PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2017

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS
JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board of the Commonwealth of Puerto Rico
Puerto Rico System of Annuities and Pensions for Teachers
(A Pension Trust Fund of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico System of Annuities and Pensions for Teachers (the "System") (A Pension Trust Fund of the Commonwealth of Puerto Rico), which comprise the statement of fiduciary net position as of June 30, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the basic financial statements, which collectively comprise the System's basic financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Puerto Rico System of Annuities and Pensions for Teachers as of June 30, 2017, and the changes in its fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Insolvency of the System and Subsequent Legislation Affecting the System's Operations

As discussed in Notes 1, 6, and 15 to the basic financial statements, on August 23, 2017, the Commonwealth approved legislation substantially modifying most of the System's activities and programs, and effectively restructuring the System's operations. The System's Board of Trustees was replaced with a new Retirement Board, assets are being liquidated, programs and activities are being terminated or outsourced, and pension payments will continue to be, under different parameters, paid directly by the Commonwealth. The accompanying financial statements does not include any adjustments that might result from the enactment of this legislation.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 17 and the schedules included under the Required Supplementary Information on pages 56 through 62, 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 ("GASB"), 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.

BDO Puerto Rico, P.S.C.

San Juan, Puerto Rico
May 18, 2020

Certified Public Accountants
(of Puerto Rico)
Lic. No. 53 Exp. December 1, 2021
Stamp No. E399075 of P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017

Introduction

The following management's discussion and analysis ("MD&A") of the financial performance of the Puerto Rico System of Annuities and Pensions for Teachers (the "System") provides an overview of its activities for the fiscal year ended June 30, 2017. Its purpose is to provide insight and additional detail into the information presented in the basic financial statements, notes to the basic financial statements, and required supplementary information. This MD&A is intended to be read in conjunction with the System's financial statements.

The System is a trust created in 1951 by the Legislature of the Commonwealth of Puerto Rico (the "Commonwealth"). The following description refers to the System's activities before the approval of Act No. 106 of 2017, also known as the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants ("Act 106-2017"), on August 23, 2017, disclosed in Note 15. The purpose of the System is to provide pension and other benefits mainly to retired teachers of the Puerto Rico Department of Education (the "Department of Education"), an agency of the Commonwealth, and the employees of the System. On December 24, 2013, the Commonwealth enacted Act 160 (Act No. 160-2013) as new legislation for the System, which superseded Act No. 91 of March 29, 2004 (Act No. 91-2004) and was modified by the Puerto Rico Supreme Court on April 11, 2014. As a result of the Supreme Court's decision, the System administers two benefit structures: (i) a defined benefit plan for active members hired on or before July 31, 2014, and (ii) a hybrid plan for participants hired on or after August 1, 2014. The System is a single-employer pension plan, as defined by GASB Statement No. 67, where a primary government and its component units are considered to be one employer. The System also administers postemployment healthcare benefits provided by the Commonwealth to retired teachers of the Department of Education and retired employees of the System. The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements.

As discussed in Note 15, on August 23, 2017, the Commonwealth approved Act 106-2017 substantially modifying most of the System's activities and programs, and effectively is diminishing the System's operations. Through Act 106-2017, the governing board of the System under Act 160-2013 (the "Board of Trustees") was replaced with a single Retirement Board of the Commonwealth of Puerto Rico (the "Retirement Board"), assets are being liquidated, programs and activities are being terminated or suspended, and pension payments will continue to be, under different parameter, paid directly by the Commonwealth. The financial statements do not include any adjustments that might result from the enactment of this legislation.

Overview of the Basic Financial Statements

The MD&A is intended to serve as an introduction to the System's basic financial statements, which are prepared in accordance with Governmental Accounting Standards Board ("GASB") pronouncements and comprise the following: 1) Statement of Fiduciary Net Position, 2) Statement of Changes in Fiduciary Net Position, and 3) Notes to Basic Financial Statements. Required supplementary information is also presented to supplement the basic financial statements.

- Statement of Fiduciary Net Position - presents the financial position of the System at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the System presently controls (assets), consumption of net assets by the System that is applicable to a future reporting period (deferred outflow of resources), presents obligations to sacrifice resources that the System has little or no discretion to avoid (liabilities), and acquisition of net assets by the System that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.

- Statement of Changes in Fiduciary Net Position - presents the results of activities during the fiscal year. All changes affecting the assets/deferred outflow of resources and liabilities/deferred inflow of resources of the System are reflected on an accrual basis of when the activity occurred, regardless of the timing of the related cash flows. Changes in the fair value of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

- Notes to the Basic Financial Statements - provide additional information that is essential for an understanding of the data provided in the financial statements. The notes present information about the System's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

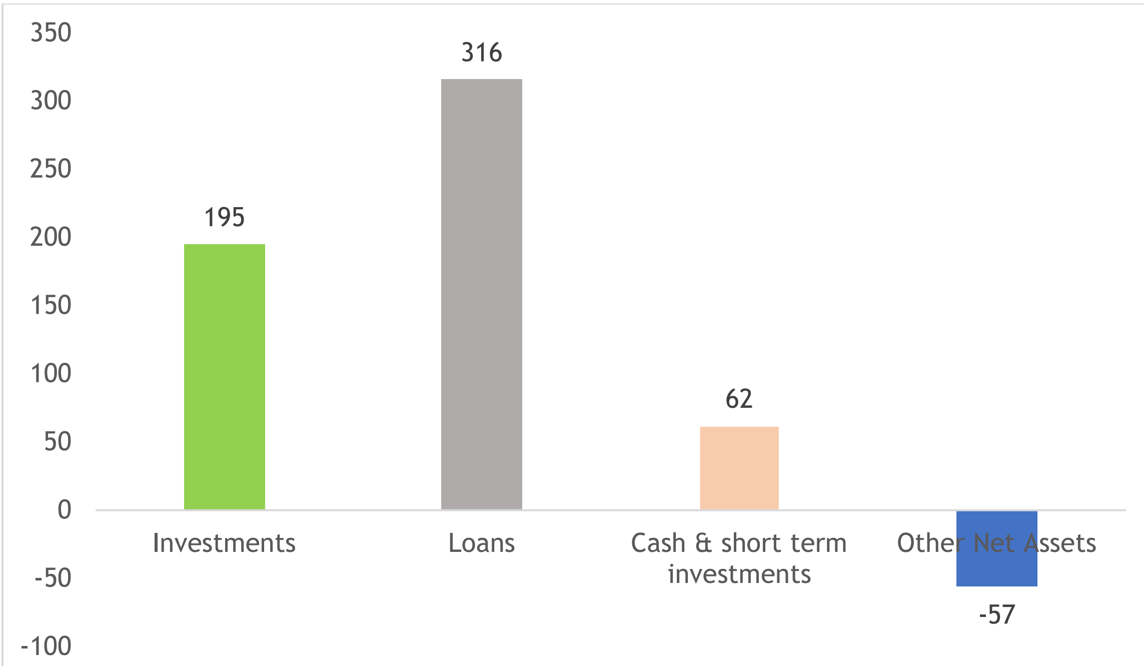
- Required Supplementary Information - as required by GASB, is presented after the notes to the basic financial statements. It consists of information pertaining to the System's actuarial methods and assumptions; and provides data on changes in the employer's net pension liability and related ratios, the pension benefits employer's contributions, and the pension benefits' investment return, as well as data on the System's other postemployment benefits.

Financial Highlights

During fiscal year 2017, the System's fiduciary net position decreased by approximately $378 million, from $895 million as June 30, 2016 to $517 million as of June 30, 2017. The decrease was mainly attributable to the sale of investments to cover cash shortfalls for purposes of paying the System's pension benefits, offset by a net appreciation in the fair value of investments. Net position restricted for pensions of $517 million as of June 30, 2017 consisted of the following:

- ❖ $195 million in investment
- ❖ $316 million in loans to plan members
- ❖ $62 million in cash and cash equivalents and collateral from securities lending transactions ("Cash and short-term investments")
- ❖ $57 million in liabilities, net of accounts receivable, capital assets and other assets

The total plan's fiduciary net position is presented in the following chart (in millions):



- The fair value of the System's investments (excluding loans to participants) at June 30, 2017 was approximately $195 million, as compared to $514 million at June 30, 2016.

- Contributions for the fiscal year ended June 30, 2017 were approximately $366 million, as compared to $315 million for the fiscal year ended June 30, 2016.

- Net investment income for the fiscal year ended June 30, 2017 was approximately $36 million compared to $45 million for the fiscal year ended June 30, 2016.

- Benefits paid to participants, including refunds of contributions, for the fiscal year ended June 30, 2017 was approximately $768 million, as compared to $751 million for the fiscal year ended June 30, 2016.

- Administrative expenses for the fiscal year ended June 30, 2017 was approximately $15 million, as compared to $23 million for the fiscal year ended June 30, 2016.

- The System's fiduciary net position as a percentage of the total pension liability (the funded ratio) at June 30, 2017 was 3%, as compared to 5% at June 30, 2016.

- No custodial credit risk loss for the fiscal year ended June 30, 2017 was recorded, as compared to $3 million at June 30, 2016 (See Note 7).

- The medical insurance plan contribution, which constitutes the other postemployment healthcare benefits, is financed since inception decades ago by the Commonwealth on a pay-as-you-go basis and consequently, always has being unfunded. Contributions and related expenses for the fiscal year ended June 30, 2017 were approximately $36 million, as compared to $37 million at June 30, 2016.

The following schedules present comparative summary of the System's net position and changes in net position for fiscal years 2017 and 2016:

Comparative Summary of Fiduciary Net Position - Pension Benefits (In thousands)

	2017	2016	Amount of change	Percentage change
Assets:				
Cash and cash equivalents and collateral from securities lending transactions	$ 62,387	$ 12,114	$ 50,273	415%
Accounts receivable	3,242	14,549	(11,307)	-78%
Investments and member loans	511,140	880,790	(369,650)	-42%
Capital assets, net	15,021	15,942	(921)	-6%
Other assets	418	393	25	6%
Total assets	592,208	923,788	(331,580)	-36%
Liabilities:				
Overdraft in cash with fiscal agent	56,443	4,824	51,619	0%
Accounts payable and accrued expenses	11,644	15,495	(3,851)	-25%
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members and liability for investment securities purchased	6,121	6,800	(679)	-10%
Securities lending obligations and other liabilities	1,034	1,214	(180)	-15%
Total liabilities	75,242	28,333	46,909	166%
Net position restricted for pensions	$ 516,966	$ 895,455	$ (378,489)	-42%

Comparative Summary of Fiduciary Net Position Analysis – Pension Benefits

The increase in cash and cash equivalents and collateral from securities lending transactions is due to a determination of the Board of Trustees to increase the liquidity of System's assets by selling all equities by the end of the fiscal year ended June 30, 2017. Securities lending activities were terminated during the first quarter of fiscal year 2017. The decrease in investments and loans is primarily attributable to the sale of investments to cover the cash shortfalls for purposes of paying the System's pension benefits, offset by a net appreciation in fair value of investments. The decrease in accounts receivable is mainly attributable by the receipt during fiscal year 2017 of approximately $12 million owed by the Department of Education. The overdraft increase in cash with the fiscal agent is due to a portion of the Teacher's Justice Contribution appropriated in the Commonwealth's budget for fiscal year 2017 and other receivables from Government Agencies amounting to $41 million that, due to the approval of Act 106-2017, the System considers improbable to realized. The decrease in accounts payable and accrued expenses is primarily related to decrease in net payments of the voluntary termination benefits liability for the employees of the System covered by Act. No. 70-2010 and a decrease in the investment consultants' payables at the end of the fiscal year. The increase in escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members and liability for investments purchased mainly corresponds to a reduction in liabilities pertaining to investments purchased due to significant reduction of investments in separate accounts. The decrease in securities lending obligations and other liabilities is mainly due to the termination of the securities lending activity during the fiscal year ended June 30, 2017.

Comparative Summary of Changes in Fiduciary Net Position – Pension Benefits (In thousands)

	2017	2016	Amount of change	Percentage change
Additions:				
Contributions	$ 366,163	$ 315,085	$ 51,078	16%
Net investment income	36,489	45,060	(8,571)	-19%
Other income	1,925	1,350	575	43%
Total additions	404,577	361,495	43,082	12%
Deductions:				
Benefits paid to participants, including refunds of contributions	768,279	751,245	17,034	2%
Custodial credit risk loss	-	3,308	(3,308)	-100%
General and administrative expenses	14,787	22,568	(7,781)	-34%
Total operating deductions	783,066	777,121	5,945	1%
Net decrease in net position	(378,489)	(415,626)	37,137	-9%
Net position restricted for pensions:				
Beginning of year	895,455	1,311,081	(415,626)	-32%
End of year	$ 516,966	$ 895,455	$ (378,489)	-42%

Comparative Summary of Changes in Fiduciary Net Position Analysis – Pension Benefits

During fiscal year 2017 contributions increased due to an increase in employer's and special laws contributions. The reduction in net investment income that resulted in fiscal year 2017 is mainly attributable to the sale of investments to cover cash shortfalls for purposes of paying the System's pension benefits, offset by a net appreciation in fair value of investments due to market conditions. The increase in benefits paid to participants is primarily due to an increase in annuities benefits paid as a result of an increase in the number of retirees from prior fiscal year. During fiscal year 2017, the System received $63 million of the $100 million Uniform Additional Contribution appropriated in the Commonwealth's fiscal year 2017 budget, and approximately $37 million was outstanding at the end of the fiscal year. By the end of fiscal year 2017, the System charged approximately $4 million for employer's contribution to the Department of Education in accordance with provisions of the Act 160-2013 regarding pensioners retired before of the age of 55 years of age, but this amount was not paid and remained outstanding at the end of the fiscal year. Due to the approval of Act 106-2017 and the fiscal condition of the Commonwealth, the System reserved approximately $41 million of accounts receivables with the Commonwealth and adjusted the contributions income by the same amount. General and administrative expenses reduction is mainly attributed to an adjustment of approximately $3 million in the Act 70-2010 accrual for the elimination of future employer's contribution in accordance with Act 106-2017 and a reduction of payroll and other administrative expenses.

Other Postemployment Healthcare Benefits

Other postemployment healthcare benefits paid during the fiscal year 2017 amounted to $36 million, compared to $37 million in fiscal year 2016. Decrease is related to the freeze of OPHB benefits to new retirees since August 1, 2014 as stated by Act 160-2013.

Consideration of Custodial Credit Risk for Deposits at Government Development Bank of Puerto Rico (GDB)

The Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having sufficient liquid financial resources to meet their obligations when they come due.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due.

Pursuant to Act No. 21 of 2016 (the "Moratorium Act"), in April 2016, the Governor ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures. Because of the Commonwealth's non-payment of the appropriation to GDB and GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB has been in default of its debt obligations since May 1, 2016. On March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under a Qualifying Modification pursuant to Title VI of PROMESA, which became effective on November 29, 2018.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to GDB's ability to continue as a going concern.

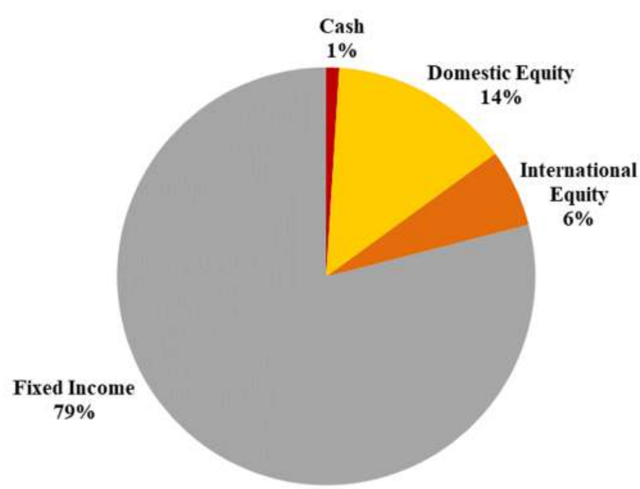
As a result, a custodial credit risk loss on deposits held with GDB of $3.3 million was recognized in the System's basic financial statements for the fiscal year ended June 30, 2016. No amount was reported as a custodial credit risk loss for the fiscal year ended June 30, 2017.

Financial Analysis of the System

Prior to August 23, 2017, the System provided retirement benefits mainly to teachers within the public education system of the Commonwealth. The System's fiduciary net position restricted for pensions at June 30, 2017, was approximately $517 million, a decrease of approximately $378 million from approximately $895 million at June 30, 2016. Additions to the System's net position restricted for pension include employer and member contributions, as well as net investment income. For fiscal year 2017, employer basic benefits contributions increased by approximately $2 million, from approximately $149 million during fiscal year 2016 to approximately $151 million during fiscal year 2017. Also, employer special benefits contributions increased by approximately $53 million, from approximately $103 million during fiscal year 2016 to approximately $156 million during fiscal year 2017. However, member contributions decreased by approximately $5 million, from approximately $100 million during fiscal year 2016 to approximately $95 million during fiscal year 2017. The System realized a net appreciation in the fair value of investments of approximately $10 million for fiscal year 2017 compared to $2 million for fiscal year 2016.

Investment Portfolio and Capital Markets Overview

The System's asset allocation generated a return of 5.5% on a time-weighted return basis, for the fiscal year ended June 30, 2017. The target asset allocation is as follows:



Given the imminent depletion of the System's liquid investment assets expected for fiscal year 2018, the System's Board of Trustees approved in May 2017 a significant change in the System's asset allocation. The new asset allocation of liquid assets will only contemplate Cash and Fixed Income, 21% and 79% respectively. The transition of the asset allocation occurred at the end of Fiscal Year 2017. On July 1, 2017 the House of Representatives Joint Resolution No. 188-2017 was in effect. Said Resolution instructed the liquidation of all TRS assets and the transfer of all resulting funds to a Special Account at the Treasury Department for the future payment of pensions. By the end of July 2017, the System liquidated all its positions in fixed income and transferred $200 million to the Treasury Department for the payment of pensions as instructed by Joint Resolution 188.

Fiscal year 2017 was led by strong performance across equity markets, specifically, non-U.S. equity markets as investors focused on central bank activity and election results in the U.S. and across Europe. The Federal Reserve's decision to raise rates three times during the fiscal year (in December, March, and June), along with decreasing inflation expectations left fixed income markets muted. Non-U.S. equity markets outpaced domestic equity markets in three of the four quarters with U.S. equity markets only outpacing foreign markets after the U.S. election results in November 2016, as the new administration's anticipated reflation policies boosted returns. The momentum triggered by the prospects of U.S. reflationary policies that carried global equity markets higher in late 2016 and early 2017 eventually slowed and was ultimately replaced by strong corporate and economic fundamentals.

International equity markets fared better than domestic markets and returned 20.5% as measured by the MSCI AC World ex USA Index during fiscal year 2017. Emerging equities markets performed the strongest during the period and returned 23.7% as measured by the MSCI Emerging Markets Index. Domestic equities slightly trailed international markets and returned 18.5% as represented by the Dow Jones U.S. Total Stock Market Index. Fixed income markets experienced negative returns given the risk-on environment as the Bloomberg Barclays Aggregate Bond Index returned negative 0.3%. The Bloomberg Barclays Intermediate Government/Credit Index modestly outperformed the broad market and returned negative 0.2% during the period.

Industry Indices Performance Overview

Indices	FY 2016-17	First quarter FY2017	Second quarter FY2017	Third quarter FY2017	Fourth quarter FY2017
Barclays AGGREGATE Bond Index	-0.2%	0.2%	-2.1%	0.8%	0.9%
Barclays Intermediate Gov't. Credit	-0.3%	0.5%	-3.0%	0.8%	1.4%
Dow Jones U.S. Total Stock Market Index	18.5%	4.4%	4.1%	5.8%	3.0%
MSCI ACW ex-U.S.	20.5%	6.9%	-1.3%	7.9%	5.8%
MSCI EAFE	20.3%	6.4%	-0.7%	7.2%	6.1%
MSCI Emerging Markets	23.7%	9.0%	-4.2%	11.4%	6.3%
Russell 1000 Large Growth	20.4%	4.6%	1.0%	8.9%	4.7%
Russell 1000 Large Value	15.5%	3.5%	6.7%	3.3%	1.3%
Russell 3000	24.4%	9.2%	360.0%	5.3%	4.4%
Russell 2000	24.6%	9.0%	8.8%	2.5%	2.5%
Russell 2000 Value Index	24.9%	8.9%	14.1%	-0.1%	0.7%
Russell 3000 Index	18.5%	4.4%	4.2%	5.7%	3.0%
S&P 500	17.9%	3.9%	3.8%	6.1%	3.1%

Total System's Investment Portfolio Performance

Money-weighted and time-weighted rates of return are two methods of measuring the performance of an investment portfolio. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The money-weighted rate of return incorporates the size and timing of cash flows and is calculated by finding the rate of return that will set the present values of all cash flows and terminal values equal to the value of the initial investment. The time-weighted rate of return is a method of calculating period-by-period returns that negates the effects of external cash flows. The time-weighted rate of return is a measure of the compound rate of growth in a portfolio. Given that the time-weighted method is not sensitive to contributions or withdrawals, it is used to compare the returns of investment managers. When calculating time-weighted rate of return, the effect of varying cash inflows is eliminated by assuming a single investment at the beginning of a period and measuring the growth or loss of market value to the end of that period.

The System's asset allocation generated a return of 5.5% based on a time-weighted return method calculation during fiscal year 2017, outperforming its policy benchmark by 2.1 percentage points. The annual money-weighted rate of return was 5.4%. The System's total investment portfolio (including member loans as of June 30, 2017) totaled $559 million, composed of $511 million in total investments and member loans, and $34 million included in money market funds and $14,000 net of accrued interest and dividend receivable, receivable from investments sold and payable for investments purchased.

U.S. Equity Overview for the Fiscal Year 2017

U.S. equity markets as measured by the Dow Jones U.S. Total Stock Market Index gained 18.5% during fiscal year 2017. Most sectors posted positive returns during the period with the exception of the energy, healthcare, and financial sectors. From a capitalization basis, large-cap stocks were the best performers during the period, followed by mid and small-cap stocks. On a style basis, growth stocks outpaced value among large- and mid-cap stocks while value outperformed growth within small capitalizations.

On June 23, 2017, the System fully redeemed approximately $33 million from SSgA Russell 3000 Index in order to meet cash needs. The SSgA Russell 3000 Index was terminated on June 20, 2017 and returned 18.9% from July 1, 2016 to June 20, 2017. Its benchmark, the Russell 3000 Index, returned 18.9% during the same period. Approximately $71 million was redeemed from the domestic equity component during fiscal year 2017 in order to meet the System's cash needs.

International Equity Overview for the Fiscal Year 2017

International equities, as measured by the MSCI ACW ex-U.S. Index, returned 20.5%. Developed international equities returned 20.3% as measured by the MSCI EAFE Index. The Europe ex-U.K. was the best performing region during the period followed by Japan. Emerging market equities posted the strongest results as represented by the MSCI Emerging Markets Index returned 23.7%.

On June 27, 2017, the System fully redeemed approximately $3.5 million from SSGA ACW ex-U.S. Index in order to meet cash needs. Baillie Gifford sold all assets on June 22, 2017 with proceeds settling through June 27, 2017, on which date the manager agreement formally ended and approximately $10.6 million of cash was held in the Baillie Gifford account. The SSGA ACW ex-U.S. Index was terminated on June 21, 2017 and returned 20.1% from July 1, 2016 to June 21, 2017. The MSCI AC World ex USA Index returned 20.0% during the same period. Baillie Gifford's manager agreement formally ended on June 27th and returned 20.0% from July 1, 2016 to June 27, 2017. The MSCI AC World ex USA Index returned 20.9% during the same period. Approximately $16 million was redeemed from the international equity component during fiscal year 2017 in order to meet the cash needs of the System.

U.S. Fixed Income Overview for the Fiscal Year 2017

The broad U.S. fixed income market, as measured by the Barclays Aggregate Bond Index, returned negative 0.3% during the period. The Barclays Intermediate Government/Credit Index, the System's benchmark for its fixed income portfolio, modestly outperformed the broader U.S. fixed income market and returned negative 0.2%. Corporate bonds outperformed government bonds driven by lower government bond yields and narrowing credit spreads. Longer duration bonds underperformed shorter duration bonds, while lower quality bonds outpaced those of higher quality.

The System's fixed income component returned negative 0.9% during fiscal year 2017 and underperformed its benchmark by 0.1 percentage point. At the end of the fiscal year, fixed income assets totaled $191.9 million, representing approximately 35.0% of the System's total assets including loans. Approximately $157 million was redeemed from the fixed income component during fiscal year 2017 in order to meet the cash needs of the System.

Other Investments and Transactions

As of June 30, 2017, the System held $316 million in loans to participants, which represented 58% of the total portfolio's assets, including loans. Loan balances as of June 30, 2017 were $51 million lower than a year ago. During fiscal year 2017, the loan portfolio returned 8.1%.

At the end of fiscal year 2017, the System had some exposure to limited partnerships of private equity investments valued at approximately $3.5 million, which represented 0.6% of the System's total assets including loans.

Capital Assets

The System's investment in capital assets as of June 30, 2017 and 2016 was approximately $15.0 and $15.9 million, respectively, net of accumulated depreciation. Capital assets include building and improvements, construction in progress, and furniture, equipment and software. Building and improvements consist of the facilities in which the System has its operations. Refer to Note 8 of the basic financial statements for further information regarding the System's net capital assets.

Funding Status

The System performs an actuarial valuation of the employer's total pension liability and net pension liability every year. Based on the most recent actuarial valuation performed as of June 30, 2017, the employer's net pension liability amounted to approximately $15,901 million, with a Plan's fiduciary net position as a percentage of the total pension liability (the funded ratio) of 3.15 %. The unfunded liability for postemployment healthcare benefits amounted to approximately $502 and $523 million as of June 30, 2017 and 2016, respectively.

Other Postemployment Benefits (OPEB) Financial Reporting Actuarial Valuation

The Medical Insurance Plan Contribution ("MIPC"), pays up to $100 per month for medical insurance for eligible members. The total OPEB liability for the MPP Program was determined by applying update procedures to the financial reporting actuarial valuation as of July 1, 2016 and rolling forward the total OPEB liability to June 30, 2017. As of June 30, 2017, the net OPEP liability for the MIPC Program is $502 million.

The MIPC Program is funded on a pay-as-you-go basis, with contributions generally being made at the same time and in the same amount as benefit payments. As such, there is not a fiduciary net position to make projected future benefit payments. Given that, the MIPC net pension liability as a percentage of MIPC Net Position is 0%. Since the MIPC Program is unfunded, the rate used to discount the total OPEB liability represents the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The discount rate as of June 30, 2017 for the MIPC Program OPEB liability is 3.58 percent as measured by the Bond Buyer 20-Bond GO Index as of June 30, 2017.

OPEB Funding Actuarial Valuation

The MIPC Program funding actuarial valuation measures the value of DB Program employer contributions that will be available to fund the MIPC Program benefits in future periods. This valuation differs from the actuarial valuation for financial reporting for the MIPC Program, which focuses on the obligation an employer incurs to employees through the employment-exchange process.

The MIPC Program funding is under a Pay as You Go basis. As of July 1, 2017, the MIPC actuarial net obligations amounted to $502 million.

Currently Known Facts

As of June 30, 2017, the System was severely underfunded with a funded ratio (fiduciary net position as a percentage of total pension liability) of 3.15% and a net pension liability of $15.9 billion. The System projects that it will deplete its liquid assets (which totaled approximately $258 million as of June 30, 2017) during the first half of the fiscal year 2018. At that point (assuming no liquidation of illiquid assets, which totaled $334 million as of June 30, 2017 and no additional annual contributions), the System would be operating on a "pay-as-you-go" basis.

The "pay as you go" basis means that the System would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth and other participating employers provide the funding required to meet the "pay as you go" benefits.

On July 26, 2017, the Joint Resolution of the House of Representatives No. 188 was approved by the Puerto Rico's Governor. Said joint resolution established a pay as you go basis retroactive to July 1, 2017 as a new funding basis for System's pensions and related benefits from a General Fund special account at the Treasury Department. The resolution also mandates the liquidation of the System's remaining assets and the transfer of the sale proceeds to the newly created special Account at the Treasury Department.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the Commonwealth agencies, public corporations and municipalities the new implementation procedures to adopt, effective, July 1, 2017, a new PayGo mechanism for the payment of pensions. Subsequently, on August 23, 2017, the Governor signed into law Act 106-2017, which established by law the PayGo system for the payment of accumulated pension benefits and reformed the System so that its active participants would deposit their individual contributions in a new Defined Contribution Plan among other significant changes. For additional information on the PayGo mechanism and Act 106-2017, refer to note 14 to the basic financial statements.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services.

The Commonwealth's very high level of debt and the resulting required allocation of revenues to service debt obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and increased near-term refinancing risk.

These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of the Public Building

Authority and the "Corporación del Fondo de Interés Apremiante", and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The Commonwealth reflects a net position deficit/fund balance deficit of approximately $67 billion as of June 30, 2015. The Commonwealth's General Fund shows a fund balance (deficit) of approximately $2.1 billion as of June 30, 2015. For the fiscal year ended June 30, 2016, the Legislature of Puerto Rico did not appropriate approximately $94 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.

On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the "Moratorium Act") under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of $779 million in debt service on general obligation bonds due July 1, 2016 (net of $352 million of capitalized interest fund and escrow accounts).

On June 30, 2016, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which automatically put into effect a temporary stay of all debt-related litigation against the Commonwealth and its covered instrumentalities, including the System, pursuant to section 405 of PROMESA (the "Title IV Stay"). On May 1, 2017, the Title IV Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a). However, because the System is not a Title III debtor, the stay does not currently apply to the System.

Remediation Plan – Commonwealth

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On May 9, 2019, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the "Board Fiscal Plan") including the following areas:

(i) Revenue Enhancements
(ii) Reducing Health Care Spending
(iii) Reducing Higher Education Spending
(iv) Pension Reform
(iv) Improving Capital Efficiency
(v) Structural Reforms
(vi) Debt Restructuring Process

On February 28, 2020, the Governor submitted a new Commonwealth fiscal plan at the Board's request to replace the Board Fiscal Plan. On March 13, 2020, the Oversight Board requested certain revisions to the Governor's fiscal plan submission, which is currently due on May 3, 2020. According to the Oversight Board's prescribed schedule, the Oversight Board anticipates certifying a new

Commonwealth fiscal plan by May 2020. However, in light of the global COVID-19 pandemic, it is likely that the Board will amend its schedule.

There is no certainty that the Board Fiscal Plan (as revised and amended) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control.

Management's Conclusion on Going Concern

The financial difficulties being experienced by the Commonwealth might have a spillover effect on the operations of the System since this entity may not be able to make required contributions and the System may not have liquid assets to comply with the pension payments by fiscal year 2018. The fiscal and financial difficulties of the Commonwealth and System causes management of the System to conclude that, as of June 30, 2017, there is substantial doubt about the ability of the System to continue as a going concern.

In response to the current and contemplated financial difficulties facing the Commonwealth and the System, Management has implemented the following measures to enhance liquidity, increase revenues, and decrease expenses:

- Taking measures to increase investment assets liquidity;
- Development of alternatives to develop a secondary market for the System loan portfolio;
- Reinforcement of controls to avoid fraud on disability pensions and the continuance of pension payments beyond the retirees' date of death;
- Reducing general and administrative expenses mostly through the decrease payroll expenses through employee attrition due to normal retirement and reduction in professional services contracts.

On August 23, 2017 the Commonwealth enacted Act No. 106-2017 that primarily amends Act No. 160-2013 with respect to the System's governance, funding and benefits for active members of the hybrid program and new hired members. By this act, the System's Board of Trustees was substituted with the Retirement Board of the Government of Puerto Rico (the "Retirement Board"). Pursuant this act the Retirement Board will also be in charge of the governance of the Government Employees Retirement System and the Judiciary Retirement System. The Retirement Board has thirteen members; five ex-officio, four representatives of the active participants and four representatives of the public interest. One of the four active participants must be an active teacher from the Department of Education and one of the representatives of the public interest must be a retired member of the System.

The pay as you go method for the payment of pension benefit from the Commonwealth's General Fund directed under Joint Resolution 188 was reaffirmed as a source of funding for the future pension payments when the systems assets are depleted. The act also terminates the Hybrid Program for the system participants as of June 30, 2017. The members of the Hybrid Program and new System members hired since July 1, 2017 will be enrolled in a new defined contribution program that will be selected by the Retirement Board. The accumulated balance on the accounts of the Hybrid Program will be transferred to the members account at the new defined contribution program. The System's active members of the defined benefit program will retain their benefits as stated under the Act 91 of March 29, 2004.

The Act No. 106-2017 also ordered a suspension of the System's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board discretion, the administration of the system benefits might be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

Request for Information

The financial report is designed to provide a general overview of the System's financial status, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Teachers Retirement System, Capital Center Building, #235 Arterial Hostos Ave., North Tower, 8th floor, Hato Rey, P.R. 00919-1879.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
STATEMENT OF FIDUCIARY NET POSITION (IN THOUSANDS)
JUNE 30, 2017

Assets:		**2017**
Cash and cash equivalents:		
Deposits at Puerto Rico commercial banks	$	28,576
Money market funds		33,811
Total cash and cash equivalents		62,387
Accounts receivable:		
Investments sold		5
Accrued interest and dividends receivable		14
Other, net		3,223
Total accounts receivable		3,242
Investments:		
Nonexchange commingled trust funds		191,886
Investments in limited partnerships		3,522
Total investments		195,408
Loans to plan members, net:		
Mortgage		159,655
Personal		153,794
Cultural trips		2,283
Total loans to plan members, net		315,732
Capital assets, net		15,021
Other assets		418
Total assets		592,208
Liabilities:		
Accounts payable		2,838
Accrued expenses		8,806
Cash overdraft with fiscal agent		56,443
Payable for investments securities purchased		5
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members		6,116
Other liabilities		1,034
Total liabilities		75,242
Net position restricted for pensions	$	516,966

The accompanying notes are an integral part of these basic financial statements.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (IN THOUSANDS)
FOR THE YEAR ENDED JUNE 30, 2017

	Pension	Post employment healthcare benefits	Total
Additions:			
Contributions:			
Employer:			
Basic benefits	$ 150,505	$ -	$ 150,505
Special benefits	119,797	36,493	156,290
Participating employees	95,217	-	95,217
Contributions transferred from other systems	644	-	644
Total contributions	366,163	36,493	402,656
Investment income:			
Net appreciation in fair value of investments	10,102	-	10,102
Interest	26,828	-	26,828
Dividends	283	-	283
Total investment income	37,213	-	37,213
Less:			
Investment expense	(724)	-	(724)
Net investment income	36,489	-	36,489
Other income	1,925	-	1,925
Total additions	404,577	36,493	441,070
Deductions:			
Benefits paid to participants:			
Annuities and death benefits	720,856	-	720,856
Special benefits	33,895	36,493	70,388
Refunds of contributions to participating employees	13,528	-	13,528
General and administrative expenses	14,787	-	14,787
Total deductions	783,066	36,493	819,559
Net decrease in net position	(378,489)	-	(378,489)
Net position restricted for pensions:			
Beginning of year	895,455	-	895,455
End of year	$ 516,966	$ -	$ 516,966

The accompanying notes are an integral part of the financial statements.

1. ORGANIZATION

As discussed in Note 15, on August 23, 2017 the Commonwealth approved Act 106-2017 substantially modifying most of the System's activities and programs, and effectively is restructuring the System's operations. The Board of Trustees was replaced with a new Retirement Board, assets are being liquidated, programs and activities are being terminated or outsourced, and pension payments will continue to be, under different parameter, paid directly by the Commonwealth. The financial statements do not include any adjustments that might result from the enactment of this legislation. The following description refers to the System's activities before the approval of Act No. 106-2017.

The Puerto Rico System of Annuities and Pensions for Teachers (the "System") was a trust created by law in 1951 by the Legislature of the Commonwealth of Puerto Rico (the "Commonwealth"). The purpose of the System was to provide pension and other benefits mainly to retired teachers of the Puerto Rico Department of Education (the "Department of Education"), an agency of the Commonwealth, and the employees of the System. The benefits provided to members of the System were established by Commonwealth of Puerto Rico law.

On December 24, 2013, the Commonwealth enacted Act No. 160 (Act No. 160-2013) as new legislation for the System, which superseded Act No. 91 of March 29, 2004 (Act No. 91-2004) and was modified by the Puerto Rico Supreme Court (Supreme Court) on April 11, 2014. As a result of the Supreme Court's decision, the System is a defined benefit pension plan for active participants hired on or before July 31, 2014, and a contributory hybrid pension plan for participants hired on or after August 1, 2014. The System administers a single employer pension plan with two benefit structures, as defined by GASB Statement No. 67, where a primary government and its component units are considered to be one employer.

The System also administers postemployment healthcare benefits provided by the Commonwealth to retired teachers of the Department of Education and retired employees of the System (the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution - TRS MIPC), an unfunded, other postemployment benefit. The System is considered an integral part of the financial reporting of the Commonwealth and is included in the Commonwealth's basic financial statements. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Income earned by the System is not subject to Federal and Puerto Rico taxes.

The responsibility for the proper operation and administration of the System is vested in a Board of Trustees (the "Board"). The Board is composed of nine members, as follows:

- Three ex-officio members, which are the Secretary of the Treasury, the Secretary of Education, and the President of the Government Development Bank for Puerto Rico ("GDB"), or their respective representatives.

- One member who is a representative of a teacher's organization designated by the Governor of the Commonwealth (the "Governor").

- Three teachers of the System, appointed by the Governor, one of which is a currently certified teacher in active service, and two who represent retired teachers.

- One member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended.

- One additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

On August 23, 2017, Act 106-2017 dissolved the Board of Trustees and established a new Retirement Board of the Government of Puerto Rico (the "Retirement Board") to govern all of the Commonwealth's Retirement Systems, including the System. The Retirement Board is comprised of 13 members, composed of (i) six ex-officio members (or their designees): the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA"), the Secretary of Treasury of the Commonwealth, the Director of the Office of Management and Budget, the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, the President of the Federation of Mayors, and the President of the Association of Mayors; (ii) three Governor-appointed representatives of the teachers of the Department of Education, the public corporations, and the Judiciary Branch; and (iii) four additional Governor-appointed members as representatives of the public interest. For additional information regarding Act 106-2017, refer to note 14 of the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are significant accounting policies followed by the System in the preparation of its basic financial statements:

a) Basis of Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental organizations. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the term of the plan.

Healthcare benefits are reported in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment benefits Other than Pensions. GASB Statement No. 45 establishes uniform financial reporting standards for other Postemployment Benefit Plans ("OPEB").

The System also administers a single-employer defined benefit post-employment healthcare benefits plan, sponsored by the Commonwealth. Because benefits are funded on a pay-as-you-go basis, there is no statement of fiduciary net position presented for this plan, and its financial activities are presented within the statement of changes in fiduciary net position.

b) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of net position restricted for pensions, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of additions and deductions to net position

restricted for pensions during the reporting period. The System's most significant estimates relate to the assumptions made about future events as part of the annual actuarial valuation process, and the valuation of certain investments. Due to the inherent nature of these estimates, actual results could differ from those estimates.

c) Cash, Cash Equivalents and Cash with Fiscal Agent

Cash and cash equivalents consist of "overnight deposits" with the custodian bank, a commercial bank, and money market funds. Cash with fiscal agent represents a fund account at the Department of Treasury for the payment of pensions, benefits, and payroll expenses. Overdrafts in cash with fiscal agent fund account are reported as a liability in the statement of fiduciary net position.

d) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The System has investments in limited partnerships and-exchange commingled trust funds valued at approximately $3.5 million and $192 million, respectively, as of June 30, 2017. Fair values of investments in limited partnerships have been estimated in the absence of readily determinable fair values, based on information provided by the underlying fund managers. Non-exchange commingled trust funds are reported at their net asset value ("NAV"). The NAV of each fund includes the market value of the securities in the fund plus any receivables, payables, and accrued fund expenses.

Securities purchases and sales are recorded on a trade-date basis. Realized gains and losses from the sale of securities and unrealized changes in the fair value of outstanding securities are included in net appreciation/(depreciation) in fair value of investments. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost of the investment sold, determined by the average cost method. Interest income is recorded as earned on an accrual basis. Dividend income is recorded on the ex-dividend date.

e) Loans to Plan Members

Mortgages, personal and cultural trip loans to plan members are stated at their outstanding principal balance net of allowance for uncollectible amounts. Loans to plan members are collected through payroll withholdings and secured by mortgage deeds, plan members' contributions, and any unrestricted amount remaining in the escrow funds. Loans to plan retirees are collected directly from the retiree's pension benefits. Maximum amounts that may be loaned to plan members for mortgage and cultural trip loans are $125,000 and $5,000, respectively. The maximum amount of personal loans to be granted to current participating employees is up to 85% of their accumulated contributions but not in excess of $5,000; and in the case of retirees currently receiving benefits is $5,000. As of June 30, 2017 total loans to plan members amounted to approximately $316 million, net of allowance for uncollectible reserve amounting to approximately $2 million.

Guarantee Insurance Reserve for Loans to Plan Members

Premiums collected and benefits claimed are recorded as additions and deductions of the guarantee insurance reserve for life insurance on loans to plan members, respectively.

f) Capital Assets

Capital assets include building, building improvements, furniture and equipment, and projects in progress. The System defines capital assets as assets which have an initial individual cost of $500 or more at the date of acquisition and have a useful life of four 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 the acquisition value at the acquisition date.

Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. There is no depreciation recorded for construction in progress. The estimated useful lives of capital assets are as follows:

	Years
Building	40
Building improvements	10
Equipment, furniture, fixtures and vehicles	4 - 10

g) Termination Benefits

The System accounts for termination benefits in accordance with GASB Statement No. 47, Accounting for Termination Benefits. Pursuant to the provisions of GASB Statement No. 47, the System, as an employer, should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

3. LIQUIDITY RISK AND UNCERTAINTIES

As of June 30, 2017, the trust has a net pension liability ("NPL") of approximately $15,901 million, representing a fiduciary net position as a percentage of total pension liability (the "funded ratio") of 3%. In the opinion of management and based on information prepared by consulting actuaries, the System's liquid assets are less than a year of benefit payments.

On December 24, 2013, the Commonwealth enacted Act 160-2013 to carry out a comprehensive reform of the System. Significant elements of Act 160-2013 was amended by the Puerto Rico Supreme Court on constitutional grounds. Notwithstanding these changes, the Commonwealth was still responsible for making additional contributions by the Commonwealth General Fund known as (i) Teacher's Justice Uniform Contribution and (ii) an Annual Additional Contribution commencing on fiscal year 2019. On July 26, 2017, the Legislature adopted Joint Resolution 188, which ordered the sale of the remaining assets of the System and the transfer of the net sale proceeds to the Department of the Treasury. Among other matters, it also provided that starting on July 1, 2017 the General Fund will pay the System's pension benefits on a pay-as-you-go basis. As explained in Note 15, in August 2017, Act 106-2017 was enacted to implement a PayGo system for the payment of System benefits to retirees.

For purposes of the actuarial valuation projection as of June 30, 2017, the Uniform Contribution and the Annual Additional Contribution were not considered based on the approval of the pay as you go basis instead of the pre funding basis for the pension benefit payments.

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Commonwealth's public sector debt, the continued downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade categories and the lowered-than-projected revenues have put further strain on the Commonwealth's liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted the Moratorium Act. Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth and several of its instrumentalities, including the System.

Under these executive orders, certain Commonwealth entities have: (i) not made debt service payments, (ii) made debt service payments with funds on deposit with the trustees of their bonds, or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

On January 29, 2017, the Governor signed into law Act No.5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, "Act 5-2017"), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Under Act 5-2017, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. As of the date of these financial statements, the emergency period under Act 5-2017 has been extended through June 30, 2020.

Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, the President of the United States signed PROMESA into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its covered instrumentalities, including the System, with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA, which expired on May 1, 2017; and (iii) two alternative methods to adjust sustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

Title III of PROMESA established an in-court process for restructuring the debts of Puerto Rico and other United States territories that is modeled after the process under Chapter 9 of the Bankruptcy Code. In order to be a debtor under Title III, the territory and/or its instrumentalities must: (i) have an Oversight Board established for it or be designated a "covered entity"; (ii) have the Oversight Board issue a restructuring certification under PROMESA section 206(b); and (iii) "desire[] to effect a plan to adjust its debts." PROMESA § 302. The Oversight Board has sole authority to file a voluntary petition seeking protection under Title III of PROMESA. See PROMESA § 304(a). As of the date hereof, the Oversight Board, at the request of the Governor, has commenced Title III cases for the Commonwealth and the System, among others.

In a Title III case, the Oversight Board acts as the debtor's representative and is authorized to take any actions necessary to prosecute the Title III case. See PROMESA § 315. Immediately upon filing the Title III petition, Bankruptcy Code section 362 (which is incorporated into Title III cases under PROMESA) applies to automatically stay substantially all litigation against the debtor (the Title III Stay). After the Title III case is commenced, the Chief Justice of the United States Supreme Court must designate a district court judge to sit by designation and preside over the Title III case. PROMESA also provides that the commencement of a Title III case "does not limit or impair the powers of a covered territory to control by legislation or otherwise the exercise of the political or governmental powers of the territory or territorial instrumentality." PROMESA § 303.

A Title III case culminates in the confirmation of a plan of adjustment of the debts of the debtor. The Oversight Board has the exclusive authority to file a plan of adjustment. See PROMESA § 312. In order to be confirmed, a proposed plan of adjustment must meet the requirements set forth under PROMESA section 314.

Title IV of PROMESA established the Temporary Stay of Litigation, Government Reporting, and Other Miscellaneous Provisions. Pursuant to PROMESA section 405, the enactment of PROMESA immediately and automatically imposed a temporary stay (the "Title IV stay") from June 30, 2016 (the date of PROMESA's enactment) through February 15, 2017, of all "Liability Claim" litigation commenced against the Commonwealth and its instrumentalities after December 18, 2015. The Title IV Stay was subject to a one-time 75-day extension by the Oversight Board or a one-time 60-day extension by the district court. On January 28, 2017, the Oversight Board extended the Title IV Stay by 75 days to May 1, 2017, at which time the Title IV Stay expired. Any party subject to the Title IV Stay could have filed a motion in the United States District Court for the District of Puerto Rico seeking relief from the Title IV Stay upon "cause shown." PROMESA § 405(e).

Commencement of the Title III Cases

On May 1, 2017, the Title IV Stay expired, permitting the litigation brought by bondholders and other creditors against the Commonwealth and its instrumentalities (including the System) to resume. On May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "Title III Court"). On May 5, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for COFINA by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

Faced with the eventual insolvency of the System and the inability to reach a consensual restructuring agreement with the System's creditors, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the System by filing a petition for relief under Title III of PROMESA in the Title III Court. As such, the System is a debtor in a proceeding pursuant to Title III of PROMESA. On that same day, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Highways and Transportation Authority ("PRHTA") by filing a similar petition for relief under Title II of PROMESA in the Title III Court. On July 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Electric Power Authority ("PREPA") by filing a similar petition for relief under Title III of PROMESA in the Title III Court. On September 27, 2019, the Oversight Board, at the request of the Governor, commenced a Title III case for the Puerto Rico Public Buildings Authority ("PBA") by filing a similar petition for relief under Title III of PROMESA in the Title III Court.

All of the foregoing Title III cases have been consolidated for procedural purposes only and are being jointly administered under Case No. 17-3283-LTS in the Title III Court. Importantly, the System has not filed a Title III petition and is not a debtor in the Commonwealth's consolidated Title III cases.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its employer contributions to the pension plan for the upcoming years, may be adversely affected.

4. PLAN DESCRIPTION

The following description refers to the System's activities before the approval of Act No. 106-2017, on August 23, 2017, disclosed in Note 15:

Pension Benefits

The System administers two benefit structures pursuant to Act No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court. Benefit provisions vary depending on member's date of hire as follows:

- Members hired on or before July 31, 2014 with certain distinctions for members who retired August 1, 2014 or later.
- Members hired August 1, 2014 or later.

All active teachers of the Department of Education and the employees of the System become plan members of the System at their date of employment. Licensed teachers working in private schools or other educational organizations have the option to become members of the System so long as the required employer and employee contributions are satisfied. At July 1, 2016, the membership consisted of the following:

Retirees, disabled members and beneficiaries currently receiving benefits	43,305
Terminated vested participants	1,100
Current participating employees	35,474
Total membership	79,879

This summary of plan description is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

As part of the plan description information, the most important aspects of Act No. 160-2013, as modified by the April 11, 2014 decision of the Puerto Rico Supreme Court, are as follows: (i) Active participants as of July 31, 2014 will continue to participate in the defined benefit pension program; (ii) Starting August 1, 2014, the defined benefit pension program will be closed for future participants and they will contribute to a contributory hybrid program; (iii) The retirement age for new employees hired on or after August 1st, 2014 is increased to age 62; (iv) The employee contributions for new employees hired on or after August 1st, 2014 is increased to 10% from August 1st, 2014 to June 30, 2017, 13.12% from July 1st, 2017 to June 30, 2020, and 14.02% from July 2020 and thereafter; (v) Special benefits payable to active participants that retire on or before July 31St, 2014 will be reduced, and (vi) special benefits and postemployment will be eliminated for future retirees.

I. Defined Benefit Pension Program

The Plan members of the System hired on or before July 31, 2014 are eligible for the benefits described below:

a) Retirement Annuity

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The monthly annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
55	30 or more	75% of average compensation
50	30 or more	75% of average compensation (1)
Under 50	30 or more	65% of average compensation
50	At least 25, but less than 30	1.8% of average compensation times years of service
47, but less than 50	At least 25, but less than 30	95% of 1.8% of average compensation times years of service
60 or more	At least 10, but less than 25	1.8% of average compensation times years of service

(1) Refer to subsection (g) under Early Retirement Program.

b) *Deferred Retirement Annuity*

A participating employee who terminates service before age sixty (60), after having accumulated a minimum of ten (10) years of creditable services, qualifies for a deferred retirement annuity payable beginning at age sixty (60). A participating employee who has completed twenty-five (25) or more of creditable services and is under the age of forty-seven (47) at termination qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his or her contributions to the System are left within the System until the attainment of the respective retirement age.

c) *Occupational Disability Annuity*

A participating employee, who as a direct result of the performance of his or her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than 5 years, recognized by the System, times years of creditable services; but not less than $400 per month.

d) *Nonoccupational Disability Annuity*

A participating employee disabled for causes not related to his or her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the System, times years of service; but not less than $400 per month.

e) Death Benefits

Preretirement - The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the System). Additionally, active participants that die on or before July 31, 2014 will receive an amount equal to the annual compensation of the member at the time of death.

Postretirement - For members who retire on or before July 31, 2014: the surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death. Full pension for the month in which the pensioner died plus an additional fifteen-day pay period payable to the member's eligible beneficiaries, but in no case shall the benefit be less than $1,000 (prior to discounting any debts with the System).

Postretirement - For members who retire August 1, 2014 or later: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent option form of payment, the applicable survivor benefit. Otherwise, the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death payable to the beneficiaries or to the member's estate.

f) Refunds

The plan members of the System hired on or before July 31, 2014 are eligible to a refund of the employee contributions, plus any interest earned thereon. Refer to subsection (e) under section II Contributory Hybrid Program with respect to a participating employee hired before August 1, 2014.

g) Early Retirement Program

On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members were eligible for early retirement upon attaining the age of 50 and 28 years of service in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who selected early retirement under these conditions receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. Effective July 31, 2001, the option for early retirement was closed. On January 27, 2001, Act No. 45 was approved, which established 50 years as the minimum age requirement to obtain a pension benefit equal to 75% of average compensation with 30 years of service. In these cases, the retiree will pay the participating employee contribution until attaining 55 years of age. Act No. 160-2013 imposes the same obligation to the employer.

II. Contributory Hybrid Program

A hybrid plan, such as a cash balance plan, determines the benefit amount based on a formula using contributions and earning credits, has notional individual accounts for members, and provides lifetime annuity benefits. Each member has a defined contribution account which is credited with member contributions and investment yield. Upon retirement, the balance in the account is paid as a lifetime annuity. The program is defined as hybrid given that it has some features that are commonly found in defined benefit (DB) plans and other features that are commonly found in defined contribution (DC) plans, as follows:

- The members contribute a fixed percent of payroll to their account. In DB plans, the percent is usually fixed. In DC plans, the percent is usually elected by the member.

- The defined contribution account is credited each semester with the System's investment portfolio's net rate of return. The return is determined by the Board and will not be less than 80% of the System's investment portfolio net rate of return. Account growth via the application of investment earnings is a common feature of DC plans.

- Assets are invested by the System. This feature is more commonly found in a DB plans. DC plans most commonly allow for the members to elect their investments on an individual basis and the member contributions are then actually invested in the options selected by the member.

- Upon retirement, the balance in the account is paid to the member in the form of a lifetime annuity with optional survivor benefits, with the System responsible for investment and longevity risk during retirement. The annuity feature is common to DB plans.

Members of the System hired on or after August 2014 are eligible for the benefits described below:

a) Retirement Annuity

Members with five or more years of service and $10,000 or more in contributions at the age of 62 will qualify for an annuity of the percentage acquired by contributions based on actuarial formula.

The pension of each participant shall be computed upon retirement as follows: (i) the accumulated balance of his/her contributions to the defined contribution account on the date of retirement, divided by (ii) a factor, established by the Board in consultation with its actuaries and to be determined on the basis of the actuarial life expectancy of the participant and a specific interest rate.

b) Deferred Retirement Annuity

Members with five or more years of service and $10,000 or more in contributions will qualify for an annuity calculated based on the balance of the defined contribution account. If separated from service with the requirements but with less than 62 years of age, the annuity will be deferred until reaching 62 years of age.

c) Disability Annuity

Any participant who enrolled in the System after August 1, 2014, and after five years in the public service suffers a disability, whether work related or not, he/she shall be granted a disability pension by the System computed on the basis of his/her individual contributions, as determined by the System through regulations.

d) Death Benefits

For new members starting August 1, 2014 that eventually retire and die, their beneficiaries have two options: (i) Continue to receive the monthly annuity payments until the balance, if any, of the contributions to the defined contribution account is exhausted, or (ii) Request reimbursement in one global payment on the balance, if any.

e) Refunds

A participant with less than five years of service or less than $10,000 in contributions qualifies for a reimbursement. Specifically, a refund of contributions and earnings in his/her defined contribution account.

III. Special Benefits

Act No. 160-2013 included a reduction in the special laws for pensioners as of July 31, 2014 and the elimination of special laws for future pensioners who retire starting August 1, 2014. Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The System pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth. After August 1, 2014, for active participants that retire on or before July 31, 2014 the bonus is $200 and funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth. Act No. 160-2013 kept this benefit for active participants that retire on or before July 31, 2014.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth. Act No. 160-2013 eliminated this benefit for all retirees.

- Cost-of-living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the Legislature), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth. Act No. 160-2013 did not alter this benefit.

- Other Pension Increase Acts — Act No. 128 of June 10, 1967, and Act No. 124 of June 8, 1973, provided a pension increase (from 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth. Act No. 160-2013 did not alter this benefit.

- Cultural Loans — Act No. 22 of June 14, 1965, provides a 50% repayment of the interest that would be paid by the actives teachers and retirees. This benefit is funded by the Commonwealth. Act No. 160-2013 did not alter this benefit.

- Death Benefit — Act No. 272 of March 29, 2004, increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth. As per Act No. 160-2013, this benefit only apply to pensioners as of July 31, 2014 that eventually died.

The special benefits contributions of approximately $120 million in 2017 represent contributions from the Commonwealth for the special benefits granted by special laws, as detailed in this note 4. The funding of the special benefits is provided to the System through legislative appropriations each January 1 and July 1. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

IV. Contributions

a) Member Contributions

i) Contributions by members hired on or before July 31, 2014 are 9% of compensation.

ii) Contributions by members hired on or after August 1, 2014 are as follows: 10% of compensation for fiscal years 2015 through 2017, 13.12% of compensation for fiscal years 2018 through 2020, and 14.02% of compensation for fiscal year 2021 and each year thereafter.

b) Employer Contributions

i) Payroll-based Employer Contributions: Contributions by the Commonwealth and the System, as applicable, are 9.5% of compensation for the fiscal year beginning July 1, 2011. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 19.75% effective July 1, 2020.

Effective July 1, 2021 and later fiscal years, the employer contribution rate will be 20.525%. As explained in Note 15, by Act 106-2017 of August 2017, since fiscal year 2017-18 employer's contributions are prospectively determined by the actual pension expense attributed to each employer.

ii) Supplemental Contributions: From fiscal year 2014-2015 and each subsequent fiscal year, the System will receive from the General Fund of the Commonwealth a contribution of $1,675 per pensioner, regardless if the pensioner retired before or after August 1, 2014, to pay for special benefits (i.e. Christmas and medication bonuses) and medical insurance plan contribution; and therefore contribute to the solvency of the System. As explained in Note 15, this contribution was eliminated since fiscal year 2017-18.

iii) Teacher's Justice Uniform Contribution: The annual contribution to be made to the System equal to $30 million in fiscal year 2016-2017, to $30 million in fiscal year 2017-2018, and to $60 million in fiscal year 2018-2019, and subsequent years until fiscal year 2041-2042. The Teacher's Justice Uniform Contribution is to be funded by the Commonwealth's General Fund. As explained in Note 15, this contribution was eliminated since fiscal year 2017-18.

iv) Annual Additional Contribution: The annual contribution certified by the external actuary of the System as necessary to prevent the value of the projected gross assets of the System from falling below $300 million during any subsequent fiscal year. The Annual Additional Contribution is to be funded by the Commonwealth from fiscal year 2018-2019 through fiscal year 2041-2042. As explained in Note 15, this contribution was eliminated since fiscal year 2017-18.

c) Other Postemployment Benefits (OPEB) — Health care Benefits

TRS MIPC is a single-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. Its benefit covers a maximum of $100 per month per retiree. TRS MIPC covers all teachers of the Department of Education of the Commonwealth and employees of the System. Act No. 160-2013 eliminated the medical insurance plan contribution of $100 per month for members that retire on or after August 1, 2014.

As of June 30, 2017, the membership consisted of the following:

Retirees, disabled members	30,347
Vested not receiving OPEB benefits	9,162
Total membership	39,509

The contribution requirement of TRS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2017, OPEB contributions amounted to approximately $36 million.

The funding of the OPEB is provided to the System through legislative appropriations each January 1 and July 1. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over healthcare benefits paid is combined with the assets held in trust for the payment of other pension benefits.

5. NET PENSION LIABILITY

The components of the net pension liability of the employer as of June 30, 2017 were as follows (in thousands):

Total pension liability	$ 16,417,644
Plan's fiduciary net position	516,966
Employer's net pension liability	$ 15,900,678
Plan's fiduciary net position as a percentage of the total pension liability	3.15%

a) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Asset valuation method	Market value of assets
Inflation	Not applicable
Investment rate of return	Not applicable due to pay-as-you go funding
Municipal Bond Index	Municipal Bond
Index	Discount rate 3.58%
Projected salary	Not applicable
Mortality	Pre-retirement Mortality: RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year, and projected forward using MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Based on actuary's judgment.

Pre-retirement Healthy Mortality:
Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis from the 2010 base year. As a generational table, it reflects mortality improvements both before and after the measurement date.

Pre-retirement Disabled Mortality:
Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to the rates in the UP-1994 Mortality Table for males and females. These base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis from the 2010 base year. As a generational table, it reflects mortality improvements both before and after the measurement date.

b) Long-Term Rate of Return on Investments

The Long-term expected rate of return is not applicable due to pay-as-you-go funding. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make benefits payments, and the municipal bond rate applied to benefits payments, to the extent that the plan's fiduciary net position is not projected to be sufficient. The discount rate applied for the determination of the pension liabilities is 3.58%, equivalent to the Municipal bond rate determined as the Bind Buyer General Obligation 20-Bond Municipal Bond Index.

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expenses, was 5.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset class	Target allocation
Fixed income	85 %
Cash	15 %
Total	100 %

c) Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position. On this basis, the System's fiduciary net position is expected to be exhausted during fiscal year 2019. This projection assumes that certain illiquid assets (consisting primarily of loans to members), amounting to approximately $316 million as of June 30, 2017, will be converted to cash when needed.

The System's fiduciary net position is not expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate (Bond Buyer General Obligation 20-Bond Municipal Bond Index) applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient. The discount rate was 3.58% as of June 30, 2017, that in comparison with 2.86% applied as of June 30, 2016, represent an increase of .72% over the previous year.

The June 30, 2017 actuarial valuation reflects a decrease in the total pension liability as follows: of $1,964 million gain as a result of the changes in assumptions and of $131 million loss as a result of the update of the census data to reflect outsized retirement activity during the fiscal year 2017, plus the difference between actual and expected benefit payments, which arise from the differences in retirement activity and also actual mortality versus expectations.

d) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer calculated using the discount rate of 3.58%, as well as what the employer's net pension liability would be if it were calculated using a discount rate of 1-percent point lower (2.58%) or 1-percent point higher (4.58%) than the current rate (dollars in thousands):

	1% decrease (2.58%)	Current Discount Rate (3.58%)	1% increase (4.58%)
Employer's net pension liability June 30, 2017	$ 18,242,855	$15,900,678	$ 13,983,909

6. GOING CONCERN

The System's funded ratio (fiduciary net position as a percentage of total pension liability) as of June 30, 2017 is 3.15%, and its net pension liability was $15.9 billion. As of June 30, 2017, the System's liquid assets are less than half a year of benefit payments.

As disclosed in Note 15, on August 23, 2017, the Commonwealth enacted Act No. 106-2017 which substantially modified the System's activities, diminished the System's operations, and transferred to the Commonwealth the responsibility to continue paying benefits, under changed parameters. Essentially, the Commonwealth adopted a "pay as you go" benefits funding process.

The estimate of when the pension trust fund will become insolvent and when their assets will be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member and employer contributions, as well as the estimated participant benefits and the System administrative expenses to be paid each year. During fiscal year 2017, participants contributions to the System were approximately one eight of the total benefit payments. As disclosed in Note 15, during fiscal year 2018 the assets of the System are being depleted and the System will depend mostly on the Commonwealth ability to provide additional resources for the payment of benefits.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services.

The Commonwealth's high level of debt and the resulting required allocation of revenues to service debt obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and increased near-term refinancing risk.

Management's Conclusion on Going Concern

The financial difficulties being experienced by the Commonwealth already affected the operations of the System since this entity may not be able to make required contributions and the System does not have liquid assets to comply with the pension payments in fiscal year 2018. During the fiscal year 2018, the System sold most of its investments and started operating on a pay-as-you-go basis under Act 106-2017. The fiscal and financial difficulties of the Commonwealth and System causes management of the System to conclude that there is substantial doubt about the ability of the System to continue as a going concern, as confirmed by the legislation disclosed in Note 15.

7. CASH, CASH EQUIVALENTS AND INVESTMENTS

Pursuant to the provisions of Act No. 160-2013, the System may invest in domestic equity, international equity, and fixed income securities, among others. Asset allocation investment categories and targets are determined by and subject to the investment policy guidelines which are reviewed by the Board, in conjunction with the System's Investment Consultant, as necessary. The Board's guiding principles with respect to the investments of the System's assets are to preserve the long-term corpus of the fund, maximize total return within prudent risk parameters, have liquidity to cover cash flow needs and act in the exclusive interest of the members of the System.

a) Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the System may not be able to recover deposits or collateral securities that are in the possession of an outside party. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, with non Puerto Rico commercial banks and with money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

Cash and cash equivalents as of June 30, 2017 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits at commercial banks	$ 28,576	$ 29,056	$ -
Money market funds	33,811	N/A	33,811
Total	$ 62,387	$ 29,056	$ 33,811

N/A=Not applicable

Custodial Credit Risk Loss on GDB Deposits

Pursuant to Act 21-2016 named as Emergency Moratorium and Financial Rehabilitation Act, the Moratorium Act, in April 2016 the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

On October 18, 2016, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued its Circular Letter 1300-08-17 confirming that there is substantial doubt that GDB may be able to continue operating as a going concern, and that GDB is currently without financial liquidity. Based on this information, the Secretary instructed to all component units and other entities with deposits at GDB to recognize a loss as of June 30, 2016, for amounts held at GDB that were not realized after June 30, 2016.

As a result, a custodial credit risk loss on deposits held with GDB for $3.3 million of cash deposited as of June 30, 2016, was recognized in the System's basic financial statements for the year ended June 30, 2016. No custodial credit risk loss was recognized during the year ended June 30, 2017.

b) Reserved Account Receivable from the Treasury Department

As of June 30, 2017, approximately $37 million of the approximately $110 million in Government of Puerto Rico Budget appropriations were still pending to be recorded as a transfer by the Treasury Department at the System fund. The System recorded an account receivable for the pending transfer. During fiscal year 2017, the System also recorded but not collected approximately $4 million charged to the Department of Education mainly for employer's contributions relates to benefits granted by Act No. 45-2000. Given the distressed financial condition of the General Fund of the Commonwealth and certain budgets constraints imposed by the Office of Management and Budget of the Commonwealth to the Treasury Department of the Commonwealth, the System's management determined to fully reserve the account receivable derived from said appropriations and charges as of June 30, 2017. As required by the GASB, the $37 million reserved amount was reduced from the Special Laws contributions income and the $4 million reserved amount was reduced from the employer's contribution income.

c) *Investments*

Investments are exposed to custodial credit risk, credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. Following is a description of these risks as of June 30, 2017:

- ***Fair Value Measurement***

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – Valuations based on unadjusted quoted prices for identical instruments in active markets that the System has the ability to access.
Level 2 – Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value ("NAV") for fair value are not subject to level classification. Given the measures taken by the System Board of Trustees to protect System assets liquidity all remaining separate investments assets were sold by June 30, 2017. Given that, investments as of June 30, 2017 were only measured at NAV and not subject to the level hierarchy.

The table below shows the fair value leveling of the System's investments:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
Investments measured by NAV:				
Non exchange commingled funds:				
Intermediate Government Credit	$ -	$ -	$ -	$ 191,886
Private Equity Funds	-	-	-	3,522
Total investments at fair value	$ -	$ -	$ -	$ 195,408

	Fair Value in thousands	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Non-exchange Commingled Funds:				
Intermediate Government Credit	$ 191,886	$ -	Daily	
Private Equity Funds	$ 3,522	$ -	N/A	N/A

- ***Custodial Credit Risk***

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System 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, 2017, investments were registered in the name of the System and were held in the possession of the custodian bank.

- ***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Fixed income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The portfolio is expected to maintain a minimum weighted average credit quality of "A-" or better using either Moody's or Standard & Poor's credit ratings.

The credit quality ratings and fair value of non-exchange commingled fixed income trust fund as of June 30, 2017 are as follows (in thousands):

	Rating (1)					
	AAA	AA+to AA-	A+to A-	BBB+to BBB-	BB+to BB-	Total
Nonexchange commingled fixed income trust fund SSGA Intermediate fund (1)	$ 123,210	$ 10,727	$ 25,367	$ 32,582	$ -	$ 191,886

(1)Fund is not rated. Rating presented for underlying investments.

The System invests in a U.S. fixed income fund which is presented within non-exchange commingled trust funds. The U.S. fixed income fund consists of shares of the State Street Global Advisors (SSgA) Intermediate U.S. Credit Index Non-Lending Fund (SSgA Intermediate Fund). The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the Barclays U.S. Intermediate Credit Bond Index over the long term. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions.

- ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade fixed-income securities. The System's investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark. The System's management monitors interest rate risk by evaluating the performance of each investment manager.

The contractual maturity of investments as of June 30, 2017, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)				
Investment Type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
Non-exchange commingled fixed income trust fund: U.S.	$ 230	$ 125,858	$ 65,798	$ -	$ 191,886
Investment in limited partnerships					3,522
Total investments					$ 195,408

- ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. There are no investments in any one issuer that represent 5% or more of total investments as of June 30, 2017. The System's investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

- ***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's investment portfolio is exposed to foreign currency risk through international holdings in commingled investment funds and separate accounts.

Given that during fiscal year 2017 all international equity mandates were liquidated, investments and deposits of the System weren't exposed to foreign currency risk as of June 30, 2017.

- ***Investments in Nonexchange Commingled Trust Funds***

As of June 30, 2017, the System owned shares in the SSgA Intermediate Fund as follows (in thousands):

Fund name	Shares	Value
SSgA Intermediate Fund	15,828	$ 191,886

The investment objective of the SSgA Intermediate Fund is to approximate as closely as practicable, before expenses, the performance of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions.

As of June 30, 2017, the investments underlying the SSgA Intermediate Fund had the following sector allocations:

Sector	SSgA Intermediate Fund
Agency	3 %
Corporate - Industrial	12 %
Corporate - Finance	19 %
Corporate - Utility	2 %
Noncorporate	7 %
Treasury	57 %
Total	100 %

- ***Investments in Limited Partnerships***

The fair value of investments in limited partnerships at June 30, 2017, amounted to approximately $3.5 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationality recognized statistical rating organization.

In accordance with the partnership agreements, the System's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2017, the System does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2017, the System had capital commitments and contributions as follows (in thousands):

	Total Commitments	Fiscal year contributions	Cumulative contributions	Fair value
Guayacán Fund of Funds II, L.P.	$ 25,000	$ -	$ 23,681	$ 918
Guayacán Private Equity Fund, L.P.	5,000	-	4,645	2,148
Invesco Venture Partnership Fund III, L.P.	5,498	-	4,731	350
Invesco Non-U.S. Partnership Fund III, L.P.	4,500	-	4,034	66
Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P.	3,716	-	3,236	40
Total	$ 43,714	$ -	$ 40,327	$ 3,522

- ***Net Appreciation in Fair Value of Investments***

For the year ended June 30, 2017, the net appreciation in fair value of investments amounted to approximately $10 million, segregated as follows (in thousands):

Investment type	Realized gain/(loss)	Unrealized gain/(loss)	Net appreciation in fair value of investments
Stocks	$ 8,368	$ (6,089)	$ 2,279
Non-exchange commingled trust funds	51,027	(42,664)	8,363
Investments in limited partnerships	(590)	50	(540)
Total	$ 58,805	$ (48,703)	$ 10,102

The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments and realized gains and losses of the current period include unrealized amounts from prior periods.

- ***Securities Lending Transactions***

The System initiated the termination of its participation in the custodian bank securities lending program during fiscal year 2016. Immaterial legacy transactions of the System participation in the Trustee's Securities Lending program ended at the beginning of fiscal year 2017.

8. CAPITAL ASSETS

For the year ended June 30, 2017, changes in capital assets consisted of the following (in thousands):

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated -				
Construction in progress	$ 1,679	$ 15	$ -	$ 1,694
Capital assets, being depreciated:				
Building	26,008	-	-	26,008
Furniture and equipment	1,583	32	(1)	1,614
Computers and software	9,698	11	(7)	9,702
Building improvements	765	-	-	765
Branches improvements	274	-	-	274
Vehicles	85	6	-	91
Total capital assets, being depreciated	38,413	49	(8)	38,454
Accumulated depreciation and amortization	(24,150)	(977)	-	(25,127)
Total capital assets, being depreciated, net	14,263	(928)	(8)	13,327
Total capital assets, net	$ 15,942	$ (913)	$ (8)	$ 15,021

9. OTHER ASSETS

As of June 30, 2017, other assets consisted of repossessed and in-substance foreclosed properties amounting to approximately $418 thousands. Repossessed and in-substance foreclosed properties consist mainly of properties acquired or to be acquired upon foreclosure proceedings as collateral from delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

10. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible Employees, as defined. Act No. 70 also established that early retirement benefits will be provided to eligible employees that have completed at least 15 years of credited services, but less than 30 years of credited services and will consist of monthly benefits ranging from 37.5% to 50% of each employees’ monthly salary. Benefits under this program will be paid by the Commonwealth’s General Fund and by System, covering their respective employees until the plan member reaches the later of age of retirement or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the System, as an employer, will also be required to continue making the required employee and employer contributions to the System. The Commonwealth will be required to continue making its required employer contributions. The System will be responsible for benefit payments afterwards.

Members who retired under this incentive are not eligible to receive the medical insurance plan contribution. Act No. 106-2017 eliminated since July 1, 2017 the employer's contributions to the System's trust fund. Given that, the recorded liability for this voluntary termination benefits as of June 30, 2017 does not consider the future payment of the employer's contributions. As of June 30, 2017, the System has recorded a liability of approximately $4.5 million for its responsibility as an employer under Act No. 70, which is included within accrued expenses.

11. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of death of a plan member. The above-mentioned insurance is provided solely by the System and the related coverage is paid in its entirety by the plan members who obtain these loans from the System.

12. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDED STATUS AND FUNDING PROGRESS

The System's other postemployment healthcare benefits (OPEB) funded status as of June 30, 2017 is as follows (In thousands):

Actuarial value of plan assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of annual covered payroll
$ -	$ 501,655	$ 501,655	- %	$ 1,033,224	48.6 %

The schedules of funding progress, presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Because Act 160-2013 eliminated the Medical Insurance Plan Contribution for members retiring on or after August 1, 2014, the amortization period for GASB Statement No. 45 accounting was reduced to 20 years (the average life expectancy of the closed group of current retirees who will receive this benefit).

Additional information as of June 30, 2017 is as follows:

Actuarial cost method	Entry Age Normal
Amortization method	20 years closed (beginning July 1, 2014), level dollar
Remaining amortization period	17 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return	2.90%
Projected salary increases	Not applicable
Payroll growth	Not applicable
Inflation	Not applicable
Cost of living adjustment	Not applicable

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of OPEB for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

13. COMMITMENTS

The System leases office facilities for the operation of its regional offices (Ponce, Mayagüez, Arecibo, and Caguas) under operating lease agreements, which expire at different dates through fiscal year 2021. Rent expense for the year ended June 30, 2017, amounted to approximately $117,000.

Existing operating leases expire in 2021. The minimum future payments as of June 30, 2017 are as follows (in thousands):

Year ending June 30,	Amount
2018	$ 50
2019	38
2020	25
2021	25
Total	$ 138

14. CONTINGENCIES

The System is a defendant or codefendant in various lawsuits resulting from the ordinary conduct of its operations. Management and legal counsel believe that there are no contingent matters that would have a material adverse effect on the System's financial status.

15. SUBSEQUENT EVENTS

The System has evaluated all events subsequent to the financial statements date of June 30, 2017 through May 18, 2020, which is the date these financial statements were available to be issued. The subsequent events disclosed are those which management believes are of sufficient public interest for disclosure.

A. Sale of System Investments

On July 26, 2017, the Governor approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the System, ERS, and JRS to liquidate their assets and pass the net proceeds to the Treasury Department. By the end of July 2017, the System liquidated all its positions in fixed income and transferred $200 million to the Treasury Department for the payment of pensions as instructed by Joint Resolution 188.

B. PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" ("PayGo") system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act 106-2017, which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework for the Commonwealth to guarantee benefit payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended the System's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the System's board of trustees was eliminated, and a new Retirement Board was created.

Act 106-2017 terminated the previously existing pension programs for the System participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the member accounts in the new defined contributions program. The System' active members of the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of the System's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of the System benefits may be externalized. The employees of the System that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities and retraining program for public workers.

On May 17, 2019, the Legislature passed Act No. 29 of 2019 (Act 29-2019), which addressed the severe financial crisis and liquidity shortage of the Puerto Rico municipalities by relieving them of their obligation to make PayGo payments to the Commonwealth under Act 106-2017. On July 3, 2019, the Oversight Board filed a complaint against the Governor and FAFAA seeking injunctive relief to prevent the implementation and enforcement of Act 29-2019, which eliminated the obligation of municipalities to make PayGo payments to the Commonwealth, and various joint resolutions because (i) Act 29 violated PROMESA sections 204(a) and 207; (ii) Act 29-2019 and the joint resolutions violated PROMESA section 204(c); (iii) Act 29-2019 and the joint resolutions violated PROMESA section 108(a) because they impair and/or defeat the purposes of PROMESA, as determined by the Oversight Board; and (iv) the Governor's alleged policy of not providing certifications as required under PROMESA section 204 violated PROMESA section 108(a) because it impairs and/or defeats the purposes of PROMESA, as determined by the Oversight Board.

On July 15, 2019, the Governor and FAFAA moved to dismiss the complaint. On August 22, 2019, the Title III Court denied the motion to dismiss in its entirety. On September 10, 2019, the Governor and FAFAA answered the complaint. On December 13, 2019, the Oversight Board filed a motion for summary judgment. On February 5, 2020, the Governor and FAFAA filed their opposition to the Oversight Board's summary judgment motion. On March 5, 2020, the Title III Court heard oral argument on the summary judgment motion. On April 15, 2020, the Title III Court granted the summary judgment motion, finding that Act 29-2019 is unenforceable and permanently enjoining the Commonwealth from implementing and enforcing it.

C. Impact of Natural Disasters

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria respectively made landfall in Puerto Rico. The hurricanes cause unprecedented and catastrophic damage to the Island, its people, and its businesses. In response to Hurricanes Irma and Maria, the United States Congress approved nearly $20 billion in emergency relief funds to assist in Puerto Rico's rebuilding efforts. However, due to concerns regarding the Government's control mechanisms for appropriately managing funds, the Trump administration placed a hold on releasing much of Puerto Rico's allocation. In January 2020, the Trump administration announced that it would end a month-long hold on more than $8.2 billion of Puerto Rico relief administered by the Department of Housing and Urban Development.

On December 28, 2019, the first of many earthquakes shook Puerto Rico. Since then, there have been more than 400 earthquakes of magnitude 2 or greater on the Richter scale, including its most destructive earthquake in a century with a magnitude of 6.4. Based on preliminary estimates, these earthquakes have caused approximately $500 million in damages, and thousands of Puerto Rico residents have been forced into refugee camps, as they are afraid to sleep in homes that could collapse in an aftershock. According to a January 29, 2020 report published by the United States Geological Survey, the aftershocks in Puerto Rico are not expected to stop any time soon, with earthquakes of at least a magnitude of 3 or greater expected to occur daily over the next several months and thereafter weekly for years.

D. Former Governor Rosselló's Resignation and Government Transition under Governor Vázquez

On July 24, 2019, then-Governor Ricardo Rosselló Nevares announced his resignation as Governor of the Commonwealth effective August 2, 2019 at 5pm Atlantic Standard Time. Before his resignation became effective, then-Governor Rosselló appointed former resident commissioner Pedro Pierluisi as Secretary of State. After being confirmed by the House of Representatives (but not the Senate), Mr. Pierluisi was sworn in as acting Governor. On August 7, 2019, the Puerto Rico Supreme Court unanimously determined that Mr. Pierluisi was illegally sworn into office as Governor. As a result, Justice Secretary Wanda Vázquez was sworn in as Governor on August 7, 2019 to complete former Governor Rosselló's term through 2020 and, as of the date of these financial statements, currently serves as the Governor of the Commonwealth.

E. Impact of the COVID-19 Pandemic

Since China first alerted the World Health Organization ("WHO") of flu-like cases in Wuhan on December 31, 2019, the global community is experiencing an unprecedented health crisis caused by a novel coronavirus known as COVID-19, which can cause several severe symptoms including fever, cough, shortness of breath, and even death in extreme cases. This is a global humanitarian challenge, and many people are courageously battling the virus and putting their own lives at risk to help others in need. Puerto Rico is no exception.

On March 15, 2020, Governor Wanda Vázquez Garced signed Executive Order No. OE-2020-023, which directed the closure of all non-essential businesses in Puerto Rico as of March 15 at 6:00 p.m. until March 30, 2020. The Executive Order also imposed a curfew from 9:00 p.m. through 5:00 a.m. during which time all residents of Puerto Rico must remain in their residences. On March 30, 2020, the Governor announced that, based on recommendations from the Health Taskforce, and due to the continuing state of emergency, the closure of businesses and curfew established in the Executive Order was extended until April 12, 2020. On April 11, 2020, the Governor further extended the lockdown until May 3, 2020 and established a modified curfew from 7:00 p.m. through 5:00 a.m.

The aftermath of the COVID-19 crisis poses unprecedented uncertainties for local, national, and global economies. While the societal and economic consequences cannot yet be accurately measured, the impacts will be profound and widespread, as evidenced by President Trump's declaration of a major emergency in every U.S. state and the U.S. Virgin Islands, the Northern Mariana Islands, Washington, D.C., Guam and Puerto Rico.

This is the first time in the history of the United States that every state is under a major disaster declaration – and every declaration happened within in a 22-day window. Even while some areas of the world are experiencing a slowdown of COVID-19 cases, it is currently unknown whether the outbreak has reached its peak in the United States or whether a second or third wave of the disease will cause a further drag on the U.S. economy in general and the Puerto Rico economy in particular. Although it is clear that the COVID-19 pandemic has affected nearly every economy and industry in the world, it is still unclear which cross-sections of the economy will experience disproportionately negative effects, and if any will actually experience positive effects due to unique increases in demand. In any event, one thing is clear: COVID-19 will have much broader and more profound economic ramifications on Puerto Rico's economy than its prior natural disasters.

F. Oversight Board Files Joint Plan of Adjustment for the Commonwealth, ERS, and PBA

On September 27, 2019, the Oversight Board—as representative of the Commonwealth, ERS and PBA in their respective Title III cases—filed its initial joint Title III plan of adjustment for the Commonwealth, ERS, and PBA [ECF No. 8765] (the "Initial Plan") along with a disclosure statement related thereto [ECF No. 8765] (the "Initial Disclosure Statement"). On February 9, 2020, the Oversight Board announced that it entered into a plan support agreement (the "PSA") with certain Commonwealth general obligation bondholders and PBA bondholders, which would require revisions to the Initial Plan. On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] (the "Amended Plan") and an amended disclosure statement related thereto [ECF No. 11947] (the "Amended Disclosure Statement"), which revised the Initial Plan to conform to the PSA.

The Amended Plan and Amended Disclosure Statement do not reflect the potential economic impact from the on-going outbreak of COVID-19. As a result, on March 23, 2020, the Oversight Board filed an urgent motion requesting to adjourn consideration of the Amended Disclosure Statement—which had been scheduled for June 3 and June 4, 2020—until further notice. The Title III Court granted the motion on March 27, 2020, requiring the Oversight Board to file a status report on May 1, 2020.

The Amended Plan and Amended Disclosure Statement remain subject to future amendments (particularly given the negative economic impacts of the COVID-19 pandemic) and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Amended Plan.

For further information, please refer to the publicly available Amended Plan and Amended Disclosure Statement, available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - PENSION BENEFITS (UNAUDITED) (IN THOUSANDS)
JUNE 30, 2017

	2017	2016	2015	2014
Total pension liability:				
Service Cost	$ 335,237	$ 294,692	$ 273,754	$ 354,159
Interest	518,214	648,407	637,849	690,742
Difference between expected and actual experience	-	43,202	88,544	169,851
Effect of economic/demographic (gains) or losses	131,134	-	-	-
Changes in assumptions	(1,964,234)	1,621,712	1,235,988	(516,000)
Benefit payments, including refunds of contributions	(768,279)	(750,172)	(736,107)	(683,698)
Net change in total pension liability	(1,747,928)	1,857,841	1,500,028	15,054
Total pension liability beginning	18,165,572	16,307,731	14,807,703	14,792,649
Total pension liability ending (a)	$ 16,417,644	$ 18,165,572	$ 16,307,731	$ 14,807,703
Plan's fiduciary net position:				
Contributions - employer	$ 270,302	$ 213,724	$ 194,541	$ 189,367
Contributions - participating employees	95,217	99,557	105,120	115,461
Contributions - transfers	644	1,804	2,345	4,131
Net investment income	36,489	45,060	59,921	190,023
Other income	1,925	1,350	1,057	1,416
Benefit payments, including refunds of members contributions	(768,279)	(751,245)	(736,300)	(683,698)
Administrative expenses	(14,787)	(22,568)	(19,382)	(19,803)
Credit loss on GDB deposits	-	(3,308)	-	-
Net change in plan fiduciary net position	(378,489)	(415,626)	(392,698)	(203,103)
Total fiduciary net position - beginning	895,455	1,311,081	1,703,779	1,906,882
Total fiduciary net position - end (b)	516,966	895,455	1,311,081	1,703,779
Employer's net pension liability - ending (a)-(b)	$ 15,900,678	$ 17,270,117	$ 14,996,650	$ 13,103,924
Plan's fiduciary net position as a percentage of covered employee payroll	3.15 %	4.93 %	8.04 %	11.51 %
Covered employee payroll	$ 1,033,224	$ 1,101,896	$ 1,127,500	$ 1,171,154
Employer's net pension liability as percentage of covered employee payroll	1,538.94 %	1,567.31 %	1,330.08 %	1,118.89 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See notes to required supplementary information.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF INVESTMENT RETURNS - PENSION BENEFITS (UNAUDITED)
JUNE 30, 2017

Year Ended June 30,	Annual Money-Weighted Rate of Return, Net of investment expenses
2017	5.4 %
2016	4.4 %
2015	4.2 %
2014	11.0 %

Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See notes to required supplementary information.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - OPEB (UNAUDITED) (IN THOUSANDS)
JUNE 30, 2017

Fiscal year ended	Annual required contributions	Actual employer's contributions	Percentage of contribution
June 30, 2018	$ 37,259	$ 36,363	97.6 %
June 30, 2017	37,490	36,493	97.3 %
June 30, 2016	38,049	37,481	98.5 %
June 30, 2015	36,292	37,776	104.1 %
June 30, 2014	46,403	35,892	77.4 %
June 30, 2013	45,669	34,239	75.0 %
June 30, 2012	41,069	34,471	83.9 %
June 30, 2011	39,925	33,432	83.7 %
June 30, 2010	42,487	30,161	71.0 %
June 30, 2009	38,015	29,333	77.2 %

See notes to required supplementary information

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS - OPEB (UNAUDITED) (IN THOUSANDS)
JUNE 30, 2017

Actuarial valuation date	Actuarial value of plan assets	Accrued liability (AAL)	Accrued liability (UAAL)	Funded ratio	Annual covered payroll	UAAL percentage of annual covered Payroll
June 30, 2017	$ -	$ 501,655	$ 501,655	$ -	$1,033,224	48.6 %
June 30, 2016	-	523,300	523,300	-	1,101,896	47.5 %
June 30, 2015	-	548,518	548,518	-	1,127,500	48.6 %
June 30, 2014	-	543,205	543,205	-	1,171,154	46.4 %
June 30, 2013	-	792,875	792,875	-	1,248,674	63.5 %
June 30, 2012	-	797,332	797,332	-	1,292,975	61.7 %
June 30, 2011	-	706,069	706,069	-	1,320,400	53.5 %
June 30, 2010	-	694,230	694,230	-	1,370,344	50.7 %
June 30, 2009	-	750,382	750,382	-	1,418,304	52.9 %

See notes to required supplementary information.

Changes in Benefits Terms

No change in benefits terms occurred in actuarial valuation as of June 30, 2017 with respect to the actuarial valuation as of June 30, 2016.

Changes in Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience.

Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the update of the census data to reflect outsized retirement activity during the year, plus the difference between actual and expected benefit payments, which rise from the differences in retirement activity and also actual mortality versus expectations. During fiscal year 2017, these differences resulted in a loss of $131 million.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities less deferred inflows of resources). On this basis, the System's fiduciary net position is expected to be exhausted during fiscal year 2018-2019. This projection assumes that certain illiquid assets (consisting primarily of loans to members), currently amounting to approximately $316 million as of June 30, 2017, will be converted to cash when needed.

In addition, the date of depletion projection of the actuarial report does not include any amounts from the additional contributions required by Act No. 160-2013 because of actual fiscal and budgetary financial difficulties with continued budget deficits and liquidity risks of the Commonwealth and in the event that their financial condition do not improve in the near term.

The System's fiduciary net position is not expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plans fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate (Bond Buyer General Obligation 20-Bond Municipal Bond Index) applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

Given the adoption of the Pay as You Go as an alternative of the prefunding model for the future benefits financing, this valuation no reflects an investment return as of June 30, 2017. Under GASB No. 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. GASB No. 67 also requires that the plan sponsor select a municipal bond index for use in developing the single equivalent interest rate.

The index selected for the System is the Bond Buyer General Obligation 20-Bond Municipal Bond Index. The index rate increased from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017. Therefore, the discount rates used to determine the annual required contribution and the total pension liability increased from 2.86% at June 30, 2016 to 3.58% at June 30, 2017, in accordance with GASB Statement No. 67. For fiscal years 2008 to 2011, 2012, 2013, 2014 and 2015, the discount rates were 6.40%, 5.95%, 4.66%, 4.33% and 5.85%, respectively.

Also, the fiscal year valuation reflects a salary freeze from July 1, 2014 until July 1, 2017 due to Act No. 66-2014 and a reduction in the general wage inflation assumption from 3.5% to 2.5%.

Changes in Actuarial Methods since the Prior Valuation

No change in actuarial method occurred in actuarial valuation as of June 30, 2017 with respect to the actuarial valuation as of June 30, 2016.

Method and Assumptions Used in Calculation of the System's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employer's Contributions:

Asset valuation method	Market value of assets
Inflation	2.50%
Investment rate of return	Not applicable due to pay-as-you-go funding
Municipal Bond Index	3.58%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount rate	3.58%
Projected salary	2.50% general wage inflation plus service-based merit increases. No compensation increases are assumed until July 21, 2017 as a result of Act No. 66-2014 and Act. No. 3-2017.
Mortality	Pre-retirement Mortality: RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-20l7 from the 2006 base year and projected forward using MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Based on actuary's judgment.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis from the 2010 base year. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvements. The 2010 base rates are equal to the rates in the UP-1994 Mortality Table for males and females. These base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis from the 2010 base year. As a generational table, it reflects mortality improvements both before and after the measurement date.