

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO —
“ERS LEGACY TRUST”**

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2024

(With Independent Auditors' Report Thereon)

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO —
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June 30, 2024

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KPMG LLP
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Independent Auditors' Report

The Retirement Board of
The Government of Puerto Rico Employees' Retirement System of the Government
Of the Commonwealth of Puerto Rico – "ERS Legacy Trust":

Report on the Audit of the Financial Statements

Opinion

We have audited the statement of net position of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico – "ERS Legacy Trust" (the Trust), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of June 30, 2024, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust, as of June 30, 2024, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

San Juan, Puerto Rico
May 5, 2025

KPMG LLP

License Number LLP-21
Expires December 1, 2025



DLLP21-119
Employees' Retirement System of the
Government of the Commonwealth of Puerto
Rico - "ERS Legacy Trust"

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Statement of Net Position

June 30, 2024

(in thousands)

Assets

Commonwealth's assets in custody of the Trust:

Cash and cash equivalents:

Deposits at commercial banks:

Unrestricted \$ 16,246

Restricted 60,053

Money market funds: 37,880

Other receivables 109

Due from Retirement Board of the

Commonwealth of Puerto Rico 4,372

Bonds and notes 110,624

Investments in limited partnerships 48,700

Member loans and interest receivable – net 125,318

Capital assets – net 25

Other assets 6,556

Total assets 409,883

Liabilities

Accounts payable and accrued liabilities 2,932

Due to Commonwealth of Puerto Rico 406,951

Total liabilities 409,883

Net Position

\$ -

See accompanying notes to basic financial statements.

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(1) Organization

Prior to July 1, 2017, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico— "ERS Legacy Trust" ("ERS" or the "Trust") was a pension trust fund created by the Legislature of Puerto Rico (the Legislature) under Act No. 447, as amended, to provide pension and other benefits to retired employees of the Commonwealth of Puerto Rico (the Commonwealth), its public corporations, and municipalities. The Trust was administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and governed by a board of trustees (the Board of Trustees). During this time, the Trust administered a cost-sharing, multiemployer, pension plan consisting of three benefit structures: (i) a cost-sharing, multiemployer, defined benefit program (the Defined Benefit Program); (ii) a defined contribution program (the System 2000 Program); and (iii) a contributory hybrid program (the Contributory Hybrid Program).

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 maintain custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund, servicing the bonds payable and administrative services on behalf of the Commonwealth.

Act 106-2017 approved a substantial pension reform for all of the Commonwealth's Retirement Systems, including the Trust. This reform modified most of the Trust's activities, restructured the Trust's operations and created the legal framework so that the Commonwealth can make benefit payments to current pensioners. Effective on July 1, 2017, the Trust's previously existing pension programs under Act No. 447 of 1951 (as amended) were terminated and transitioned to a pay-as-you-go (PayGo) system, in which the Trust stopped receiving contributions from employers or plan participants and is no longer managing contributions on behalf of participants. Under the PayGo system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employers. Act 106-2017 also ordered a suspension of the Trust's loan programs and ordered a merger of the administrative structures of the retirement systems.

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. Therefore, the Statement of Net Position of the Trust is blended in the Commonwealth's government wide financial statements. The financial activities of the Trust consist only of governmental activities. Refer to Note 2 for basis of presentation.

Between May 21, 2017 and March 15, 2022, the Trust operated in a case under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). This Title III case concluded during fiscal year 2022, when on March 15, 2022, the conditions precedent to the effective date of the approved Plan of Adjustment were satisfied. Accordingly, the Plan of Adjustment became effective and all related activities mandated by the Title III Court were fulfilled. During fiscal year 2023, the Trust continues to administer the remainder of all assets and liabilities as a custodian.

The Retirement Board is currently responsible for governing, the Trust, the Judiciary of the Commonwealth of Puerto Rico (JRS) and the Puerto Rico System of Annuities and Pensions for Teachers (TRS). 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

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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.

During year ended June 30, 2024, the Trust, JRS and TRS, also component units of the Commonwealth, continue to be administered by the Retirement Board of the Government of Puerto Rico (the Retirement Board), an instrumentality of the Commonwealth of Puerto Rico. Previously, during fiscal year 2022, the Retirement Board began assuming the responsibility for the general and administrative expenses of all three retirement systems, including 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 governmental accounting standards board (GASB) standards in the preparation of its Statement of Net Position. The following are the significant accounting policies followed by the Trust in the preparation of its Statement of Net Position:

(a) Basis of Presentation

The financial activities of the Trust consist only of governmental activities. For its reporting purposes, the Trust has elected to present only the Statement of Net Position. Refer to item (h) for a reconciliation of fund financial data to government-wide data. A brief description of the Trust's government-wide Statement of Net Position is as follows:

Government-wide Financial Statements: The government-wide statement of net position reports the overall financial activity 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.

(c) Use of Estimates

The preparation of the Statement of Net Position in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

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(d) Cash and Cash Equivalents

Cash equivalents in custody of the Trust include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition and consist of deposits and money market funds.

(e) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The Trust had investments in limited partnerships and the Puerto Rico Sales Tax Financing Corporation (COFINA) bonds of approximately \$49 million and \$111 million, respectively, as of June 30, 2024. Investments in limited partnerships 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) Member Loans

Mortgage, personal, and cultural trip loans to plan members in custody are stated at their outstanding principal balance less an allowance for uncollectible amounts. Loans to plan members mostly 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 effective on August 23, 2017. The maximum amount that was loaned to plan members for mortgage loans was \$100,000 and \$5,000 for personal and cultural trip loans.

The allowance for personal and cultural loans is estimated using quantitative methods that consider a variety of factors such as historical loss experience, accumulated contributions, death benefits, and payments in transit. The Trust's allowance for mortgage loan losses is based on GASB Codification Section C50. The allowance for mortgage loan losses is estimated using quantitative methods that consider a variety of factors such as historical loss experience, accumulated contributions, and loan categories, based on the methodology of ASC 450-20 (General Reserve) and ASC 310-10 (Specific Reserve). Accordingly, the mortgage loan portfolio is segmented into three categories: performing loans (PLs), which consist of a homogeneous pool of loans that are deemed not impaired; nonperforming loans (NPLs), which are loans in non-accrual status and in the process of evaluation for foreclosure. Performing loans comprise: (i) loans to active participants or retirees, which are considered collectible since the repayment of the loan is guaranteed through payroll/pension withholdings; (ii) loans to separate employees that are current in their payments. Nonperforming loans represent loans for which members are in default and have not made any scheduled payments of principal or interest for some time (at least 90 days).

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The Commonwealth, through the Trust, provides life insurance that guarantees the payment of the outstanding principal balance of loans to plan members in case of death of a plan member. The coverage is paid in its entirety by the plan members who obtain these loans from the Trust. Premiums collected for guaranteed insurance and benefits claimed are recorded as additions and deductions of the guaranteed insurance reserve, respectively. The guaranteed insurance reserve for life insurance on loans to plan members is revised each year and adjusted, accordingly, based on the annual higher claim amount of a five-year period increased by a management determined percentage.

(g) Capital Assets

Capital assets under custody include building, building improvements, and furniture and equipment. Capital assets are defined as assets with an initial individual cost of \$500 or more at the date of acquisition and a useful life equal to or in excess of four years. Capital assets are recorded at historical cost, or their estimated historical cost, if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

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

	<u>Years</u>
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5-10

(h) 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. There was no net investment in capital assets net position as of June 30, 2024.
- 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 as of June 30, 2024.
- Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

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The following is a reconciliation between the General Fund balance sheet and the statement of net position at June 30, 2024:

Fund balance:	\$	—
Add capital assets, net of accumulated depreciation, and other assets as they are not financial resources and, therefore, are not reported in the general fund		6,581
Less long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund:		
Due to Commonwealth		(6,581)
Net position	\$	—

(i) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective during the fiscal year ended June 30, 2024:

- GASB Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurements of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in liability for compensated absences to allow governments to disclose only the net change in liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal year beginning after December 15, 2023, and all reporting periods thereafter.
- GASB Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to

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understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

- GASB Statement No. 103, *Financial Reporting Model Improvements*. This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.
- GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

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Management is evaluating the effect that these new statements will have on the Trust's Statement of Net Position.

(3) Deposits and Investments

(a) Deposits

Deposits as of June 30, 2024 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits in custody of the Trust:			
Deposits with Puerto Rico commercial banks	\$ 76,299	66,544	—
Money market funds	37,880	37,880	—
Total in custody of the Trust	\$ 114,179	104,424	—

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Trust 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 banks in the Commonwealth's name. Deposits with non-Puerto Rico commercial banks and money market funds are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

(b) COFINA Bonds Restructuring

On February 12, 2019, the *Third Amended Title III Plan of Adjustment of the Puerto Rico Sales Tax Financing Corporation* (the COFINA Plan of Adjustment) was substantially consummated and became effective. As result, COFINA's existing senior and subordinated bondholders, including the Trust, received new senior secured bonds issued by COFINA in accordance with the COFINA Plan of Adjustment. During the year fiscal ended June 30, 2024, COFINA bonds generated unrealized gains of approximately \$4 million and are reported as an increase in due to Commonwealth.

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(c) Fair Value Measurement

The Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used in valuation, 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 – Inputs whose values are based on unadjusted quoted prices for identical instruments in active markets that the Trust has the ability to access.

Level 2 – Inputs whose values are 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 Trust'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) as practical expedient are not subject to level classification.

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

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments measured at fair value:				
COFINA bonds	\$ —	110,624	—	110,624
Investments measured at NAV as practical expedient:				
Investments in limited partnerships				48,700
Total Investments			\$	<u>159,324</u>

The Trust's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2024:

(i) 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 Trust may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At

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June 30, 2024, securities investments were registered in the name of the Trust and were held in the possession of the Trust's custodian banks.

(ii) *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. COFINA Bonds has not been rated as of June 30, 2024.

(iii) *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer. As of June 30, 2024, all investments in COFINA Bonds and in limited partnerships, maintained by the Trust represent 5% or more of the Trust's total investments.

(iv) *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The contractual maturity of investments as of June 30, 2024, 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.

<u>Investment type</u>	<u>Maturity (in years)</u>				<u>Total</u>
	<u>Within one year</u>	<u>After one to five years</u>	<u>After five to ten years</u>	<u>After ten years</u>	
Bonds and notes:					
COFINA bonds	\$ —	—	—	110,624	<u>110,624</u>
Total investments				\$ 110,624	<u><u>110,624</u></u>

(v) *Investments in Limited Partnerships*

The fair value of investments in limited partnerships at June 30, 2024, amounted to approximately \$50 million and is presented as private equity investments in the statement of net position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

In accordance with the partnership agreements, the Trust'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, 2024, the Trust does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements.

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As of June 30, 2024, the date of commitment, total commitment, 2024 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	<u>Date of commitment</u>	<u>Total commitment</u>	<u>2024 contributions</u>	<u>Unfunded commitments</u>	<u>Estimated fair value</u>
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	February 1997	5,000	—	355	5,022
Guayacán Private Equity Fund II, LP	April 2007	25,000	—	453	7,579
Venture Capital Fund, Inc.	October 1995	800	—	—	865
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP					
	December 2006	25,000	—	7	14,572
MCOY Investments	December 2016	10,000	—	—	17,272
Phoenix	July 2016	10,000	—	—	—
Terracap	July 2016	6,829	—	—	3,390
Total		\$ 82,629	—	815	48,700

(vi) *Net Appreciation/(Depreciation) in Fair Value of Investments*

For the year ended June 30, 2024, the net depreciation in fair value of investments amounted to approximately \$4 million and was recorded as a 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/ (depreciation) in fair value of investments</u>
Bonds and notes	\$ —	4,213	4,213
Investments in limited partnerships	—	307	307
Total investments	\$ —	4,520	4,520

(4) Claim Receivable from Public Entity Trust

On November 29, 2018, the Government Development Bank for Puerto Rico (GDB) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the GDB Qualifying Modification). Under the GDB Qualifying Modification, and pursuant to Act No. 109 of 2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Trust (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB after giving

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effect to the foregoing adjustment, including the Trust, received their pro rata share of interests in a newly formed trust created by the GDB Restructuring Act, the Public Entity Trust (the PET) (which included a total PET Claim of approximately \$32.9 million). The interests received against the PET was deemed to be in full satisfaction of any and all claims the Authority may have against GDB and the Trust.

Prior to the closing of the Qualifying Modification, on October 5, 2018, GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Financial Oversight and Management Board for Puerto Rico and the Official Committee of Unsecured Creditors of All Title III Debtors (Other Than COFINA) (the "Committee") entered a stipulation (the "Stipulation") resolving certain litigation that had been commenced by the Committee challenging the GDB Qualifying Modification. The U.S. District Court for the District of Puerto Rico entered an order on the Stipulation on October 9, 2018.

Under the Stipulation, GDB agreed to transfer to the PET any cash that remained at GDB after satisfaction of the obligations pursuant to certain cash adjustments for which such cash was retained under the GDB Restructuring in an aggregate amount up to \$10 million (the "Contingent Settlement Cash"). The Contingent Settlement Cash, if any, would be applied as partial payment of the remaining claims that the Puerto Rico Electric Power Authority ("PREPA") and the Trust have against the PET.

On November 8, 2023, the PET transferred approximately \$29 thousand to the Trust, representing its pro rata share of the remaining Contingent Settlement Cash. Upon transfer of approximately \$29 thousand to the Trust, the remaining claims of ERS against the PET were reduced to \$24.2 million.

The remaining assets of the PET consist of, among other items, an unsecured claim of \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Claim and other PET Assets. As discussed in Note 3, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET. As of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. As a result, units received from the PET were accounted for with a carrying value of zero.

	Pro rata share of interest in the PET (in thousands)		
	Balance	Allowance	Book balance
Claim receivable	\$ 24,225	(24,225)	—

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(5) Member Loans and Interest Receivable

As of June 30, 2024, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	\$ 29,726
Mortgage	114,990
Cultural trips	<u>3,053</u>
Total loans to plan members	147,769
Accrued interest receivable	7,020
Less:	
Escrow funds of mortgage loans and guarantee insurance reserve	(7,397)
Allowance for loan losses, including interest	<u>(22,074)</u>
Total loans and interest receivable from plan members – net	<u><u>\$ 125,318</u></u>

The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except for mortgage loans. For personal and cultural loans, the allowance for loan losses (ALLL) is determined using the specific allowance for loans losses methodology. The ALLL for personal and cultural loans consider all loans categories, including interest receivable. Mortgage loans portfolio is segregated into two categories to determine the ALLL: (i) loans subject to specific reserve; and (ii) loans subject to general reserve.

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(6) Capital Assets

Capital assets in custody of the Trust's activity for the year ended June 30, 2024 was as follows:

Capital assets depreciable:				
Equipment	\$ 1,845	—	(336)	1,509
Office furniture	2,107	—	(72)	2,035
Vehicles	82	—	—	82
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital asset, depreciable	4,034	—	(408)	3,626
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation and amortization for:				
Equipment	\$ 1,831	—	(326)	1,505
Office furniture	2,073	9	(68)	2,014
Vehicles	82	—	—	82
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation and amortization	3,986	9	(394)	3,601
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital asset depreciable	48	(9)	(14)	25
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, net	\$ 48	(9)	(14)	25
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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(7) Related Parties' Transactions

(a) Commonwealth of Puerto Rico

The Trust pays death benefits and refunds of contributions to beneficiaries and terminated members on behalf of the Commonwealth and provides the servicing to loans to members portfolio, as well as membership services. During the year ended June 30, 2024, the Trust paid on behalf of the Commonwealth approximately \$15 million in death benefits and refunds of contributions.

The following table presents the activities managed by the Trust on behalf of the Commonwealth during the year ended 6/30/2024:

	In thousands
Additions:	
Contributions from the Retirement Board of the Commonwealth of Puerto Rico	\$ 12,730
Investment income:	
Net depreciation in fair value of investments	4,520
Interest	14,636
Dividends	80
Net investment income	19,236
Other income	7,877
Total additions	39,843
Deductions:	
Death benefits paid to participants	10,151
Refunds of contributions	4,784
Depreciation expense	14
Members loans and life insurance reserve	9,221
Other expenses	917
Total deductions	25,087
Change in Due to Commonwealth	14,756
Due to Commonwealth	
Beginning of year	392,195
Change in Due to Commonwealth	14,756
End of year	\$ 406,951

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(b) Retirement Board of the Government of Puerto Rico

During the year ended June 30, 2022, the Retirement Board began operations as an instrumentality of the Commonwealth and assumed responsibility for the administrative and general expenses of the Trust, JRS, and TRS. Also, the Retirement Board received appropriations from the Commonwealths' General Fund for the pension benefits managed by the Trust. Accordingly, during the year ended June 30, 2024, the Trust received transfers of cash from the Retirement Board of approximately \$12.7 million for the payment of refunds of contributions and death benefits to inactive members on behalf of the Commonwealth. The transfer of funds from the Retirement board and the benefits payment to the Trust membership were recorded as a change in Due to Commonwealth.

(8) Contingencies

(a) Litigation Filed by Creditors Against the Trust After Commencement of the Title III Case

La Liga de Ciudades de P.R. v. The Fin. Oversight & Mgmt. Bd. for P.R., Adv. Pro. No. 21-00026-LTS (D.P.R. March 14, 2021)

On March 14, 2021, La Liga de Ciudades de Puerto Rico (La Liga), a non-profit corporation claiming to have as members mayors of Puerto Rico's municipalities, filed a complaint against the Oversight Board, FAFAA, the Municipal Revenues Collection Center (CRIM), the Puerto Rico Health Insurance Administration (ASES), and Luis M. Collazo Rodríguez, in his capacity as administrator of the System (collectively, Defendants). The complaint alleges that CRIM, ASES, and the System are collecting and withholding money from Puerto Rico's municipalities based on an incorrect interpretation of an order entered in the Act 29 Litigation (discussed above), in which the Title III Court declared Act 29 “unenforceable and of no effect.”

After the order in the Act 29 Litigation went into effect, CRIM held back funds that otherwise would have been disbursed to the municipalities in order to pay ASES and the System the health care and retirement contributions that, but for Act 29, would have been made during the period prior to the effective date of the Act 29 Litigation order. La Liga contends those debts are “inexistent,” because the order did not apply retroactively. Accordingly, La Liga seeks (i) a declaratory judgment “decreeing that the debts claimed by CRIM, ASES and [the System] ... are “inexistent” and that the withholdings made by CRIM to purportedly offset those inexistent debts are “illegal”, (ii) an injunction “prohibiting Defendants from collecting from the municipalities any of the monies that Law 29 exempted them” from paying prior to the effective date of the order, (iii) an order requiring CRIM to immediately disburse any funds withheld to pay for the Act 29-related debts, and (iv) an order requiring the System and ASES to return to CRIM “any and all monies” received to pay the purported debts.

On May 14, 2021, the Oversight Board and FAFAA (on behalf of the other government defendants) filed separate motions to dismiss. All briefing on the motions to dismiss was completed on July 14, 2021. On November 2, 2021, certain members of the U.S. House of Representatives filed a motion for leave to participate in this case with amicus curiae “plus” status, which would grant the U.S. House members full participation rights in the La Liga litigation. On November 15, 2021, the Oversight Board filed its response in which it did not object to the Title III Court accepting the amicus brief but objected to U.S. House members' “plus” status in this case. The U.S. House members filed a reply on November 22, 2021.

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On January 4, 2022, the Title III Court entered an order granting the motions to dismiss. On January 18, 2022, La Liga filed a notice of appeal in the First Circuit under Case No. 22-1062. Briefing was completed on November 10, 2022 and oral argument was held on December 6, 2022. As of the date hereof, the First Circuit has not issued a decision.

On July 25, 2024, the First Circuit under Case No. 22-1062 dismissed the complaint on the ground that La Liga has failed to meet its burden to show that it has standing.

(9) Subsequent Events

Subsequent events were evaluated through May 5, 2025, the date the Statement of Net Position were available to be issued, to determine if such events should be recognized or disclosed in the 2024 Statement of Net Position. However, no significant events occurred after June 30, 2024 that require to be disclosed.