

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of
Puerto Rico)
Financial Statements for the Fiscal Years Ended
June 30, 2015 and 2014 and Independent
Auditors' Report

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Financial Statements for the Fiscal Years Ended
June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of *The Additional Lottery System* (the Lottery), an enterprise fund of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Notes 2 and 12 to the basic financial statements, the Lottery has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 67. Accordingly,

1. the Lottery has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and,
2. the Lottery has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of *The Additional Lottery System* as of June 30, 2015 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, the financial statements presents only the enterprise fund of the Lottery and do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2015 and 2014 and its related changes in its financial position or cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information Omitted

The Lottery has omitted the Schedule of the Lottery's Proportionate Share of the Net Pension Liability, and the Schedule of Lottery's Contributions to the Employees' Pension Plan, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2016, on our consideration of Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting 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 over financial reporting and compliance.

H.L.B. Parissi PSC

San Juan, Puerto Rico
January 22, 2016

Stamp No. E195802 was affixed
to the original of this report.
License No. 88 Exp. December 1, 2017.



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, 2015 and 2014

The following discussion and analysis of the financial performance and activity of ***The Additional Lottery System*** (the Lottery) provides an introduction and understanding of the basic financial statements of the Lottery for the fiscal years ended June 30, 2015 and 2014. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Lottery was created by Law No. 10 of the Commonwealth of Puerto Rico (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 administer six (6) games Pega 4, Pega 3, Pega 2 and their variations, Powerball, Lotto, and instant games. The Powerball and Powerplay games were added during the year ended June 30, 2015 with draws on Wednesday and Saturday each week. Independent and corporate retailers comprised principally of grocery and convenience stores, package foods stores, restaurants serves 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.

The Lottery was established as an agency of the Department of Treasury of the Commonwealth (Department of Treasury) who supervises and controls its operations.

Financial Highlights

- Payments to Commonwealth of Puerto Rico increase from approximately \$133.3 million in 2014 to \$140.3 million in 2015 or 5.25% more than the previous year.
- Lottery ticket sales decreased \$8.0 million, when compared to the prior fiscal year, from approximately \$473.2 million in 2014 to \$465.1 million in 2015.
- Prizes decrease by 9.9% from approximately \$281.8 million in 2014 to \$253.8 million in 2015.

The Financial Statements

The basic financial statements provide information about the Lottery's activities. The 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).

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Overview of the Financial Statements

The financial statements consist of the (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are 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.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Lottery. The statement is presented in the format where assets and deferred outflows of resources equal liabilities, deferred inflows of resources and net position. 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 statement of net position is to show a picture of the liquidity and health of the Lottery's financial position as of the end of the year.

The Lottery's net position is reported in the following categories:

- *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.
- *Unrestricted* - this component includes all net position that does not meet the definition of net position invested in capital assets.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position includes 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 revenue, such as interest and investment income. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss and portrays the results of operations of the Lottery for the entire operating period.

Statement of Cash Flows

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

Notes to Financial Statements

The notes to 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.

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Summary of Net Position

The following presents the Lottery's condensed statement of net position as of June 30, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 67,442,984	\$ 82,948,870	\$ 49,533,292
Non-current assets			
Capital Assets	66,884	96,271	102,243
Due from Commonwealth of Puerto Rico	53,174,614	53,174,614	53,910,623
Prepaid income tax on prizes	21,549,946	23,791,988	23,219,551
Prize Reserve to MUSL	4,028,017	-	-
Other	<u>2,500</u>	<u>2,500</u>	<u>11,068</u>
Total assets	<u>146,264,945</u>	<u>160,014,243</u>	<u>126,776,777</u>
Liabilities			
Current liabilities	\$ 53,619,608	\$ 71,351,570	\$ 45,925,507
Non-current liabilities	<u>119,466,602</u>	<u>132,110,562</u>	<u>127,641,055</u>
Total liabilities	<u>173,086,210</u>	<u>203,462,132</u>	<u>173,566,562</u>
Net position (deficit)			
Net investment in capital assets	66,884	96,271	102,243
Unrestricted deficit	<u>(26,888,149)</u>	<u>(43,544,160)</u>	<u>(46,892,028)</u>
Deficit	<u>\$ (26,821,265)</u>	<u>\$ (43,447,889)</u>	<u>\$ (46,789,785)</u>

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

During the year ended June 30, 2015 current assets decrease by \$15.5 million principally due to a decrease in cash and cash equivalents and to accounts receivables. This decrease in cash and cash equivalents is principally due to an increase in the amount transferred to the Commonwealth. Accounts receivables decreased mainly due to the fact that retailers net sales were received before June 30, 2015 year end, situation that did not occurred in prior fiscal year.

During the year ended June 30, 2014 current assets increased by \$33.4 million principally due to an increase in cash and cash equivalents. This increase in cash and cash equivalents is principally due to a decrease in the amount transferred to the Commonwealth.

Non-current assets consist principally of amounts due by the Commonwealth. This amount consists principally from advances made during fiscal year 2004 based on estimates. When the estimate was revised it was determined that the Lottery transferred amounts in excess of the actual amounts available for transfer.

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During the year ended June 30, 2015 non-current assets increased by \$1.8 million due to the increase in Prize Reserve of \$4 million and the decrease in prepaid income tax on prizes of \$2.25 million.

During the year ended June 30, 2014 non-current assets decreased by \$178 thousand due to a decrease in the amounts due by the Commonwealth of \$736 thousand and an increase of \$572 thousand in prepaid income tax on prizes.

The Lottery prepaid certain amount of the tax on prizes to be paid on 20 years annuities. These taxes are amortized 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, 2015 current liabilities decrease by \$17.7 million principally due to a decrease in the unpaid transfers to the Commonwealth in the amount of approximately \$17.2 million.

During the fiscal year ended June 30, 2014 current liabilities increase by \$25.4 million principally due to an increase in prizes payable of approximately \$5.9 million. In addition, at June 30, 2014 the Lottery has unpaid transfers to the Commonwealth in the amount of approximately \$20.3 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 20 years.

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Summary of Revenues, Expenses and Changes in Net Position

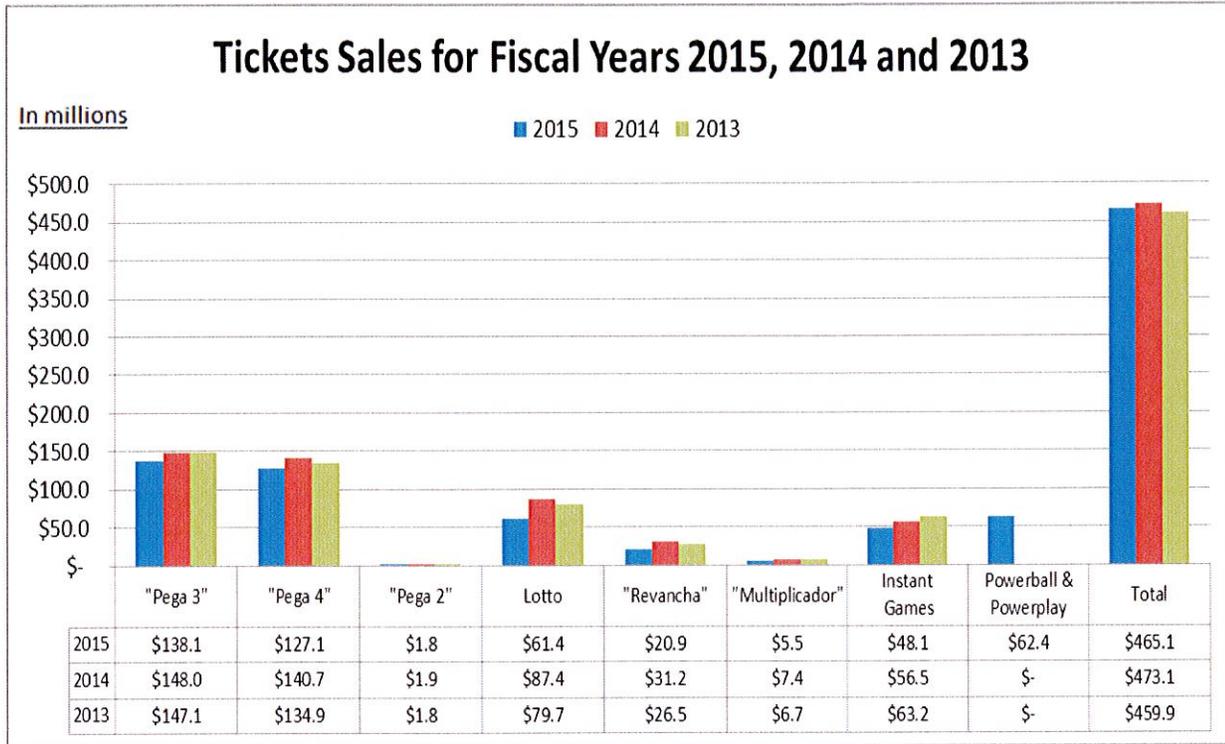
The following presents a condensed summary of the statement of revenues, expenses and changes in net position for the year ended June 30, 2015 and the prior fiscal years ended June 30, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 465,102,345	\$ 473,182,424	\$ 459,911,170
Non-operating revenue	<u>832,363</u>	<u>458,419</u>	<u>242,331</u>
Total revenues	<u>465,934,708</u>	<u>473,640,843</u>	<u>460,153,501</u>
Operating expenses			
Direct costs	295,789,501	324,600,444	284,649,223
General and administrative	<u>13,192,437</u>	<u>12,389,453</u>	<u>14,010,571</u>
Total operating expenses	<u>308,981,938</u>	<u>336,989,897</u>	<u>298,659,794</u>
Income before payments to Commonwealth of Puerto Rico	<u>156,952,770</u>	<u>136,650,946</u>	<u>161,493,707</u>
Less payments to Commonwealth of Puerto Rico	<u>140,326,146</u>	<u>133,309,050</u>	<u>140,345,918</u>
Change in net position	16,626,624	3,341,896	21,147,789
Net position			
Beginning of year	<u>(43,447,889)</u>	<u>(46,789,785)</u>	<u>(67,937,574)</u>
End of year	\$ <u><u>(26,821,265)</u></u>	\$ <u><u>(43,447,889)</u></u>	\$ <u><u>(46,789,785)</u></u>

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Operating revenues consist of the sales of the games tickets. The following charts summarizes the Lottery tickets sales for each products for the fiscal years 2015 and 2014 compared with their respective prior year:



When comparing fiscal year 2015 to fiscal year 2014, total tickets sales decreased by approximately \$8.0 million. In contrast, total tickets sales increased by approximately \$13.3 million from fiscal year 2013 to fiscal year 2014. Overall fluctuation in fiscal year 2015 is driven by players tendency to invest monies in this type of activity.

For 2014 increase in sales (when compared to fiscal year 2013) was due to the amount of jackpots accumulated during the year. High jackpots principally in Lotto and Revancha resulted in an increase in sales.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Pega 3			
Night draw	\$ 102,445,314	\$ 115,266,854	\$ 145,990,649
Day draw	35,634,065	32,705,741	1,110,890
Pega 4			
Night draw	98,645,796	113,952,097	134,052,762
Day draw	28,414,440	26,775,709	820,852
Pega 2			
Night draw	1,161,426	1,313,581	1,735,830
Day draw	663,185	621,814	24,412
Powerball	44,838,836	-	-
Powerplay	17,513,907	-	-
Lotto	61,350,809	87,419,262	79,747,095
Revancha	20,865,883	31,225,151	26,517,896
Multiplicador	5,491,526	7,389,447	6,691,397
Instant Games	<u>48,077,159</u>	<u>56,512,768</u>	<u>63,219,387</u>
Total	<u>\$ 465,102,345</u>	<u>\$ 473,182,424</u>	<u>\$ 459,911,170</u>

During the year ended June 30, 2015 there were fourteen (14) big winners of Powerball, Lotto and Revancha as compared eleven (11) winners of Lotto and Revancha in fiscal year ended June 30, 2014 as follows:

	<u>2015</u>	<u>2014</u>
Lotto grand prize winners:		
Annuity payment	1	3
Lump sum payment	1	3
Unclaimed prize	2	-
Revancha prize winners:		
Lump sum payment	6	5
Unclaimed prize	-	-
Powerball & Powerplay prize winners:		
Annuity payment	-	-
Lump sum payment	4	-
Unclaimed prize	<u>-</u>	<u>-</u>
Total	<u>14</u>	<u>11</u>

During the year ended June 30, 2015 the two (2) largest prizes awarded for Powerball amounted \$127.05 and \$33.55million and two (2) largest prizes for Lotto amounted \$32 million and \$29.50 million. In 2014 the two (2) largest prizes for Lotto amounted to \$23 million and \$24 million.

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Prize expense includes the actual amounts paid plus the amortization of interest on the prizes annuity obligations.

Prize expense by the different games offered by the Lottery during the year ended June 30, 2015 and the two prior years are as follows:

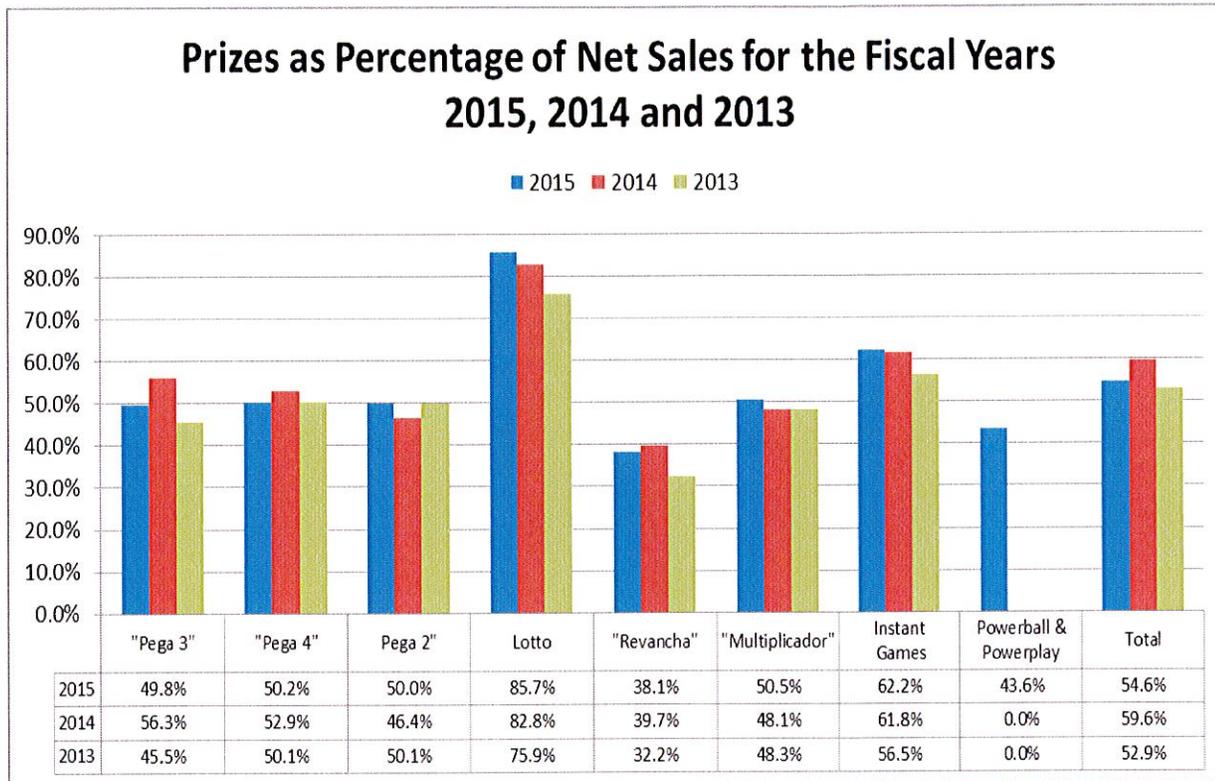
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Pega 3			
Night draw	\$ 50,922,960	\$ 68,557,875	\$ 66,274,940
Day draw	17,797,540	14,683,555	623,560
Pega 4			
Night draw	49,755,830	58,352,740	67,385,580
Day draw	14,084,360	16,088,520	212,170
Pega 2			
Night draw	574,925	597,785	861,975
Day draw	337,500	299,895	19,975
Powerball	19,865,613	-	-
Powerplay	7,327,736	-	-
Lotto	52,549,451	72,373,763	60,554,360
Revancha	7,950,000	12,400,000	8,550,000
Mutliplicador	2,770,369	3,551,458	3,233,256
Instant Games	<u>29,895,151</u>	<u>34,941,780</u>	<u>35,705,580</u>
Total	<u>\$ 253,831,435</u>	<u>\$ 281,847,371</u>	<u>\$ 243,421,396</u>

Prize expense as a percentage of ticket sales was 54.6% during the year ended June 30, 2015 as compared to 59.6% and 52.9% during the years ended June 30, 2014 and 2013 respectively. The enabling law requires that at least 45.0% of the ticket sales be returned to players in the form of prizes.

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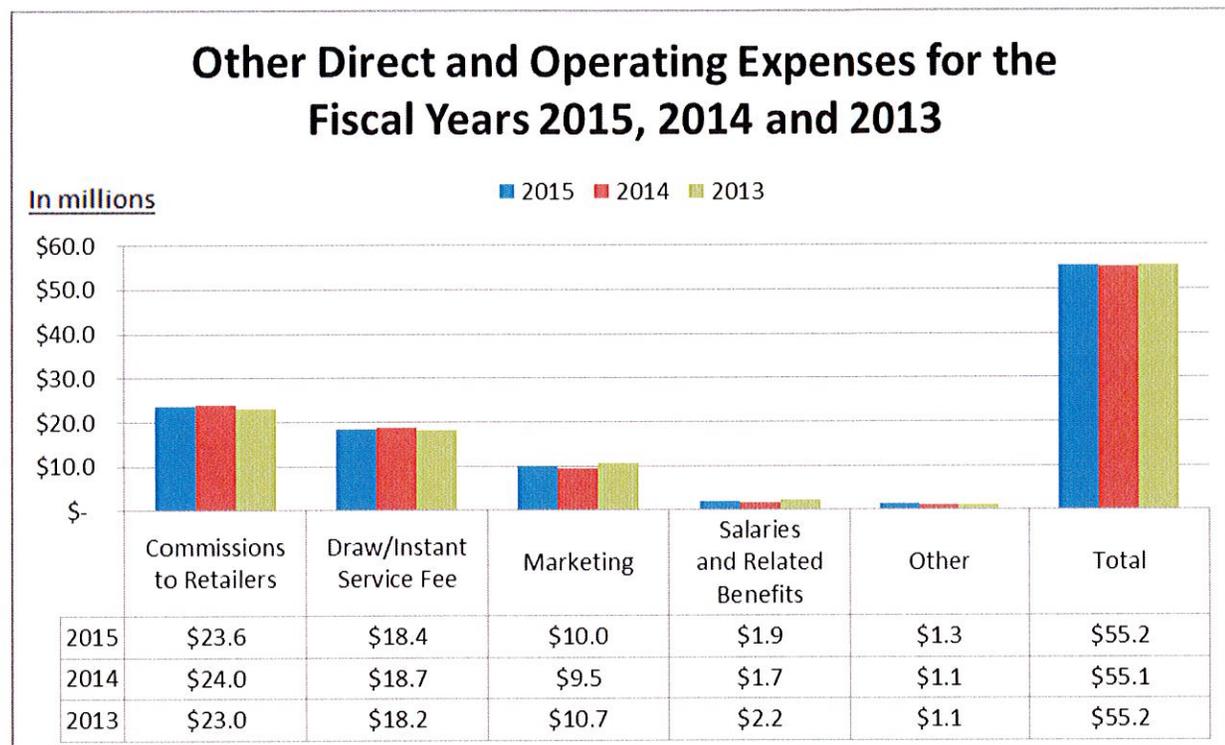
The following chart compares the prizes as a percentage of net sales for each product for the fiscal years ended 2015, 2014 and 2013:



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The Additional Lottery System
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The following chart summarizes the composition of other direct and operating expenses for the fiscal years ended June 30, 2015, 2014 and 2013:



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The Lottery pays a 5.0% of net sales of draw and instant games and 1.0% of net prizes paid on instant games as commission to retailers.

The Lottery has a contract with Scientific Games Puerto Rico, Inc. for online system, 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 years ended June 30, 2015, 2014 and 2013 was 3.9558 %.

The Lottery is required by law to transfer to the Commonwealth the net income after deducting the amount required to pay the current year annuity prize obligations. During the years ended June 30, 2015, 2014 and 2013 the Lottery recorded transfers in the amount of \$140.3, \$133.3 and \$140.3 million, respectively.

Accumulated Deficit

At June 30, 2015 the Lottery has an accumulated deficit of \$26.8 million. This deficit is the result of a special transfer in the amount of \$200.0 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 funds for the payments of annuity prizes obligations will be from funds generated from operations or from contributions from the Commonwealth if the need arise. During the year ended June 30, 2015 and prior years the Lottery has generated sufficient funds for the payment of prizes.

Contacting the Lottery's Financial Management

The management's discussion and analysis is designed to provide the citizens of Puerto Rico, Commonwealth of Puerto Rico government officials, our players, retailers and other interested parties with an overview of the Lottery's financial activity for the year ended June 30, 2015 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 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)
Statement of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,463,396	\$ 69,899,641
Accounts receivable	<u>3,979,588</u>	<u>13,049,229</u>
Total current assets	<u>67,442,984</u>	<u>82,948,870</u>
Non-current assets:		
Due from Commonwealth of Puerto Rico	53,174,614	53,174,614
Income tax prepaid to the Commonwealth of Puerto Rico	21,549,946	23,791,988
Prize Reserve MUSL	4,028,017	-
Capital assets, net of accumulated depreciation	66,884	96,271
Other	<u>2,500</u>	<u>2,500</u>
Total non-current assets	<u>78,821,961</u>	<u>77,065,373</u>
Total assets	<u>146,264,945</u>	<u>160,014,243</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	5,848,535	5,542,025
Transfer due to the Commonwealth of Puerto Rico	3,042,630	20,318,133
Prizes payable:		
Annuity prize obligations	19,418,146	21,420,050
Estimated prize obligation	19,991,654	18,362,524
Unclaimed	<u>5,318,643</u>	<u>5,708,838</u>
Total current liabilities	<u>53,619,608</u>	<u>71,351,570</u>
Non-current liabilities:		
Annuity prize obligations, less current portion	118,634,702	131,213,262
Voluntary retirement benefits	<u>831,900</u>	<u>897,300</u>
Total non-current liabilities	<u>119,466,602</u>	<u>132,110,562</u>
Total liabilities	<u>173,086,210</u>	<u>203,462,132</u>
Net position (deficit):		
Net investment in capital assets	66,884	96,271
Unrestricted deficit	<u>(26,888,149)</u>	<u>(43,544,160)</u>
Deficit	<u>\$ (26,821,265)</u>	<u>\$ (43,447,889)</u>

See notes to financial statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Position
For Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Draw games	\$ 417,025,186	\$ 416,669,656
Instant games	<u>48,077,159</u>	<u>56,512,768</u>
Total operating revenues	<u>465,102,345</u>	<u>473,182,424</u>
Operating expenses		
Direct costs:		
Prize expenses	253,831,435	281,847,371
Retailer commissions	23,559,166	24,019,458
Draw and instant service fees	18,398,900	18,733,615
Salaries and related benefits	1,857,109	1,711,127
Marketing expenses	10,024,906	9,534,580
General and administrative	<u>1,310,422</u>	<u>1,143,746</u>
Total operating expenses	<u>308,981,938</u>	<u>336,989,897</u>
Operating income	<u>156,120,407</u>	<u>136,192,527</u>
Non-operating revenue		
Interest and other income	<u>832,363</u>	<u>458,419</u>
Income before payments transfers to Commonwealth	156,952,770	136,650,946
Transfers	<u>(140,326,146)</u>	<u>(133,309,050)</u>
Change in net position	16,626,624	3,341,896
Net position (deficit):		
Beginning of year	<u>(43,447,889)</u>	<u>(46,789,785)</u>
End of year	\$ <u>(26,821,265)</u>	\$ <u>(43,447,889)</u>

See notes to financial statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For Fiscal Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from retailers, net of commissions and incentives	\$ 450,612,911	\$ 445,354,399
Cash paid for prizes and related taxes	(264,930,922)	(271,946,297)
Cash paid to suppliers for goods and services	(33,489,336)	(30,324,991)
Cash paid to employees	<u>(1,853,029)</u>	<u>(1,651,919)</u>
Net cash provided by operating activities	<u>150,339,624</u>	<u>141,431,192</u>
Cash flows from non-capital financing activities		
Payments to Commonwealth of Puerto Rico	(137,283,517)	(112,990,917)
Amount due(to)/from Commonwealth of Puerto Rico	<u>(20,318,133)</u>	<u>736,009</u>
Net cash used in non-capital financing activities	<u>(157,601,650)</u>	<u>(112,254,908)</u>
Cash flows from capital and related financing activities		
Capital expenditures	<u>(6,582)</u>	<u>(27,692)</u>
Cash flows from investing activities		
Interest and other miscellaneous income	<u>832,363</u>	<u>458,419</u>
Net (decrease) increase in cash and cash equivalents	<u>(6,436,245)</u>	<u>29,607,011</u>
Cash and cash equivalents		
Beginning of year	<u>69,899,641</u>	<u>40,292,630</u>
End of year	\$ <u><u>63,463,396</u></u>	\$ <u><u>69,899,641</u></u>
Reconciliation operating income to net cash provided		
operating activities		
Operating income	\$ 156,120,407	\$ 136,192,527
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	35,969	33,664
Changes in operating assets and liabilities:		
Accounts receivable	9,069,641	(3,808,567)
Prepaid income tax to the Commonwealth of Puerto Rico	2,242,042	(572,437)
Prize Reserve MUSL	(4,028,017)	-
Other assets	-	8,568
Accounts payable and accrued liabilities	241,111	(896,074)
Prizes payable	<u>(13,341,529)</u>	<u>10,473,511</u>
Net cash provided by operating activities	\$ <u><u>150,339,624</u></u>	\$ <u><u>141,431,192</u></u>

See notes to financial statements.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For Fiscal Years Ended June 30, 2015 and 2014

1. ORGANIZATION

The Additional Lottery System (the Lottery) was created by Law No. 10 of the Commonwealth of Puerto Rico (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 administer six (6) games Pega 4, Pega 3, Pega 2 and their variations, Powerball, Lotto, and instant games. During the year ended June 30, 2015 Powerball game was added with draws on Wednesday and Saturday each week. Independent and corporate retailers comprised principally of grocery and convenience stores, package foods stores, restaurants serves 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.

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, 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.

The Lottery is considered a special-purpose government engaged only in business-type activities under Governmental Accounting Standards Board (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.

As further explained Note 12, the Employees Retirement System of the Commonwealth of Puerto Rico (ERS) did not provide the Lottery the information needed to adopt GASB Statement no. 68, Accounting and Financial Reporting for Pensions (GASB 68) - an amendment of GASB Statement No. 27. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB 68.

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The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

Following is a description of the Lottery's most significant accounting policies:

(a) Measurement Focus and Basis of Accounting

The operations of the Lottery are accounted for as enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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 Position. 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. Revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

(e) Accounts Receivable

Accounts receivable represents 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 transferred weekly from 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 collectibility of accounts receivable. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2015 and 2014, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

(f) Capital Assets

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 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) Net Position

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

Net Investment in Capital Assets

The net investment in capital assets component of net position 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.

Unrestricted

The unrestricted component of net position 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.

(h) 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. Revenues from instant games are recognized when the retailer activates the book of tickets.

(i) Prizes

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

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

Prize expense for draw games is recorded based on prizes won by the players, as revenue is recognized. Prize expense for instant games is 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.

The winner may elect to receive the Lotto jackpot prize through an annuity over a period of 20 years or a lump sum payment equals 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 expense 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 20 year annuity.

(j) 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.

(k) Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry forward their compensated absences as permitted by statute and may settle them in a cash payment from the Lottery, if employment has ceased. The Lottery's employees are granted 30 days of regular vacations and 18 days of sick leave and accumulated vacations and sick leave can not exceed 60 and 90 days respectively.

(l) Pension Costs

The Lottery's employees participate in the retirement system of the Commonwealth, a multiemployer cost sharing plan. Accordingly, pension costs recorded in the accompanying financial statements equals the statutory required contributions with a liability recorded for any unpaid required contributions.

(m) Risk Management

The Commonwealth purchases commercial insurance covering casualties, theft, tort, claims, and other losses, the Commonwealth 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 of Puerto Rico. The Lottery has not settled any claims in excess of its insurance coverage during the past three years.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2015 and 2014 consist of cash on hand and bank deposits.

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 name of the Lottery.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico (GDB), the Lottery may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. There are no investments at June 30, 2015 and 2014.

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 deposit at June 30, 2015 and 2014 amounted to approximately \$18.9 million and \$53.2 million, respectively, which are fully collateralized as previously described.

In addition, at June 30, 2015 and 2014, the Lottery maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount of approximately \$45 million and \$20 million, respectively. These amounts are uncollateralized since by law, the governmental banks of the Commonwealth of Puerto Rico are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth of Puerto Rico.

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The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

4. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 is as follows:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases and Other</u>	<u>June 30, 2015</u>
Assets being depreciated:				
Computers, furnitures and other office equipment	\$ 552,181	\$ 6,582	\$ -	\$ 558,763
Motor vehicles	<u>96,246</u>	<u>-</u>	<u>-</u>	<u>96,246</u>
Total	648,427	6,582	-	655,009
Less accumulated depreciation	<u>(552,156)</u>	<u>(35,969)</u>	<u>-</u>	<u>(588,125)</u>
Capital assets being depreciated, net	<u>\$ 96,271</u>	<u>\$ (29,387)</u>	<u>\$ -</u>	<u>\$ 66,884</u>
	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases and Other</u>	<u>June 30, 2014</u>
Assets being depreciated:				
Computers, furnitures and other office equipment	\$ 524,489	\$ 27,692	\$ -	\$ 552,181
Motor vehicles	<u>96,246</u>	<u>-</u>	<u>-</u>	<u>96,246</u>
Total	620,735	27,692	-	648,427
Less accumulated depreciation	<u>(518,492)</u>	<u>(33,664)</u>	<u>-</u>	<u>(552,156)</u>
Capital assets being depreciated, net	<u>\$ 102,243</u>	<u>\$ (5,972)</u>	<u>\$ -</u>	<u>\$ 96,271</u>

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 amortize on a straight-line basis over the life of the annuity which generally is 20 years.

6. DUE FROM COMMONWEALTH OF PUERTO RICO

The Lottery is required to remit to the Commonwealth the excess of revenues over expenses after deducting amounts required for the payment of prizes. During fiscal year 2004 the Lottery made advances to the Commonwealth based on certain estimates. Upon revision, the Lottery and the Commonwealth determined that the amount advanced exceeded the actual amount available for distribution. The excess amount transferred is presented as due from the Commonwealth in the accompanying statement of net position.

The Additional Lottery System
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Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

The collectability of this amount depends on future budget appropriations made by the Commonwealth. Such appropriations have not occurred since fiscal year 2004 when the Lottery and the Commonwealth determined the excess of profit transferred as explained above. Therefore this amount has been presented as non-current assets as it has no formal collection terms. In addition no interest has been charged on amount outstanding. If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including the amount due to the Lottery, for the upcoming years, may continue to be adversely affected, and could significantly affect the Lottery's financial position.

7. PARTICIPATION IN MULTI-STATE LOTTERY ASSOCIATION

The Lottery became a member of the Multi-State Lottery Association (MUSL) in August 2014. MUSL is currently comprised of 47 member lotteries which operates games on behalf of participating state lotteries. In that date, MUSL cross-licensed the Powerball and Powerplay games. Under the cross-license agreement, all state lotteries participating in MUSL are permitted to sell multi-state jackpot games. The Lottery participates in the Powerball and Powerplay games.

The Lottery sells Powerball tickets, collects all revenues and remits prize funds to MUSL net of lower tier prize awards. Jackpot prizes that are payable in installments, are satisfied through investments purchased by MUSL. MUSL purchases U.S. government obligations, which are held in irrevocable trust established by MUSL for the benefit of participating state lotteries. Accordingly, the Lottery does not record an obligation for jackpot awards which are payable in installments from funds provided by MUSL.

Each member including the Lottery shares in all joint venture sales and expenses, including prize expenses, based on its pro-rata share of sales. Each week MUSL allocates 50 percent of sales to the prize pool. There are two prize reserve funds set aside for Powerball. One of these funds, the Powerball prize reserve funds acts as a contingency reserve to protect MUSL members against unforeseen fund monies, which are maintained on MUSL's balance sheet, are refundable after a one-year waiting period if a member leaves the Association or if the Association disbands. The wire transfers to MUSL are in an amount equivalent to the member lottery's share of the estimated grand prize for each multi-state game. Lower tier prizes are paid directly to the winners by each member lottery.

MUSL retains a percentage of each drawing period's sales (Powerball percentage equals 2%) as part of prize reserve funds until a designated cap has been accumulated. For the Powerball game prize reserve funds of \$125,000,000 represent the cap. After the total cap has been accumulated, the percentage of drawing period sales designated for the reserve funds becomes part of the prize pool. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize liabilities and the money in this reserve fund is to be used at the discretion of the MUSL Board of Directors.

The prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share, if any, of the prize reserve funds.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

When winning grand prize tickets are drawn, the winner has the option of selecting a discounted lump sum cash payment or the full prize payment over future installments. Powerball has 30 installments over 29 years. If the winner selects the installments payments, MUSL purchase securities to fund the prize annuities for MUSL members. The annuity installments are paid to the Lottery, which in turn pays the winners their annual installments. All such prizes are paid annually with the initial payment being made in cash, to be followed by the remaining payments funded by the securities.

During the year ended June 30, 2015, there were two (2) Powerball grand prize winners in the Commonwealth of Puerto Rico in the amount of \$160.6 million.

As a part of the agreement with MUSL, the Lottery is also required to deposit with MUSL additional amounts in the event the prize payout becomes greater than budgeted. These amounts are the property of the Lottery and would be returned in full in the event the Lottery exited the association. These amounts earn investment income at market rates, which is used to offset the Lottery's share of MUSL operating expenses for the year. The prize reserve to MUSL held by Lottery at June 30, 2015 amounted to \$4,028,017. Balances due to MUSL at June 30, 2015 amounted \$426,365, which are recorded within account payables and accrued liabilities in the Statement of Net Position.

8. PRIZE PAYABLES

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:

Fiscal Year	Principal	Imputed Interest	Total
2016	\$ 19,418,146	\$ 10,138,044	\$ 29,556,190
2017	17,321,213	10,089,477	27,410,690
2018	15,239,040	9,698,216	24,937,256
2019	13,062,339	8,940,473	22,002,812
2020	11,362,842	8,314,971	19,677,813
2021-2025	38,015,676	30,864,324	68,880,000
2026-2030	18,255,955	13,769,045	32,025,000
2031-2034	5,377,637	3,872,364	9,250,001
Total	\$ <u>138,052,848</u>	\$ <u>95,686,914</u>	\$ <u>233,739,762</u>

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

This debt represents annual payments owned to Lotto jackpot winners. Annuity prizes are paid over a period of 20 years. The imputed interest is based on the rates published by the Federal Reserve for 20 years annuities and ranged from 2.95% to 5.29% at June 30, 2015. The amortization of the imputed interest is recorded as prize expense in the accompanying statement of revenues, expenses and changes in net position. Activity of annuity prize payable for the years ended June 30, 2015 and 2014 was as follows:

<u>Fiscal Year Ending</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
June 30, 2015	\$ <u>152,633,312</u>	\$ <u>6,557,706</u>	\$ <u>(21,138,170)</u>	\$ <u>138,052,848</u>	\$ <u>19,418,146</u>
June 30, 2014	\$ <u>149,535,112</u>	\$ <u>27,830,457</u>	\$ <u>(24,732,257)</u>	\$ <u>152,633,312</u>	\$ <u>21,420,050</u>

Estimated Prize Liability

The estimated price liability at June 30, 2015 and 2014 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.

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 years ended June 30, 2015 and 2014 a total of approximately \$24.6 million and \$11.1 million, respectively of unclaimed prizes were transferred to the Commonwealth of Puerto Rico.

9. TRANSFERS TO THE COMMONWEALTH OF PUERTO RICO

As required under Legislation the Lottery must transfer the net income after deducting the amount required for the payment of prize annuities and operating expenses to the Commonwealth of Puerto Rico. The following reconciles the amounts transferred to the Commonwealth of Puerto Rico during the years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Transfers due at beginning of the fiscal year	\$ 20,318,133	\$ -
Add net income available for transfer	184,949,181	151,203,806
Less amount retained for the payment of prize annuities	<u>(16,626,721)</u>	<u>(3,341,898)</u>
Total amount available for transfer	188,640,593	147,861,908
Transfers during the fiscal year	<u>185,597,963</u>	<u>127,543,775</u>
Transfers due at the end of the fiscal year	\$ <u>3,042,630</u>	\$ <u>20,318,133</u>

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

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 years ended June 30, 2015 and 2014 to the following beneficiary funds of the Commonwealth:

	<u>2015</u>	<u>2014</u>
Commonwealth of Puerto Rico:		
Rent and home improvement subsidy fund	\$ 11,849,771	\$ 12,206,053
Compulsive gamblers	250,000	250,000
Municipal equivalency fund	50,494,722	43,395,266
Commonwealth of Puerto Rico general fund	66,156,135	65,545,907
Catastrophic diseases	1,875,518	1,611,824
Chess Program	200,000	-
Olympic Village German Rieckehoff Sampayo	4,000,000	5,000,000
Olympic Committee	<u>5,500,000</u>	<u>5,300,000</u>
Total	\$ <u>140,326,146</u>	\$ <u>133,309,050</u>

10. PAYROLL AND RELATED BENEFITS

All Lottery personnel are employees of the Department of Treasury of the Commonwealth of Puerto Rico (the Department). During the years ended June 30, 2015 and 2014 the Lottery incurred \$1.8 million and \$1.7 million, respectively of payroll and benefits costs, including pension, health insurance and other benefits costs paid to the Department who responsible for the administration of the benefit programs.

11. COMMITMENTS AND CONTINGENCIES

Servicing and Marketing Contract

The Lottery has a contract with Scientific Games Puerto Rico, Inc. (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 associated software and communication. Payment under the contract is based on 3.9558% of net weekly lottery sales including instant games. The contract currently has a termination date of June 30, 2016. During the years ended June 30, 2015 and 2014 SG charged the Lottery approximately \$18.4 million and \$18.7 million respectively for services performed under the contract.

12. RETIREMENT SYSTEM

Substantially all full-time employees of the Lottery participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The Employees Retirement System is a statutory trust created by Act No. 447 of May 15, 1951, as amended (Act 447) and a component unit of the Commonwealth.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members who had entered the Employees Retirement System before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (Act 447 Participants) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (Act 1 Participants) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (Act 1 of 1990).

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

Retirement and related benefits provided by the ERS, and required contributions to the ERS by employers and employees, are determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (Act 116), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll, and will continue to increase annually until fiscal year 2021. The employer contribution rate for fiscal year 2015 is 13.275%.

Required employee contributions for the ERS vary according to how the individual employee's retirement benefits are coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The ERS provides basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administers benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits include, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

The Additional Lottery System
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Notes to Financial Statements
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The System Administered Pension Benefits are funded on a pay-as-you-go basis by the participating employers, including the Lottery. The System Administered Pension Benefits corresponding to former employees of the Lottery are obligations of the Lottery. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

The ERS actuarial valuation as of June 30, 2014 differs from the actuarial valuation as of June 30, 2013, due to the adoption of Statement No. 67 of the Governmental Accounting Standards Board, “*Financial Reporting for Pension Plans*” (GASB 67). GASB 67 specifies certain significant changes for financial reporting purposes for the ERS.

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2014 (most recently available) reflects a fiduciary net position of \$127 million, total pension liability of \$30.2 billion and a net pension liability of \$30.1 billion.

Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68) became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the ERS.

As of the date of the release of this report, the ERS has not issued its 2014 basic financial statements, nor has it provided the Lottery with the required information to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68). Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Lottery to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net position as of July 1, 2014 and June 30, 2015, as well as the effect in the recorded pension expense in the statement of revenues, expenses and changes in net position for the year ended June 30, 2015. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America.

Total employer contributions under both plans during years ended June 30, 2015 and 2014 amounted to approximately \$225,500 and \$142,000, respectively which represented 100% of required contributions.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the Administrator of the Retirement System: P.O. Box 42003, San Juan, Puerto Rico 00940.

The Additional Lottery System
(An Enterprise Fund of the Commonwealth of Puerto Rico)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2015 and 2014

13. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Lottery. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Lottery will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Lottery's financial statements of a liability of approximately \$930,600 and \$995,200 in the statement of net position as of June 30, 2015 and 2014 respectively and a charge of \$33,000 and \$35,000, respectively in the statement of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014 respectively. At June 30, 2015 and 2014, unpaid long-term benefits granted on this program were discounted at 2.23% and 2.55% respectively.

The following table summarizes the activity of voluntary termination benefits during the year ended June 30, 2015 and 2014:

<u>Fiscal Year</u> <u>Ending</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
June 30, 2015	\$ <u>995,200</u>	\$ <u>47,500</u>	\$ <u>(112,100)</u>	\$ <u>930,600</u>	\$ <u>98,700</u>
June 30, 2014	\$ <u>1,036,100</u>	\$ <u>69,400</u>	\$ <u>(110,300)</u>	\$ <u>995,200</u>	\$ <u>97,900</u>

14. ACCUMULATED DEFICIT

At June 30, 2015 the Lottery has an accumulated deficit of \$26.8 million. This deficit is 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 funds for the payments of annuity prizes obligations will be from funds generated from operations or from contributions from the Commonwealth if the need arise. During the year ended June 30, 2015 and prior years the Lottery has generated sufficient funds for the payment of prizes.

INDEPENDENT AUDITORS' REPORT 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

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* (the Lottery), an enterprise fund of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Lottery's basic financial statements, and have issued our report thereon dated January 22, 2016.

As discussed in Note 2, 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 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 Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

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 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HLB Parissi, P.S.C.

San Juan, Puerto Rico
January 22, 2016

Stamp No. E195803 was affixed
to the original of this report.
License No. 88 Exp. December 1, 2017

