Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Year Ended
June 30, 2022 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Report on the Financial Statements

Opinion

We have audited the financial statements of the Puerto Rico National Guard Institutional Trust (FIGNA by its Spanish acronym), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise FIGNA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities and aggregated remaining fund information of the Puerto Rico National Guard Institutional Trust as of June 30, 2022, and the related changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

The Puerto Rico National Guard Institutional Trust's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico National Guard Institutional Trust's ability to continue as a going concern for twelve months beyond the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Governments Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Puerto Rico National Guard Institutional Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Puerto Rico National Guard Institutional Trust's ability to continue as a going concern for a reasonable period of time.

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

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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 9 and the Schedule of Proportionate Share of the Collective Total Pension Liability on page 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2023, on our consideration of FIGNA'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FIGNA's internal control over financial reporting and compliance.

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San Juan Puerto Rico
August 14, 2023
License No. LLC-322
Expires December 1, 2023

Introduction

Our discussion and analysis of the Puerto Rico National Guard Institutional Trust's (FIGNA) financial performance provides an overview of FIGNA's financial activities for the year ended June 30, 2022. This discussion and analysis was prepared by FIGNA's management and the readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of FIGNA's financial performance.

The management's discussion and analysis is not a required part of the financial statements, but it is supplementary information required by the governmental accounting standards board. This supplementary information is the responsibility of FIGNA's management. The independent auditor has applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the supplementary information. Therefore, the independent auditor did not audit such information and did not express an opinion on it.

Financial Highlights

- Total assets and deferred outflow of resources at June 30, 2022 amounted to $68 million, reflecting an increase of approximately $2 million from June 30, 2021.

- The operating revenues for the year ended June 30, 2022 amounted to $6.7 million, an increase of approximately $127 thousand over the prior fiscal year. Operating expenses for the year ended June 30, 2022 amounted to $5.6 million, a decrease of $339 thousand when compared to June 30, 2021. The non-operating revenues (expenses) amounted to an expense of approximately $1 million at June 30, 2022 compared to non-operating revenues of approximately $5.1 million in prior year, reflecting a decrease of $6.1 million.

- Net position increased by approximately $96 thousand for the year ended June 30, 2022.

Overview of The Financial Statements

FIGNA is a component unit of the Commonwealth of Puerto Rico (hereinafter referred to as the Commonwealth) and is presented in the Commonwealth's governmental-wide financial statements as an enterprise fund.

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to FIGNA's financial statements, which include: 1) Statement of net position, 2) Statement of revenues, expenses, and change in net position, 3) Statement of cash flows, and 4) Notes to financial statements.

1) **Statement of Net Position -** This statement presents information on all FIGNA's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference between, assets plus deferred outflow of resources, and, liabilities plus deferred inflow of resources, reported as net position. Over time, increases or decreases in FIGNA's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

2) **Statement of Revenues, Expenses and Changes in Net Position -** This statement presents information showing how FIGNA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

3) **Statement of Cash Flows -** This statement presents information related to cash flows of FIGNA by the following categories: operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement also portrays the health of FIGNA as current cash flows are sufficient to pay current liabilities.

4) **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, investments, capital assets, long-term liabilities, defined-benefit pension plan, and commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

FIGNA uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The funds of FIGNA are as follows:

Proprietary fund - this fund is used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements use the accrual basis of accounting. The following is a brief description of FIGNA's proprietary funds:

Operational funds – accounts for all financial resources not required to be accounted in another fund. Primary sources of revenues consist of 38% of the concession revenues, rental income and interest on investments.

Annuities fund – accounts for three benefits programs: 1) annuities 2) life insurance 3) funeral insurance. Primary sources of revenues consist of 52% of the concession revenues and interest on investments.

Educational fund – accounts for financial resources provided to help cover educational expenses. Primary sources of revenues consist of 10% of the concession revenues and interest on investments.

Major Financial Elements

Revenues

FIGNA's revenues are principally derived from concession royalties received under an agreement to operate military stores, and interest income from investments, which are distributed to FIGNA's three major funds: 1) Operational Fund, 2) Annuities Fund, and 3) Educational Fund. The funds were established by Act No. 23 of July 23, 1991. In addition, the Annuities Fund receives the Puerto Rico National Guard members' contributions, to offset, on a limited basis, the cost of benefits.

Expenses and Capital Outlays

Expenses consist principally of benefits paid to the members of the Puerto Rico National Guard Institutional Trust. Including payment of education expenses, temporary assistance to retired members, life and funeral benefits, among other services. Also, includes administrative expenses like salaries, energy costs, repair and maintenance (of FIGNA's facilities) and professional fees. Furthermore, at times, FIGNA defrays the cost of certain repair and maintenance performed to the property of the National Guard of Puerto Rico.

Financial Analysis of FIGNA's Business-Type Activities

The following table presents a summary of FIGNA's net position at June 30, 2022 and 2021:

	2022	2021	Change
Assets:			
Current assets	$ 25,495,075	$ 11,730,462	$ 13,764,613
Non-current assets	28,908,031	40,149,791	(11,241,760)
Capital assets	14,207,937	14,773,658	(565,721)
Total assets	68,611,043	66,653,911	1,957,132
Deferred outflows of resource from pension activities	158,159	189,157	(30,998)
Liabilities:			
Current liabilities	2,087,795	1,912,254	175,541
Non-current liabilities	954,574	974,982	(20,408)
Total liabilities	3,042,369	2,887,236	155,133
Deferred inflows of resources	1,713,878	38,684	1,675,194
Net position:			
Invested in capital assets	14,207,937	14,773,658	(565,721)
Restricted	44,114,561	42,938,586	1,175,975
Unrestricted position	5,690,457	6,204,904	(514,447)
Total net position	$ 64,012,955	$ 63,917,148	$ 95,807

The Statements of Net Position presents FIGNA's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference between, assets plus deferred outflow of resources, and, liabilities plus deferred inflow of resources, reported as net position, excluding the balance due between funds, which are considered internal balances that have been eliminated in the Statement of Net Position. The net position is reported in three categories: investment in capital assets, net of related debt, restricted and unrestricted net position. Restricted net position may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Statement of Net Position is prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided by and expenses are recognized when others provide the service to FIGNA, regardless of when cash is exchanged. Assets and liabilities included in the Statements of Net Position are classified as current or noncurrent. FIGNA's cash outlays for capital assets, are not expenses, and therefore are capitalized, as incurred.

Current assets - FIGNA's current assets increased by $13.8 million in June 30, 2022 from June 30, 2021. Such increase was mainly due to the reclassification of $12 million in certificates of deposits from non-current to current.

Capital assets - FIGNA's capital assets decreased from $14.8 million at June 30, 2021, to $14.2 million at June 30, 2022. Change was due to depreciation expense amounting to $600 thousand offset by capital expenditures amounting to $50 thousand.

Non-current assets - FIGNA's investments are mostly reported at fair value in the statement of net position. FIGNA's non-current assets decreased from $40.1 million at June 30, 2021, to $28.9 million at June 30, 2022. The decrease is attributable to the reclassification of $12 million in certificates of deposits from non-current to current.

Current liabilities - Current liabilities consist of accounts payable and accrued liabilities. Current liabilities increased from $1.9 million in fiscal year 2021 to $2.1 million in fiscal year 2022.

Net position - Net position represents the residual interest in FIGNA's assets and deferred outflow of resources after liabilities plus deferred inflow of resources, are deducted. FIGNA's net position increased approximately by $100 thousand at June 30, 2022.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

The statement of revenues, expenses and changes in net position – proprietary funds show the sources of FIGNA's changes in net position as they arise through its various programs and functions. A condensed summary of revenues, expenses and changes in net position for the fiscal years ended June 30, 2022 and 2021 is shown in the following table:

	2022	2021	Change
Operating revenues:			
Concessionaire royalties	$ 5,400,000	$ 5,400,000	$ -
Lease revenues	914,053	870,141	43,912
Military contributions	272,494	254,642	17,852
Other	74,166	7,631	66,535
Total revenues	6,660,713	6,532,414	128,299
Operating expenses:			
Administration	3,362,247	2,797,472	564,775
Distributed benefits	2,203,362	3,107,214	(903,852)
Total operating expenses	5,565,609	5,904,686	(339,077)
Operating income	1,095,104	627,728	467,376
Non operating (expenses) revenues	(999,297)	5,119,571	(6,118,868)
Increase in net position	95,807	5,747,299	(5,651,492)
Net position, beginning of year	63,917,148	58,169,849	5,747,299
Net position, end of year	$ 64,012,955	$ 63,917,148	$ 95,807

The Condensed Statements of Revenues, Expenses and Changes in Net Position, presents FIGNA's operations results based on operating revenues, less operating expenses, plus non-operating revenues.

Operating Revenues - FIGNA's operating revenues for the year ended June 30, 2022 were in line with operating revenues for the year ended June 30, 2021. Approximately 81% of FIGNA's revenues for the year ended June 30, 2022 is from the royalties received from the concession agreement for the operations of the Duty-Free Shops located at Fort Allen in Juana Díaz, San Juan, Cayey, Ceiba, Gurabo, Mayagüez, Arecibo and Vega Baja.

Operating Expenses - Administration expenses increased by $565 thousand and distributed benefits decreased by $904 thousand. Increase in administration expenses was mainly due to the increase of $525 thousand in bad debt expense. The bad debt was the result of an adjustment to the concession royalties for the months of March and April 2020 because the military stores were closed as a result of the Executive Order issued because of the Covid 19 pandemic. The decrease in distributed benefits was mainly due to a decrease of $900 thousand in general benefits to the Puerto Rico National Guard and its members. This was caused because in fiscal year 2021 the Puerto Rico

National Guard embarked in two major initiatives with FIGNA's contribution as permitted by law. The expenses for those initiatives did not recur in fiscal year 2022 and thus the decrease.

Non-Operating Revenues (Expenses) - For the year ended June 30, 2022, FIGNA reported non-operating expenses of $1 million, resulting primarily from the interest earned from investments amounting to approximately $852 thousand and a decrease in the fair value of investments amounting to approximately $1.9 million while in 2021 FIGNA reported an increase in fair value of $4.4 million with $721 thousand in interest income.

Information request

This section of the Management's Discussion and Analysis is designed for anyone interested in obtaining an overview of the finances of FIGNA. Questions regarding information in this section should be addressed to Puerto Rico National Guard Institutional Trust, Office of the Executive Director, PO Box 9023786, San Juan, Puerto Rico, 00902-3786.

Puerto Rico National Guard Institutional Trust

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position – Proprietary Funds
June 30, 2022

	Business -Type Activities - Enterprise Funds				
	Operational Fund	Annuities Fund	Educational Fund	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 5,545,968	$ 4,084,080	$ 1,592,562	$ -	$ 11,222,610
Accounts receivable	194,781	4,586	-	-	199,367
Investments	2,958,459	8,266,150	1,740,300	-	12,964,909
Lease receivable	713,194	-	-	-	713,194
Interest receivable	84,295	103,651	19,933	-	207,879
Due from other funds	-	12,377,512	757,770	(13,135,282)	-
Prepaid expenses	96,616	90,500	-	-	187,116
Total current assets	9,593,313	24,926,479	4,110,565	(13,135,282)	25,495,075
Noncurrent Assets					
Investments	12,479,997	12,994,485	2,498,939	-	27,973,421
Lease receivable	934,610	-	-	-	934,610
Capital assets	14,207,937	-	-	-	14,207,937
Total noncurrent assets	27,622,544	12,994,485	2,498,939	-	43,115,968
Total assets	37,215,857	37,920,964	6,609,504	(13,135,282)	68,611,043
Deferred outflows of resource from pension activities	158,159	-	-	-	158,159
Total assets and deferred outflows of resources	$ 37,374,016	$ 37,920,964	$ 6,609,504	$ (13,135,282)	$ 68,769,202
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$ 2,028,479	$ 1,166	$ 58,150	$ -	$ 2,087,795
Due to other funds	12,778,691	-	356,591	(13,135,282)	-
Total current liabilities	14,807,170	1,166	414,741	(13,135,282)	2,087,795
Noncurrent Liabilities					
Total pension liability	954,574	-	-	-	954,574
Total liabilities	15,761,744	1,166	414,741	(13,135,282)	3,042,369
Deferred inflows of resource					
From lease agreements	1,674,159				1,674,159
From pension activities	39,719	-	-	-	39,719
Total defered inflows of resorce	1,713,878	-	-	-	1,713,878
Total liabilities and deferred inflows of resources	17,475,622	1,166	414,741	(13,135,282)	4,756,247
Net Position					
Investment in capital assets	14,207,937	-	-	-	14,207,937
Restricted for payment of benefits	-	37,919,798	6,194,763	-	44,114,561
Unrestricted	5,690,457	-	-	-	5,690,457
Total net position	19,898,394	37,919,798	6,194,763	-	64,012,955
Total liabilities, deferred inflows of resources and net positi	$ 37,374,016	$ 37,920,964	$ 6,609,504	$ (13,135,282)	$ 68,769,202

See accompanying notes to basic financial statements

Puerto Rico National Guard Institutional Trust

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net position – Proprietary Funds
For the Year Ended June 30, 2022

	Business-Type Activities - Enterprise Funds			
	Operational Fund	Annuities Fund	Educational Fund	Total
Operating revenues				
Concessionaire royalties	$ 2,052,000	$ 2,808,000	$ 540,000	$ 5,400,000
Lease revenue	791,551	-	-	791,551
Interest revenue from leases	122,502	-	-	122,502
Military contributions	-	272,494	-	272,494
Other	74,166	-	-	74,166
Total operating revenues	3,040,219	3,080,494	540,000	6,660,713
Operating Expenses:				
Administrative expenses				
Payroll and related expenses	561,975	-	-	561,975
Pension expense	24,110	-	-	24,110
Depreciation and amortization	614,449	-	-	614,449
Professional services	569,888	-	-	569,888
Utilities	437,829	-	-	437,829
Repairs and maintenance	326,606	-	-	326,606
Office materials	37,521	-	-	37,521
Other administrative expenses	104,356	33,864	6,462	144,682
Bad debt expense	199,500	273,000	52,500	525,000
Insurance	61,187	59,000	-	120,187
Total administrative expenses	2,937,421	365,864	58,962	3,362,247
Distributed benefits				
Annuities expenses	-	1,187,175	-	1,187,175
Educational expenses	-	-	259,900	259,900
Life insurance	-	29,542	-	29,542
General benefits to the Puerto Rico National Guard and its members	726,745	-	-	726,745
Total distributed benefits	726,745	1,216,717	259,900	2,203,362
Total operating expenses	3,664,166	1,582,581	318,862	5,565,609
Operating income (loss)	(623,947)	1,497,913	221,138	1,095,104
Non-operating revenues:				
Interest	325,532	441,754	85,031	852,317
Change in fair value of investments	(781,753)	(897,303)	(172,558)	(1,851,614)
Total non-operating revenues	(456,221)	(455,549)	(87,527)	(999,297)
Net changes in net position	(1,080,168)	1,042,364	133,611	95,807
Net position, beginning of the year	20,978,562	36,877,434	6,061,152	63,917,148
Net position, end of the year	$ 19,898,394	$ 37,919,798	$ 6,194,763	$ 64,012,955

See accompanying notes to basic financial statements

Puerto Rico National Guard Institutional Trust

(A Component Unit of the Commonwealth Puerto Rico)
Statement of Cash Flows – Proprietary Funds
June 30, 2022

	Business - Type Activities - Enterprise Funds			
	Operational Fund	**Annuities Fund**	**Educational Fund**	**Total**
Cash flows from operating activities:				
Receipts from concessionaire	$ 2,365,500	$ 3,237,000	$ 622,500	$ 6,225,000
Receipts from rent of land and building	1,005,025	-	-	1,005,025
Receipts from military contributions	-	272,494	-	272,494
Other operational receipts	173,733	13,192	-	186,925
Payments to general benefits of the Puerto Rico National Guard and members	(726,745)	-	-	(726,745)
Payments to annuities, life insurance and education benefits	-	(1,257,649)	(249,412)	(1,507,061)
Payments to suppliers for goods and services	(1,412,034)	-	-	(1,412,034)
Payments to employees and related costs	(580,929)	-	-	(580,929)
Internal balances	2,529,232	(2,916,053)	386,821	-
Net cash provided by (used in) operating activities	3,353,782	(651,016)	759,909	3,462,675
Cash flows from capital and related financing activities - Acquisition of capital assets	(48,728)	-	-	(48,728)
				-
Cash flows from investing activities:				
Interest collected on deposits and investments	281,317	381,251	73,395	735,963
Purchase of investments	(8,068,280)	(8,358,701)	(1,607,442)	(18,034,423)
Redemption of investments	5,849,823	8,005,020	1,539,427	15,394,270
Net cash provided by (used in) investing activities	(1,937,140)	27,570	5,380	(1,904,190)
Increase (decrease) in cash and cash equivalents	1,367,914	(623,446)	765,289	1,509,757
Net cash and cash equivalents, beginning of year	4,178,054	4,707,526	827,273	9,712,853
Net cash and cash equivalents, end of year	$ 5,545,968	$ 4,084,080	$ 1,592,562	$ 11,222,610
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (623,947)	$ 1,497,913	$ 221,138	$ 1,095,104
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:				
Depreciation and amortization	614,449	-	-	614,449
Bad debt expense	199,500	273,000	52,500	525,000
(Increase) decrease in:				
Accounts receivable	504,039	442,192	82,500	1,028,731
Prepaid expense	(39,940)	52,167	-	12,227
Internal balances	2,529,232	(2,916,053)	386,821	-
Deferred outflows of resource from pension activities	30,998	-	-	30,998
(Decrease) increase in:				
Accounts payable	158,824	(235)	16,950	175,539
Net pension liability	(20,408)	-	-	(20,408)
Deferred inflows of resource from pension activities	1,035	-	-	1,035
Net cash provided by (used in) operating activities	$ 3,353,782	$ (651,016)	$ 759,909	$ 3,462,675
Non cash transaction for investing activities:				
Change in fair value of investment	$ (781,753)	$ (897,303)	$ (172,558)	$ (1,851,614)

See accompanying notes to basic financial statements

1. REPORTING ENTITY

FIGNA is a component unit of the Commonwealth of Puerto Rico. It is a public corporation ascribed to the Puerto Rico National Guard and created by Act No. 23 of July 23, 1991 (Act 23). FIGNA owns or has the rights of use for the real property and other property where the military shops (Duty Free Shops) are located. Under Act 23, FIGNA has the authority to operate the military shops or to concession those operations to a private party as well as to provide assistance benefits to the Puerto Rico National Guard members, spouses, and descendants, including annuities, education and operational funds. FIGNA is exempt from taxation in Puerto Rico.

FIGNA receives royalties from gross sales from the concessionaire that operates the Duty-Free Shops located at Fort Allen in Juana Diaz; the municipalities of San Juan, Cayey, Ceiba, Gurabo, Mayaguez, Arecibo, and Vega Baja; Air Base Muniz in Carolina; military antique collections in San Juan; and USCG Air Station Borinquen in Aguadilla.

FIGNA has the power to issue bonds for any principal amount that the Board of Directors considers necessary. It can also create the necessary reserves to guarantee the payments of such bonds and for the payment of other expenses that FIGNA considers necessary.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

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

Measurement focus, Basis of Accounting and Financial Statement Presentation

The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when incurred, regardless of the timing of related cash flows.

Proprietary Funds

FIGNA maintains three major funds, which are proprietary fund types. These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the public. The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from FIGNA providing the services that correspond to their principal ongoing operations. Operating revenues are generated mostly from concessionaire royalties and rental income. Operating expenses include depreciation and amortization, professional services, utilities and all general and administrative expenses, among other. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The following is a description of the nature and purpose of each fund type:

Operational Fund - This fund is the primary operating fund of FIGNA. It is used to account for all financial resources except those required to be accounted for in other funds. The primary sources of revenue earned by this fund are the concession income from the military shops, of which 38 percent is assigned by law, rental income, and interest income from investments. Such revenues must be used for the construction, reconstruction, rehabilitation and maintenance of facilities; to complement the legislative appropriations received annually by the Puerto Rico National Guard to attend to its administrative and operating expenses; to supplement the expenses of the National Guard; to meet expenses that lead to bolstering the "esprit de corps" of the members of the Puerto Rico National Guard and the social well-being, enjoyment, recreation and other non-profit purposes thereof, and to cover the administrative expenses of FIGNA, as established through regulations adopted to such effects by virtue of Act 23.

Annuities Fund - this fund is used to account for three benefit programs to the active and retired members of the Puerto Rico National Guard. The Annuities Program provides temporary assistance to retired members of the Puerto Rico National Guard who are at least 55 years old and have provided at least 20 years of honorable service. Qualified retired members receive a monthly annuity of $175 for a period up to five years or until attaining age 60 and become eligible to receive benefits from the Federal Government. The Life and Funeral Insurance Programs are available to active members of the Puerto Rico National Guard and retired members that qualify for the Annuities Program. The Life Insurance Program provides a fixed benefit of $5,000 paid to the beneficiaries, as designated by the insured. The Funeral Insurance Program provides benefits of up to $3,000 for un-reimbursed funeral expenses. The beneficiary must provide evidence to support the amount requested. The primary sources of revenue earned by this fund are the concession income from the military shops, of which 52 percent is assigned by law, and interest income from investments. Also, active members must pay a monthly premium of $5 to be entitled to the benefits under these programs. The benefits of the program may be adjusted at the discretion of the Board of Directors to account for cost-of-living inflation. The administrator of these programs cannot commit funds in excess of projected revenues in order to maintain actuarial based reserves factoring in an inflation of 3%.

Educational Fund - this fund is used to account for financial resources provided to help cover educational expenses incurred by the active members of The Puerto Rico National Guard and their family. The primary sources of revenue earned by this fund are the concession income from the military shops, of which 10 percent is assigned by law, and interest income from investments. The educational expenses, as defined in the economic assistance program, include enrollment at university levels and post-secondary level. The amounts to be reimbursed are determined by the Board of Directors.

Cash and cash equivalents

For financial statements purposes, FIGNA considers all highly liquid instruments purchased with a maturity of 90 days or less to be cash equivalents.

Accounts receivable

As of June 30, 2022, all accounts receivable presented in the financial statements are considered collectable, therefore, no provision for doubtful accounts has been recorded in FIGNA's financial statements.

Leases

Effective July 1, 2021, FIGNA changed its method of accounting for leases with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

FIGNA is a lessor for non-cancelable leases of commercial spaces in various locations in Puerto Rico. Rental income arising from leases as a lessor is included as a receivable and deferred inflow of resources at the commencement of the lease and revenue is recognized on a straight-line basis over the lease term.

At the commencement of a lease, FIGNA initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivables are reduced by the principal portion of lease payments received. The deferred inflow of resources for deferred lease receipts is initially measured as the initial amount of the lease receivable, adjusted for lease payments made at or before the lease commencement date, less certain costs paid to or reimbursed to the lessee.

Investments

Investments are carried at fair value, except for nonparticipating investment contracts (guaranteed investment contracts and/or certificates of deposit), which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income is presented as interest income in the statement of revenues, expenses, and changes in net assets - proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

Fair Value Measurement

FIGNA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Capital assets

FIGNA defines capital assets as assets that (i) have an initial, individual cost of $5,000 or more at the date of acquisition; and (ii) have a useful life of two or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the time of donation.

Intangible assets are amortized over their estimated useful lives. Major outlays for capital assets and improvements are capitalized as projects are constructed and amortized over the estimated useful life of the improvements. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized and charged to operating expense in the year in which the expense has been incurred.

Capital assets of the proprietary funds are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress.

The estimated useful life of capital assets is as follows:

Description	Years
Buildings and rights to use	20-40 years
Leasehold improvements	5-15 years
Equipment	5 years
Vehicles	5 years

Impairment of Capital Assets

FIGNA accounts for asset impairment under the provisions of 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 establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

Accounting for pension costs

FIGNA is a participant in the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), a multiemployer retirement plan. Pursuant to the provisions of 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*, FIGNA recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. FIGNA's allocation percentage is based on the ratio of FIGNA's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension 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 service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Deferred outflows and inflows of resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents an increase of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent a reduction of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources as of June 30, 2022, relate to FIGNA’s participation in the Pension Plan and from lease agreements.

Classification of net position

The statement of net position presents FIGNA’s assets and liabilities using the accrual basis of accounting with the difference reported as net position. Net position is reported in three categories:

Net Investment in Capital Assets - this consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Position - this results when constraints placed on the net position's use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions, or enabling legislation.

Unrestricted Net Position - this consists of the net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified. When both restricted and unrestricted resources are available for use, generally, it is FIGNA's policy to use restricted resources first, then the unrestricted resources as they are needed.

Compensated absences

The employees of FIGNA earn 15 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is paid for accumulated vacation up to the maximum allowed. The proprietary fund financial statements present the cost of accumulated vacation as a liability.

Interfund transactions

Interfund transactions represent funds disbursed or services provided by one fund on behalf of another fund. These transactions are recorded through interfund receivables and payables and presented as amounts due to and due from other fund. Interfund transactions where resources are transferred between funds, without requirement for repayment are recorded as transfers in by recipient fund and as transfer out by the disbursing fund, under other financing sources/uses below operating transactions, in the statements of revenues, expenses and changes in net assets. However, these transfers and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the financial statements' total column.

Future Adoption of Accounting Pronouncements

The following summarizes new accounting standards that have been issued but are not yet effective which may have a direct and material effect on FIGNA's financial statements once they are adopted.

GASB Statement No.	Name	Adoption required in fiscal year
91	Conduit Debt Obligations	2023
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
96	Subscription-Based Information Technology Arrangements	2023
99	Omnibus 2022	2023-2024
100	Accounting Changes and Errors Corrections – an Amendment of GASB N0. 62	2024
101	Compensated Absences	2025

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3. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by FIGNA at June 30, 2022. Custodial credit risk is the risk that in the event of a financial institution's failure, FIGNA's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico 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.

As of June 30, 2022, all the depository bank balance of $11,248,431 was collateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount uninsured and uncollateralized
Cash	$ 11,222,610	$ 11,248,431	$ -

4. ACCOUNTS RECEIVABLE

As of June 30, 2022, FIGNA had the following accounts receivable:

	Operational Fund	Annuities Fund	Educational Fund	Total
Rent	$ 175,776	$ -	$ -	$ 175,776
Other	19,005	4,586	-	23,591
	$ 194,781	$ 4,586	$ -	$ 199,367

5. DUE FROM/DUE TO OTHER FUNDS

Amounts due from/due to (interfund balances) as of June 30, 2022, between the funds are as follow:

Receivable by	Payable by	Purpose	Amount
Annuities	Operational	Advance of funds	$ 12,020,921
Annuities	Educational	Advance of funds	356,591
Educational	Operational	Advance of funds	757,770
			$ 13,135,282

6. INVESTMENTS

FIGNA is authorized to invest a percentage of total assets of the proprietary fund, with certain limitations, in the following types of investments: not less than 20% and no more than 80% in Treasury obligation and agencies obligations of United States and Puerto Rico. No more than 30% in mortgage securities and no more than 15% in equity securities and asset-backed securities.

Investments securities should be rated at a minimum grade of Baa2/BBB or better by Standard & Poor's. At June 30, 2022, FIGNA was not in compliance with certain of these requirements.

The following table summarizes the type and maturities of investments held by FIGNA as of June 30, 2022. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within one year	After one to five years	After five to ten years	After ten years	**Total**
Municipal Bonds	$ -	$ 1,863,484	$ 1,096,566	$ 1,642,896	$ 4,602,946
Corporate Bonds	-	7,206,783	1,854,956	39,399	9,101,138
US Treasury Obligations	-	997,500	-	-	997,500
Variable annuities	964,894	2,984,027	-	-	3,948,921
Certificates of Deposit	12,000,015	-	-	-	12,000,015
Total debt securities and certificates of deposits	$ 12,964,909	$ 13,051,794	$ 2,951,522	$ 1,682,295	
Equity securities					10,287,810
Total investments					$ 40,938,330

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, FIGNA manages its exposure to declines in fair values by diversifying the weighted average maturity date of its investment portfolio. FIGNA is expected to achieve capital preservation and income generation by investing in a diversified portfolio of investments securities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. FIGNA's investment in U.S. Treasury Obligations carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury Obligations, at June 30, 2022 are as follows:

	Credit risk rating					
Security type	A+	A-	BBB+	BBB	BBB-	Not rated
Municipal Bonds						4,602,946
Corporate Bonds	764,796	456,880	2,521,316	3,157,629	1,794,449	406,068
Variable annuities	3,948,921					

At June 30, 2022, fair value of investments based on the hierarchy of inputs are determined as follows:

	Level 1	Level 2	Level 3	Total
Municipal Bonds	$ -	$ 4,602,946	$ -	$ 4,602,946
Corporate Bonds	-	9,101,138	-	9,101,138
US Treasury Obligations	997,500	-	-	997,500
Variable annuities	-	3,948,921	-	3,948,921
Equity securities	10,287,810	-	-	10,287,810
Total	$ 11,285,310	$ 17,653,005	$ -	$ 28,938,315

Custodial credit risk related investments are the risk that, in the event of the failure of the counterparty to a transaction, FIGNA may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2022, FIGNA's investments are held in custody by the trust department of a commercial bank in the name of FIGNA.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Capital assets non-depreciable:				
Land used in operations or leased	$ 7,586,857	$ -	$ -	$ 7,586,857
Land held for future development	1,300,000	-	-	1,300,000
Total	8,886,857	-	-	8,886,857
Capital assets depreciable:				
Buildings, improvements and rights to use	19,453,752	48,728	-	19,502,480
Equipments	2,372,344	-	-	2,372,344
Vehicle	37,118	-	-	37,118
Total	21,863,214	48,728	-	21,911,942
Less accumulated depreciation	(15,976,413)	(614,449)	-	(16,590,862)
Total	5,886,801	(565,721)	-	5,321,080
Capital assets, net	$ 14,773,658	$ (565,721)	$ -	$ 14,207,937

Rights to use

Rights to use consists of certain facilities owned by the Puerto Rico National Guard to operate military stores, canteen and other similar services. The terms of the licenses expire in September 30, 2054.

8. MILITARY CONTRIBUTIONS

FIGNA Annuities Fund receives monthly contributions of $5 from each active member of the Puerto Rico National Guard who decides to enroll in the program. Military contributions recorded in the accompanying basic financial statements amounted to $272,494 for the year ended June 30, 2022.

9. COMPENSATED ABSENCES

The activity for compensated absences, included within accounts payable and accrued liabilities of the operational fund, during the year ended June 30, 2022, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Vacation	$ 58,349	$ 28,214	$ (30,645)	$ 55,918

10. RETIREMENT PLAN

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) 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 of 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 Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). 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 the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth 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 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 are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of proportionate share of the collective total pension liability presents the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

Pension benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

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 System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members* – Act No. 447 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 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 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

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 of the table above, Act No. 447 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.

(2) *Eligibility for Act No. 1 Members* – Act No. 1 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 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 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 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.

(3) *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.

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

(4) *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.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 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.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 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.

If the Act No. 447 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 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 Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 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 up to $6,600 multiplied by years of credited service in excess of 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 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-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.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013.

For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 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 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1, 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, plus 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.

(d) Special Benefits

(1) Minimum Benefits

– Past Ad hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

– Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 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).

– 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.

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

The Legislature, from time to time, increased 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 of 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 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity 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 (Act No. 35 of 2007).

(3) Special "Bonus" Benefits

– Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

– Medication Bonus (Act No. 155, as Amended by Act No. 3)
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. The amount is prorated if there are multiple beneficiaries.

FIGNA's proportion of the total pension liability of the Retirement Plan and Actuarial Information

FIGNA's proportionate share of the total pension liability of the Retirement Plan and the proportion percentage of the aggregate net pension liability of the Retirement Plan allocated to FIGNA as of June 30, 2022 amounted to $954,574 and 0.00351%, respectively. The Commonwealth's total pension liability, from which an allocation was made to FIGNA's financial statements as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date as of June 30, 2021).

(a) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Mortality

The mortality tables used in the June 30, 2021 actuarial valuation were as follows:

— *Pre-retirement Mortality*

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

— *Post-retirement Retiree Mortality*

Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, are projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

— *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— *Post-retirement Disabled Mortality*

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2021

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	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.

(b) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 2.16%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (1.16%) or 1-percentage-point higher (3.16%) than the current rate (dollars in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
FIGNA's proportionate share of net pension liability	$ 1,090,639	$ 954,574	$ 844,316

Pension expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Pension expense recognized by FIGNA for the year ended June 30, 2022, related to the Retirement System amounted to $24,110, which has been included as part of administrative expenses in the accompanying statement of revenues, expenses and changes in net position.

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2022:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 1,525	$ 28,439
Changes in assumptions	97,718	11,280
Changes in employer proportion	19,853	-
Benefits paid after measurement date	39,063	-
	$ 158,159	$ 39,719

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2022 will be recognized in pension expense (benefit) in future years as follows:

Years ending June 30,	Amount
2023	$ 17,857
2024	17,857
2025	23,810
	$ 59,524

The previous amounts do not include employer-specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018 and 5 years for 2019 and 2020 and 4 years for 2021.

11. CONCESSION AGREEMENT

Effective July 1, 2017, FIGNA entered in a contract with Castro Business Enterprise, Inc. to operate FIGNA's military stores up to June 30, 2021. On June 30, 2021, the contract was extended for an additional year. As required by law, FIGNA embarked on a Request for Proposal process for the selection of a concessionaire. In July 2022 a new concessionaire was selected. Effective September 9, 2022, FIGNA entered in a contract with Quality Transport & Distribution, LLC (“the concessionaire”) to operate FIGNA's military stores up to September 8, 2026. The concessionaire shall provide service to all members of the military forces of Puerto Rico as defined in section 2914 of FIGNA's Act of 1991, as amended. Under this agreement, the concessionaire makes a monthly payment amounting to $500,000 and is responsible for capital improvements to the stores and for the payment of store expenses such as utilities, security, and maintenance among others. The rent commencement date in the contract is November 15, 2022.

12. LESSOR ACTIVITY

During the year ended June 30, 2022, FIGNA recognized lease revenue and lease interest amounting to $791,551 and $122,502, respectively.

On June 30, 2022, FIGNA had minimum principal and interest lease receivable payment requirements in its lessor activity as follows:

Years ending June 30,	Principal	Interest
2023	$ 713,194	$ 79,310
2024	656,632	35,638
2025	201,068	11,032
2026	76,910	1,222
Total	$ 1,647,804	$ 127,202

13. CONTINGENCIES AND RISK MANAGEMENT

Contingent Liabilities

FIGNA is a defendant or co-defendant in various other lawsuits in the normal course of operations. Some claims have been brought against FIGNA by employees and others. Based on the opinion of legal counsel, management has concluded that no reserves are required in relation to these cases as of June 30, 2022.

Risk Management

FIGNA is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, extra expense, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage and premium are negotiated by the Corporation and the Treasury Department. The cost is paid by the Treasury Department and reimbursed by the Corporation.

Concentration of Credit Risk

Financial instruments that potentially subject FIGNA to concentration of credit risk consist of accounts receivable and due from governmental entities. Accounts receivable and due from governmental entities are due from customers, municipalities and governmental instrumentalities mainly located in Puerto Rico. FIGNA generally does not require collateral and credit losses are provided for periodically through the allowance for doubtful accounts. FIGNA routinely assesses the financial strength of its customers to reduce its exposure to potential credit losses.

14. SUBSEQUENT EVENTS

FIGNA evaluated subsequent events until August 14, 2023, the date the financial statements were available to be issued. Except as disclosed in Note 11 and below, no other events have occurred subsequent to the statement of net position date and though the date the financial statements were available to be issued, that would require additional adjustment to, or disclosure in the basic financial statements.

Subsequent to June 30, 2022, FIGNA was subject to a compliance audit by a Commonwealth of Puerto Rico regulator. As a result of such compliance audit, certain deficiencies on internal control over compliance were noted. FIGNA is currently in the process of implementing the corresponding corrective action plans.

Schedule of Proportionate Share of the Collective Total Pension Liability (Unaudited)
June 30, 2022

	2022	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	0.00351%	0.00347%	0.00345%	0.00345%
Proportionate (amount) of the net collective total pension liability	954,574	974,982	862,429	844,938
Covered - Employee Payroll	461,000	482,000	482,000	158,200
Proportionate Share of total pension liability as percentageof covered-employee payroll	207.07%	202.28%	178.93%	534.09%

Notes to Required Supplementary Information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan no longer met the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, was required to apply the guidance in GASB 73 effective July 1, 2018. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits. Therefore, there are no assets accumulated in a Trust to pay pension benefits.

2. FIGNA's proportion of the total pension liability was actuarially determined based on the ratio of the FIGNA's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.

3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

4. The amounts presented were determined by an actuarial

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

To the Board of Directors of
Puerto Rico National Guard Institutional Trust

We have audited 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, the financial statements of the Puerto Rico National Guard Institutional Trust (FIGNA by its Spanish acronym), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the FIGNA´s basic financial statements, and have issued our report thereon dated June 21, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FIGNA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FIGNA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FIGNA's internal control.

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FIGNA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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 result of that testing, and not to provide an opinion on the effectiveness of the FIGNAS'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 FIGNA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Galíndez LLC

San Juan, Puerto Rico
August 14, 2023
License No. LLC-322
Expires December 1, 2023