



**PUERTO RICO SYSTEM OF ANNUITIES
AND PENSIONS FOR TEACHERS—
“TRS LEGACY TRUST”**

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information

June 30, 2021

(With Independent Auditors' Report Thereon)

**PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS—
“TRS LEGACY TRUST”**

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2021

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Independent Auditors' Report

The Retirement Board of
the Government of Puerto Rico
Puerto Rico System of Annuities
and Pensions for Teachers – "TRS Legacy Trust"

We have audited the accompanying financial statements of the governmental activities and the general fund of the Puerto Rico System of Annuities and Pensions for Teachers – "TRS Legacy Trust" (the Trust), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Puerto Rico System of Annuities and Pensions for Teachers – "TRS Legacy Trust", as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 – 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
December 23, 2022

Stamp No. E513381 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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Management’s Discussion and Analysis (Unaudited)

June 30, 2021

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— “TRS Legacy Trust” (the “Trust”) provides an overview of its activities for the fiscal year ended June 30, 2021. This MD&A is intended to be read in conjunction with the Trust’s financial statements.

Prior to July 1, 2017, the Trust was a pension trust fund created in 1951 by the Legislative Assembly (The Legislature) of the Commonwealth of Puerto Rico (the Commonwealth) 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 Trust.

On August 23, 2017, the Governor of Puerto Rico signed into law Act No. 106 of 2017, known as the *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which transformed the Trust effective as of July 1, 2017 by, among other things, (i) replacing the Trust’s Board of Trustees and the governing boards for the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), and collectively with the Trust and ERS, the Retirement Systems) with a single Retirement Board of the Commonwealth of Puerto Rico (the Retirement Board); and (ii) implementing a pay-as-you-go (PayGo) system in which direct payments to pension beneficiaries are made by the Commonwealth and reimbursed by applicable government employers (excluding the Trust) through an applicable PayGo fee. The Trust’s assets are being liquidated, and programs and activities were terminated or suspended. Refer to Note 1 to the basic financial statements for further information regarding Act 106-2017.

Since Act 106-2017 transferred the primarily responsibility of the payment of the pensions to the Commonwealth and instructed the Trust to liquidate its assets (excluding the building and building improvements) to fund the pension benefits, it is determined that the Trust’s assets and activities should not be reported as a pension trust fund. Instead, since fiscal year 2018, the Trust will be reported as a blended component unit in the Commonwealth’s financial statements. Accordingly, the financial activities of the Trust consist only of governmental activities. For its reporting purposes, the Trust has combined the General Fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. As of June 30, 2021, the Trust has not completed the transfer of the net assets to the Commonwealth and it is managing the remaining assets as the custodian. Accordingly, the Trust’s operations during the year ended June 30, 2021 were subsidized with revenues from the Commonwealth through the utilization of the assets on their custody. Revenues and expenses (expenditures), associated to the assets under the Trust’s custody are presented as part of the change in Due to Commonwealth.

Both before and after the enactment of Act 106-2017, the Trust continues to administer data of postemployment healthcare benefits provided by the Commonwealth to retired teachers of the Department of Education and retired employees of the Trust.

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Management’s Discussion and Analysis (Unaudited)

June 30, 2021

Financial Highlights

As of June 30, 2021, the Trust’s total assets, including Commonwealth’s assets under the custody of the Trust, consisted of the following:

- \$10 million in capital assets
- \$268 million in Commonwealth’s assets under the custody of the Trust, which includes:
 - \$128 million in cash and cash equivalents
 - \$5 million in investments;
 - \$130 million in loans to plan members, net
 - \$4 million in accounts receivable, net
 - \$1 million in net of capital assets and other assets.

The Trust net position is presented in the following chart (in millions):



- Investments under custody of the Trust (excluding loans to participants) at June 30, 2021 amounted to approximately \$5 million, approximately \$3 million more than investments balance as of June 30, 2020.
- Administrative expenses for the fiscal year ended June 30, 2021 amounted to approximately \$10 million, similar to the expense incurred during fiscal year ended June 30, 2020.

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- The Trust recognized approximately \$2.3 million in revenues from the Commonwealth in the fiscal year ended June 30, 2021, to cover part of the administrative expenses, similar to the revenue earned during fiscal year ended June 30, 2020.
- During the fiscal year 2021, the Retirement Board transferred approximately \$6.5 million to the Trust to cover general and administrative expenses.

Overview of the Basic Financial Statements

The Trust’s basic financial statements comprise three components: 1) government-wide financial statements on all of the activities of the Trust, 2) fund financial statements, and 3) notes to basic financial statements.

- *Government-wide Financial Statements* – The government-wide financial statements are designed to provide readers with a broad overview of the Trust’s financial position, in a manner similar to a private-sector business. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of cash flows.

The statement of net position presents information of the Trust’s assets and deferred outflows of resources, and liabilities and deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating as a result of the year’s operations.

The statement of activities presents information showing how the Trust’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- *Fund Financial Statements* – For accounting purposes, a fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The governmental fund financial statement focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Trust’s near term financing requirements. Because the focus of governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental fund with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Trust’s governmental activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balance provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

- *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 Trust’s accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

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Management’s Discussion and Analysis (Unaudited)

June 30, 2021

Financial Analysis of the Governmental Activities

The following schedules present comparative summary of the Trust’s net position and changes in net position for fiscal years 2021 and 2020.

Condensed Summary of Net Position (in thousands):

	Condensed summary of net position			
	2021	2020	Change	
			Amount	Percentage
Assets:				
Trust’s assets	\$ 9,861	10,572	(711)	-7%
Assets under custody of the Trust	<u>268,246</u>	<u>309,219</u>	<u>(40,973)</u>	-13%
Total assets	<u>278,107</u>	<u>319,791</u>	<u>(41,684)</u>	-13%
Liabilities and Net Position:				
Other liabilities	2,558	7,544	(4,986)	-66%
Due to Commonwealth	262,971	298,363	(35,392)	-12%
Long term liabilities	<u>2,717</u>	<u>3,302</u>	<u>(585)</u>	-18%
Total liabilities	<u>268,246</u>	<u>309,219</u>	<u>(40,973)</u>	-13%
Net Position				
Net investment in capital assets	9,861	10,572	(711)	-7%
Unrestricted deficit	<u>—</u>	<u>—</u>	<u>—</u>	0%
Total net position	<u>\$ 9,861</u>	<u>10,572</u>	<u>(711)</u>	-7%

The decrease in total assets is mostly due to the use of existing cash for the payment on behalf of the Commonwealth of expenses like refunds of contributions, death benefits payments, and administrative expenses. The decrease in due to Commonwealth is mostly related to the use of Trust assets, to cover operational and administrative payments on behalf of the Commonwealth. The decrease in long-term liabilities is mainly due to a decrease in accrued expenses related to reduced salaries payable. The increase in other liabilities is attributable to the increase in collection of contributions from participants that are required to be transferred to the pay go account.

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Management’s Discussion and Analysis (Unaudited)

June 30, 2021

Condensed Summary of Statement of Activities (in thousands):

	2021	2020	Change	
			Amount	Percentage
Revenues:				
Revenues from Commonwealth	\$ 2,313	8,991	(6,678)	-74%
Other income	327	282	45	16%
Total revenues	<u>2,640</u>	<u>9,273</u>	<u>(6,633)</u>	-72%
Expenditures/expenses:				
General and administrative expenses	<u>9,868</u>	<u>9,996</u>	<u>(128)</u>	-1%
Total expenses	9,868	9,996	(128)	-1%
Other financing sources:				
Transfer in from the Retirement Board	<u>6,517</u>	<u>—</u>	<u>6,517</u>	100%
Changes in net position	(711)	(723)	12	-2%
Net position:				
Beginning of year	<u>10,572</u>	<u>11,295</u>	<u>(723)</u>	-6%
End of year	<u>\$ 9,861</u>	<u>10,572</u>	<u>(711)</u>	-7%

The decrease in net position is related with the depreciation expense of the building and its improvements. The decrease in general and administrative expenses is attributable to the reduction in the employees headcount in 2021 and the separation incentives granted to certain employees during fiscal year 2020. During the fiscal year 2021, the Retirement Board transferred approximately \$6.5 million to the Trust to cover general and administrative expenses.

Financial Analysis of the Trust

The Trust’s net position as of June 30, 2021, amounted to approximately \$9.9 million, a decrease of approximately \$711 thousands from approximately \$10.6 million at June 30, 2020. Said decrease is attributed to the depreciation expense incurred on the building during fiscal year 2021.

Investment Portfolio

As of June 30, 2021, the Trust had some exposure to limited partnerships of private equity investments valued at approximately \$4.9 million. The increase of approximately \$2.6 million is attributed to the increase in the asset value of one of the two partnership investments.

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June 30, 2021

Loans Portfolio

As of June 30, 2021, the Trust held \$130 million in loans to participants. Loan balances as of June 30, 2021 were approximately \$19 million lower than the prior fiscal year ended June 30, 2020 mainly as a result of principal repayments and the suspension of originations.

Capital Assets

Capital assets of the Trust as of June 30, 2021 and 2020 amounted to approximately \$9.9 million and \$ 10.6 million, respectively, net of accumulated depreciation and amortization. Also as of June 30, 2021, the Trust held in custody on behalf of the Commonwealth \$624 thousand in capital assets and other assets, net of accumulated depreciation and amortization. Capital assets include building and improvements, furniture, equipment and software. Building and improvements consist of the facilities in which the Trust has its operations. Refer to Note 5 of the basic financial statements for further information regarding the Trust’s net capital assets.

Request for Information

The financial report is designed to provide a general overview of the Trust’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 System of Annuities and Pensions for Teachers, 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-
"TRS Legacy Trust"**

(A Component Unit of the Commonwealth of Puerto Rico)
General Fund Balance Sheet and Statement of Net Position
June 30, 2021
(In Thousands)

	General Fund Balance Sheet	Adjustments	Statement of Net Position
Assets:			
Commonwealth's assets in custody of the Trust:			
Cash and cash equivalents:			
Deposits at Puerto Rico commercial banks	\$ 128,469	—	128,469
Other receivables, net	4,188	—	4,188
Investments in limited partnerships	4,896	—	4,896
Loans to plan members, net	130,069	—	130,069
Capital assets, net	—	459	459
Other assets	—	165	165
Capital assets, net	—	9,861	9,861
Total assets	267,622	10,485	278,107
Liabilities:			
Accounts payable	1,289	—	1,289
Accrued expenses	1,269	—	1,269
Due to Commonwealth	265,064	(2,093)	262,971
Other long-term liabilities, due within one year	—	756	756
Other long-term liabilities, due after one year	—	1,961	1,961
Total liabilities	267,622	624	268,246
Fund Balance/Net Position:			
Fund balance—Restricted	—		
Total liabilities and fund balance	\$ 267,622		
Net position:			
Net investment in capital assets		9,861	9,861
Unrestricted deficit		—	—
		\$ 9,861	9,861

See accompanying notes to basic financial statements.

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(A Component Unit of the Commonwealth of Puerto Rico)
General Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities
Year ended June 30, 2021
(In Thousands)

	Statement of general fund revenues, expenditures, and changes in Fund Balance	Adjustments	Statement of activities
Revenues:			
Revenues from Commonwealth	\$ 2,898	(585)	2,313
Other income	327	—	327
	3,225	(585)	2,640
Expenditures/expenses:			
General and administrative expenses	9,742	126	9,868
Total expenditures/expenses	9,742	126	9,868
Deficiency of revenues over expenditures/expenses	(6,517)	(711)	(7,228)
Other financing sources:			
Transfer in the Retirement Board	6,517	—	6,517
Net change in fund balance/change in net position	—	(711)	(711)
Fund balance/net position:			
Beginning of year	—	10,572	10,572
End of year	\$ —	9,861	9,861

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2021

(1) Organization

Prior to July 1, 2017, the Puerto Rico System of Annuities and Pensions for Teachers— TRS Legacy Trust (the Trust) was a pension trust fund created by the Legislature of Puerto Rico in 1951 to provide pension and other benefits mainly to retired teachers of the Department of Education, an agency of the Commonwealth of Puerto Rico (the Commonwealth), and the employees of the Trust. After the enactment of Act No. 106 of 2017, known as the *Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106-2017)*, the Trust's operations are limited to maintaining custody of the unliquidated assets (excluding the building and building improvements) that are pending to be transferred to the Commonwealth's General Fund, rental activities and administrative services on behalf of the Commonwealth. The Trust also administers, on behalf of the Commonwealth, the data related to postemployment healthcare benefits provided by the Commonwealth to retired teachers of the Department of Education and retired employees of the Trust.

The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of the Trust. The product of the liquidation of said assets is designated by law to be used by the General Fund to cover pension benefits that used to be administered by the Trust. Therefore, the Trust's assets and activities are not reported as a pension trust fiduciary fund. Instead, starting in fiscal year 2018, the Trust is reported as part of the blended component units in the Commonwealth's financial statements. Accordingly, the financial activities of the Trust consist only of governmental activities. For its reporting purposes, the Trust has combined the General Fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column.

The Retirement Board is responsible for governing the Trust, Employees' Retirement System of the Commonwealth of Puerto Rico (ERS) and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS). The Retirement Board is comprised of 13 members, including (i) six ex officio members (or their designees): (1) the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), (2) the Secretary of Treasury of the Commonwealth, (3) the Director of the Office of Management and Budget, (4) the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, (5) the President of the Federation of Mayors, and (6) 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.

The Retirement Board is also the entity responsible for the receipt of government appropriations and other funds to cover PayGo expenses, like refunds of participants contributions and death benefits, and general and administrative expenses paid by the Trust. The funds received by the Trust from the Retirement Board for general and administrative expenses are recognized as transfer in from the Retirement Board in the statement of General Fund revenues, expenditures and changes in the fund balance and the statement of activities of the Trust.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities. The Trust follows

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June 30, 2021

governmental accounting standards board (GASB) standards in the preparation of its basic financial statements.

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

(a) Basis of Presentation

The financial activities of the Trust consist only of governmental activities. For its reporting purposes, the Trust has combined the General Fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Trust's government-wide and fund financial statements is as follows:

- (i) *Government-wide Financial Statements:* The government-wide statement of net position and statement of activities report the overall financial activity of the Trust.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Trust's sources of revenues include rental income and revenue from the Commonwealth for the custody and administration services performed by the Trust.

- (ii) *Fund Financial Statements:* The fund financial statements provide information about the Trust's General Fund. The General Fund accounts for all financial resources of the Trust.

(b) Basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of the timing of related cash flows.

Fund Financial Statements: The General Fund, as a governmental fund, is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

(c) 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 assets and liabilities and disclosure of

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contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents in custody of the Trust on behalf of the Commonwealth consist of deposits with commercial banks, which are sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty.

(e) Investments

Investments are reported at their Net Asset Value (“NAV”). The NAV of each fund includes the market value of the investments in the fund plus any receivables, payables, and accrued fund expenses.

(f) Loans to Plan Members

Mortgages, personal and cultural trip loans to plan members under custody of the Trust 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. Act 106-2017 suspended the issuance of new loans effectively August 23, 2017. The maximum amounts that were loaned to plan members for mortgage and cultural trip loans were \$125,000 and \$5,000, respectively. The maximum amount of personal loans that was granted to participating employees was up to 85% of their accumulated contributions, but not more than \$5,000. As instructed by Act 106-2017, the origination or renewal of loans to plan members had been suspended.

The Commonwealth, through the Trust, 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, if the member complies with the agreement conditions. This coverage is paid in its entirety by the plan members either at origination of the loan or as part of the repayment of the loan, depending on the agreement condition. The guarantee insurance reserve for life insurance on loans to plan members is revised by the Trust each year and adjusted accordingly as part of the Trust’s custodial functions related to loans to plan members. This reserve is adjusted each year based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets of the Trust include building and building improvements. Capital assets held on behalf of the Commonwealth are composed of equipment, furniture, fixtures and vehicles. Capital assets are defined 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 their estimated fair value at the time of donation.

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Capital assets are depreciated on the straight-line method over the assets' estimated useful lives. The estimated useful lives of capital assets are as follows:

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

(h) Termination Benefits

The Trust 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 Trust, as an employer, should recognize a liability and expense for voluntary termination benefits (e.g., early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (e.g., 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.

(i) Fund Balance / Net Position

(a) Fund Balance

The fund balance for the General Fund is reported in classifications based on the extent to which the Trust is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

- Fund balance is reported as non-spendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2021.
- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.
- The Trust's highest decision-making level of authority rests with the Retirement Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Retirement Board can modify or rescind a commitment of resources through passage of a new resolution. There was no committed fund balance as of June 30, 2021.
- Resources that are constrained by the government's intent to use them for a specific purpose but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Retirement Board. There was no assigned fund balance as of June 30, 2021.
- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Trust for any purpose.

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Notes to Basic Financial Statements

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(b) Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position is displayed in the following components:

- Net investment in capital assets – This consists of capital assets, less accumulated depreciation and amortization.
- Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Trust’s policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2021.
- Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2021:

	(In thousands)
Fund balance	\$ —
Add: capital assets, net of accumulated depreciation, and repossessed houses classified as other assets as they are not financial resources and therefore are not reported in the general fund	10,485
Less: accrued compensated absences, escrow funds of mortgages loans and voluntary termination benefits as they are not reported in the General Fund	<u>(624)</u>
Net position	<u><u>\$ 9,861</u></u>

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The following is a reconciliation between the excess of expenditures over revenues and the statement of activities at June 30, 2021:

	(In thousands)
Net change in fund balance	\$ —
Revenues related to Other Long-term Liabilities as reimbursed by the Commonwealth	(585)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	585
Less: expenditures related to capital assets reported on Government-wide financial statements	<u>(711)</u>
Change in net position	<u><u>\$ (711)</u></u>

(j) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective during the fiscal year ended June 30, 2021:

- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2021, as revised by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*. The Trust is evaluating the impact of this new statement.
- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases*, for interim financial reports. The Trust is evaluating the impact of this new statement.

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The Trust considered the effective dates for the requirements of this Statement considering the COVID-19 pandemic and in concert with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

(3) Deposits and Investments

(a) Deposits

Cash and cash equivalents in custody of the Trust are exposed to custodial credit risk for deposits. Custodial credit risk for deposits is the risk that, in an event of the failure of a depository financial institution, the Commonwealth 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 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 in custody of the Trust as of June 30, 2021 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits at commercial banks	\$ 128,469	129,403	—

(b) Investments

Investments under custody of the Trust are classified as limited partnerships, which are measured at Net Asset Value (NAV). Investments measured at NAV are not subject to GAAP level hierarchy. The balance of limited partnerships at June 30, 2021 amounted to approximately \$4.9 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 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, 2021, the Trust does not intend to sell the investments in limited partnerships for an amount different to that presented in the financial statements.

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As of June 30, 2021 the Trust had capital commitments and contributions as follows (in thousands):

	<u>Total commitments</u>	<u>Fiscal year contributions</u>	<u>Cumulative contributions</u>	<u>Fair value</u>
Guayacán Fund of Funds II, L.P.	\$ 25,000	—	23,681	295
Guayacán Private Equity Fund, L.P.	5,000	—	4,645	4,601
Total	<u>\$ 30,000</u>	<u>—</u>	<u>28,326</u>	<u>4,896</u>

- *Net Appreciation in Fair Value of Investments*

For the year ended June 30, 2021, the net appreciation in fair value of investments amounted to approximately \$2,572 million was recorded as an increase in due to Commonwealth. The segregated net appreciation in fair value is as follows (in thousands):

<u>Investment type</u>	<u>Realized gain (loss)</u>	<u>Unrealized gain (loss)</u>	<u>Net appreciation in fair value of investments</u>
Investments in limited partnerships	\$ —	2,572	2,572
Total	<u>\$ —</u>	<u>2,572</u>	<u>2,572</u>

(4) Loans to Members

As of June 30, 2021, the composition of loans from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal		\$ 13,128
Mortgage		126,242
Cultural trips		<u>252</u>
Total loans to plan members		139,622
Less:		
Escrow funds of mortgage loans and guarantee insurance reserve		(4,123)
Allowance for adjustments and losses in realization		<u>(5,430)</u>
Total loans from plan members – net		<u>\$ 130,069</u>

The originations of mortgage, personal and cultural loans were frozen in August 2017. No originations occurred during fiscal year 2021.

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The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans.

(5) Capital Assets

For the year ended June 30, 2021, changes in capital assets consisted of the following (in thousands):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets of the Trust:				
Building	\$ 26,008	—	—	26,008
Building improvements	765	—	—	765
Total capital assets of the Trust, being depreciated	26,773	—	—	26,773
Accumulated depreciation and amortization	(16,201)	(711)	—	(16,912)
Total capital assets of the Trust, being depreciated, net	<u>\$ 10,572</u>	<u>(711)</u>	<u>—</u>	<u>9,861</u>
Capital assets under custody of the Trust:				
Capital assets, being depreciated:				
Furniture and equipment	1,267	8	—	1,275
Computers and software	10,625	7	—	10,632
Branches improvements	274	—	—	274
Vehicles	109	—	—	109
Total capital assets, being depreciated	12,275	15	—	12,290
Accumulated depreciation and amortization	(11,414)	(417)	—	(11,831)
Total capital assets under custody of the Trust, net	<u>\$ 861</u>	<u>(402)</u>	<u>—</u>	<u>459</u>

(6) Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2021, was as follows (in thousands):

	<u>Beginning balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance June 30, 2021</u>	<u>Due within one year</u>	<u>Long-term portion</u>
Accrued compensated absences	\$ 772	49	—	821	289	532
Voluntary termination benefits	2,529	—	(633)	1,896	467	1,429
	<u>\$ 3,301</u>	<u>49</u>	<u>(633)</u>	<u>2,717</u>	<u>756</u>	<u>1,961</u>

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(7) 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. With the enactment of Act 106-2017, the Trust, as an employer, are not required to continue making the required employee and employer pension contributions to the Trust. The PayGo system will be responsible for benefit payments once the retiree is eligible for the pension benefits.

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 Trust's trust fund. Given that, the recorded liability for this voluntary termination benefits as of June 30, 2021 does not consider the future payment of the employer's contributions. As of June 30, 2021, the Trust has recorded a liability of approximately \$1.9 million for its responsibility as an employer under Act No. 70, which \$1.4 million is included within other long term liabilities.

(8) Contingencies

The Trust 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 Trust's financial status.

(9) Subsequent Events

Subsequent events were evaluated through December 23, 2022 to determine if any such events should either be recognized or disclosed in the 2021 basic financial statements. The subsequent events disclosed below are principally those which management believes are of public interest for disclosure.

(a) Confirmation of Joint Plan of Adjustment for the Commonwealth, ERS and PBA

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the Title III Court.

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan),

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which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. The teachers' associations filed a petition for a writ of certiorari, which the U.S. Supreme Court denied on November 21, 2022. On July 18, 2022, the First Circuit affirmed the Title III Court's finding that the Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-367. On October 27, 2022, the First Circuit denied another retiree group's appeal of the Confirmation Order's preemption of Acts 80, 81, and 82 for lack of appellate jurisdiction. See Case No. 22-1120. On November 23, 2021, the First

Circuit dismissed the credit unions' appeal as moot after dismissing their underlying adversary proceeding claims. See Case No. 22-1079. Oral argument on the merits of the remaining appeal [Case No. 22-1092] was held on April 28, 2022, but a final determination on that appeal remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of the Puerto Rico Sales Tax Financing Corporation (COFINA) debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed

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preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

The Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Trust and Teachers Retirement System of Puerto Rico (TRS) will be subject to benefits freeze and the elimination of any cost of living adjustments previously authorized under the Trust and TRS pension plans.

For further information, refer to the final versions of the Eighth Amended Plan, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.