

GOBIERNO DE PUERTO RICO
FIDEICOMISO INSTITUCIONAL DE LA
GUARDIA NACIONAL DE PUERTO RICO
APARTADO 12000, SAN JUAN, PR 00922

Hon. Pedro R. Pierluisi
Gobernador

Epifanio Jimenez Cruz
Director Ejecutivo

RECIBIDO MAR21'23 PM 1:46



6 de marzo de 2023

PRESIDENCIA DEL SENADO

Hon. José Luis Dalmau
Presidente
Senado de Puerto Rico
P O Box 9022228
San Juan, PR 00902-2228

A-2023-4370
SENADO DE PUERTO RICO
OFICINA DEL SECRETARIO
21 MAR 2023 PM 4:41



Estimado señor Dalmau:

Adjunto el Estado Financiero para el año fiscal 2021 del Fideicomiso Institucional de la Guardia Nacional de Puerto Rico (FIGNA), para que conste en sus expedientes.

Para cualquier información adicional, favor comunicarse con la aquí suscribiente.

Atentamente,



Epifanio Jiménez Cruz
Director Ejecutivo



November 4, 2022

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To the Board of Directors of
Puerto Rico National Guard Institutional Trust (FIGNA)


PRESIDENCIA DEL SENADO

We have audited the basic financial statements of the Puerto Rico National Guard Institutional Trust Fund (FIGNA) as of and for the year ended June 30, 2021 and have issued our report thereon dated November 4, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 3, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of FIGNA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

No significant control deficiencies and other matters have been noted during our audit.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.



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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by FIGNA is included in Note 2 to the financial statements. There have been no initial adoption of accounting policies and no changes in significant accounting policies or their application during 2021.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

Depreciation and amortization expense

Management's estimate of depreciation expense is based on the estimated useful life of the depreciable assets, which range from 5 to 40 years, using the straight-line method. We evaluated the key factors and assumptions used to develop depreciation expense and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Impairment of long-lived assets

Long-lived assets, consisting of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management estimates that no impairment charge was deemed necessary for the year ended June 30, 2021. We evaluated the key factors and assumptions used to develop impairment of long-lived assets and determined that it is reasonable in relation to the basic financial statements taken as a whole.

To the Board of Directors of
Puerto Rico National Guard Institutional Trust (FIGNA)
November 4, 2022
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Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. The most sensitive disclosure affecting the financial statements were:

CONCESSION AGREEMENT

Effective July 1, 2017, FIGNA entered in a contract with Castro Business Enterprise, Inc. (the "Concessionaire") to operate FIGNA's military stores up to June 30, 2021. On June 30, 2021, the contract was extended for an additional year. 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 \$450,000 and is responsible for capital improvements to the stores and for the payment of store expenses such as utilities, security and maintenance among others.

As mentioned before, the concession agreement expired on June 30, 2022. 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. However, various participants of the Request for Proposal have disputed the validity of the process in the Courts of Puerto Rico.

As of the date of issuance of these financial statements the military stores are closed pending resolution of the dispute in the Courts and FIGNA has not received its concession payments. Legal Counsel of FIGNA advised that, due to the circumstances of this case and its early stage, an outcome cannot be predicted and accordingly the opening date of the stores remains uncertain. At this moment, FIGNA does not expect its operations to be adversely affected.

The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. The following significant unusual transactions identified as a result of our audit procedures were brought to the attention of management:

Identified or Suspected Fraud

We have not identified or have obtained information that indicates that fraud may have occurred.

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To the Board of Directors of
Puerto Rico National Guard Institutional Trust (FIGNA)
November 4, 2022
Page 4



Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were identified.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances affected the form and content of our report.

Representations Requested from Management

We have requested certain representations from management that were included in the management representation letter dated November 4, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the FIGNA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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To the Board of Directors of
Puerto Rico National Guard Institutional Trust (FIGNA)
November 4, 2022
Page 5

There were no other significant audit findings or issues identified that would have required a separate communication to management.

This information is intended solely for the use of the Board of Directors and management of Puerto Rico National Guard Institutional Trust (FIGNA) and is not intended to be and should not be used by anyone other than these specified parties.

Cordially,

Galíndez LLC

GALÍNDEZ LLC
San Juan, Puerto Rico

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

***Basic Financial Statements for the Year Ended
June 30, 2021 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

We have audited the accompanying financial statements of the business-type activities and aggregated remaining fund information of the Puerto Rico National Guard Institutional Trust (FIGNA by its Spanish acronym), a component unit of the Commonwealth of Puerto Rico, which compose the statement of net position as of June 30, 2021 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 opinion.



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To the Board of Directors of
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San Juan, Puerto Rico
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Puerto Rico National Guard Institutional Trust, as of June 30, 2021, and the related changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the Schedule of Proportionate Share of the Collective Total Pension Liability on page 31 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 or any assurance to express an opinion.



Galíndez LLC

San Juan Puerto Rico
November 4, 2022
License No. LLC-322
Expires December 1, 2023

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Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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, 2021. 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, 2021 amounted to \$66.8 million, reflecting an increase of approximately \$5.7 million from June 30, 2020.
- The operating revenues for the year ended June 30, 2021 amounted to \$6.5 million, an increase of approximately \$90 thousand over the prior fiscal year. Operating expenses for the year ended June 30, 2021 amounted to \$5.9 million, a decrease of \$78 thousand when compared to June 30, 2020. The non-operating revenues amounted to approximately \$5.1 million at June 30, 2021 compared to non-operating revenues of approximately \$2 million in prior year, reflecting an increase of \$3.1 million.
- Net position increased approximately \$5.7 million for the year ended June 30, 2021.

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.

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

- 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, the 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.

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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 defray 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, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> | <u>Change</u> |
|--|----------------------|----------------------|---------------------|
| Assets: | | | |
| Current assets | \$ 11,730,462 | \$ 12,957,362 | \$ (1,226,900) |
| Non-current assets | 40,149,791 | 32,475,449 | 7,674,342 |
| Capital assets | <u>14,773,658</u> | <u>15,486,368</u> | <u>(712,710)</u> |
| Total assets | <u>66,653,911</u> | <u>60,919,179</u> | <u>5,734,732</u> |
| Deferred outflows of resource from pension activities | <u>189,157</u> | <u>95,032</u> | <u>94,125</u> |
| Liabilities: | | | |
| Current liabilities | 1,912,254 | 1,930,398 | (18,144) |
| Non-current liabilities | <u>974,982</u> | <u>862,429</u> | <u>112,553</u> |
| Total liabilities | <u>2,887,236</u> | <u>2,792,827</u> | <u>94,409</u> |
| Deferred inflows of resource from pension activities | <u>38,684</u> | <u>51,535</u> | <u>(12,851)</u> |
| Net position: | | | |
| Invested in capital assets | 14,773,658 | 15,486,368 | (712,710) |
| Restricted | 42,938,586 | 37,719,732 | 5,218,854 |
| Unrestricted position | <u>6,204,904</u> | <u>4,963,749</u> | <u>1,241,155</u> |
| Total net position | <u>\$ 63,917,148</u> | <u>\$ 58,169,849</u> | <u>\$ 5,747,299</u> |

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.

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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 decreased by \$1.2 million in June 30, 2021 from June 30, 2020. Such decrease was mainly due to decrease in cash of \$1.3 million. Decrease in cash was mainly the result of the cash used in investing activities amounting to approximately \$2.5 million offset by cash provided by operating activities amounting to approximately \$1.3 million.

Capital assets - FIGNA's capital assets decreased from \$15.5 million at June 30, 2020, to \$14.8 million at June 30, 2021. Change was due to depreciation expense amounting to \$800 thousand offset by capital expenditures amounting to \$100 thousand.

Non-current assets - FIGNA's investments are mostly reported at fair value in the statement of net position. FIGNA's total investments increased from \$32.5 million at June 30, 2020, to \$40.1 million at June 30, 2021. The increase is attributable to the change in fair value during fiscal year 2021 amounting to approximately \$4.4 million and purchases made during the fiscal year amounting to approximately \$3.3 million. During the year 2021, FIGNA received approximately \$800 thousand by concept of interest.

Current liabilities - Current liabilities consist of accounts payable and accrued liabilities. Current liabilities balances are \$1.9 million for both fiscal years 2021 and 2020.

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 \$5.7 million at June 30, 2021. The increase in net position was mainly due to the change in fair value during fiscal year 2021 amounting to approximately \$4.4 million.

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Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

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, 2021 and 2020 is shown in the following table:

| | <u>2021</u> | <u>2020</u> | <u>Change</u> |
|---------------------------------|----------------------|----------------------|---------------------|
| Operating revenues: | | | |
| Concessionaire royalties | \$ 5,400,000 | \$ 5,400,000 | \$ - |
| Rental income | 870,141 | 795,811 | 74,330 |
| Military contributions | 254,642 | 243,773 | 10,869 |
| Other | <u>7,631</u> | <u>2,684</u> | <u>4,947</u> |
| Total revenues | <u>6,532,414</u> | <u>6,442,268</u> | <u>90,146</u> |
| Operating expenses: | | | |
| Administration | 2,797,472 | 3,285,743 | (488,271) |
| Distributed benefits | <u>3,107,214</u> | <u>2,696,474</u> | <u>410,740</u> |
| Total operating expenses | <u>5,904,686</u> | <u>5,982,217</u> | <u>(77,531)</u> |
| Operating income | 627,728 | 460,051 | 167,677 |
| Non operating revenues | <u>5,119,571</u> | <u>2,049,977</u> | <u>3,069,594</u> |
| Increase in net position | <u>5,747,299</u> | <u>2,510,028</u> | <u>3,237,271</u> |
| Net position, beginning of year | <u>58,169,849</u> | <u>55,659,821</u> | <u>2,510,028</u> |
| Net position, end of year | <u>\$ 63,917,148</u> | <u>\$ 58,169,849</u> | <u>\$ 5,747,299</u> |

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, 2021 were in line with operating revenues for the year ended June 30, 2020. Approximately 84% of FIGNA's revenues for the year ended June 30, 2021 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 - FIGNA's total operating expenses remained on-line with prior year, just decreasing by approximately \$78 thousand. However, administration expenses decreased by \$488 thousand and distributed benefits increased \$411 thousand. Decrease in administration expenses was mainly due to the decrease of \$205 thousand in pension expense, mostly because in fiscal year 2020 was the transition from GASB 68 to GASB 73 and that resulted

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021

in a higher pension expense which is actuarially determined. Also contributing to the decrease in administration expenses was the decrease of \$178 thousand in repairs and maintenance expenses. Such decrease was because in fiscal year 2020 there were major repairs done to some of the military stores which were not recurrent and not needed in fiscal year 2021. The increase in distributed benefits was mainly due to an increase of \$649 thousand in general benefits to the Puerto Rico National Guard and its members. This was caused by two major initiatives that the Puerto Rico national Guard embarked on fiscal year 2021 with FIGNA's contribution as permitted by law. This increase was offset by a decrease of \$237 thousand in annuities expenses. This expense has been trending down from prior years mainly caused by demographics of the members and in fiscal year 2021 reached its bottom.

Non-Operating Revenues (Expenses) - For the year ended June 30, 2021, FIGNA reported non-operating revenues of \$5.1 million, resulting primarily from the interest earned from investments amounting to approximately \$700 thousand and an increase in the fair value of investments amounting to approximately \$4.4 million while in 2020 FIGNA reported a decrease in fair value of \$700 thousand with \$800 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, 2021

| | Business -Type Activities - Enterprise Funds | | | | |
|--|---|---------------------------|-----------------------------|------------------------|----------------------|
| | Operational Fund | Annuities Fund | Educational Fund | Eliminations | Total |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 4,178,054 | \$ 4,707,526 | \$ 827,273 | - | \$ 9,712,853 |
| Accounts receivable | 880,139 | 719,778 | 135,000 | - | 1,734,917 |
| Interest receivable | 31,905 | 43,147 | 8,297 | - | 83,349 |
| Due from other funds | - | 9,461,459 | 1,144,591 | (10,606,050) | - |
| Prepaid expenses | 56,676 | 142,667 | - | - | 199,343 |
| Total current assets | <u>5,146,774</u> | <u>15,074,577</u> | <u>2,115,161</u> | <u>(10,606,050)</u> | <u>11,730,462</u> |
| Noncurrent Assets | | | | | |
| Investments | 14,001,752 | 21,804,257 | 4,343,782 | - | 40,149,791 |
| Capital assets | 14,773,658 | - | - | - | 14,773,658 |
| Total noncurrent assets | <u>28,775,410</u> | <u>21,804,257</u> | <u>4,343,782</u> | <u>-</u> | <u>54,923,449</u> |
| Total assets | <u>33,922,184</u> | <u>36,878,834</u> | <u>6,458,943</u> | <u>(10,606,050)</u> | <u>66,653,911</u> |
| Deferred outflows of resource from pension activities | <u>189,157</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>189,157</u> |
| Total assets and deferred outflows of resources | <u>\$ 34,111,341</u> | <u>\$ 36,878,834</u> | <u>\$ 6,458,943</u> | <u>\$ (10,606,050)</u> | <u>\$ 66,843,068</u> |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 1,869,654 | \$ 1,400 | \$ 41,200 | - | \$ 1,912,254 |
| Due to other funds | 10,249,459 | - | 356,591 | (10,606,050) | - |
| Total current liabilities | <u>12,119,113</u> | <u>1,400</u> | <u>397,791</u> | <u>(10,606,050)</u> | <u>1,912,254</u> |
| Noncurrent Liabilities | | | | | |
| Total pension liability | 974,982 | - | - | - | 974,982 |
| Total liabilities | <u>13,094,095</u> | <u>1,400</u> | <u>397,791</u> | <u>(10,606,050)</u> | <u>2,887,236</u> |
| Deferred inflows of resource from pension activities | <u>38,684</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>38,684</u> |
| Total liabilities and deferred inflows of resources | <u>13,132,779</u> | <u>1,400</u> | <u>397,791</u> | <u>(10,606,050)</u> | <u>2,925,920</u> |
| Net Position | | | | | |
| Investment in capital assets | 14,773,658 | - | - | - | 14,773,658 |
| Restricted for payment of benefits | - | 36,877,434 | 6,061,152 | - | 42,938,586 |
| Unrestricted | 6,204,904 | - | - | - | 6,204,904 |
| Total net position | <u>20,978,562</u> | <u>36,877,434</u> | <u>6,061,152</u> | <u>-</u> | <u>63,917,148</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 34,111,341</u> | <u>\$ 36,878,834</u> | <u>\$ 6,458,943</u> | <u>\$ (10,606,050)</u> | <u>\$ 66,843,068</u> |

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, 2021

| | Business-Type Activities - Enterprise Funds | | | Total |
|--|---|----------------------|---------------------|----------------------|
| | Operational Fund | Annuities Fund | Educational Fund | |
| Operating revenues | | | | |
| Concessionaire royalties | \$ 2,052,000 | \$ 2,808,000 | \$ 540,000 | \$ 5,400,000 |
| Rental income | 870,141 | - | - | 870,141 |
| Military contributions | - | 254,642 | - | 254,642 |
| Other | 7,631 | - | - | 7,631 |
| Total operating revenues | <u>2,929,772</u> | <u>3,062,642</u> | <u>540,000</u> | <u>6,532,414</u> |
| Operating Expenses: | | | | |
| Administrative expenses | | | | |
| Payroll and related expenses | 650,682 | - | - | 650,682 |
| Depreciation and amortization | 796,714 | - | - | 796,714 |
| Professional services | 412,336 | - | - | 412,336 |
| Utilities | 471,937 | - | - | 471,937 |
| Repairs and maintenance | 204,246 | - | - | 204,246 |
| Office materials | 31,159 | - | - | 31,159 |
| Other administrative expenses | 84,612 | 31,716 | 5,970 | 122,298 |
| Insurance | 108,100 | - | - | 108,100 |
| Total administrative expenses | <u>2,759,786</u> | <u>31,716</u> | <u>5,970</u> | <u>2,797,472</u> |
| Distributed benefits | | | | |
| Annuities expenses | - | 1,081,500 | - | 1,081,500 |
| Educational expenses | - | - | 280,052 | 280,052 |
| Life insurance | - | 86,473 | - | 86,473 |
| General benefits to the Puerto Rico National Guard and its members | 1,659,189 | - | - | 1,659,189 |
| Total distributed benefits | <u>1,659,189</u> | <u>1,167,973</u> | <u>280,052</u> | <u>3,107,214</u> |
| Total operating expenses | <u>4,418,975</u> | <u>1,199,689</u> | <u>286,022</u> | <u>5,904,686</u> |
| Operating income (loss) | <u>(1,489,203)</u> | <u>1,862,953</u> | <u>253,978</u> | <u>627,728</u> |
| Non-operating revenues: | | | | |
| Interest | 275,048 | 374,312 | 71,977 | 721,337 |
| Change in fair value of investments | 1,742,600 | 2,227,306 | 428,328 | 4,398,234 |
| Total non-operating revenues | <u>2,017,648</u> | <u>2,601,618</u> | <u>500,305</u> | <u>5,119,571</u> |
| Net changes in net position | 528,445 | 4,464,571 | 754,283 | 5,747,299 |
| Net position, beginning of the year | <u>20,450,117</u> | <u>32,412,863</u> | <u>5,306,869</u> | <u>58,169,849</u> |
| Net position, end of the year | <u>\$ 20,978,562</u> | <u>\$ 36,877,434</u> | <u>\$ 6,061,152</u> | <u>\$ 63,917,148</u> |

See accompanying notes to basic financial statements

Puerto Rico National Guard Institutional Trust

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows – Proprietary Funds

For the Year Ended June 30, 2021

| | Business - Type Activities - Enterprise Funds | | | |
|--|--|---------------------------|-----------------------------|---------------------|
| | Operational Fund | Annuities Fund | Educational Fund | Total |
| Cash flows from operating activities: | | | | |
| Receipts from concessionaire | \$ 2,052,000 | \$ 2,808,000 | \$ 540,000 | \$ 5,400,000 |
| Receipts from rent of land and building | 658,040 | - | - | 658,040 |
| Receipts from military contributions | - | 254,642 | - | 254,642 |
| Other operational receipts | 59,487 | 17,065 | - | 76,552 |
| Payments to general benefits of the Puerto Rico National Guard and members | (1,659,189) | - | - | (1,659,189) |
| Payments to annuities, life insurance and education benefits | - | (1,211,482) | (279,720) | (1,491,202) |
| Payments to suppliers for goods and services | (1,440,210) | - | - | (1,440,210) |
| Payments to employees and related costs | (535,400) | - | - | (535,400) |
| Internal balances | 198,383 | (147,533) | (50,850) | - |
| Cash provided by (used in) operating activities | <u>(666,889)</u> | <u>1,720,692</u> | <u>209,430</u> | <u>1,263,233</u> |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition of capital assets | <u>(84,004)</u> | <u>-</u> | <u>-</u> | <u>(84,004)</u> |
| Cash used in capital and related financing activities | <u>(84,004)</u> | <u>-</u> | <u>-</u> | <u>(84,004)</u> |
| Cash flows from investing activities: | | | | |
| Interest collected on deposits and investments | 305,258 | 416,165 | 80,026 | 801,449 |
| Purchase of investments | <u>(2,484,920)</u> | <u>(663,575)</u> | <u>(127,611)</u> | <u>(3,276,106)</u> |
| Cash used in investing activities | <u>(2,179,662)</u> | <u>(247,410)</u> | <u>(47,585)</u> | <u>(2,474,657)</u> |
| Increase (decrease) in cash and cash equivalents | <u>(2,930,555)</u> | <u>1,473,282</u> | <u>161,845</u> | <u>(1,295,428)</u> |
| Cash and cash equivalents, beginning of year | <u>7,108,609</u> | <u>3,234,244</u> | <u>665,428</u> | <u>11,008,281</u> |
| Cash and cash equivalents, end of year | <u>\$ 4,178,054</u> | <u>\$ 4,707,526</u> | <u>\$ 827,273</u> | <u>\$ 9,712,853</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | \$ (1,489,203) | \$ 1,862,953 | \$ 253,978 | \$ 627,728 |
| Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 796,714 | - | - | 796,714 |
| (Increase) decrease in: | | | | |
| Accounts receivable | (160,244) | 17,065 | - | (143,179) |
| Prepaid expense | 7,731 | (13,193) | - | (5,462) |
| Internal balances | 198,383 | (147,533) | (50,850) | - |
| Deferred outflows of resource from pension activities | (94,125) | - | - | (94,125) |
| (Decrease) increase in: | | | | |
| Accounts payable | (25,847) | 1,400 | 6,302 | (18,145) |
| Net pension liability | 112,553 | - | - | 112,553 |
| Deferred inflows of resource from pension activities | (12,851) | - | - | (12,851) |
| Cash provided by (used in) operating activities | <u>\$ (666,889)</u> | <u>\$ 1,720,692</u> | <u>\$ 209,430</u> | <u>\$ 1,263,233</u> |

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.

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Notes to Basic Financial Statements
June 30, 2021

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 temporarily 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 benefit 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, includes 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.

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:

| <u>Description</u> | <u>Years</u> |
|-----------------------------|--------------|
| 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.

Accounts receivable

As of June 30, 2021, 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.

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. Deferred inflows of resources as of June 30, 2021 relate to FIGNA's participation in the Pension Plan.

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.

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 consist 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.

Rental income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between FIGNA and the tenants are operating leases.

Risk management

FIGNA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions, natural disaster, among other. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the three preceding years.

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Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Notes to Basic Financial Statements
June 30, 2021

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 |
|-----------------------|--|-------------------------------------|
| 87 | Leases | 2022 |
| 89 | Accounting for Interest Cost Incurred before the End of a Construction Period | 2022 |
| 91 | Conduit Debt Obligations | 2023 |
| 92 | Omnibus 2020 | 2022 |
| 93 | Replacement of Interbak Offered Rates | 2022 |
| 94 | Public-Private and Public-Public Partnerships and Availability Payment Arrangements | 2023 |
| 96 | Subscription-Based Information Technology Arrangements | 2023 |
| 97 | Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 | 2022 |
| 98 | The Annual Comprehensive Report | 2022 |
| 99 | Omnibus 2022 | 2023-2024 |
| 100 | Accounting Changes and Errors Corrections – an Amendment of GASB NO. 62 | 2024 |
| 101 | Compensated Absences | 2025 |

Puerto Rico National Guard Institutional Trust
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Notes to Basic Financial Statements
June 30, 2021

3. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by FIGNA at June 30, 2021. 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.

As of June 30, 2021, \$137,332 of the depository bank balance of \$9,886,458 was uninsured and uncollateralized as follows:

| | <u>Carrying Amount</u> | <u>Depository Bank Balance</u> | <u>Amount uninsured and uncollateralized</u> |
|------|----------------------------|------------------------------------|--|
| Cash | \$ 9,712,853 | \$ 9,886,458 | \$ 137,332 |

Such custodial credit risk loss was recorded on the basic financial statements of fiscal year 2015. Accordingly, that cash is no longer recorded in FIGNA's basic financial statements.

FIGNA maintains cash balances at a local bank. Accounts maintained in this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Total uninsured balance as of June 30, 2021 amounted to approximately \$6.5 million. Management believes that credit risk is minimal, FIGNA has not experienced any loss in connection with these bank deposits.

4. ACCOUNTS RECEIVABLE

As of June 30, 2021, FIGNA had the following accounts receivable:

| | <u>Operational Fund</u> | <u>Annuities Fund</u> | <u>Educational Fund</u> | <u>Total</u> |
|----------------|-----------------------------|---------------------------|-----------------------------|---------------------|
| Concessionaire | \$ 513,000 | \$ 702,000 | \$ 135,000 | \$ 1,350,000 |
| Rent | 248,567 | - | - | 248,567 |
| Other | 118,572 | 17,778 | - | 136,350 |
| | <u>\$ 880,139</u> | <u>\$ 719,778</u> | <u>\$ 135,000</u> | <u>\$ 1,734,917</u> |

5. DUE FROM/DUE TO OTHER FUNDS

Amounts due from/due to (interfund balances) as of June 30, 2021 between the governmental funds and the proprietary fund is as follows:

| <u>Receivable by</u> | <u>Payable by</u> | <u>Purpose</u> | <u>Amount</u> |
|----------------------|-------------------|------------------|----------------------|
| Annuities | Operational | Advance of funds | \$ 9,104,868 |
| Annuities | Educational | Advance of funds | 356,591 |
| Educational | Operational | Advance of funds | 1,144,591 |
| | | | <u>\$ 10,606,050</u> |

Puerto Rico National Guard Institutional Trust
(A Component Unit of the Commonwealth Puerto Rico)
Notes to Basic Financial Statements
June 30, 2021

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, 2021, 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, 2021. 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.

| | After one to five years | After five to ten years | After ten years | Total |
|---|----------------------------|----------------------------|--------------------|----------------------|
| Municipal Bonds | \$ - | \$ 14,043,750 | \$ 526,445 | \$ 14,570,195 |
| Corporate Bonds | 4,379,546 | 2,046,764 | - | 6,426,310 |
| US Treasury Obligations | 1,020,200 | | | 1,020,200 |
| Variable annuities | 1,035,502 | 1,079,452 | | 2,114,954 |
| Certificates of Deposit | <u>12,000,014</u> | <u>-</u> | <u>-</u> | 12,000,014 |
| Total debt securities and certificates of deposits | <u>\$ 18,435,262</u> | <u>\$ 17,169,966</u> | <u>\$ 526,445</u> | |
| Equity securities | | | | <u>4,018,118</u> |
| Total investments | | | | <u>\$ 40,149,791</u> |

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, 2021 are as follows:

| Security type | Credit risk rating | | | | | |
|--------------------|--------------------|---------|---------|-----------|-----------|---------------|
| | A+ | A- | BBB+ | BBB | BBB- | C |
| Municipal Bonds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 14,570,195 |
| Corporate Bonds | 515,309 | 521,410 | 942,537 | 2,464,902 | 1,982,153 | - |
| Variable annuities | 2,114,954 | - | - | - | - | - |

Puerto Rico National Guard Institutional Trust
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At June 30, 2021, fair value of investments based on the hierarchy of inputs are determined as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------------------|----------------------|-------------|----------------------|
| Municipal Bonds | \$ - | \$ 14,570,195 | \$ - | \$ 14,570,195 |
| Corporate Bonds | - | 6,426,310 | - | 6,426,310 |
| Variable annuities | - | 2,114,954 | - | 2,114,954 |
| U.S. Treasury Obligations | 1,020,200 | - | - | 1,020,200 |
| Equity securities | 4,018,118 | - | - | 4,018,118 |
| Total | \$ 5,038,318 | \$ 23,111,459 | \$ - | \$ 28,149,777 |

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, 2021, 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, 2021, was as follows:

| | Balance July 1, 2020 | Additions | Retirements | Balance June 30, 2021 |
|---|-------------------------|---------------------|-------------|--------------------------|
| 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 | 19,393,435 | 60,317 | - | 19,453,752 |
| Equipments | 2,348,657 | 23,687 | - | 2,372,344 |
| Vehicle | 37,118 | - | - | 37,118 |
| Total | 21,779,210 | 84,004 | - | 21,863,214 |
| Less accumulated depreciation | (15,179,699) | (796,714) | - | (15,976,413) |
| Total | 6,599,511 | (712,710) | - | 5,886,801 |
| Capital assets, net | \$ 15,486,368 | \$ (712,710) | \$ - | \$ 14,773,658 |

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.

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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 \$254,642 for the year ended June 30, 2021.

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, 2021, is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|----------|------------------------------|------------------|-------------------|---------------------------|
| Vacation | \$ 45,786 | \$ 33,227 | \$ (20,664) | \$ 58,349 |

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.

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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.

| <u>Date of birth</u> | <u>Attained age as of June 30, 2013</u> | <u>Retirement eligibility age</u> |
|-------------------------------|---|---------------------------------------|
| 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.

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- (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.

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- (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.

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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, 2021 amounted to \$974,982 and 0.00347%, respectively. The Commonwealth's total pension liability, from which an allocation was made to FIGNA's financial statements as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date as of June 30, 2020).

(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, 2020 was 2.21%. 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, 2020 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-2020 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-2020 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.

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— *Post-retirement Healthy Mortality*

Rates which 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-2020 on a generational basis. Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement health 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, are projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

— *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, were adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 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, 2020

| | |
|-----------------------|---|
| 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 2.21%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate (dollars in thousands):

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|------------------------|----------------------------------|------------------------|
| FIGNA's proportionate share of net pension liability | <u>\$ 1,118,385</u> | <u>\$ 974,982</u> | <u>\$ 859,341</u> |

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

Pension expense recognized by FIGNA for the year ended June 30, 2021 related to the Retirement System amounted to \$50,659, which has been included as part of administrative expenses in the accompanying statement of revenues, expenses and changes in net position.

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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, 2021:

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 2,011 | \$ 21,948 |
| Changes in assumptions | 122,399 | 16,736 |
| Changes in employer proportion | 18,741 | - |
| Benefits paid after measurement date | <u>46,006</u> | <u>-</u> |
| | <u>\$ 189,157</u> | <u>\$ 38,684</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2021 will be recognized in pension expense (benefit) in future years as follows:

| <u>Years ending June 30,</u> | <u>Amount</u> |
|----------------------------------|------------------|
| 2022 | \$ 19,960 |
| 2023 | 19,960 |
| 2024 | 19,960 |
| 2025 | <u>25,846</u> |
| | <u>\$ 85,726</u> |

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.

11. CONCESSION AGREEMENT

Effective July 1, 2017, FIGNA entered in a contract with Castro Business Enterprise, Inc. (the "Concessionaire") to operate FIGNA's military stores up to June 30, 2021. On June 30, 2021, the contract was extended for an additional year. 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 \$450,000 and is responsible for capital improvements to the stores and for the payment of store expenses such as utilities, security and maintenance among others.

As mentioned before, the concession agreement expired on June 30, 2022. 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. However, various participants of the Request for Proposal have disputed the validity of the process in the Courts of Puerto Rico.

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As of the date of issuance of these financial statements the military stores are closed pending resolution of the dispute in the Courts and FIGNA has not received its concession payments. Legal Counsel of FIGNA advised that, due to the circumstances of this case and its early stage, an outcome cannot be predicted and accordingly the opening date of the stores remains uncertain. At this moment, FIGNA does not expect its operations to be adversely affected.

12. RENTAL REVENUE

FIGNA leases, as lessor, commercial spaces located in various places in Puerto Rico through operating lease contracts which expire in various dates until April 2025. During the year ended June 30, 2021, FIGNA earned \$870,141 in rental income from all leases.

The following is a schedule of future minimum rentals on noncancelable operating leases as of June 30, 2021:

| <u>Year Ending</u> <u>June 30,</u> | <u>Amount</u> |
|---------------------------------------|---------------------|
| 2022 | \$ 841,116 |
| 2023 | 823,116 |
| 2024 | 721,782 |
| 2025 | <u>158,112</u> |
| | <u>\$ 2,544,126</u> |

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, 2021.

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 November 4, 2022, the date the financial statements were available to be issued. Except as disclosed in Note 11, no 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.

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Required Supplemental Information
Schedule of Proportionate Share of the Collective Total Pension Liability
June 30, 2021

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|-------------------|
| Proportion (percentage) of the net collective total pension liability | <u>0.00347%</u> | <u>0.00345%</u> | <u>0.00345%</u> |
| Proportion share (amount) of the collective total pension liability | <u>\$ 974,982</u> | <u>\$ 862,429</u> | <u>\$ 844,938</u> |

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, it is subject to the provisions of 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 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 valuation as of July 1, 2019 which was rolled forward to June 30, 2020, the measurement date.