INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO

FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Institutional Trust of the National
Guard of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the business-type activities of the Institutional Trust of the National Guard of Puerto Rico (the "ITNGPR"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2012 and, which collectively comprise the ITNGPR's financial statements as listed in the table of contents. These financial statements are the responsibility of ITNGPR's management. 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. We were not engaged to perform an audit of the ITNGPR internal control over financial reporting. An audit 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities of the Institutional Trust of the National Guard of Puerto Rico as of June 30, 2012, and the respective changes in financial position and cash flows thereon for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the ITNGPR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of ITNGPR's management. 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ITNGPR's financial statements as a whole. The general statistical information on pages 29 through 33 are presented for purposes of additional analysis and are not a required part of the financial statements. This section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Horwath Vélez & Co. PSC

September 27, 2012

Stamp number 2662210 was affixed to the original of this report.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2012

Introduction:

The following discussion presents an overview of the financial position and financial activities of the Institutional Trust of the National Guard of Puerto Rico for the years ended June 30, 2012 and 2011. This discussion and analysis was prepared by the ITNGPR's management and should be read in conjunction with the financial statements and notes thereto, which follow.

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 the ITNGPR's management. The independent auditors have 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 auditors did not audit such information and did not express an opinion on it.

Financial Highlights:

- As of June 30, 2012, the ITNGPR had total assets of $90 million, total liabilities of $2.8 million and net assets of $87.2 million. At June 30, 2011, the ITNGPR had total assets of $87.6 million, total liabilities of $1 million and net assets of $86.6 million.

- Operating income for fiscal year ended June 30, 2012 was $5.2 million, representing an increase of 24 percent, when compared to balance of $4.2 million for the year ended June 30, 2011. Non-operating income of $4.3 million for the year ended June 30, 2012, representing an increase of 140 percent when compared to a balance to a balance of $1.8 million for the year ended June 30, 2011. Operating expenses were $9 million representing an increase of 36 percent for the year ended June 30, 2012 when compared to balance of $6.6 million at June 30, 2011.

- During the year ended June 30, 2012, the ITNGPR purchased offices facilities to relocate the administrative offices of the ITNGPR and the Puerto Rico National Guard. The cost of the facilities was $5.5 million, plus an additional amount for remodeling. These facilities will be occupied during the ensuing fiscal year.

- During the year ended June 30, 2012, the ITNGPR sold vacant land in Juana Diaz, for $3.06, resulting in a loss of $174 thousand. These facilities had been acquired in 2009 in a donation from the National Guard of Puerto Rico.

- As of June 30, 2012, net assets increased by $600 thousand, as compared to June 30, 2011. The increase in net assets was mainly due to an unrealized and realized gain on investments amounting to $1.7 million, presented as a non-operating revenue in the statement of revenues, expenses and changes in net assets.

Major Financial Elements:

Revenues

The ITNGPR'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 ITNGPR's three principal major funds: 1) Capital Improvements, Operating, and Maintenance Fund, 2) Annuities, Life Insurance, and Federal Insurance Fund, and 3) Educational Fund. The funds are established in Act No. 23 of July 23, 1991. In addition, the Annuities, Life and Funeral Insurance Fund, receives the Puerto Rico National Guard members' contributions, to offset, on a limited basis, the cost of benefits. A fourth fund, Armory Library of the Puerto Rico National Guard, is funded by the other primary funds.

Expenses and Capital Outlays

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

The ITNGPR does cash outlays for capital assets, which outlays are not expenses, and therefore are capitalized, as incurred.

Using the Financial Statements:

The accounting and reporting policies of the ITNGPR conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB issued Statement No. 34, financial statements – and Management's Discussion and Analysis – for State and Local Governments. The financial statement presentation required by GASB Statements No. 34 provide a comprehensive, entity-wide perspective of the ITNGPR's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Required Financial Statements

The business-type activities of the ITNGPR are accounted for as enterprise funds, which include the activities of the ITNGPR, including an operating fund and other specifically designated funds. The required financial statements for an enterprise fund are as follows: statement of net asset; statement of revenues, expenses, and changes in net assets; and statement of cash flow. These financial statements report information using an accounting method similar to those used by private financial institutions.

- *Statement of Net Assets* - Proprietary Funds - includes all ITNGPR's assets and liabilities, classified as current, noncurrent, capital assets, and net assets. This provides information as of a specific date about the nature and amount of investments in resources (assets) and the obligation to creditors (liabilities). It also provides the basis for evaluating the ITNGPR's capital structure.

- *Statement of Revenues, Expenses, and Changes in Net Assets* - Proprietary Funds - includes revenue earned and expenses incurred by the ITNGPR during the reporting period. This statement measures the results of the ITNGPR's operation and is used to determine whether the ITNGPR has successfully recovered all its costs through user fees and other charges. This statement distinguishes between operating revenues and expenses from nonoperating revenue and expenses.

- *Statement of Cash Flows* - reports cash receipts, cash disbursements, and changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. This statement provides information about the ITNGPR's cash flow and how cash is obtained, used, and what was the change in cash balance during the reporting period beginning on July 1 and ending on June 30.

- *Notes to Financial Statements* - the notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.

- *Required Supplementary Information* - The financial statements include a section of required supplementary information immediately following its notes.

Financial Analysis

Condensed Statement of Net Assets - Proprietary Funds

	2012	2011	Net Assets Change
Assets			
Current assets	$ 5,132,798	$ 9,036,386	$(3,903,588)
Non-current assets	85,027,113	78,571,185	6,455,928
Total Assets	$ 90,159,911	$ 87,607,571	$ 2,552,340
Liabilities			
Current liabilities	$ 2,887,482	$ 959,263	$ 1,928,219
Net assets			
Investment in capital assets	26,530,318	23,908,204	2,622,114
Restricted - expendable	53,702,347	55,016,499	(1,314,152)
Unrestricted	7,039,764	7,723,605	(683,841)
Total net assets	87,272,429	86,648,308	624,121
Total liabilities and net assets	$ 90,159,911	$ 87,607,571	$ 2,552,340

The statements of net assets present the assets, liabilities and net assets of the ITNGPR as of June 30, 2012 and 2011, excluding the balance due between funds, which are considered internal balances that have been eliminated in the Statement of Net Assets. The net assets are segregated into investment in capital assets, net of related debt, and restricted and unrestricted funds. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the ITNGPR to meet current expenses and capital improvements. The statements of net assets, along with all of the ITNGPR's financial statements, are 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 the ITNGPR, regardless of when cash is exchanged. Assets and liabilities included in the statements of net assets are classified as current or noncurrent.

Financial Analysis (continued)

Condensed Statement of Revenues, Expenses and Change in Net Assets - Proprietary Funds

	2012	2011	Change
Operating Income			
Concessionaire royalties	$ 4,128,264	$ 3,493,984	$ 634,280
Rent of land and building	358,507	434,290	(75,783)
Military contributions	360,924	302,224	58,700
Other	370,890	2,837	368,053
Total operating revenues	$ 5,218,585	$ 4,233,335	$ 985,250
Operating Expenses			
Administration	$ 2,730,495	$ 2,658,260	$ 72,235
Distributed benefits	6,204,348	4,006,494	2,197,854
Total operating expenses	$ 8,934,843	$ 6,664,754	$ 2,270,089
None Operating Income and Changes in Net Assets			
Non operating revenues	$ 4,340,379	$ 1,807,616	$ 2,532,763
Change in net assets	$ 624,121	$(623,803)	$ 1,247,924

The condensed statements of revenues, expenses and changes in net assets, presents results operations based on operating income, less operating expenses, plus non-operating revenue.

Financial Analysis (continued)

Assets

As of June 30, 2012 and 2011, the current assets amounted to $5 million and $9 million, respectively. The decrease in current assets was due principally to the presentation in 2011 of land property for sale as current, which property was sold during 2011, a decrease in cash of $2.1 million, partially used to partially defray the cost of acquiring new office facilities. Said decreases in current assets were partially offset by an increase in accounts receivable of $600 thousand, to $1.6 million from $1 million, as of June 30, 2012 and 2011, respectively. The increase in accounts receivable was mostly due to a change in interest receivable.

At June 30, 2012, total investments amounted to $55.6 million, an increase of $1 million as compared to balance of $54.6 million at June 30, 2011. This increase results mainly to a net increase in fair value of investments, of $1.7 million and the interest earned of $2.7 million. The increase in investments yield was partially offset by funds used to acquire new office facilitie amounted to $3.0 millon.

Capital assets, net of accumulated depreciation and amortization amounted to $29 million at June 30, 2012 and $23 million at June 30, 2011. This increase results mainly from the acquisition of land and building located in Highway 1 at San Juan, Puerto Rico, to relocate the Institutional Trust of the National Guard of Puerto Rico and the Puerto Rico National Guard's administrative offices, during the ensuing fiscal year. The cost of this property was $5.5 million. This increase was partially offset by property sold, with a depreciated value of $3.5 million.

Liabilities

Total liabilities amounted to $2.8 million at June 30, 2012 compared to $1 million at June 30, 2011, reflecting an increase by $1.8 million when compared with the prior year balance. This increase was principally due to an agreement with the National Guard to refund them $2 million upon the sale of the propreties previously disclosed. As of June 30, 2012, the ITNGPR still owed $1.5 million from this obligation.

Net Assets

Net assets represent the residual interest in the ITNGPR's assets after liabilities are deducted. Total amount of net assets increased during the fiscal years ended June 30, 2012 and 2011 by $600 thousand and $2.6, respectively. Net assets invested in capital assets, net of related debt, represent the ITNGPR's capital assets less accumulated depreciation as of June 30, 2012, there were no encumbrances on the capital assets of the ITNGPR. Restricted expendable net assets are subject to externally imposed restrictions governing their use. Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the ITNGPR such as donors or grant agencies.

Statement of Revenues, Expenses and Change in Net Assets

Changes in total net assets as presented in the statements of net assets are based on the activity presented in the statements of revenues, expenses, and changes in net assets. The purpose of this statement is to present the revenues earned, both operating and nonoperating, and the expenses paid and accrued and any other revenues, expenses, gains and losses received or spent by the ITNGPR.

Financial Analisys (continued)

Operating Revenues

The total operating revenue amounted to $5.2 and $4.2 million for the years ended June 30, 2012 and 2011, respectively. Approximately 80 percent of the operating revenues is from the royalties received from the concessionaire that operates the Duty Free Shop located at Fort Allen in Juana Díaz, San Juan, Cayey, Ceiba, Gurabo, Mayaguez, Arecibo and Vega Baja. The remainder consists of the rent of facilities and other miscellaneous income. The increase in operating revenue by approximately $1 million, resulted mainly from the increase in sale at the military stores, which resulted in a proportionate increase in royalties.

Operating Expenses

The total operating expenses for the years ended June 30, 2012 and 2011 amounted to $9 million and $6.6 million, respectively. This represented an increase of $1.4 million or 36 percent. The principal components of operating expenses and their changes were as follows:

- Annuities--At $1,954,000, increased $35,000, or approximately 2%.
- Education--At $912,000, decreased $295,000, or approximately 48%.
- Life insurance--At $170,000, increased by $48,000, or approximately or 40%.
- Repairs to National Guard facilities at $350,494 (excluding non-recurring provision of $ 2 million), - had no change.
- Payroll and related--At $204,000, decresed $35,000, or approximately 15%
- Utilities--At $1,013,000, increased $62,000, or approximately 6%.
- Depreciation and amortization--At $485,000, increased $42,000, or approximately or 9%.
- Non-recurring provision for improvements at Puerto Rico National Guard's facilities amounted to $2 million.

Non-Operating Revenue

For the year ended June 30, 2012, the ITNGPR reported non-operating revenues of $4.3 million, resulting primarily from the investment interests of $2.7 million, which remained about the same as compared to last year, and unrealized gain on investments amounting to $1.7 million in comparison with prior year which reported an unrealized loss amounting to $1 million.

Information request

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

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Eliminations	Total Proprietary Funds
Assets						
Current assets:						
Cash and cash equivalents	$ 1,107,831	$ 1,780,991	$ 632,415	$ -	$ -	$ 3,521,237
Accounts receivable	442,621	453,386	73,040	-	-	969,047
Interest receivable	105,276	436,517	91,901	-	-	633,694
Due from other funds	2,108,958	5,944,623	1,444,898	44,564	(9,543,043)	-
Prepaid expenses	-	8,820	-	-	-	8,820
Total current assets	3,764,686	8,624,337	2,242,254	44,564	(9,543,043)	5,132,798
Noncurrent Assets						
Investments	9,502,717	37,919,241	8,265,266	-	-	55,687,224
Note receivable	208,929	-	-	-	-	208,929
Capital assets, net	2,210,856	26,530,318	-	389,786	-	29,130,960
Total noncurrent assets	11,922,502	64,449,559	8,265,266	389,786	-	85,027,113
Total assets	$ 15,687,188	$ 73,073,896	$ 10,507,520	$ 434,350	$(9,543,043)	$ 90,159,911

Continues.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS (CONTINUED)

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds					
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Eliminations	Total Proprietary Funds
Liabilities						
Current liabilities:						
Accounts payable, and accrued liabilities	$ 849,450	$ 262,335	$ 227,456	$ 12,462	$ -	$ 1,351,703
Due to other funds	6,684,083	1,990,943	868,017	-	(9,543,043)	-
Other liabilities	1,535,779	-	-	-	-	1,535,779
Total liabilities	9,069,312	2,253,278	1,095,473	12,462	(9,543,043)	2,887,482
Net Assets						
Investment in capital assets, net of related debt	-	26,530,318	-	-	-	26,530,318
Restricted expendable - for payment of benefits	-	44,290,300	9,412,047	-	-	53,702,347
Unrestricted	6,617,876	-	-	421,888	-	7,039,764
Total net assets	6,617,876	70,820,618	9,412,047	421,888	-	87,272,429
Total liabilities and net assets	$ 15,687,188	$ 73,073,896	$ 10,507,520	$ 434,350	$(9,543,043)	$ 90,159,911

See notes to financial statements.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Total Proprietary Funds
Operating revenue					
Concessionaire royalties	$ 1,642,923	$ 2,084,480	$ 400,861	$ -	$ 4,128,264
Land and building rent	192,640	165,867	-	-	358,507
Military contributions	-	360,924	-	-	360,924
Other	108,132	217,155	45,297	306	370,890
Total operating revenue	1,943,695	2,828,426	446,158	306	5,218,585
Operating expenses					
Administrative expenses					
Payroll and related expenses	204,449	-	-	-	204,449
Depreciation and amortization	287,328	198,151	-	-	485,479
Professional services and consulting	492,550	1,500	-	-	494,050
Utilities	881,844	131,304	-	-	1,013,148
Repairs and maintenance	261,443	89,051	-	-	350,494
Office materials	32,031	40,367	-	-	72,398
Other administrative expenses	73,749	1,985	2,949	-	78,683
Security	-	31,794	-	-	31,794
Total administrative expenses (carried forward)	2,233,394	494,152	2,949	-	2,730,495

Continues.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS (CONTINUED)

FOR THE YEAR ENDED ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Total Proprietary Funds
Total administrative expenses (brought forward)	2,233,394	494,152	2,949	-	2,730,495
Distributed benefits					
Annuities expenses	-	1,954,913	-	-	1,954,913
Educational expenses	-	-	911,415	-	911,415
Life insurance	-	169,908	-	-	169,908
General benefits to the Puerto Rico National Guard and its members	909,524	128,187	-	-	1,037,711
Building improvements to the National Guard	2,130,401	-	-	-	2,130,401
Total distributed benefits	3,039,925	2,253,008	911,415	-	6,204,348
Total operating expenses	5,273,319	2,747,160	914,364	-	8,934,843
Operating revenue (loss)	(3,329,624)	81,266	(468,206)	306	(3,716,258)
Non-operating revenue (expenses):					
Interest	463,721	1,868,183	394,345	-	2,726,249
Unrealized and realized gain on investment	285,059	1,252,305	249,578	-	1,786,942
Gain (loss) on sale of capital assets	(346,364)	173,552	-	-	(172,812)
Total non-operating revenue	402,416	3,294,040	643,923	-	4,340,379
Income (loss) before transfers	(2,927,208)	3,375,306	175,717	306	624,121
Transfers between funds	(1,517,218)	1,346,514	170,704	-	-
Net change in net asset	(4,444,426)	4,721,820	346,421	306	624,121
Net assets, beginning of the year	11,062,302	66,098,798	9,065,626	421,582	86,648,308
Net assets, end of the year	$ 6,617,876	$ 70,820,618	$ 9,412,047	$ 421,888	$ 87,272,429

See notes to financial statements.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Total Proprietary Funds
Cash flows from operating activities:					
Receipts from concessionaire	$ 1,902,747	$ 1,725,036	$ 336,803	$ -	$ 3,964,586
Receipts from rent of land and buildings	176,200	165,867	-	-	342,067
Receiptss from troops contributions	-	360,924	-	-	360,924
Other operational receipts	108,132	217,155	41,630	306	367,223
Payments to general benefits of the Puerto Rico National Guard and members	(1,504,148)	-	-	-	(1,504,148)
Payments of annuities, life insurance and education benefits	-	(2,253,008)	(890,443)	-	(3,143,451)
Payments to suppliers for goods and services	(1,627,524)	(41,493)	-	-	(1,669,017)
Payments to employees and related costs	(204,707)	-	-	-	(204,707)
Interfund transactions	(58,380)	(212,379)	271,065	(306)	-
Cash provided by (used in) operating activities	(1,207,680)	(37,898)	(240,945)	-	(1,486,523)
Cash flows from capital and related financing activities:					
Proceed from the sale of capital assets	1,896,641	938,180	-	-	2,834,821
Purchase of capital assets	(490,332)	(5,982,532)	-	-	(6,472,864)
Cash provided by (used in) capital and related financing activities	1,406,309	(5,044,352)	-	-	(3,638,043)

Continues.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO'S
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Capital Improvements, Operation and Maintenance, and Other Purposes Fund	Annuities, Life Insurance, and Funeral Insurance Fund	Educational Fund	Armory Library of the National Guard of Puerto Rico Museum Fund	Total Proprietary Funds
Cash flows from investing activities:					
Interest collected on deposits and investments	378,136	1,517,987	319,672	-	2,215,795
Purchase of investments and proceed from sales and maturities of investments, net	(471,581)	1,597,151	(362,871)	-	762,699
Cash provided by (used) in investing activities	(93,445)	3,115,138	(43,199)	-	2,978,494
Decrease in cash and cash equivalents	105,184	(1,967,112)	(284,144)	-	(2,146,072)
Cash and cash equivalents, beginning	1,002,647	3,748,103	916,559	-	5,667,309
Cash and cash equivalents, ending	$ 1,107,831	$ 1,780,991	$ 632,415	$ -	$ 3,521,237
Reconciliation of operating revenue (loss) with net cash used in the operational activities	$(3,329,624)	$ 81,266	$(468,206)	$ 306	$(3,716,258)
Adjustments to reconcile loss from operations to net cash used in operating activities:					
Depreciation	287,328	198,151	-	-	485,479
Increase (decrease) in:					
Accounts receivable	243,384	(359,444)	(67,725)	-	(183,785)
Other liabilities	1,535,779	-	-	-	-
Interfund transactions	(58,380)	(212,379)	271,065	(306)	-
Accounts payable	113,833	254,508	23,921	-	392,262
Cash provided by (used in) operating activities	$(1,207,680)	$(37,898)	$(240,945)	$ -	$(1,486,523)

Continues.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO'S
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

NON-CASH ACTIVITIES

	sale of capital assets	Net adjustment between Funds	Gain (loss) on Unrealized Gain on Investments	Total
Operational Fund	$(346,364)	$(1,517,218)	$ 285,059	$(1,578,523)
Annuities Fund	173,552	1,346,514	1,252,305	2,772,371
Educational Fund	-	170,704	249,578	420,282
	$(172,812)	$ -	$ 1,786,942	$ 1,614,130

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The ITNGPR 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). The ITNGPR owns or has use rights for the real property and other property where the military shops (Duty Free Shops) are located. Under Act 23, the ITNGPR has the authority to operate the military shops or to concession those operations to a private party. Currently, all military shops are under a concession agreement with a private party, as more fully disclosed in Note 5; as well as to provide assistance benefits to the Puerto Rico National Guard members, spouses, and descendants, including annuities, education and operational funds. To discharge its duties, the ITNGPR has the authority to exercise its powers independently.

ITNGPR receives royalties from gross sales from the concessionaire that operates the Duty Free Shops located at Fort Allen in Juana Díaz, San Juan, Cayey, Ceiba, Gurabo, Mayaguez, Arecibo, and Vega Baja, Air Base Muñiz in Carolina; military antique collections in San Juan, and Ramey Base in Aguadilla.

The ITNGPR 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 ITNGPR considers necessary.

The ITNGPR is exempt from the payment of taxes on its revenues and properties.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and reporting policies of the ITNGPR conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the ITNGPR is considered a special purpose governmental agency engaged only in business type activities - proprietary funds, as defined by GASB Statement No. 34, as amended. Accordingly, the ITNGPR's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The ITNGPR follows the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, as amended by GASB Statement No. 34, which requires proprietary activities to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, and Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless the pronouncements conflict or contradict GASB pronouncements. This pronouncement permits the adoption of all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements. The Authority, as allowed by GASB, decided not to implement any FASB Statement or Interpretation issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The ITNGPR has classified its revenues and expenses between operating and non-operating revenues. Operating revenues and expenses are those transactions that result from providing services that correspond to the principal ongoing operations. Operating revenues are mostly generated from royalties received from gross sales from the concessionaire.

Non-operating revenues and expenses include activities that have the characteristic of non-exchange transactions, such as investment interests and unrealized gains or loss that are defined as non-operating revenue by GASB Statement No. 34, such as state appropriations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimated amounts.

Fund Accounting

The ITNGPR reports its financial position and results of operations in funds, which are considered separate accounting entities, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts comprised of assets, liabilities, net assets/fund balance, revenues, and expenditures or expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. ITNGPR maintains four enterprise funds which are proprietary fund types. ITNGPR has elected to report all funds as major funds. The following is a description of the nature and purpose of each fund:

Capital Improvements, Operating and Maintenance Fund - this used to account the local legislative appropriations received annually by the Puerto Rico National Guard 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 Commonwealth 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 adminstrative expenses of the National Guard Institutional Trust, as established through regulations adopted to such effects by virtue of Act 23. This fund is also the primary operating fund of the ITNGPR. It is used to account for all financial resources except those required to be accounted for in other funds. The primary source of revenue recorded in this fund are the royalties on gross sales from the duty free shops operated by a concessionaire, of which 38 percent are deposited in this fund. In addition, this fund receives net investments income based on actual investment outlays made.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Annuities, Life and Funeral Insurance 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 Board of Directors obtained a legal opinion about whether the funds received for the annuities program are in a fiduciary trust requiring a different reporting method, including among other the presentation of an actuarial liability. Based on the legal opinion, it was determined that under Act 223, the funds are not deposited in an inexorable trust and, accordingly, the presentation as a proprietary fund is correct.

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 source of revenues earned by this fund are the royalties on gross sales from the duty free shops operated by a concessionaire, of which 52 percent are deposited in this fund. In addition, this fund receives net investments income based on actual investment outlays made. Lastly, 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.

This Fund must maintain a minimum reserve of $100,000 in an interest bearing account with the Puerto Rico Government Development Bank. In addition, 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 source of revenue recorded in this fund are the royalties on gross sales from the duty free shops operated by a concessionaire, of which 10 percent are deposited in this fund. In addition, this fund receives net investments income based on actual investment outlays made, and any other donation granted to the mentioned fund. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Armory Library of the National Guard of Puerto Rico Museum Fund - this fund is used to account for the operation of a military antiques collection on display at the National Guard of Puerto Rico Museum. Transfers are made from time to time from the Operational Fund, as determined by management and approved by the Board of Directors, to support the operations. The collection on display consists of a variety of historical weapons, ammunitions, uniforms and other military equipment used in past wars and military conflicts. Most of the collection was donated and recorded at their estimated fair value. The collection recorded in this fund is classified as capital assets, but is not depreciated because the economic or potential service benefit is so slowly consumed that the estimated useful life is considered indefinite.

Cash and Cash Equivalents

For financial statements purposes, ITNGPR considers all highly liquid instruments purchased with a maturity of 90 days or less to be cash equivalents. As of June 30, 2012, cash equivalents consist of funds invested in money market accounts amounting to $74,395.

Investments

Investments are reported at fair value in the statement of net assets. Fair value is based on quoted market prices. The changes in the fair value of investments are reported in the statements of revenues, expenses and changes in net assets as a component of net investment income (non-operating activities).

Capital Assets

All capital expenditures of $500 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter. Intangible assets are amortized over their estimated useful lives except for intangible assets with an indefinite useful life which are not amortized. Renovations to buildings and other assets that significantly increase the value or extend the useful life of the asset are capitalized and amortized over the estimated useful life of the improvements. Routine repairs and maintenance are charged to operating expense in the year in which the expense has been incurred. The estimated useful life of capital assets is as follows:

Description	Years
Buildings	20-40 years
Intangible assets	40 years
Leasehold improvements	5-40 years
Equipment	5 years
Vehicles	5 years
Computer and computer programs	5 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets

The ITNGPR 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. See note 7, for further discussion about idle land.

Accounts Receivable

As of June 30, 2012, all accounts receivable presented in the financial statements are considered collectable, therefore, no provision for doubtful accounts or a related expense are presented in ITNGPR's financial statements.

Classification of Net Assets

ITNGPR's net assets are classified as follows:

1. *Invested in capital assets, net of related debt* - consist of the ITNGPR's total investment in capital assets, including restricted capital assets, net of accumulated depreciation. At June 30, 2012, ITNGPR's capital assets were unencumbered.

2. *Restricted, expendable net assets* - include resources that the ITNGPR is legally or contractually obligated to spend in accordance with specific purposes required by the Law 23 of July 1991.

3. *Unrestricted net assets* - include other net assets that the definition of invested in capital assets and restricted assets does not apply.

Accounting for Compensated Absences

Compensated absence, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net assets date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

Interfund Transactions

Interfund transactions represents funds disbursed by one fund on behalf of another fund, or services provided to 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future Adoption of Accounting Pronouncements

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for periods beginning after December 15, 2011.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* - The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, financial statements and Management's Discussion and Analysis for State and Local Governments, were amended to better meet user needs and to address reporting entity issues have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement is effective for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. The requirements of this Statement is effective for periods beginning after December 15, 2011.

The impact of these statements on the ITNGPR's financial statements has not yet been determined.

Subsequent Events and Management Review

Subsequent events were evaluated by management through the date the financial statements were available to be issued.

2. CONCENTRATIONS OF CREDIT RISK IN DEPOSITS

Pursuant to the provision of Act No. 91 of March 29, 2004, ITNGPR may invest in different types of securities, including domestic, international, and fixed income securities, among others. The laws of the Commonwealth of Puerto Rico authorize governmental entities to deposit public funds in direct or indirect obligations guaranteed by the Federal Government of the United States of America or by the Commonwealth of Puerto Rico. The ITNGPR is authorized to deposit public funds in savings accounts, certificates of deposits and other obligations in authorized financial institutions regulated by the Federal Government and Commonwealth of Puerto Rico.

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the ITNGPR's deposits might not be recovered. The ITNGPR is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Treasury), and such deposits are maintained in separate bank accounts in the name of the ITNGPR. Such authorized depositories, except for the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank for Puerto Rico (EDB), collateralize the amounts deposited in excess of federal depository insurance ($250,000 at June 30, 2012) with securities that are pledged by the Department of the Treasury.

At June 30, 2012, ITNGPR has uninsured deposits in governmental banks amounting to $3,521,136; which represent the bank balance deposited in the Governmental Development Bank for Puerto Rico. Nevertheless, the governmental banks, at state and federal level, are exempt from collateralizing the deposits of public funds, as opposed to the requirements of commercial banks. The ITNGPR's policy is that all procedures for appraisal, maintenance and closing of the accounts should be approved by the Board of Director.

3. MEMBER CONTRIBUTIONS

ITNGPR Annuities, Life Insurance, and Funeral Insurance Fund receives monthly contributions of $5.00 from each active member of the Puerto Rico National Guard. The contributions, are substantially received as an automatic deduction of the member's payroll. In such cases, the United States Property and Fiscal Office (USPFO) remits the payroll deduction amounts corresponding to the troops' contributions, less a service fee.

4. INVESTMENTS

	Cost	Market Value
Fixed Income - Puerto Rico Municipal Bonds	$ 54,687,209	$ 55,687,224

The ITNGPR is authorized to invest a percentage of total assets, 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 State and Puerto Rico. No more than 30% in mortgage securities and no more than 15% in equity securities and asset-backed securities. At June 30, 2012, all securities held by the ITNGPR are in municipal bonds issued by the Commonwealth of Puerto Rico, or related agencies and instrumentalities.

4. INVESTMENTS (Continued)

Credit Risk

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2012, the ITNGPR's credit quality distribution for securities is as follow:

		Quality Rating			
	Market Value	A	AA-	BBB to BBB-	Unrated
Municipal Bonds	$ 55,687,224	$ 9,229,470	$ 4,106,680	$ 42,351,074	$ -
Money Market	74,395	-	-	-	74,395
Total	$ 55,761,619	$ 9,229,470	$ 4,106,680	$ 42,351,074	$ 74,395

Custodial Credit Risk

Custodial credit risk related investments is the risk that, in the event of the failure of the counter-party to a transaction, the ITNGPR 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, 2012, the custody of these investments is held by Santander Securities, the trust department of Banco Santander de Puerto Rico, in the name of the ITNGPR.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Furthermore, expected maturities will differ from contractual maturities, because counter-party may have the right to call or prepay obligations without call or prepayment penalties. As of June 30, 2012, the maturity of Municipal Bonds is as follows:

	Total	1 to 5 years	6 to 10 years	Over 10 years
Municipal Bonds	$ 55,687,224	$ 1,011,490	$ 6,793,420	$ 47,882,314

5. ACCOUNTS RECEIVABLE

	Operational Fund	Annuities Fund	Educational Fund	Total
Concessionaire	$ 260,878	$ 356,445	$ 68,549	$ 685,872
Rent	26,380	26,595	-	52,975
Interest	105,276	436,517	91,901	633,694
Others	155,363	70,346	4,491	230,200
	$ 547,897	$ 889,903	$ 164,941	$ 1,602,741

6. NOTE RECEIVABLE

In July 15, 2011, the ITNGPR sold three lots of land and other properly located in Juana Díaz and entered in a note receivable agreement with the purchaser for $250,000, as part of the sole price. The term note bears interest at 2% above the prime rate (3.25% at June 30, 2012) and monthly payment by $4,746. Interest and principal payments on the note are due monthly until maturity at June 15, 2016. Certain mandatory prepayment are required upon the occurrence of certain events. The note receivable is collateralized by the assets of the purchaser.

7. CAPITAL ASSETS

	Balances June 30, 2011	Additions	Retirements	Balances June 30, 2012
Capital assets non-depreciable:				
Land used in operations or leased	$ 5,093,095	$ -	$ -	$ 5,093,095
Idle land	12,774,972	-	-	12,774,972
Antiques	389,786	-	-	389,786
Construction in progress	-	5,782,340	-	5,782,340
Total	18,257,853	5,782,340	-	24,040,193
Capital assets depreciable:				
Buildings and Improvements	7,801,620	397,891	1,338,269	6,861,242
Intangibles assets	2,293,165	-	-	2,293,165
Equipment	983,807	291,175	-	1,274,982
Vehicles	19,822	-	-	19,822
Computers and programs	339,164	1,457	-	340,621
Total	11,437,578	690,523	1,338,270	10,789,832
Less accumulated depreciation	5,787,227	485,479	573,641	5,699,065
Total	5,650,351	1,176,002	1,911,911	5,090,767
Capital assets, net	$ 23,908,204	$ 6,958,342	$ 1,911,911	$ 29,130,960

On June 15, 2011, the ITNGPR sold three lots of land, with structures at Juana Díaz, for $3,250,000 of which $2,451,933 of these assets were classified as "Property held for sale" in the ITnGPR's in the Statement of Net Assets as of June 30, 2011. The sale price was determined on an independent appraised value.

The construction in progress include the cost of the new building purchased on December 29, 2011 amounting to $5,500,00 in cash and related improvements. This property is located on Road #1 of San Juan, PR, and will be used to relocate the administrative offices of the ITNGPR and the National Guard of Puerto Rico.

7. CAPITAL ASSETS (CONTINUED)

The ITNGPR hold idle land, in Santa Isabel, Puerto Rico, with an original cost of $12,774,972, and which was acquired in Year 2008, at appraised value. As a result of the downturn in the economy, an appraised made in 2010, indicated that the property has lost a significant amount of its value. Currently the ITNGPR is evaluating alternatives for its use. In the event that no reasonable use is determined in the near future, the value of the property should be adjusted to the lower of carrying value or fair value.

Intangible assets consist of rights to use certain facilities owned by the Puerto Rico National Guard to operate military stores, canteen and other similar services. At June 18, 2012, the term of the licenses were extended for additional twenty-five years period through September 30, 2054. The following is a summary of these rights:

Right of Use	Balance
Office Club at Camp Santiago, Salinas	$ 214,765
Muñiz Base building	2,078,400
	$ 2,293,165

8. COMMITMENTS AND CONTINGENCIES

Contingencies

The ITNGPR is a defendant in various legal proceedings. Management, based on the opinions of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on ITNGPR financial statements.

Commitments

As of June 30, 2012, ITNGPR has various commitments, as are determined by ITNGPR's management. These commitments are composed of various projects of capital improvements to the Puerto Rico National Guard facilities:

Development Site	Amount
Rehabilitation and Expansion of Ponce Readiness Center	$ 1,625
Cleaning of EOC JFHQ's San Juan	8,035
Rehabilitation of National Guard Cayey	4,821
Cleaning indoor fire range Cayey and Arecibo	7,609
Rehabilitation and Expansion of the Arroyo Readiness Center	567
Construction of the fences of new ITNGPR's building	197,251
Installation of Air Conditioning Units	12,500
Reinforcement of the structure of the new ITNGPR's building	69,900
Total	$ 302,308

10. RETIREMENT PLANS

(a) Defined Benefit Pension Plan

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) created pursuant to Act No. 447 of 1951, as amended, is a cost sharing multiple employer defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth.

All regular employees of the ITNGPR hired before January 1, 2000, and under 55 years of age at the date of employment, became members of the ERS as a condition to their employment. No benefits are payable if the participant receives a refund of their accumulated contributions. The System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits. Retirement benefits depend upon age at retirement and number of years of creditable service. Benefits vest after 10 years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month. Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined. Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess of $550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of the participant's salary.

(b) Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305, which amends Act No. 447, to establish, among other things, a new defined benefit contribution savings plan program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the System as of December 31, 1999 elected either to stay in the defined benefit plan or to transfer to System 2000. New regular employees of the government on or after January 1, 2000 became members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which is invested by the System, together with those of the System. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10% of the monthly gross salary), which will be invested in one of three investment options. The Bank's required contribution is 9.275% of the employees' salary. System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

10. RETIREMENT PLANS (CONTINUED)

(b) Defined Contribution Plan (Continued)

The INNGPR's contributions during the years ended June 30, 2012, and 2011 to the above plans amounted to $20,404 and $20,635, respectively, which represented 100% of required contributions. Total payroll covered for the years ended June 30, 2012 and 2011 was approximately $112,039 and $125,498, respectively.

Additional information on the Plans will be provided in its financial statements for the year ended June 30, 2012. That report may be obtained by writing to Employees' Retirement System of the Commonwealth and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940 2003.

11. FIDUCIARY ACTIVITIES

At June 30, 2011, the ITGNPR maintain as custodian funds totaling $6,888,426 on behalf of the Puerto Rico National Guard, which funds are deposited at the Army Banking Investment Trust Fund and the Governmental Development Bank for Puerto Rico. On June 6, 2012, the custody of these funds was transferred to the Non-Appropriated Funds, Inc. a Nonprofit Corporation, authorized to do business of the Commonwealth of Puerto Rico. The purpose of the new entity is to support the morale, welfare, and recreation of the constituents, family member, and retirees of the Puerto Rico Military Forces, as described in State Law No. 62, dated June 23 1969, as amended. The Nonprofit's Board of Directors is composed by eleven ex officio members. The royalties received from sales at the AFEES concessionaire at Camp Santiago in Salina must be deposited in the Army Banking Investment Trust Fund's bank account and administered in accordance with the Army Regulation 215–1, revised September 10, 2010. At June 30, 2012, the funds deposited at the Governmental Development Bank for Puerto Rico and the Army Banking Investment Trust Fund bank accounts amounted to $10,418,452.

12. CONCESSION AGREEMENT

The ITGNPR has a contract with Castro Business Enterprise, Inc. (the "Concessionaire") to operate the ITGNPR's military stores up to September 30, 2012. The concessionaire shall provide service to all members of the military forces of Puerto Rico as defined in section 2914 of the ITGNPR's Act of 1991, as amended. Under this agreement, the concessionaire shall pay the ITGNPR a sum equal to twenty two percentage of the gross sales of alcohol, wine, spirit and tobacco (including cigarettes) and nine percent of gross sales of other products. The contract may be extended for additional periods when it is in the best interest of the ITGNPR, and as the date of these financial statements were issued, a new agreement, under substantially similar terms has been drafted.

13. AMOUNT DUE TO THE PUERTO RICO NATIONAL GUARD

The ITNGPR had agreed with the Puerto Rico National Guard that upon the sale of real estate donated by the National Guard (one in 2009 and other in 2011), funds totaling to $2,119,900 would be returned to the National Guard, in cash, or through services, or by defraying expenses of the National Guard. As of June 30, 2012, the ITNGPR still owed $ 1,535,780 under these agreements and presented as "other liabilities" in the Statement of Net Assets..

REQUIRED SUPPLEMENTARY INFORMATION

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2012

General Statistical Information

Date of Creation	July 23, 1991 by Act Number 23
Type of Entity	Public Corporation Administered by an Executive Director Governed by a Board of Directors Members of the Board of Directors - 7
Number of Employees	4
Administered Facilities	General Headquarters PRNG Parada 3-1/2, San Juan
	("Shoppete") Muñiz Air Base, Carolina Fort Allen, Juana Díaz Base Ramey, Aguadilla Cayey Ceiba Gurabo Arecibo Mayaguez Vega Baja
Clubs	"Open Mess", General Headquarters PRNG, Parada 3-1/2, San Juan
Camp Santiago, Official Clubs	Commissioners No Commissioners
Coffee Shops	General Headquarters PRNG Parada 3-1/2, San Juan
Museum	General Headquarters PRNG Parada 2-1/2, San Juan Camp Santiago

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Total of Beneficiaries of the Educational Fund and their percent of addition or reduction per fiscal period:

Fiscal Period	Total Members of PRNG	%	Total Children	%	Total Spouses	%	Total Beneficiaries	%
97-98	232	0%	790	0%	33	0%	1,055	0%
98-99	257	10.78%	756	(4.30)%	37	12.12%	1,050	(0.47)%
99-00	472	83.66%	664	(12.17)%	143	286.49%	1,279	21.81%
00-01	478	1.27%	594	(10.54)%	115	(19.58)%	1.187	(7.19)%
01-02	360	(24,69)%	597	0.51%	142	23.48%	1,099	(7.41)%
02-03	264	(26.67)%	544	8.88%	153	7.75%	961	(12.56)%
03-04	211	(20.08)%	518	(4.78)%	179	16.99%	908	(5.52)%
04-05	1,284	508.53%	387	(25.29)%	132	(26,26)%	1.803	98.57%
05-06	1,504	17.13%	693	79.07%	280	112.12%	2,477	37.38%
06-07	1,240	(17.55)%	794	14.57%	337	20.36%	2,371	(4.28%)
07.08	1,404	13.23%	833	4.91%	332	(1.48)%	2,569	8.35%
08-09	1,613	14.89%	877	5.28%	251	(24.40)%	2,741	6.70%
09-10	1,545	(4.22)%	845	(3.65)%	272	8.37%	2,662	(2.88)%
10-11	1,523	(1.42)%	827	(2.13)%	254	(6.62)%	2,604	(2.18)%
11-12	1,051	(30.99)%	544	(34.22)%	162	(36.22)%	1,757	(32.53)%

Source: Puerto Rico National Guard Institutional Trust Fund

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Total of Beneficiaries of the Educational Fund distributed by type of academic program are as follow:

Fiscal Year	Total of Beneficiaries	Technical Courses	Percent of total Beneficiaries	Associates Degree	Percent of total Beneficiaries	Bachelor Degree	Percent of total Beneficiaries	Master Degree	Percent of total Beneficiaries	Doctorate	Percent of total Beneficiaries
97-98	1,055	5	0.47%	49	4.64%	772	73.18%	222	21.04%	7	0.66%
98-99	1,050	6	0.57%	62	5.90%	718	68.38%	249	23.71%	15	1.43%
99-00	1,279	5	0.39%	48	3.75%	776	60.67%	431	33.70%	19	1.49%
00-01	1,187	8	0.67%	38	3.20%	714	60.15%	402	33.87%	25	2.11%
01-02	1,099	16	1.46%	40	3.64%	695	63.24%	326	29.66%	22	2.00%
02-03	961	32	3.33%	52	5.41%	640	66.60%	209	21.75%	28	2.91%
03-04	908	45	4.96%	42	4.63%	588	64.76%	216	23.79%	17	1.87%
04-05	1,803	84	4.66%	47	2.61%	1,262	69.99%	398	22.07%	12	0.67%
05-06	2,477	85	3.43%	73	2.95%	1,798	72.47%	498	20.10%	26	1.05%
06-07	2,371	89	3.75%	88	3.71%	1,763	74.36%	393	16.58%	38	1.60%
07-08	2,569	127	4.94%	81	3.15%	1,916	74.58%	429	16.70%	16	0.62%
08-09	2,741	129	4.71%	62	2.26%	2,125	77.53%	379	13.83%	46	1.67%
09-10	2,662	133	5.00%	63	2.37%	2,096	78.74%	330	12.40%	40	1.49%
10-11	2,606	174	6.68%	57	2.19%	2,033	78.01%	318	12.20%	24	0.92%
11-12	1,757	84	4.78%	49	2.79%	1,393	79.28%	210	11.95%	21	1.20%

Source: Puerto Rico National Guard Institutional Trust Fund

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Total of National Guards beneficiaries of the Life and Funeral Insurance:

Fiscal Year	Number of Beneficiaries	Active Beneficiaries	%	Inactive or Retired Beneficiaries	Percent
92-93	16	8	50%	8	50%
93-94	15	9	60%	6	40%
94-95	18	10	56%	8	44%
95-96	11	4	36%	7	64%
96-97	17	12	71%	5	29%
97-98	23	14	61%	9	39%
98-99	13	7	54%	6	46%
99-00	28	9	32%	19	68%
00-01	18	6	33%	12	67%
01-02	17	5	29%	12	71%
02-03	12	6	50%	6	50%
03-04	14	7	50%	7	50%
04-05	12	3	25%	9	75%
05-06	16	7	44%	9	56%
06-07	11	3	27%	8	73%
07-08	17	9	53%	8	47%
08-09	10	7	70%	3	30%
09-10	7	4	57%	3	43%
10-11	15	8	53%	7	47%
11-12	7	4	57%	3	43%

Source: Puerto Rico National Guard Institutional Trust Fund.

INSTITUTIONAL TRUST OF THE NATIONAL GUARD OF PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Total of National Guards beneficiaries of the Annuity Fund:

Fiscal Year	Number of Beneficiaries	Percent of Change
97-98	606	
98-99	453	-34%
99-00	287	58%
00-01	676	58%
01-02	676	0%
02-03	526	-29%
03-04	848	38%
04-05	962	12%
05-06	983	2%
06-07	997	1%
07-08	941	-6%
08-09	929	-1%
09-10	937	1%
10-11	905	-1%
11-12	910	1%

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

To the Board of Directors of
The Institutional Trust of the National Guard of Puerto Rico
San Juan, Puerto Rico

We have audited the financial statements of the business type activities of the Institutional Trust of the National Guard of Puerto Rico ("the ITNGPR") as of and for the year ended June 30, 2012, which collectively comprise the Institutional Trust of the National Guard of Puerto Rico basis financial statements and have issued our report thereon dated September 27, 2012. 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 Audit Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the ITNGPR is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Institutional Trust of the National Guard of Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but no for the purpose of expressing an opinion on the effectiveness of the Institutional Trust of the National Guard of Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institutional Trust of the National Guard of Puerto Rico's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As port of obtaining reasonable assurance about whether the Institutional Trust of the National Guard of Puerto Rico financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of facial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of ITNGPR, in a separate letter dated September 27, 2012.

This report is intended solely for the information and use of ITNGPR's management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2012

Howath Vilay & Co. PSC

Stamp number 2662211 was affixed to the original of this report.