Galíndez LLC

August 14, 2023

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

We have audited the basic financial statements of the Puerto Rico National Guard Institutional Trust Fund (FIGNA) as of and for the year ended June 30, 2022, and have issued our report thereon dated August 14, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated September 1, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

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

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by FIGNA is included in Note 2 to the financial statements. Except for GASB 87 there have been no initial adoption of accounting policies and no changes in significant accounting policies or their application during 2022.

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements were:

Depreciation and amortization expense

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

Impairment of long-lived assets

Long-lived assets, consisting of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management estimates that no impairment charge was deemed necessary for the year ended June 30, 2022. We evaluated the key factors and assumptions used to develop impairment of long-lived assets and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Highlights

Certificate of Deposit

FIGNA's current assets increased by $13.8 million on June 30, 2022, from June 30, 2021. Such increase was mainly due to the reclassification of $12 million in certificates of deposits from non-current to current since their maturity dates occur during FY 2023.

GASB 87

The implementation of this GASB resulted in the recording of a lease receivable of $1,647,804 and a deferred inflow from lease agreements of $1,674,159.

Loss on Investments

For the fiscal year 2022 the investment reflected an unrealized loss of $1,851,614.

Administrative expenses

Increase an administrative expense is due to the bad debt expense up $525,000 related to the condonation of concession fees during the pandemic.

Financial Statement Disclosures

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

CONCESSION AGREEMENT

Effective July 1, 2017, FIGNA entered in a contract with Castro Business Enterprise, Inc. to operate FIGNA's military stores up to June 30, 2021. On June 30, 2021, the contract was extended for an additional year. As required by law, FIGNA embarked on a Request for Proposal process for the selection of a concessionaire. In July 2022 a new concessionaire was selected. Effective September 9, 2022, FIGNA entered in a contract with Quality Transport & Distribution, LLC ("the concessionaire") to operate FIGNA's military stores up to September 8, 2026. The concessionaire shall provide service to all members of the military forces of Puerto Rico as defined in section 2914 of FIGNA's Act of 1991, as amended. Under this agreement, the concessionaire makes a monthly payment amounting to $500,000 and is responsible for capital improvements to the stores and for the payment of store expenses such as utilities, security, and maintenance among others. The rent commencement date in the contract is November 15, 2022.

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New Accounting Standard Adopted GASB 87

Effective July 1, 2021, FIGNA changed its method of accounting for leases with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources.

Investments

FIGNA is authorized to invest a percentage of total assets of the proprietary fund, with certain limitations, in the following types of investments: not less than 20% and no more than 80% in Treasury obligation and agencies obligations of United States and Puerto Rico. No more than 30% in mortgage securities and no more than 15% in equity securities and asset-backed securities.

The following table summarizes the type and maturities of investments held by FIGNA as of June 30, 2022. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within one year	After one to five years	After five to ten years	After ten years	**Total**
Municipal Bonds	$ -	$ 1,863,484	$ 1,096,566	$ 1,642,896	$ 4,602,946
Corporate Bonds	-	7,206,783	1,854,956	39,399	9,101,138
US Treasury Obligations	-	997,500	-	-	997,500
Variable annuities	964,894	2,984,027	-	-	3,948,921
Certificates of Deposit	12,000,015	-	-	-	12,000,015
Total debt securities and certificates of deposits	$ 12,964,909	$ 13,051,794	$ 2,951,522	$ 1,682,295	
Equity securities					10,287,810
Total investments					$ 40,938,330

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At June 30, 2022, fair value of investments based on the hierarchy of inputs are determined as follows:

	Level 1	Level 2	Level 3	Total
Municipal Bonds	$ -	$ 4,602,946	$ -	$ 4,602,946
Corporate Bonds	-	9,101,138	-	9,101,138
Variable annuities	-	3,948,921	-	3,948,921
US Treasury Obligations	997,500	-	-	997,500
Equity securities	10,287,810	-	-	10,287,810
Total	$ 11,285,310	$ 17,653,005	$ -	$ 28,938,315

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 those changes could materially affect the amounts reported in the financial statements. The unrealized loss for the fiscal year 21-22 was $1,851,614.

Subsequent events

Subsequent to June 30, 2022, FIGNA was subject to a compliance audit by a Commonwealth of Puerto Rico regulator. As a result of such compliance audit, certain deficiencies on internal control over compliance were noted. FIGNA is currently in the process of implementing the corresponding corrective action plans.

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

Significant Unusual Transactions

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

Identified or Suspected Fraud

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

Significant Difficulties Encountered during the Audit

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

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Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Disagreements with Management

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

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

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

Representations Requested from Management

We have requested certain representations from management that were included in the management representation letter dated August 14, 2023

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

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

Cordially,

Galíndez LLC

GALÍNDEZ LLC
San Juan, Puerto Rico