OFICINA DE GERENCIA Y PRESUPUESTO
ESTADO LIBRE ASOCIADO DE PUERTO RICO

## Hoja de Referido - Oficina del Director Ejecutivo

| | | |
|---|---|---|
| Thursday, January 22, 2015 | 1ero | Luis F. Cruz Batista |
| | 2ndo | José Delgado Ortiz |
| | 3ero | |
| | 4to | |

| | |
|---|---|
| Numero de Correspondencia: | OGP-2015-5386 |
| Remitente: | Félix J Hernández Irlanda |
| Compania: | FIGNA |
| Asunto: | Estados financieros auditados año fiscal 2013-14 |
| Fecha de Recibo: | 22-Jan-15 |
| Fecha de la Correspondencia: | 19-Jan-15 |

| | | |
|---|---|---|
| Accion a Tomar | | Discutir con el Director |
| | | Tramitar e informar sobre trámite realizado |
| | | Referir a: |
| | | Preparar contestación para la firma del Director |
| | | Coordinar reunión |
| | | Para su información y acción correspondiente |
| | | |

FIDEICOMISO INSTITUCIONAL GUARDIA NACIONAL DE PUERTO RICO
Servicio de Excelencia

ESTADO LIBRE ASOCIADO DE PUERTO RICO
**Fideicomiso Institucional de la Guardia Nacional de Puerto Rico**
Apartado 12000 San Juan Puerto Rico 00922

19 de enero de 2015

5386-JARN
OGP-Director 22 JAN'15 AM11:06

Sr. Luis Cruz Batista
Director
Oficina de Gerencia
Y Presupuesto
P O Box 9023228
San Juan, PR 00902-3228

Estimado señor Cruz:

Adjunto los Estados Financieros para el año fiscal 2014 del Fideicomiso Institucional de la Guardia Nacional de Puerto Rico (FIGNA), para que conste en sus expedientes.

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

Atentamente,

Félix J. Hernández Irlanda
Director Ejecutivo

# PUERTO RICO NATIONAL GUARD INSTITUTIONAL TRUST

## FINANCIAL STATEMENTS
## WITH INDEPENDENT AUDITOR'S REPORT

## FOR THE YEAR ENDED JUNE 30, 2014

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

**FOR THE YEAR ENDED JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities and aggregated remaining fund information of the **Puerto Rico National Guard Institutional Trust** (the "PRNGIT"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014 and, the related notes to the financial statements, which collectively comprise the PRNGIT's basic financial statements as listed in the table of content.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

***Basis for Qualified Opinion***

Management has not established adequate accounting procedures and controls over accounts receivable and accounts payable. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the reliability of the accounts receivable and accounts payable balances recorded in the financial statements of the PRNGIT for the year ended June 30, 2014. The amount by which this departure would affect the liabilities, net position, revenues and expenses of the PRNGIT has not been determined. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, 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, 2014, and the respective changes in financial position and where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Adjustments to the beginning of the year net positions***

As described in Note 13 of the basic financial statements, to comply with Article 3(k) of Act 23, of July 23, 1991 during the fiscal year 2014, management adjusted the beginning of the year net positions to transfer capital assets acquired and recorded in the *Annuity, Life Insurance and Funeral Fund* totaling $29,841,202, to the *Capital Improvements, Operation and Maintenance and Other Purpose Fund* required by Article 3(k) of Act 23, of July 23, 1991. Also, to adjust interfund balances with a net effect of $4,322,142 as of July 1, 2013 that the PRNGIT's management identified as unilateral transfers with no predefined payment plan, and accordingly, should not be presented as interfund balances.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

The other information section, which includes the general statistical information on pages 37 through 42 is 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 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Horwath Vilez & Co. PSC

December 17, 2014

Stamp number E134953 was
affixed to the original of this
report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**(Unaudited)**

**FOR THE YEAR ENDED JUNE 30, 2014**

## INTRODUCTION

Our discussion and analysis of the Puerto Rico National Guard Institutional Trust's (PRNGIT) financial performance provides an overview of the PRNGIT's financial activities for the year ended June 30, 2014. This discussion and analysis was prepared by the PRNGIT's management and the readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the PRNGIT'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 the PRNGIT'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 at June 30, 2014 amounted to $62 million decreased by approximately $25 million or 28% regarding mainly to a decrease in fair market value of investments of approximately $13.3 million and impairment of a capital asset of approximately $11.4 million presented as an extraordinary item in the Statement of Revenues, Expenses and Change in Net Position.

- The operating revenues of the PRNGIT decreased by $660 thousand or 14% and operating expenses increased by $11 million or 152% at June 30, 2014, when compared to the prior year. The non-operating expenses amounted to approximately $7 million at June 30, 2014 decreased by approximately $404 thousand, when compared with the prior year.

- The PRNGIT's net position decreased approximately $20.7 million at June 30, 2014. The decrease in net position was mainly due to unrealized loss on investments of $13 million and the impairment of capital asset recorded by approximately $11.4 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The PRNGIT 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 serves as introduction to the PRNGIT'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 the PRNGIT's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the ITGNPR'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 the PRNGIT'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 the PRNGIT's by the following categories: operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement also portrays the health of the PRNGIT's in that 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.

The PRNGIT uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. All of the funds of the PRNGIT can be divided into two categories. The two categories of funds are the following:

- 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, including local governments, 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.

- Fiduciary fund - this fund is used to account for resources held for distribution in agency capacity for the benefit of the Non-Appropriated Funds, Inc., a Nonprofit Corporation, authorized to do business of the Commonwealth of Puerto Rico. The fiduciary funds are not available to support the ITGNPR's own programs. These funds are reported using the accrual basis of accounting. Revenue for this fund is derived from the royalties received from sales at the AFEES concessionaire at Camp Santiago in Salina. The Statement of Fiduciary Assets and Liabilities presented on page 17 of this report.

## MAJOR FINANCIAL ELEMENTS

### *Revenues*

The PRNGIT'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 PRNGIT's three major funds: 1) Capital Improvements, Operation, and Maintenance Fund, 2) Annuities, Life Insurance, and Funeral Insurance Fund, and 3) Educational Fund. The funds were established by 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.

### *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 the institution facilities) and professional fees. Furthermore, at times, the PRNGIT defray the cost of certain repair and maintenance performed to the property of the National Guard of Puerto Rico.

## FINANCIAL ANALYSIS OF THE PRNGIT'S BUSINESS-TYPE ACTIVITIES

The following table presents a summary of the PRNGIT's net position at June 30, 2014 and 2013:

### CONDENSED STATEMENTS OF NET POSITION - PROPRIETARY FUND

| | 2014 | 2013 | Change |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 3,576,415 | $ 3,591,807 | $( 15,392) |
| Non-current assets | 57,991,906 | 83,017,706 | ( 25,025,800) |
| Total Assets | $ 61,568,321 | $ 86,609,513 | $( 25,041,192) |
| **Liabilities** | | | |
| Current liabilities | $ 1,623,819 | $ 1,690,466 | $( 66,647) |
| **Net position** | | | |
| Investment in capital assets, net of related debt | 20,656,613 | 32,343,072 | ( 11,686,459) |
| Restricted | 32,465,056 | 48,068,297 | ( 15,603,241) |
| Unrestricted | 6,822,833 | 4,507,678 | 2,315,155 |
| Total net position | $ 59,944,502 | $ 84,919,047 | $( 24,974,545) |

The Statements of Net Position presents the PRNGIT's assets and liabilities, with the difference reported as net position, excluding the balance due between funds, which are considered internal balances that have been eliminated in the Statements 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 Statements of Net Position, along with all of the PRNGIT'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 PRNGIT, regardless of when cash is exchanged. Assets and liabilities included in the Statements of Net Position are classified as current or noncurrent. The PRNGIT's cash outlays for capital assets, are not expenses, and therefore are capitalized, as incurred.

## FINANCIAL ANALYSIS OF THE PRNGIT'S BUSINESS-TYPE ACTIVITIES (CONTINUED)

### Condensed Statements of Revenues, Expenses and Change in Net Position - Proprietary Funds

| | 2014 | 2013 | Change |
|---|---|---|---|
| **Operating Revenues** | | | |
| Concession royalties | $ 3,440,395 | $ 4,034,587 | $( 594,192) |
| Rent of land and building | 269,546 | 378,689 | ( 109,143) |
| Military contributions | 352,693 | 368,177 | ( 15,484) |
| Other | 107,405 | 48,832 | 58,573 |
| Total operating revenues | 4,170,039 | 4,830,285 | ( 660,246) |
| **Operating Expenses** | | | |
| Administration | 3,763,922 | 3,194,243 | 569,679 |
| Distributed benefits | 3,166,832 | 4,140,754 | ( 973,922) |
| Total operating expenses | 6,930,754 | 7,334,997 | ( 404,243) |
| Operating loss | ( 2,760,715) | ( 2,504,712) | ( 256,003) |
| Non operating expenses | ( 10,316,970) | ( 1,384,143) | ( 8,932,827) |
| Extraordinary item | ( 11,474,972) | - | ( 11,474,972) |
| Change in net position (deficit) | $( 24,552,657) | $( 3,888,855) | $( 20,663,802) |

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

## FINANCIAL ANALYSIS OF THE PRNGIT'S BUSINESS-TYPE ACTIVITIES (CONTINUED)

**Current assets** - the PRNGIT's current assets remained in line with prior year with a slight decrease of approximately $15 thousand. The cash and cash equivalents and interest receivable increased by $104 thousand and $219 thousand, respectively. The account receivable decreased by $301 thousand partially offset by a decrease in prepaid expenses by $35 thousand.

**Capital asset** - the PRNGIT's current capital assets decreased from $32.3 million at June 30, 2013, to $21 million at June 30, 2014. The decrease was due mainly to the impairment of capital asset recorded by the management at $11.4 million, regarding land acquired during 2008 in Santa Isabel with an original cost of $12.7 million. Subsequent to the balance sheet date, the land was appraised by an independent appraiser and the estimated current value amounted to $1.3 million.

**Investment** - the PRNGIT's investments consist of municipal bonds issued by the Commonwealth of Puerto Rico, or related agencies. The PRNGIT's investments are reported at fair value in the statement of net position. The PRNGIT's total investments decreased from $50.5 million at June 30, 2013, to $37.1 million at June 30, 2014. The decrease of $13.4 million or 26% is mainly attributable to the net decrease in fair value of investments of $13.4 million. No purchases and withdrawals of investments portfolio were made during the fiscal year. During the year, the PRNGIT's received approximately $3 million by concept of interests and the PRNGIT's management transferred $2.8 million to cover operating funding needs.

**Current liabilities** - Current liabilities consist primarily of accounts payable and accrued liabilities. Current liabilities reflected a slight decrease by approximately $67 thousand from $1.7 million at June 30, 2013 to $1.6 million at June 30, 2014. The account payable increased from $1.3 million at June 30, 2013 to $1.5 million at June 30, 2014 regarding pending invoice to be paid to supplier due to cash flow needs. The accrued liabilities decreased from $401 thousand at June 30, 2013 to $108 thousand at June 30, 2014. The accrued liabilities prior year balance included a retainage by $237 thousand that were paid during this fiscal year.

**Net position** - Net position represents the residual interest in the PRNGIT's assets after liabilities are deducted. The PRNGIT's net position decreased approximately by $20.7 million at June 30, 2014. The decrease in net position was mainly due to unrealized loss on investments amounting to $13 million, presented as a non-operating expense in the Statement of Revenues, Expenses and Changes in Net Position and the impairment of a capital asset of approximately $11.4 million discussed above.

## FINANCIAL ANALYSIS OF THE PRNGIT'S BUSINESS-TYPE ACTIVITIES (CONTINUED)

**Operating Revenues** - The PRNGIT's operating revenues (excluding non-operating and extraordinary items) decreased by approximately $664 thousands, resulted mainly from the decrease in sale at the military stores, which resulted in a proportionate decrease in royalties earned. At June 30, 2014 and 2013, the operating revenue amounted to $4.1 and $4.8 million, respectively. Approximately 82 and 84 percent, respectively of the operating revenues are from the royalties received from the concession agreement for the operations of the Duty Free Shop located at Fort Allen in Juana Díaz, San Juan, Cayey, Ceiba, Gurabo, Mayagüez, Arecibo and Vega Baja. The remainder consists of the rent of facilities and other miscellaneous income.

**Operating Expenses** - The PRNGIT's total operating expenses (excluding non-operating items), decreased by approximately $404 thousand in comparison with the prior fiscal year due to decrease in benefit distributed to the members. The annuities, life, and funeral insurance benefit distributed to the active and retired members of the Puerto Rico National Guard.

**Non-Operating Expenses** - For the year ended June 30, 2014, the PRNGIT reported non-operating expenses of $10 million, resulting primarily from the unrealized and realized loss on investment of $13 million, partially offset by interest earned from investments received of $3 million.

**Extraordinary Item** - For the year ended June 30, 2014, the PRNGIT reported an extraordinary item of $11,474,972, representing the loss on impairment of certain idle real estate property.

### Information request

This section of the Management's Discussion and Analysis is designed for anyone interested in obtaining an overview of the finances of PRNGIT. 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, 2014

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Eliminations | Funds |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 684,880 | $ 933,568 | $ 156,627 | $ - | $ 1,775,075 |
| Accounts receivable | 703,519 | 357,939 | 56,360 | - | 1,117,818 |
| Interest receivable | 104,287 | 432,420 | 91,039 | - | 627,746 |
| Due from other funds | 237,552 | - | - | ( 237,552) | - |
| Prepaid expenses | - | 55,776 | - | - | 55,776 |
| Total current assets | 1,730,238 | 1,779,703 | 304,026 | ( 237,552) | 3,576,415 |
| **Noncurrent Assets** | | | | | |
| Investments | 6,176,309 | 25,609,544 | 5,391,662 | - | 37,177,515 |
| Note receivable | 157,778 | - | - | - | 157,778 |
| Capital assets, net | 20,656,613 | - | - | - | 20,656,613 |
| Total noncurrent assets | 26,990,700 | 25,609,544 | 5,391,662 | - | 57,991,906 |
| Total assets | $ 28,720,938 | $ 27,389,247 | $ 5,695,688 | $( 237,552) | $ 61,568,321 |

Continues.

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

STATEMENT OF NET POSITION - PROPRIETARY FUNDS (CONTINUED)

JUNE 30, 2014

| | Business-Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Eliminations | Total Proprietary Funds |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 1,133,064 | $ 20,117 | $ 362,208 | $ - | $ 1,515,389 |
| Accrued liabilities | 108,430 | - | - | - | 108,430 |
| Due to other funds | - | 137,552 | 100,000 | ( 237,552) | - |
| Total liabilities | 1,241,494 | 157,669 | 462,208 | ( 237,552) | 1,623,819 |
| **Net Position** | | | | | |
| Investment in capital assets, net of related debt | 20,656,613 | - | - | - | 20,656,613 |
| Restricted for: | | | | | |
| Payment of benefits | - | 27,231,576 | 5,233,480 | - | 32,465,056 |
| Other purposes | - | - | - | - | - |
| Unrestricted | 6,822,833 | - | - | - | 6,822,833 |
| Total net position | 27,479,446 | 27,231,576 | 5,233,480 | - | 59,944,502 |
| Total liabilities and net position | $ 28,720,940 | $ 27,389,245 | $ 5,695,688 | $( 237,552) | $ 61,568,321 |

See notes to 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, 2014

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Funds |
| **Operating revenues** | | | | |
| Concessionaire royalties | $ 1,307,291 | $ 1,789,048 | $ 344,056 | $ 3,440,395 |
| Land and building rent | 269,546 | - | - | 269,546 |
| Military contributions | - | 352,693 | - | 352,693 |
| Other | 107,405 | - | - | 107,405 |
| Total operating revenues | 1,684,242 | 2,141,741 | 344,056 | 4,170,039 |
| **Operating expenses** | | | | |
| **Administrative expenses** | | | | |
| Payroll and related expenses | 269,145 | - | - | 269,145 |
| Depreciation and amortization | 1,050,756 | - | - | 1,050,756 |
| Professional services and consulting | 864,160 | - | - | 864,160 |
| Utilities | 932,402 | - | - | 932,402 |
| Repairs and maintenance | 560,594 | - | - | 560,594 |
| Office materials | 35,644 | - | - | 35,644 |
| Other administrative expenses | ( 10,689) | - | - | ( 10,689) |
| Insurance | 61,910 | - | - | 61,910 |
| Total administrative expenses (carried forward) | 3,763,922 | - | - | 3,763,922 |

Continues.

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 (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Funds |
| Total administrative expenses (brought forward) | 3,763,922 | - | - | 3,763,922 |
| **Distributed benefits** | | | | |
| Annuities expenses | - | 1,904,225 | - | 1,904,225 |
| Educational expenses | - | - | 749,587 | 749,587 |
| Life insurance | - | 135,527 | - | 135,527 |
| General benefits to the Puerto Rico National Guard and its members | 351,765 | - | - | 351,765 |
| Building improvements to the National Guard | 25,728 | - | - | 25,728 |
| Total distributed benefits | 377,493 | 2,039,752 | 749,587 | 3,166,832 |
| Total operating expenses | 4,141,415 | 2,039,752 | 749,587 | 6,930,754 |
| **Operating loss** (carried forward) | ( 2,457,173) | 101,989 | ( 405,531) | ( 2,760,715) |

See notes to 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 (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Funds |
| **Operating loss** (brought forward) | ( 2,457,173) | 101,989 | ( 405,531) | ( 2,760,715) |
| Non-operating revenues (expenses): | | | | |
| Interest | 510,314 | 2,078,328 | 437,626 | 3,026,268 |
| Unrealized loss on investment | ( 2,216,714) | ( 9,191,423) | ( 1,935,101) | ( 13,343,238) |
| Total non-operating revenues (expenses) | ( 1,706,400) | ( 7,113,095) | ( 1,497,475) | ( 10,316,970) |
| Loss before transfers | ( 4,163,573) | ( 7,011,106) | ( 1,903,006) | ( 13,077,685) |
| Transfers between funds | 2,334,885 | ( 1,928,807) | ( 406,078) | - |
| Net changes in net position (deficit) before extraordinary item | ( 1,828,688) | ( 8,939,913) | ( 2,309,084) | ( 13,077,685) |
| Extraordinary item, impairment of capital asset | ( 11,474,972) | - | - | ( 11,474,972) |
| Net changes in net position (deficit) | ( 13,303,660) | ( 8,939,913) | ( 2,309,084) | ( 24,552,657) |
| **Net position,** beginning of the year, as previously reported | 6,619,762 | 69,384,079 | 8,493,318 | 84,497,159 |
| Beginning of the year - adjustments | 34,163,344 | ( 33,212,590) | ( 950,754) | - |
| **Net position,** beginning of the year, as restated | 40,783,106 | 36,171,489 | 7,542,564 | 84,497,159 |
| **Net position,** end of the year | $ 27,479,446 | $ 27,231,576 | $ 5,233,480 | $ 59,944,502 |

See notes to 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, 2014**

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Funds |
| **Cash flows from operating activities:** | | | | |
| Receipts from concessionaire | $ 1,303,885 | $ 1,771,769 | $ 345,327 | $ 3,420,981 |
| Receipts from rent of land and buildings | 176,101 | 51,326 | - | 227,427 |
| Receipts from troops contributions | - | 349,367 | - | 349,367 |
| Other operational receipts | 483,572 | 23,975 | - | 507,547 |
| Payments to general benefits of the Puerto Rico National Guard and members | ( 377,493) | ( 2,039,752) | - | ( 2,417,245) |
| Payments of annuities, life insurance and education benefits | - | - | ( 654,929) | ( 654,929) |
| Payments to suppliers for goods and services | ( 2,643,164) | ( 10,135) | - | ( 2,653,299) |
| Payments to employees and related costs | ( 256,078) | - | - | ( 256,078) |
| Internal activity payments and receipts | 2,158,135 | ( 2,049,824) | ( 108,311) | - |
| Cash provided by (used in) operating activities | 844,958 | ( 1,903,274) | ( 417,913) | ( 1,476,229) |
| **Cash flows from capital and related financing activities:** | | | | |
| Collection of note receivable | - | - | - | - |
| Purchase of capital assets | ( 1,229,055) | - | - | ( 1,229,055) |
| Cash used in capital and related financing activities | ( 1,229,055) | - | - | ( 1,229,055) |

Continues.

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

| | Business-Type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | Capital Improvements, Operation and Maintenance, and Other Purpose Fund | Annuities, Life Insurance, and Funeral Insurance Fund | Educational Fund | Total Proprietary Funds |
| **Cash flows from investing activities:** | | | | |
| Interest collected on deposits and investments | 473,884 | 1,927,270 | 405,823 | 2,806,977 |
| Purchase of investments net of proceed from sales and maturities of investments, net | - | - | - | - |
| Cash provided by investing activities | 473,884 | 1,927,270 | 405,823 | 2,806,977 |
| **Decrease in cash and cash equivalents** | 89,787 | 23,997 | ( 12,089) | 101,695 |
| **Cash and cash equivalents,** beginning of year | 595,093 | 909,571 | 168,716 | 1,673,380 |
| **Cash and cash equivalents,** end of year | $ 684,880 | $ 933,568 | $ 156,627 | $ 1,775,075 |
| Reconciliation of operating loss to net cash provided by (used in) in the operating activities | | | | |
| Operating loss | $( 2,457,173) | $ 101,989 | $( 405,531) | $( 2,760,715) |
| Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 1,050,757 | - | - | 1,050,757 |
| Increase (decrease) in: | | | | |
| Accounts receivable | 305,316 | ( 5,279) | 1,270 | 301,307 |
| Prepaid expense | 11,095 | 23,975 | - | 35,070 |
| Interfund transactions | 2,132,136 | ( 2,023,825) | ( 108,311) | - |
| Accounts payable | ( 197,173) | ( 134) | 94,659 | ( 102,648) |
| Cash provided by (used in) operating activities | $ 844,958 | $( 1,903,274) | $( 417,913) | $( 1,476,229) |

See notes to financial statements.

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2014

| | Non Appropriated Fund |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 6,261,641 |
| **Liabilities** | |
| Due to other entity - held on behalf for other entity | $ 6,261,641 |

See notes to financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The PRNGIT 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 PRNGIT 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, the PRNGIT 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 11; 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 PRNGIT has the authority to exercise its powers independently.

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

The PRNGIT 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 PRNGIT considers necessary.

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

### Financial Independence

The PRNGIT is responsible for its debts and has the right to its surplus. No governmental agency receives the benefit nor can impose financial strains on the PRNGIT.

### Board of Directors

The Board of Directors is appointed by the Governor of the Commonwealth of Puerto Rico, with the counsel and approval of the Senate of the Commonwealth of Puerto Rico. The Board has the power to make decisions and is responsible for them.

### Capacity to Manage Operations

The PRNGIT has the legal capacity to make significant decisions in the management of its operations. This legal capacity includes, but not limited to, the control of the assets, which include facilities and properties, make short-term loans, and contract and develop programs.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates amounts.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Measurement Focus and Basis of Accounting

*Proprietary Funds*

The PRNGIT uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Legislative grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been meet. The legislative grants and donations for permanent betterments or for any specific activity not used in the fiscal year are credited to a deferred income account and income when used.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses are those transactions that result from providing services that correspond to the principal ongoing operations. The principal operating revenues of the PRNGIT 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, as amended.

The PRNGIT has the option under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, unless these conflict with a GASB pronouncement. The PRNGIT have elected not to apply FASB pronouncements issued after November 30, 1989.

*Fiduciary Funds*

The fiduciary funds are reported using the economic measurement focus and the accrual basis of accounting, similar to the proprietary funds described above.

### Fund Accounting

The PRNGIT 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. 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. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Accounting (Continued)

The PRNGIT maintains three major funds, which are proprietary fund types. The following is a description of the nature and purpose of each fund type:

***Proprietary Funds*** - 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 general public. The PRNGIT reports the following enterprise funds:

*Capital Improvements, Operation 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 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 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 PRNGIT. It is used to account for all financial resources except those required to be accounted for in other funds. The primary source of revenue earned by this fund is the concession income from the shops, of which 38 percent is assigned by law to this fund. In addition, this fund receives net investments income based on actual investment outlays made.

*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 23, 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 revenue earned by this fund is the concession income from the shops, of which 52 percent is assigned by law to 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%.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Accounting (Continued)

*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 earned by this fund is the concession income from the shops, of which 10 percent is deposited in this fund. In addition, this fund receives net investment income based on actual investment outlays made, and any other donation granted to the 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.

***Fiduciary Fund*** - Fiduciary funds are used to account for assets held by the PRNGIT custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

### Cash and Cash Equivalents

For financial statements purposes, PRNGIT considers all highly liquid instruments purchased with a maturity of 90 days or less to be cash equivalents. As of June 30, 2014, cash equivalents consist of funds invested in money market accounts amounting to $653,940 in the proprietary funds and $60,639 in the fiduciary fund.

### Investments

The investments mainly include Puerto Rico government obligations and money market investments. Investments are carried at fair value. 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 investment earnings 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Capital Assets

The PRNGIT defines capital assets defines capital assets as assets that (i) have an initial, individual cost of $500 or more at the date of acquisition; and (ii) have a useful life of five 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 except for intangible assets with an indefinite useful life, which are not amortized. Major outlays for capital assets and improvements are capitalized as projects are constructed and amortized over the estimated useful life of the improvements. Interest costs are capitalized during the construction period only for proprietary funds. 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 and fiduciary fund 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 | 20-40 years |
| Intangible assets | 40 years |
| Leasehold improvements | 5-40 years |
| Equipment | 5 years |
| Vehicles | 5 years |
| Computer and computer programs | 5 years |

### Impairment of Capital Assets

The PRNGIT 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 impairment of a capital loss determined and recorded by the PRNGIT's management.

### Accounts Receivable

As of June 30, 2014, all accounts receivable presented in the financial statements are considered collectable, therefore, no provision for doubtful accounts or a related expense are presented in PRNGIT's financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Classification of Net Position

The statement of net position presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

*Invested in Capital Assets, Net of Related Debt* — these 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* — these result 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 the PRNGIT's policy to use restricted resources first, then the unrestricted resources as they are needed.

### Accounting for Pension Costs

For purposes of the financial statements, the PRNGIT accounted for pension costs from the standpoint of a participant in a multiple employer cost-sharing plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The PRNGIT did not have pension related assets or liabilities at transition because they have contributed the statutorily required contributions.

### Compensated Absences

The vacation policy of the PRNGIT generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the PRNGIT. Accrued compensated absences of the PRNGIT at June 30, 2014 amounted to approximately $25,034 are presented in the statement of net assets.

### Rental Income

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### Risk Management

The PRNGIT 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.

### Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

*Effective in the Fiscal Year Beginning July 1, 2013*

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The PRNGIT implemented this statement effective July 1, 2013 and has determined that the implementation of this statement had no material impact on its financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62.* This statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62,* Codification of Accounting and *Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The PRNGIT implemented this statement effective July 1, 2013 and has determined that the implementation of this statement had no material impact on its financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Effect of New Governmental Accounting Standards Board (GASB) Pronouncements (Continued)

*Effective in the Fiscal Year Beginning July 1, 2013 (Continued)*

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.* This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The PRNGIT implemented this statement effective July 1, 2013 and has determined that the implementation of this statement had no material impact on its financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The PRNGIT implemented this statement effective July 1, 2013 and has determined that the implementation of this statement had no material impact on its financial statements.

*Effective in Future Fiscal Years*

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. Statement No. 68 is not applicable to the PRNGIT determined that the application of this statement is not expected to have a material impact on its financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 31, 2013. The PRNGIT determined that the application of this statement is not expected to have a material impact on its financial statements, unless the PRNGIT becomes involved in combination or disposal activities.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* This Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The PRNGIT no longer contributes to a defined permision plan; therefore, the PRNGIT is not required to implement this standard.

## 2. CUSTODIAL AND CONCENTRATIONS OF CREDIT RISK IN DEPOSITS

The laws of the Commonwealth of Puerto Rico authorize governmental entities to deposit public funds in revolving and savings accounts, certificates of deposits and other obligations in authorized financial institutions regulated by the Federal Government and the Commonwealth of Puerto Rico, as well as in the Government Development Bank for Puerto Rico. At June 30, 2014, PRNGIT's had its operating cash in uninsured and uncollateralized deposit in the Governmental Development Bank for Puerto Rico (the Bank), amounting to $1,121,136 in the proprietary fund, and $54,634 in the fiduciary fund. The Bank's credit has been significantly degraded; however, the PRNGIT does not foresee significant risks of loss on these deposits during the ensuing fiscal year.

Furthermore, pursuant to the provision of Act No. 91 of March 29, 2004, PRNGIT may invest in different types of securities, as more fully disclosed in Note 5, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

At June 30, 2013 the fiduciary fund also had uninsured and uncollateralized deposits amounting to $6,207,000, in a government federal institution outside of Puerto Rico, which is under the control of the U.S. Department of the Army. The PRNGIT foresees no risks credit of this deposit.

The PRNGIT is also subject to custodial credit risk, which is the risk that in the event of the counter party (a bank or trust) to failure, the PRNGIT's deposit might not be recovered. See Note 5 for further discussion about custodial credit risk.

## 3. MEMBER CONTRIBUTIONS

The PRNGIT Annuities, Life Insurance, and Funeral Insurance Fund receive monthly contributions of $5 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) remit the payroll deduction amounts corresponding to the troops' contributions, less a service fee.

## 4. ACCOUNTS RECEIVABLE

| | Operational Fund | Annuities Fund | Educational Fund | Total |
|---|---|---|---|---|
| Concessionaire | $ 205,710 | $ 281,503 | $ 54,144 | $ 541,357 |
| Rent | 107,455 | 18,595 | - | 126,050 |
| Others | 390,352 | 57,843 | 2,216 | 450,411 |
| | $ 703,517 | $ 357,941 | $ 56,360 | $ 1,117,818 |

## 5. INVESTMENTS

The PRNGIT 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, 2014, the PRNGIT was not in compliance with certain of these requirements, as 99% of all securities held by the PRNGIT were in municipal bonds issued by the Commonwealth of Puerto Rico, or related agencies and instrumentalities, and 73% of the investments are rated below the minimum required.

The PRNGIT maintains an investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net assets as cash and cash equivalents. The fiduciary funds' investments are held and managed separately on behalf of another entity.

### *Investments Summary by Maturity*

The following table summarizes the type and maturities of investments held by the PRNGIT. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may 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, 2014, the summary of the investments held by the PRNGIT and their maturity is as follows:

*Proprietary Funds*

| | Total | 1 to 5 years | 6 to 10 years | Over 10 years |
|---|---|---|---|---|
| PR Commonwealth Government | $ 11,451,705 | $ 11,116,665 | $ 335,040 | $ - |
| PR Elec Pwr Rev | 2,642,860 | 2,400,200 | 242,660 | - |
| PR Pub Blds Auth Rev GTD | 12,918,650 | 1,829,450 | - | 11,089,200 |
| PR Sales Tax Finc Corp | 9,581,730 | 4,217,460 | 5,364,270 | - |
| PR Employee Retirement System | 582,570 | 582,570 | - | - |
| | $ 37,177,515 | $ 20,146,345 | $ 5,941,970 | $ 11,089,200 |

## 5. INVESTMENTS (CONTINUED)

### *Investment 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, 2014, the PRNGIT's credit quality distribution for securities is as follow:

*Proprietary Funds*

| | | Quality Rating | | | |
|---|---|---|---|---|---|
| | Market Value | A+ | AA- | BB to BB+ | Unrated |
| Municipal Bonds (PR) | $ 37,177,515 | $ 6,360,930 | $ 3,220,800 | $ 27,595,785 | $ - |
| Money Market (cash equivalents) | 653,939 | - | - | - | 653,939 |
| Total | $ 37,831,454 | $ 6,360,930 | $ 3,220,800 | $ 27,595,785 | $ 653,939 |

### *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 PRNGIT 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, 2014, Santander Securities, the trust department of Banco Santander de Puerto Rico, is the custodial of all marketable securities, including those of the fiduciary fund. The PRNGIT does not foresee any significant custodial credit risk on these deposits.

## 6. NOTE RECEIVABLE

The term note bears interest at 2% above the prime rate (3.25% at June 30, 2014) and monthly payment by $4,746. Interest and principal payments on the note are due monthly until maturity at June 15, 2016. Certain mandatory prepayments are required upon the occurrence of certain events. The note receivable is collateralized by a mortgage note. As of June 30, 2014, the loan payments are in arrears since July 2013.

Principal contractual maturities on the note receivable are as follows:

| Year | Maturities |
|---|---|
| 2015 | $ 97,923 |
| 2016 | 59,855 |
| | $ 157,778 |

## 7. CAPITAL AND INTANGIBLE ASSETS

***Proprietary Fund***

| | Balance June 30, 2013 | Additions | Impairment of Capital Asset | Balance June 30, 2014 |
|---|---|---|---|---|
| *Capital Assets* | | | | |
| Capital assets non-depreciable: | | | | |
| Land used in operations or leased | $ 6,586,857 | $ - | $ - | $ 6,586,857 |
| Idle land | 12,774,972 | - | ( 11,474,972) | 1,300,000 |
| Construction in progress | - | - | - | - |
| Total | 19,361,829 | - | ( 11,474,972) | 7,886,857 |
| Capital assets depreciable: | | | | |
| Buildings and improvements | 14,520,550 | 1,037,970 | - | 15,558,520 |
| Intangible assets | 2,293,165 | - | - | 2,293,165 |
| Equipments | 1,832,496 | 116,414 | - | 1,948,910 |
| Vehicles | 19,822 | - | - | 19,822 |
| Computers and programs | 353,317 | 74,670 | - | 427,987 |
| Total | 19,019,350 | 1,229,054 | - | 20,248,404 |
| Less accumulated depreciation | ( 6,427,893) | ( 1,050,755) | - | ( 7,478,648) |
| Total | 12,591,457 | 178,299 | - | 12,769,756 |
| Capital assets, net | $ 31,953,286 | $ 178,299 | $( 11,474,972) | $ 20,656,613 |

In 2011, PRNGIT acquired office facilities in Road #1 in San Juan, at a cost of $5,500,000, which was subsequently remodeled at a cost of approximately $4,000,000. The purpose of these facilities was to house the administrative offices of the Puerto Rico National Guard, and those of PRNGIT, which relocation occurred on May 2014. However, during the fiscal year ended June 30, 2014 PRNGIT's and the National Guard's management determined to vacate the building and rent it to another agency of the Government of Puerto Rico. As of June 30, 2014, PRNGIT had already relocated to another owned facility at the Muñiz Air National Guard Base Terminal and the National Guard was still occupying the facilities, but with plans to relocate during the near-term. At the same time, PRNGIT was able to lease the facilities to Emergency and Disaster Management Agency, which entity will also occupy the facilities currently occupied by the National Guard, once vacated.

In 2008, the PRNGIT acquired land, in Santa Isabel, Puerto Rico, with an historical cost and appraised value of $12,774,972. However, after acquisition all plans to construct certain facilities for the PRNG were abandoned. Furthermore, as a result of the downturn in the economy, an appraised made at January 21, 2010, indicated that the property had an estimated current value of $8,100,000. Subsequent, to balance sheet date, the land was appraised by another independent appraiser and estimated the current value of the land to $1,300,000 at September 4, 2014. The PRNGIT determined, based in changes in the manner of use of the Santa Isabel property, that the value was impaired. Accordingly, an impairment loss of $11,474,972 was recognized as an extraordinary item in the Statement of Revenues, Expenses and Changes in Net Position.

## 7. CAPITAL AND INTANGIBLE ASSETS (CONTINUED)

In addition, the PRNGIT's management tested for impairment the facilities located at Road No. 1, San Juan, Puerto Rico and no impairment of the value was identified as of June 30, 2014, based on the estimated discounted cash flow method. However, due to the current economic condition in Puerto Rico, this estimate may change in the future.

*Intangible Assets*

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 year period through September 30, 2054. The following is a summary of these rights:

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

In the near future, the PRNGIT plans to transfer the right of use of the Officer's Club at Camp Santiago, Salinas to the Morale Welfare Recreational Committee (MWR). Since May 2013, the MWR has been administrating the operations of the Officer's Club at Camp Santiago. However, as of the date these financial statements were issued the legal transfer of the assets has not occurred.

## 8. COMMITMENTS AND CONTINGENCIES

The PRNGIT 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 PRNGIT financial statements.

Historically, different managements of the PRNGIT have invaded the corpus of the *Annuity, Life Insurance and Funeral Insurance Fund,* for the purpose of acquiring capital assets, which, under Act 23, is the sole responsibility of the *Capital Improvements, Operation and Maintenance Fund.* During the year ended June 30, 2014, the PRNGIT transferred all capital assets to the later fund; however, no consideration was given. Management has not evaluated the implications of these matters.

## 9. PENSION PLAN

### (a) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3, which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Hybrid Program.

## 9. PENSION PLAN (CONTINUED)

### (a) Defined Contribution Hybrid Program (Continued)

Participants in the defined benefit pension plan who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent is required for the purchase of disability insurance.

PRNGIT is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent. Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

## 9. PENSION PLAN (CONTINUED)

### (b) Defined Benefit Pension Plan

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, was 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 Corporation hired prior to January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits were payable if the participant received a refund of their accumulated contributions.

The Retirement System provided retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depended upon age at retirement and the number of years of creditable service. Benefits vested after 10 years of plan participation. Disability benefits were available to members for occupational and nonoccupational disabilities. However, a member needed to have at least 10 years of service to receive nonoccupational disability benefits.

Members who had attained 55 years of age and had completed at least 25 years of creditable service, or members who had attained 58 years of age and had completed 10 years of creditable service, were entitled to an annual benefit payable monthly for life. The amount of the annuity was 1.5% of the average compensation, as defined, 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 was the annuity less than $200 per month.

Participants who had completed 30 years of creditable service were entitled to receive the Merit Annuity. Participants who had not attained 55 years of age were to receive 65% of the average compensation, as defined; otherwise, they were to receive 75% of the average compensation, as defined.

Commonwealth's legislation required employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The PRNGIT was required to contribute 10.275% of each participant's gross salary. On April 4, 2013, Act 447 was amended to establish the Hybrid Program.

### (c) Defined Contribution Plan

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the Program) to be administered by the Retirement System. All regular employees hired for the first time on between January 1, 2000 and June 30, 2013, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan had the option, up to March 31. 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

## 9. PENSION PLAN (CONTINUED)

### (c) Defined Contribution Plan (Continued)

Act No. 305 required employees to contribute 8.275% of their monthly gross salary to the Program. Employees elected to increase their contribution up to 10% of their monthly gross salary. Employee contributions were credited to individual accounts established under the Program. Participants had three options to invest their contributions to the Program. Investment income was credited to the participant's account semi-annually.

The PRNGIT was required to contribute 10.275% of each participant's gross salary. The Retirement System used those contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in each participant's account was to be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement were to receive a lump-sum payment. In case of death, the balance in each participant's account was being paid in a lump sum to the participant's beneficiaries. Participants had the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, Act. No. 3 was amended to establish the Hybrid Program.

### (d) Contributions and Administrative Information

During the years ended June 30, 2014 and 2013, the PRNGIT contributions to this plan amounted to approximately $14,213 and $15,514, respectively. These amounts represented 100% of the required contribution for the corresponding year. In fiscal year 2014, all contributions were made to the Hybrid Program. In 2013, the individual information for each option is not available since the allocation was performed by the Retirement System itself.

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas Station, San Juan, Puerto Rico 00940.

## 10. FIDUCIARY ACTIVITIES

At June 30, 2014, the PRNGIT maintained as custodian funds as described in the Statement of Assets and Liabilities - Agency Fund 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 administration of these funds was transferred to the Non-Appropriated Funds, Inc. a Nonprofit Corporation, authorized to do business of the Commonwealth of Puerto Rico, but still, under the custody of the PRNGIT. The purpose of the new entity is to support the morale, welfare, and recreation of the constituents, family members, 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 of eleven ex-officio members. The royalties received from sales at the AAFES concessionaire at Camp Santiago in Salinas 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.

## 11. CONCESSION AGREEMENT

The PRNGIT has a contract with Castro Business Enterprise, Inc. (the "Concessionaire") to operate the PRNGIT's military stores up to September 30, 2016. The concessionaire shall provide service to all members of the military forces of Puerto Rico as defined in section 2914 of the PRNGIT's Act of 1991, as amended. Under this agreement, the concessionaire shall pay the PRNGIT a sum equal to twenty-two percentages of the gross sales of alcohol, wine, spirit and tobacco (including cigarettes), seventeen percentages of gross sales of Coors Light, 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 PRNGIT.

## 12. RENTAL REVENUE

The PRNGIT leases, as lessor, commercial spaces located in Muñiz Air National Guard Base, San Juan, San German and Cayey. The most significant lease agreements were the following:

- Office space located in Muñiz Air National Guard Base, totaling $126,000 annually and due on a monthly basis.
- Office space located in San German, totaling $48,000 annually and due on a monthly basis.
- Office space located in San Juan, totaling $644,596 annually, through April 30, 2017; $525,000 through April 30, 2020 and $575,004 through April 30, 2024.

During the year ended June 30, 2014, the ITNGR earned $269,546 in rental revenue from all leases.

Total rental commitments under the operating lease agreements in-force for the next five years and thereafter:

| Year ending June 30, | Amount |
|---|---|
| 2015 | $ 442,581 |
| 2016 | 576,872 |
| 2017 | 658,291 |
| 2018 | 699,000 |
| 2019 | 699,000 |
| Thereafter | 2,825,016 |
| | $ 5,900,760 |

The commitment above does not include any potential contingent income, available through April 30, 2017, which PRNGIT has a contractual right, in the event that certain facilities now occupied by the PRNG are vacated and the same are surrendered to another tenant.

## 13. ADJUSTMENTS TO THE BEGINNING OF THE YEAR

During 2014, the PRNGIT identified various transactions and balances related to the prior year financial statements, as follows:

a. To transfer of capital assets acquired and recorded in the *Annuity, Life Insurance and Funeral Fund* by $29,841,202 to the *Capital Improvement, Operation and Maintenance and Other Purpose Fund* to conform to the purposes of the Fund, as described in Article 3(k) of Act 23 of July 23, 1991. Act 23 provides for the *Capital Improvement, Operating and Maintenance and Other Purposes Fund*, to acquire capital assets and to provide for improvements and maintenance of capital assets.

b. To adjust interfund balances, with a net effect of $4,322,142 as of July 1, 2013, that the PRNGIT's management identified as unilateral transfers with no predefined payment plan, and accordingly, should not be presented as interfund balances.

## 14. CHANGE IN FINANCIAL STATEMENT PRESENTATION

During prior year the PRNGIT included the *Armory Library of the National Guard of Puerto Rico Museum Fund* in the Statement of Net Position, Statement of Revenue, Expenses and Changes in Net position and Statement of Cash Flow. This fund was used to account for the operation of a military antiques collection on display at the National Guard of Puerto Rico Museum. The PRNGIT did not have any financial benefit or burden relationship and operational responsabilities for the activities of this fund. Accordingly, this fund does not meet the financial accountability criteria to be included in the PRNGIT's financial statements and were excluded during the year ended June 30, 2014, to improve the financial statement presentation.

## 15. SUBSEQUENT EVENTS AND MANAGEMENT REVIEW

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes.

The PRNGIT's Management evaluated the activity of the PRNGIT through the date the financial statements were available to be issued, December 17, 2014, and determined that there are no events occurring in this period that required disclosure in adjustment to the accompanying financial statements, except as described in Note 7.

# REQUIRED SUPPLEMENTARY INFORMATION

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2014**

**General Statistical Information**

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

**Source: Puerto Rico National Guard Institutional Trust Fund.**

See o*ther information* paragraph on the accompanying independent auditor's report.

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 | % |
|---|---|---|---|---|---|---|---|---|
| 13-14 | 944 | 61% | 481 | 31% | 110 | 71.66 | 1535 | (44.6%) |
| 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)% |
| 12-13 | 1,773 | 63.98% | 739 | 26.67% | 259 | 9.35% | 2,771 | 57.71% |
| 13-14 | 944 | 61% | 481 | 31% | 110 | 71.66 | 1535 | (44.6%) |

**Source: Puerto Rico National Guard Institutional Trust Fund**

See o*ther information* paragraph on the accompanying independent auditor's report.

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

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2014**

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

| 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 or Other | 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% |
| 12-13 | 2,771 | 151 | 5.45% | 61 | 2.20% | 2,112 | 76.22% | 407 | 14.69% | 40 | 1.44% |
| 13-14 | 1,535 | 69 | 4.4% | 48 | 3.12% | 1221 | 79.54% | 168 | 10.09% | 29 | 1.88% |

**Source: Puerto Rico National Guard Institutional Trust Fund**

See *other information* paragraph on the accompanying independent auditor's report.

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

**REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2014**

Total of National Guard's 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% |
| 12-13 | 6 | 4 | 66% | 2 | 34% |
| 13-14 | 4 | 4 | 66% | 0 | 34% |

**Source: Puerto Rico National Guard Institutional Trust Fund.**

See o*ther information* paragraph on the accompanying independent auditor's report.

Total of National Guard's 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% |
| 12-13 | 889 | -2% |
| 13-14 | 907 | 2% |

**Source: Puerto Rico National Guard Institutional Trust Fund.**

See o*ther information* paragraph on the accompanying independent auditor's report.