

Beginning on the first operational quarter of fiscal year 2021, covering July 1 to September 30, 2020, **The Lottery's** results from operations presented a notable recovery from previous quarter. Sales increased $80 million when compared to previous quarter. By the second operational quarter of fiscal year 2021, the Lottery presented results comparable to pre-lockdown quarters and exceeded projected results, as detailed below:

For the Quarter ended September 30, 2020

	Projected	Actual	Difference
Sales Draw Games and Others	$ 106.14	$95.44	($10.70)
Operational Expenses	72.55	80.56	8.02
Administrative Expense (*)	1.06	0.43	(0.63)
Net Operating Income	$ 32.53	$14.45	($18.08)

For the Quarter ended December 31, 2020

	Projected	Actual	Difference
Sales Draw Games and Others	$ 106.14	$111.74	$5.61
Operational Expenses	72.55	79.57	7.03
Administrative Expense (*)	1.06	0.51	(0.55)
Net Operating Income	$ 32.53	$31.66	($0.88)

For the Quarter ended March 30, 2021

	Projected	Actual	Difference
Sales Draw Games and Others	$ 106.14	$128.78	$22.64
Operational Expenses	72.55	81.19	8.64
Administrative Expense (*)	1.06	0.49	(0.57)
Net Operating Income	$ 32.53	$47.11	$14.57

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

17. SUBSEQUENT EVENTS (CONTINUED)

For the Quarter ended June 30, 2021

	Projected	Actual	Difference
Sales Draw Games and Others	$ 106.14	$131.22	$25.09
Operational Expenses	72.55	74.45	1.90
Administrative Expense (*)	2.39	2.27	(0.12)
Net Operating Income	$ 31.20	$54.51	$23.31

(*) These amounts include the estimate of pension expense of GASB 73.

ADMINISTRATIVE BULLETIN NO. OE-2021-003

On January 2, 2021, the newly elected governor of the Commonwealth of Puerto Rico, issued Administrative Bulletin No. OE-2021-003 named "Executive Order to Issue Fiscal Responsibility and Expense Control Measures, and to repeal Administrative Bulletin No. OE-2017-001".

The executive order declares a fiscal emergency state in the government of Puerto Rico. It orders all governmental agencies in Puerto Rico to implement the necessary measures in order to reduce operational expenses, without adversely affect those services necessary to protect the citizens health, security and wellness.

Among the most significant measures required by the executive order are:

1. Vacancies - All regular career, transitory and irregular positions, which are vacant at executive order's date, or which becomes vacant after the effective date of the executive order, will be subject to a need assessment. The governmental agencies are also not allowed to fill any vacant positions by any means (like promotion, merit, mobility, transfer and others), unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (MBO),
2. Prohibition to Create New Positions - Governmental agencies are not allowed to create new regular career, transitory and irregular positions, unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (MBO),
3. Reduction in Positions of Confidence - All governmental agencies are required a 20% reduction in posts of confidence,
4. Reduction in Operational Expenses - All governmental agencies are required reductions in operational expenses, as part of the expense reduction measures,
5. Credit Cards - The use of official credit cards, paid through with public funds, is prohibited, unless it is done is strict compliance with applicable and outstanding regulations,

The Additional Lottery System
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Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2019 and 2018

17. SUBSEQUENT EVENTS (CONTINUED)

6. Traveling outside Puerto Rico - The order prohibits the use, by officers and employees of the governmental agencies, of public funds for traveling outside Puerto Rico, unless they are strictly essential to perform the duties of the position, and only when authorized by the Secretary of the agency and the Secretary of the Commonwealth of Puerto Rico. Also, if authorized, should be done in strict compliance with applicable and outstanding regulations,
7. Cellular Phones and Other Technological Services - The order prohibits the use of public funds for payment of cellular phones, personal digital assistants (PDA's), personal internet service equipment and other technological services, for exclusive use of the Officers and employees of the agencies. MBO Director is allowed to offer waivers to these requirements, considering, among other things, the service needs of public employees related to remote working. Agencies are required to obtain authorization from MBO and the Puerto Rico Innovation and Technology Service (PRITS), for any plan related to the acquisition of these technological equipments or services,
8. Reduction in Energy and Water Consumption - All agencies' directors are required to reduce consumption of public utilities, like electric power and water. Regarding electric power, the agencies are required to implement all necessary measures to reach a minimum annual reduction of 5%. As for water consumption, those agencies, for which operational expenses are subsidized, in whole or in part, with funds from the Commonwealth's Central Government, must reduce water consumption by 5% annually, during fiscal years 2020-2021, 2021-22, and 2022-23, so it can reach a reduction of 15% in the three-year period. Percentage reduction will be measured from water consumption expense during year 2019-20 as base year,
9. Reduction in Contract Amounts - Each agency must reduce expenses for services (purchased and/or professional) by 10% annually,
10. Contracting for Services - It is prohibited to make a contract for purchased or professional services over $10,000 (and below $10,000,000) in the same fiscal year, without the written authorization from MBO. For this purpose, the Director of MBO will verify funds availability in the budget assigned to the agency. For contracts in excess of $10,000,000, in the same fiscal year, must be authorized together by the Director of MBO and the Secretary of the Commonwealth of Puerto Rico, or the person designated by him for such purpose, and
11. Lease Contracts - Agencies must submit to MBO, within 30 days after the effective date of this executive order, a list of all outstanding lease contracts, amount contracted, and the reasons to justify the contract. MBO is authorized to deny the renewal of these contracts, or to modify its terms when due, unless it is necessary for the services given to citizens. MBO can consolidate operations in various agencies in a single lease premise, and renegotiate monthly fees and other clauses, in order to attain better terms.

The executive order discloses that all these control measures are the first ones to be implemented to face the fiscal crisis, and that it should not be understood that they are the only ones to be implemented. All agencies must evaluate its operations in order to detect additional measures of control, savings and expense reduction.

The Lottery has not yet determined the effects these measures will have on the basic financial statements and the results of operations.

The Additional Lottery System
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Required Supplementary Information
Schedule of Proportionate Share
of the Total Pension Liability
and Related Ratios

Last Two Fiscal Years (Amounts were determined as of June 30 of each year)

Description	2019*	2018*
Proportion of Total Pension Liability	0.00053%	0.00057%
Proportionate Share of Total Pension Liability	$ 128,689	$ 161,414
Covered - Employee Payroll	$ 14,618	$ 16,811
Proportionate Share of Total Pension Liability as Percentage of Covered-Employee Payroll	880.33%	960.15%

*The amounts presented have a measurement date of the previous fiscal year end.

Fiscal year 2019 was the first year that the Lottery transitioned from GASB No. 68 to No. GASB 73, as result of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See notes to required supplemetary information and accompanying independent auditors' report.

The Additional Lottery System
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Schedule of Changes in Total Pension Liability

For the Fiscal Year Ended June 30, 2019

Description	2019*
Total Pension Liability	
Service Cost	$ 678
Interest on Total Pension Liability	9,044
Effect of Plan Changes	(16,649)
Effect of Economic/Demographic Gain or Losses	(9,463)
Effect of Assumption Changes or Inputs	(9,328)
Benefit Payments	(7,007)
Net Change on Total Pension Liability	(32,725)
Total Pension Liability, Beginning	161,414
Total Pension Liability, Ending	$ 128,689

*The amounts presented have a measurement date of the previous fiscal year end.

Fiscal year 2019 was the first year that the Lottery transitioned from GASB No. 68 to No. GASB 73, as resulted of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See notes to required supplemetary information and accompanying independent auditors' report.

The Additional Lottery System
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Required Supplementary Information
Schedule of Proportionate Share of
Total Other Postemployment Benefit Liability
And Related Ratios

Last Two Fiscal Years (Amounts were determined as of June 30 of each year)

Description	2019*	2018*
Proportion of Total Other Postemployment Benefit Liability	0.00172%	0.00115%
Proportionate Share of Total Other Postemployment Benefit Liability	$ 14,448	$ 10,610
Covered - Employee Payroll	N/A	N/A
Proportionate Share of Total Other Postemployemnt Benefit Liability as Percentage of Covered-Employee Payroll	N/A	N/A

*The amounts presented have a measurement date of the previous fiscal year end.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented at the Lottery. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See notes to required supplemetary information and accompanying independent auditors' report.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Schedule of Changes in Total Other Postemployment Benefits Liability

Last Two Fiscal Years (Amounts were determined as of June 30 of each year)

Description	2019*	2018*
Total Other Postemployment Benefit Liability		
Interest on Total OPEB Liability	$ 544	$ 377
Effect of Economic/Demographic Gain or Losses	1,731	(117)
Effect of Assumption Changes or Inputs	2,763	(1,994)
Benefit Payments	(1,200)	(889)
Net Change on Total Other Postemployment Benefit Liability	3,838	(2,623)
Total Other Postemployment Benefit Liability, Beginning	10,610	13,233
Total Other Postemployment Benefit Liability, Ending	$ 14,448	$ 10,610

*The amounts presented have a measurement date of the previous fiscal year end.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented at the Lottery. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See notes to required supplemetary information and accompanying independent auditors' report.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)

Notes Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units, including the Lottery are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

To the Administrator of
The Additional Lottery System
San Juan, Puerto Rico

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 Additional Lottery System (from now on the Lottery), an enterprise fund of the commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated September 13, 2021.

As discussed in Note 1, the basic financial statements of the Lottery are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the Lottery. It does not intend to, and does not present fairly, the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Lottery'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.

Internal Control Over Financial Reporting (Continued)

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 may exist that have not been identified.

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 determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 Lottery'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 Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

September 13, 2021

Stamp #E463134 of the
College of CPA's of
Puerto Rico is affixed
to the original.