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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, 2020 and Independent Auditors' Report*

CONTENTS

Galíndez LLC

<u>INDEPENDENT AUDITORS' REPORT</u>

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

<u>Report on the Financial Statements</u>

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, 2020 and the related statement 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.

<u>Management's Responsibility for the Financial Statements</u>

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.

<u>Auditors' Responsibility</u>

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.

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, 2020, 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.

Emphasis of Matter

FIGNA's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that FIGNA will continue as a going concern. As discussed in Note 3, the financial condition of the Commonwealth of Puerto Rico (the Commonwealth) is an external matter that may affect the ability of FIGNA to continue as a going concern.

FIGNA is a component unit of the Commonwealth, which along with most of its public corporations are in the midst of a profound fiscal crisis. Despite various measures undertaken in recent years to stimulate economic growth, reduce government expenses and increase revenues, the Commonwealth has been unable to spur economic growth and eliminate the recurrent excess of expenditures over revenues.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law. This Act establishes a Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") to assist the Government of Puerto Rico, including its instrumentalities, in managing its public finances and for other purposes.

On May 3, 2018, the Oversight Board, on behalf of the Commonwealth of Puerto Rico, filed a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. Title III under PROMESA provides for similar procedures to Chapter 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances which includes a debt adjustment process under the supervision of the court.

On January 18, 2022, the Title III Court entered an order approving the Commonwealth' Plan of Adjustment ("POA"). The POA reduces $33 billion in bond debt, cuts overall debt by 80% and saves Puerto Rico more than $50 billion in debt service payments. The Oversight Board will now determine an effective date for the POA, at which the Commonwealth's prior debt will be restructured and creditors, public service union members, and others will receive the cash payments agreed to under the POA. On January 27, 2022, the Oversight Board certified a new fiscal plan of the Commonwealth which reflects the POA, recent increases in federal funding, and Puerto Rico's economic recovery. In February 21, 2022, the Oversight Board amended the Joint Resolution of the General Budget for fiscal year 2022 to appropriate funds for the General Fund operating expenses and to enable the Department of Treasury to make payments as set in the Plan of Adjustment.

These conditions raise substantial doubts about the Commonwealth's, and therefore FIGNA's ability to continue as a going concern for a reasonable period of time. The Commonwealth's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinion on the basic financial statements is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the Schedule of Proportionate Share of Net Pension Liability on page 35 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.

E499270

Galíndez LLC

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

**Introduction**

Our discussion and analysis of the Puerto Rico National Guard Institutional Trust's (FIGNA) financial performance provides an overview of FIGNA's financial activities for the year ended June 30, 2020. 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, 2020 amounted to $61 million, reflecting an increase of approximately $2.8 million from June 30, 2019.

- The operating revenues for the year ended June 30, 2020 amounted to $6.4 million, a decrease of approximately $13 thousand over the prior fiscal year. Operating expenses for the year ended June 30, 2020 amounted to $6.0 million, a decrease of $204 thousand when compared to June 30, 2019. The non-operating revenues amounted to approximately $2.1 million at June 30, 2020 compared to non-operating revenues of approximately $6.9 million in the prior year, reflecting a decrease of $4.9 million.

- Net position increased approximately $2.5 million for the year ended June 30, 2020.

**Overview of The Financial Statements**

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

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

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

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

3) **Statement of Cash Flows** - This statement present 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.

**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, 2020 and 2019:

| | 2020 | 2019 | Change |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 12,957,362 | $ 8,737,265 | $ 4,220,097 |
| Non-current assets | 32,475,449 | 33,175,209 | (699,760) |
| Capital assets | 15,486,368 | 16,057,104 | (570,736) |
| Total assets | 60,919,179 | 57,969,578 | 2,949,601 |
| Deferred outflows of resource from pension activities | 95,032 | 289,778 | (194,746) |
| Liabilities: | | | |
| Current liabilities | 1,930,398 | 1,701,335 | 229,063 |
| Non-current liabilities | 862,429 | 844,938 | 17,491 |
| Total liabilities | 2,792,827 | 2,546,273 | 246,554 |
| Deferred inflows of resource from pension activities | 51,535 | 53,262 | (1,727) |
| Net position: | | | |
| Invested in capital assets | 15,486,368 | 16,057,104 | (570,736) |
| Restricted | 37,719,732 | 35,792,782 | 1,926,950 |
| Unrestricted position | 4,963,749 | 3,809,935 | 1,153,814 |
| Total net position | $ 58,169,849 | $ 55,659,821 | $ 2,510,028 |

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

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

**Current assets** - FIGNA's current assets increased by $4.2 million in June 30, 2020 from June 30, 2019. Such increase was mainly due to increase in cash of $3.1 million and the increase in accounts receivable of $1 million. Increase in cash was mainly the result of the $2 million litigation settlement. Increase in accounts receivable is the result of delays in collections due to the COVID-19 pandemic.

**Capital assets** - FIGNA's capital assets decreased from $16.1 million at June 30, 2019, to $15.5 million at June 30, 2020. Change was due to depreciation expense amounting to $600 thousand offset by capital expenditures amounting to $200 thousand.

**Non-current assets** - FIGNA's investments consist of municipal bonds issued by the Commonwealth of Puerto Rico, or related agencies, and deposits. FIGNA's investments are reported at fair value in the statement of net position. FIGNA's total investments decreased from $33.2 million at June 30, 2019, to $32.5 million at June 30, 2020. The decrease is mainly attributable to the change in fair value. During the year 2020, FIGNA received approximately $.8 million by concept of interest.

**Current liabilities** - Current liabilities consist of accounts payable and accrued liabilities. Current liabilities reflected an increase of approximately $229 thousand from $1.7 million at June 30, 2019 to $1.9 million at June 30, 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 $2.5 million at June 30, 2020. The increase in net position was mainly due to the litigation settlement which amounted to approximately $2 million.

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

The statement of revenues, expenses and changes in net position – proprietary funds show the sources of FIGNA's changes in net position as they arise through its various programs and functions. A condensed summary of revenues, expenses and changes in net position for the fiscal years ended June 30, 2020 and 2019 is shown in the following table:

| | 2020 | 2019 | Change |
|---|---|---|---|
| Operating revenues: | | | |
| Concessionaire royalties | $ 5,400,000 | $ 5,400,000 | $ - |
| Rental income | 795,811 | 813,887 | (18,076) |
| Military contributions | 243,773 | 240,710 | 3,063 |
| Other | 2,684 | 1,060 | 1,624 |
| Total revenues | 6,442,268 | 6,455,657 | (13,389) |
| Operating expenses: | | | |
| Administration | 3,285,743 | 3,251,398 | 34,345 |
| Distributed benefits | 2,696,474 | 2,935,066 | (238,592) |
| Total operating expenses | 5,982,217 | 6,186,464 | (204,247) |
| Operating income | 460,051 | 269,193 | 190,858 |
| Non operating revenues | 2,049,977 | 6,939,623 | (4,889,646) |
| Increase in net position | 2,510,028 | 7,208,816 | (4,698,788) |
| Net position, beginning of year | 55,659,821 | 48,451,005 | 7,208,816 |
| Net position, end of year | $ 58,169,849 | $ 55,659,821 | $ 2,510,028 |

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, 2020 were in line with operating revenues for the year ended June 30, 2019. Approximately 84% of FIGNA's revenues for the year ended June 30, 2020 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 decreasing by approximately $200 thousand.

**Non-Operating Revenues (Expenses)** - For the year ended June 30, 2020, FIGNA reported non-operating revenues of $2.1 million, resulting primarily from the interest earned from investments amounting to approximately $800 thousand, litigation settlement amounting to approximately to $2 million offset by a change in fair value (decrease) of investments amounting to approximately $700 thousand while in 2019 FIGNA reported a change in fair value (decrease) of $6.2 million 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, 2020*

| | Business -Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | **Operational Fund** | **Annuities Fund** | **Educational Fund** | **Eliminations** | **Total** |
| **Assets** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 7,108,609 | $ 3,234,244 | $ 665,428 | - | $ 11,008,281 |
| Accounts receivable | 719,896 | 736,843 | 135,000 | - | 1,591,739 |
| Interest receivable | 62,115 | 85,000 | 16,346 | - | 163,461 |
| Due from other funds | - | 9,313,926 | 1,093,741 | (10,407,667) | - |
| Prepaid expenses | 64,407 | 129,474 | - | - | 193,881 |
| **Total current assets** | 7,955,027 | 13,499,487 | 1,910,515 | (10,407,667) | 12,957,362 |
| **Noncurrent Assets** | | | | | |
| Investments | 9,774,230 | 18,913,376 | 3,787,843 | - | 32,475,449 |
| Capital assets | 15,486,368 | - | - | - | 15,486,368 |
| **Total noncurrent assets** | 25,260,598 | 18,913,376 | 3,787,843 | - | 47,961,817 |
| **Total assets** | 33,215,625 | 32,412,863 | 5,698,358 | (10,407,667) | 60,919,179 |
| **Deferred outflows of resource from pension activities** | 95,032 | - | - | - | 95,032 |
| **Total assets and deferred outflows of resources** | $ 33,310,657 | $ 32,412,863 | $ 5,698,358 | $ (10,407,667) | $ 61,014,211 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ 1,895,500 | $ - | $ 34,898 | - | $ 1,930,398 |
| Due to other funds | 10,051,076 | - | 356,591 | (10,407,667) | - |
| **Total current liabilities** | 11,946,576 | - | 391,489 | (10,407,667) | 1,930,398 |
| **Noncurrent Liabilities** | | | | | |
| Total pension liability | 862,429 | - | - | - | 862,429 |
| **Total liabilities** | 12,809,005 | - | 391,489 | (10,407,667) | 2,792,827 |
| **Deferred inflows of resource from pension activities** | 51,535 | - | - | - | 51,535 |
| **Total liabilities and deferred inflows of resources** | 12,860,540 | - | 391,489 | (10,407,667) | 2,844,362 |
| **Net Position** | | | | | |
| Investment in capital assets | 15,486,368 | - | - | - | 15,486,368 |
| Restricted for payment of benefits | - | 32,412,863 | 5,306,869 | - | 37,719,732 |
| Unrestricted | 4,963,749 | - | - | - | 4,963,749 |
| Total net position | 20,450,117 | 32,412,863 | 5,306,869 | - | 58,169,849 |
| Total liabilities, deferred inflows of resources and net position | $ 33,310,657 | $ 32,412,863 | $ 5,698,358 | $ (10,407,667) | $ 61,014,211 |

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, 2020*

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | **Operational Fund** | **Annuities Fund** | **Educational Fund** | **Total** |
| **Operating revenues** | | | | |
| Concessionaire royalties | $ 2,052,000 | $ 2,808,000 | $ 540,000 | $ 5,400,000 |
| Rental income | 795,811 | - | - | 795,811 |
| Military contributions | - | 243,773 | - | 243,773 |
| Other | 2,684 | - | - | 2,684 |
| Total operating revenues | 2,850,495 | 3,051,773 | 540,000 | 6,442,268 |
| **Operating Expenses:** | | | | |
| **Administrative expenses** | | | | |
| Payroll and related expenses | 581,994 | - | - | 581,994 |
| Pension expense | 255,592 | - | - | 255,592 |
| Depreciation and amortization | 812,936 | - | - | 812,936 |
| Professional services | 477,295 | - | - | 477,295 |
| Utilities | 546,475 | - | - | 546,475 |
| Repairs and maintenance | 382,562 | - | - | 382,562 |
| Office materials | 40,029 | - | - | 40,029 |
| Other administrative expenses | 60,197 | - | - | 60,197 |
| Bad debt expense | 48,000 | - | - | 48,000 |
| Insurance | 80,663 | - | - | 80,663 |
| Total administrative expenses | 3,285,743 | - | - | 3,285,743 |
| **Distributed benefits** | | | | |
| Annuities expenses | - | 1,318,450 | - | 1,318,450 |
| Educational expenses | - | - | 280,973 | 280,973 |
| Life insurance | - | 87,089 | - | 87,089 |
| General benefits to the Puerto Rico National Guard and its members | 1,009,962 | - | - | 1,009,962 |
| Total distributed benefits | 1,009,962 | 1,405,539 | 280,973 | 2,696,474 |
| Total operating expenses | 4,295,705 | 1,405,539 | 280,973 | 5,982,217 |
| **Operating income (loss)** | (1,445,210) | 1,646,234 | 259,027 | 460,051 |
| Non-operating revenues (expenses): | | | | |
| Interest | 309,578 | 375,014 | 72,989 | 757,581 |
| Litigation settlement, net | 1,980,000 | - | - | 1,980,000 |
| Change in fair value of investments | (261,290) | (357,554) | (68,760) | (687,604) |
| Total non-operating revenues, net | 2,028,288 | 17,460 | 4,229 | 2,049,977 |
| Net changes in net position | 583,078 | 1,663,694 | 263,256 | 2,510,028 |
| **Net position**, beginning of the year | 19,867,039 | 30,749,169 | 5,043,613 | 55,659,821 |
| **Net position**, end of the year | $ 20,450,117 | $ 32,412,863 | $ 5,306,869 | $ 58,169,849 |

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, 2020*

| | Business - Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Operational Fund | Annuities Fund | Educational Fund | Total |
| **Cash flows from operating activities:** | | | | |
| Receipts from concessionaire | $ 1,710,000 | $ 2,340,000 | $ 450,000 | $ 4,500,000 |
| Receipts from rent of land and building | 716,547 | - | - | 716,547 |
| Receipts from military contributions | - | 243,773 | - | 243,773 |
| Other operational receipts | (88,479) | - | - | (88,479) |
| Payments to general benefits of the Puerto Rico National Guard and members | (1,009,962) | - | - | (1,009,962) |
| Payments to annuities, life insurance and education benefits | - | (1,389,781) | (368,025) | (1,757,806) |
| Payments to suppliers for goods and services | (1,425,747) | - | - | (1,425,747) |
| Payments to employees and related costs | (499,889) | - | - | (499,889) |
| Internal balances | 197,572 | (151,472) | (46,100) | - |
| Cash provided by (used in) operating activities | (399,958) | 1,042,520 | 35,875 | 678,437 |
| **Cash flows from capital and related financing activities:** | | | | |
| Acquisition of capital assets | (242,200) | - | - | (242,200) |
| Cash used in capital and related financing activities | (242,200) | - | - | (242,200) |
| **Cash flows from investing activities:** | | | | |
| Interest collected on deposits and investments | 295,140 | 360,797 | 70,255 | 726,192 |
| Proceeds from litigation settlement | 1,980,000 | - | - | 1,980,000 |
| Proceeds from redemption of investments | 4,623 | 6,322 | 1,215 | 12,160 |
| Cash provided by investing activities | 2,279,763 | 367,119 | 71,470 | 2,718,352 |
| **Increase in cash and cash equivalents** | 1,637,605 | 1,409,639 | 107,345 | 3,154,589 |
| **Cash and cash equivalents**, beginning of year | 5,471,004 | 1,824,605 | 558,083 | 7,853,692 |
| **Cash and cash equivalents**, end of year | $ 7,108,609 | $ 3,234,244 | $ 665,428 | $ 11,008,281 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | (1,445,210) | 1,646,234 | 259,027 | 460,051 |
| Adjustments to reconcile operating income (loss) from operations to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 812,936 | - | - | 812,936 |
| Bad debt expense | 48,000 | - | - | 48,000 |
| Increase (decrease) in: | | | | |
| Accounts receivable | (512,426) | (468,000) | (90,000) | (1,070,426) |
| Prepaid expense | (30,043) | 18,348 | - | (11,695) |
| Internal balances | 197,572 | (151,472) | (46,100) | - |
| Deferred outflows of resource from pension activities | 194,746 | - | - | 194,746 |
| (Decrease) increase in: | | | | |
| Accounts payable | 318,703 | (2,590) | (87,052) | 229,061 |
| Net pension liability | 17,491 | - | - | 17,491 |
| Deferred inflows of resource from pension activities | (1,727) | - | - | (1,727) |
| Cash provided by (used in) operating activities | $ (399,958) | $ 1,042,520 | $ 35,875 | $ 678,437 |

See accompanying notes to basic financial statements

## 1. REPORTING ENTITY

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

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

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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Use of estimates***

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

***Measurement focus, Basis of Accounting and Financial Statement Presentation***

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

***Proprietary Funds***

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

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

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

Annuities Fund - this fund is used to account for three benefit programs to the active and retired members of the Puerto Rico National Guard. The Annuities Program provides 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, including changes in the fair value of investments, 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 estimated fair market value at the time of donation.

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

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

The estimated useful life of capital assets is as follows:

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

***Impairment of Capital Assets***

FIGNA accounts for asset impairment under the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

***Accounts receivable***

As of June 30, 2020, 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. During the year ended June 30, 2020, FIGNA wrote off uncollectible rent amounting to $48,000.

***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, 2020 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.

***This space has been intentionally left in blank***

***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 |
|---|---|---|
| 84 | Fiduciary Activities | 2021 |
| 87 | Leases | 2022 |
| 89 | Accounting for Interest Cost Incurred before the End of a Construction Period | 2022 |
| 90 | Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61 | 2021 |
| 91 | Conduit Debt Obligations | 2023 |
| 92 | Omnibus 2020 | 2022 |
| 93 | Replacement of Interbak Oferred 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 |

## 3. GOING CONCERN

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB 56)*, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.

Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

Management's evaluation of FIGNA's going concern has identified the financial condition of the Commonwealth of Puerto Rico (Commonwealth) and the Government Development Bank for Puerto Rico (GDB) as an external matter that may affect the ability of FIGNA to continue as a going concern.

Following is a brief explanation of the financial difficulties being faced by the Commonwealth:

The Commonwealth is undergoing a severe fiscal, economic and liquidity crisis, as a result of years of large governmental deficits, economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of economic downturns and significant health care, pension and debt service costs. As the Commonwealth's tax base has decreased and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other services. The Commonwealth's high level of debt and unfunded pension liabilities, and the resulting allocation of revenues to service debt and pension obligations contributed to significant budget deficits for several years that were covered by the issuance of additional debt.

These matters and the Commonwealth's liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. Furthermore, the principal rating agencies have lowered their rating on the general obligation bonds of the Commonwealth to a default rating. These agencies have also lowered to a default grade their ratings on the bonds of certain of the Commonwealth's instrumentalities, while other debt ratings have been lowered multiple notches to noninvestment grade levels.

As of June 30, 2018, the date of the most recent audited financial statements of the Commonwealth, the Primary Government of the Commonwealth reflects a net deficit of approximately $72.8 billion.

These conditions raise substantial doubts about the Commonwealth's ability to continue as a going concern for a reasonable period of time, which could affect the financial resources of FIGNA since it is a component unit of the Commonwealth.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 (PROMESA) was enacted into law. PROMESA establishes a Financial Oversight and Management Board for Puerto Rico (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. A critical component of PROMESA is the requirement for the Commonwealth to develop and maintain a fiscal plan. Such fiscal plan must contain numerous provisions governing the territory or instrumentality, including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability.

On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth that included the following categories of structural reforms and fiscal measures:

a. Human Capital and Welfare Reform
b. K12 Education Reform
c. Ease of Doing Business Reform
d. Power Sector Regulatory Reform
e. Infrastructure and Capital Investment Reform
f. Establishment of the Office of the CFO
g. Agency Efficiency Measures
h. Medicaid Reform
i. Enhanced Tax Compliance and Optimized Taxes and Fees
j. Reduction in UPR and Municipality Appropriations
k. Comprehensive Pension Reform

Also, the Oversight Board, on behalf of the Commonwealth and certain instrumentalities, has filed voluntary petitions for relief under Title III of PROMESA in the United States District Court for Puerto Rico (the Court). Title III of PROMESA provides for similar procedures to Chapters 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances, which includes a debt adjustment process under the supervision of the Court.

On January 18, 2022, the Title III Court entered an order approving the Commonwealth' Plan of Adjustment ("POA"). The POA reduces $33 billion in bond debt, cuts overall debt by 80% and saves Puerto Rico more than $50 billion in debt service payments. The Oversight Board will now determine an effective date for the POA, at which the Commonwealth's prior debt will be restructured and creditors, public service union members, and others will receive the cash payments agreed to under the POA. On January 27, 2022, the Oversight Board certified a new fiscal plan of the Commonwealth which reflects the POA, recent increases in federal funding, and Puerto Rico's economic recovery. In February 21, 2022, the Oversight Board amended the Joint Resolution of the General Budget for fiscal year 2022 to appropriate funds for the General Fund operating expenses and to enable the Department of Treasury to make payments as set in the Plan of Adjustment.

There are no assurances that these plans and other relief measures to be adopted or proposed by the Oversight Board and the Commonwealth will be fully implemented or if implemented will ultimately provide the intended results. The successful implementation of these plans depends on a number of factors and risks, some of which are not within the Commonwealth's control.

Complete financial statements of the Commonwealth can be obtained directly by contacting their respective administrative offices at:

Department of the Treasury of the Commonwealth of Puerto Rico
Área de Contabilidad Central
P.O. Box 9024140, San Juan, PR 00902

***Management's Conclusion on Going Concern***

FIGNA's management considers that substantial doubt might exist about the ability of FIGNA to continue as a going concern as the Commonwealth may impose its will over FIGNA and try to access its assets in order to alleviate their liquidity problems. As of the date of issuance of these financial statements, no notifications have been received from the Commonwealth regarding discontinuance of operations or intentions to access our assets. Moreover, FIGNA does not expect to receive any future notification regarding those matters in the foreseeable future.

## 4. CASH AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by FIGNA at June 30, 2020. 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, 2020, \$137,332 of the depository bank balance of \$11,145,613 was uninsured and uncollateralized as follows:

| | Carrying Amount | Depository Bank Balance | Amount Uninsured and Uncollateralized |
|---|---|---|---|
| Cash | $ 11,008,281 | $ 11,145,613 | $ 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, 2020 amounted to approximately \$8.9 million. Management believes that credit risk is minimal, FIGNA has not experienced any loss in connection with these bank deposits.

## 5. ACCOUNTS RECEIVABLE

As of June 30, 2020, FIGNA had the following accounts receivable:

| | Operational Fund | Annuities Fund | Educational Fund | Total |
|---|---|---|---|---|
| Concessionaire | $ 513,000 | $ 702,000 | $ 135,000 | $ 1,350,000 |
| Rent | 36,467 | - | - | 36,467 |
| Other | 170,429 | 34,843 | - | 205,272 |
| | $ 719,896 | $ 736,843 | $ 135,000 | $ 1,591,739 |

## 6. DUE FROM/DUE TO OTHER FUNDS

Amounts due from/due to (interfund balances) as of June 30, 2020 between the governmental funds and the proprietary fund is as follows:

| Receivable by | Payable by | Purpose | Amount |
|---|---|---|---|
| Annuities | Operational | Advance of funds | $ 8,957,335 |
| Annuities | Educational | Advance of funds | 356,591 |
| Educational | Operational | Advance of funds | 1,093,741 |
| | | | $ 10,407,667 |

## 7. 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, 2020, FIGNA was not in compliance with certain of these requirements.

As of June 30, 2020, the summary of the investments held by FIGNA and their maturity is as follows:

| | After one to five years | After five to ten years | After ten years | Total |
|---|---|---|---|---|
| PR Aqueduct and Sewer Authority Bonds | $ - | $ - | $ 2,635,375 | $ 2,635,375 |
| PR Public Buildings Authority Bonds | - | - | 10,687,500 | 10,687,500 |
| PR Sales Tax Financing Corporation Bonds | | 282,965 | 6,869,595 | 7,152,560 |
| Certificates of Deposit | 12,000,014 | - | - | 12,000,014 |
| Total Investments | $ 12,000,014 | $ 282,965 | $20,192,470 | $32,475,449 |

The following is a summary of investments showing their original cost, change in fair value and carrying amount as of June 30, 2020:

| | Original Cost | Change in Fair Value | Carrying Amount |
|---|---|---|---|
| PR Aqueduct and Sewer Authority Bonds | $ 3,023,504 | (388,129) | 2,635,375 |
| PR Public Buildings Authority Bonds | 15,000,002 | (4,312,502) | 10,687,500 |
| PR Sales Tax Financing Corporation Bonds | 6,001,478 | 1,151,082 | 7,152,560 |
| Certificates of Deposit | 12,000,014 | - | 12,000,014 |
| Total | $ 36,024,998 | $ (3,549,549) | $ 32,475,449 |

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2020, FIGNA's Investments, except Certificates of Deposits, are all rated CCC or lower.

At June 30, 2020, fair value of investments based on the hierarchy of inputs are determined as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| PR Aqueduct and Sewer Authority Bonds | $ - | $ 2,635,375 | $ - | $ 2,635,375 |
| PR Public Buildings Authority Bonds | - | 10,687,500 | - | 10,687,500 |
| PR Sales Tax Financing Corporation Bonds | - | 7,152,560 | - | 7,152,560 |
| Total | $ - | $ 20,475,435 | $ - | $ 20,475,435 |

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, 2020, FIGNA's Investments are held in custody by the trust department of a commercial bank in the name of FIGNA.

## 8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, was as follows:

| | Balance July 1, 2019 | Additions | Retirements | Balance June 30, 2020 |
|---|---|---|---|---|
| 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 | 19,322,585 | 70,850 | - | 19,393,435 |
| Equipments | 2,177,307 | 171,350 | - | 2,348,657 |
| Vehicle | 37,118 | - | - | 37,118 |
| Total | 21,537,010 | 242,200 | - | 21,779,210 |
| Less accumulated depreciation | (14,366,763) | (812,936) | - | (15,179,699) |
| Total | 7,170,247 | (570,736) | - | 6,599,511 |
| Capital assets, net | $ 16,057,104 | $ (570,736) | $ - | $ 15,486,368 |

***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.

## 9. 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 $243,773 for the year ended June 30, 2020.

## 10. COMPENSATED ABSENCES

The activity for compensated absences, included within accounts payable and accrued liabilities of the operational fund, during the year ended June 30, 2020, is as follows:

| | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** |
|---|---|---|---|---|
| Vacation | $ 24,826 | $ 33,227 | $ (12,267) | $ 45,786 |

## 11. 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 employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

### Pension benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013 as described below:

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

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

***(a) Service Retirement Eligibility Requirements***

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

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

| Date of birth | Attained age as of June 30, 2013 | Retirement eligibility age |
|---|---|---|
| July 1, 1957 or later | 55 or less | 61 |
| July 1, 1956 to June 30, 1957 | 56 | 60 |
| Before July 1, 1956 | 57 and up | 59 |

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

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

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

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

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

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

(4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

***(b) Compulsory Retirement***

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

***(c) Service Retirement Annuity Benefits***

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

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

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

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

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

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

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

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

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

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

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

***(d) Special Benefits***

*(1) Minimum Benefits*

– Past Ad hoc Increases

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

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

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007).

– Coordination Plan Minimum Benefit

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

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

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007).

*(3) Special "Bonus" Benefits*

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

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

– Medication Bonus (Act No. 155, as Amended by Act No. 3)
An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

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

FIGNA's proportionate share of the total pension liability of the Retirement Plan and the proportion percentage of the aggregate net pension liability of the Retirement Plan allocated to FIGNA as of June 30, 2020 amounted to $862,429 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, 2020, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date as of June 30, 2019).

***(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, 2018 was 3.50%. 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, 2019 actuarial valuation were as follows:

— *Pre-retirement Mortality*

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 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.

— *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 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

— *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 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, 2019*

| | |
|---|---|
| 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 3.50%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate (dollars in thousands):

| | 1% Decrease (2.50%) | Current Discount Rate (3.50%) | 1% Increase (4.50%) |
|---|---|---|---|
| FIGNA's proportionate share of net pension liability | $ 961,474 | $ 862,429 | $ 750,368 |

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

Pension expense recognized by FIGNA for the year ended June 30, 2020 related to the Retirement System amounted to $255,592, which has been included as part of administrative expenses in the accompanying statement of revenues, expenses and changes in net position.

*This space has been intentionally left in blank*

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, 2020:

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ 29,239 |
| Changes in assumptions | 28,005 | 22,296 |
| Changes in employer proportion | 24,187 | - |
| Benefits paid after measurement date | 42,840 | - |
| | $ 95,032 | $ 51,535 |

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2020 will be recognized in pension expense (benefit) in future years as follows:

| Years ending June 30, | Amount |
|---|---|
| 2021 | $ 164 |
| 2022 | 164 |
| 2023 | 164 |
| 2024 | 165 |
| | $ 657 |

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related 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 six (4) years for 2020.

## 12. 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.

## 13. 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, 2020, FIGNA earned $795,811 in rental income from all leases.

The following is a schedule of future minimum rentals on noncancelable operating leases as of June 30, 2020:

| Years ending June 30, | Amount |
|---|---|
| 2021 | $ 647,004 |
| 2022 | 575,004 |
| 2023 | 575,004 |
| 2024 | 479,170 |
| 2025 | 479,170 |
| | $ 2,755,352 |

## 14. 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, 2020.

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.

## 15. LITIGATION SETTLEMENT

During the fiscal year ended on June 30, 2018, FIGNA submitted a claim to FINRA for realized and unrealized losses on its investment portfolio which management believed were caused by its investment manager. On August 2019, FIGNA and its investment manager reached a settlement whereby FIGNA received approximately $2.0 million, which consists of $2,750,000 total settlement less $770,000 of legal expenses.

## 16. SUBSEQUENT EVENTS

FIGNA evaluated subsequent events until March 4, 2022, the date the financial statements were available to be issued. Except as stated in Note 3, 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.

## *Puerto Rico National Guard Institutional Trust*

*(A Component Unit of the Commonwealth of Puerto Rico)*

*Required Supplemental Information*

*Schedule of Proportionate Share of the Collective Total Pension Liability*

*June 30, 2020*

| | GASB 73 | | GASB 68 | | | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
| Proportion (percentage) of the net colllective total pension liability | 0.00345% | 0.00345% | 0.00391% | 0.00282% | 0.00277% | 0.00259% |
| Proportionate (amount) of the net collective total pension liability | 862,429 | 844,938 | 1,336,384 | 1,064,860 | 922,212 | 780,653 |
| Covered - Employee Payroll | 482,000 | 158,200 | 158,200 | 158,200 | 158,200 | 158,200 |
| Proportionate Share of total pension liability as percentage of covered-employee payroll | 178.93% | 534.09% | 844.74% | 673.11% | 582.94% | 493.46% |

**Notes to Required Supplementary Information**

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

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

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

4. The amounts presented were determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019, the measurement date.