August 21, 2020

To the Board of Directors of
Puerto Rico National Guard Institutional Trust
Base Aérea Muñiz Edif. #27
Carolina, P.R. 00972

Dear Sirs:

We have audited the financial statements of Puerto Rico National Guard Institutional Trust (FIGNA by its Spanish acronym), a component unit of the Commonwealth of Puerto Rico, for the year ended June 30, 2018, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 1, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have expressed a modified opinion on the financial statements as of and for the year ended June 30, 2018 based on our audit.

As part of our independent auditor's report, we have included the Basis for our Qualified Opinion. The basis responds to the fact that FIGNA participates in the multi-employer plan of the Commonwealth of Puerto Rico Employees Retirement System (the Pension Plan), which is under the scope of Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68.* These statements require entities that participate in a multi-employer plan to recognize their proportionate share of the employer's unfunded pension plan liability and related pension balances in their stand-alone financial statements. However, FIGNA's financial statements as of and for the year ended June 30, 2018 do not include the Corporation's proportionate share of the Pension Plan's net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and other related balances, including termination benefits, since the actuarial information report for the Pension Plan as of and for the year ended June 30, 2018 was not available as of the date of the financial statements were available to be issued. Accordingly, the Pension Plan balances, including termination benefits, and related information included in the accompanying statement of net position as of June 30, 2018 remained unchanged as of June 30, 2017, the date of the most recent actuarial report available.

Additionally, we have included an Emphasis of Matter with regards to the assumption that FIGNA will continue as a going concern. FIGNA is a component unit of the Commonwealth, which along with most of its public corporations, including GDB, are in the midst of a profound fiscal crisis. Despite various measures undertaken in recent years to stimulate economic growth, reduce government expenses and increase revenues, the Commonwealth has been unable to spur economic growth and eliminate the recurrent excess of expenditures over revenues.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law. This Act establishes a Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") to assist the Government of Puerto Rico, including its instrumentalities, in managing its public finances and for other purposes. On May 3, 2017, the Oversight Board, on behalf of the Commonwealth of Puerto Rico, filed a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. Title III under PROMESA provides for similar procedures to Chapter 9 and 11 of the Federal Bankruptcy Code seeking an orderly restructuring of the local public finances which includes a debt adjustment process under the supervision of the court.

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by FIGNA are described in Note 2 to each of the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018. The following accounting pronouncements have been issued but not yet effective or adopted:

- GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions.

  As discussed in Note 7, pension expense and related balances as of and for the year ended June 30, 2018 are pending to be adjusted, since the actuarial report for the Pension Plan as of such date was not available as of the date the financial statements were available to be issued (see Note 12). Accordingly, the basic financial statements do not include the effects of the adoption of GASB 73 as of and for the year ended June 30, 2018.

We noted no transactions entered by FIGNA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Such estimates include, but are not limited to, the allowance for doubtful accounts, useful lives for depreciation and amortization and fair value of investments.

We evaluated the key facts and assumptions used to develop such estimates in determining if they were reasonable in relation to the financial statements taken as a whole. We believe that these estimates were reasonable under the circumstances thereto.

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

Financial Statements Highlights

During the year ended June 30, 2018, no significant unusual transaction was noted during the audit. Some highlights during the year were the following:

Statement of Net Position

1. Cash and cash equivalents decreased by approximately $8.5 million or 60% (from $14.2 in 2017 to $5.6 million in 2018), mostly due to the following
    a. receipts from concessionaire and rent amounting to $5.2 million and $854 thousand respectively, plus
    b. interest collected of $901 thousand, less
    c. payments to members and to suppliers of approximately $2.0 million and $1.8 million, less
    d. opening of a $12 million certificate of deposit included as part of investments.

2. Capital assets decreased by approximately $1.6 million or 9% due to the depreciation expense.

3. Investments increased by approximately $11 million mostly due to the certificate of deposit of $12 million mentioned above, less change in fair value of $933 thousand.

Statement of Changes in Net Position

4. Total operating revenues increased by approximately $1.1 million or 21% due to increase of $769 thousand in concessionaire royalties and $452k of other revenues. During the year ended June 30, 2018, FIGNA entered into a new agreement with the concessionaire where the terms of royalties changed from a percentage of sales to a fixed monthly amount of $450,000. However, during the months of September, October, and November 2017, FIGNA adjusted rent to the previous arrangement to compensate for decrease in sales due to the passage of Hurricane María and the negative effect on the business activities.

    Additionally, increase in other revenues was due to approximately $411 thousand of insurance proceeds related to Hurricane María.

5. Decrease in operating expenses of $.5 million is mainly due to stricter adherence to budget during 2018.
6. Decrease in non-operating revenues of $1.2 million is mainly due to a change in fair value (decrease) of investments amounting to approximately $.9 million in 2018.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 21, 2020.

Other Audit Findings or Issues

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

Other Matters

The following matters were identified during the audit for the year ended June 30, 2018 and were brought to the attention of management:

1. While auditing investments, we observed that 99% ($15.7 million out of a total 15.9 million) were comprised of securities from the Commonwealth of Puerto Rico, which additionally maintained market rates of CA/CC, thus resulting in noncompliance with FIGNA's investment policy at June 30, 2018.

2. The Department of the Treasury of the Commonwealth of Puerto Rico waived the requirement for re-issuance of FIGNA's 2018 financial statements and requested that the GASB 68 pension retirement adjustment to be considered for 2019 opening balances.

This information is intended solely for the use of Board of Directors of FIGNA and is not intended to be, and should not be, used by anyone other than these specified parties.

Cordially,

FPV & Galindez

FPV & Galíndez, LLC