

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

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements

June 30, 2024

(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, 2024

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## Independent Auditors' Report

The Retirement Board of The Government of Puerto Rico  
Puerto Rico System of Annuities and Pension for Teachers – “TRS Legacy Trust”

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the statement of net position and statement of revenues, expenditures and changes in net position of the Puerto Rico System of Annuities and Pension for Teachers – “TRS 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 statement 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.

#### *Auditors’ Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. 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 statement.



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 statement.
- 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 statement.
- 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



DLLP21-120  
Puerto Rico System of Annuities and Pension  
for Teachers – "TRS Legacy Trust"

**PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS-**  
**"TRS Legacy Trust"**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Net Position  
June 30, 2024  
(In thousands)

**Assets:**

Commonwealth's assets in custody of the Trust:

Cash and cash equivalents:			
Deposits at Puerto Rico commercial banks	\$	50,095	BE-1
Other Receivables, net		25	
Investments in limited partnerships		4,992	
Loans to plan members, net		97,383	
Capital assets, net		36	
Other assets		225	
Capital assets, net		7,911	
Total assets		160,667	↓

**Liabilities:**

Accounts payable		1,223	BE-2
Accrued expenses		541	
Due to Commonwealth		150,634	
Due to Retirement Board		358	
Total liabilities		152,756	↓

Net position:

Net investment in capital assets		7,911	
Unrestricted		-	
	\$	7,911	↓

See accompanying notes to basic financial statements.

**PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS -  
"TRS Legacy Trust"**

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of General Fund Revenues, Expenditures and changes in Net Position

Year ended June 30, 2024

(in Thousands)

Expenditures/expenses				
General and administrative expenses	\$	<u>650</u>	BE-3	
Total expenditures/expenses		<u>650</u>		
Excess of expenditures and special items over revenues		<u>(650)</u>		
Change in fund balance		(650)		
Net Position				
Beginning of year		<u>8,561</u>		
End of year	\$	<u><u>7,911</u></u>		↓

See accompanying notes to basic financial statements.

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(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2024

**(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 an entity responsible for the receipt of government appropriations and other funds to cover PayGo expenses, like refunds of participants contributions and death benefits.

**(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 basic financial statements.

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June 30, 2024

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 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.

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June 30, 2024

**(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 allowance for 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 is determined in accordance with ASC 450-20 (General Reserve) and ASC 310-10 (Specific Reserve), taking into account the guidance in GASB 62, which permits the use of FASB standards as guidance. 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. For 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 nonaccrual 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).

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.

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**(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.

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:

	<u>Years</u>
Building	40
Building improvements	10
Equipment, furniture, fixtures, and vehicles	4–10

**(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.
- 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, 2024.
- 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 and the statement of net position at June 30, 2024:

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	(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	8,172
Less insurance and loans reserves, escrow funds of mortgages loans and deferred inflow of resources as they are not reported in the General Fund	<u>(261)</u>
Net position	<u>7,911</u>

The following is a reconciliation between the excess of expenditures over revenues and the statement of activities at June 30, 2024:

	(In Thousands)
Excess of expenditures and extraordinary items over revenues	-
Less current year depreciation and amortization, as the cost of assets is allocated over their useful lives in the statement of activities	<u>(650)</u>
• Change in net position	<u>(650)</u>

**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. 100, Accounting Changes and Error Corrections – An Amendment of GASB Statement No.62. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- GASB Statement No. 101, Compensated Absences. This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other

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postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The Statement does not apply to benefits that are within the scope of Statement No. 47, Accounting for Termination Benefits, as amended.

- 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 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, The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

Management is evaluating the effect that these new statements will have on the Trust's basic statements.

**(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.

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June 30, 2024

Cash and cash equivalents in custody of the Trust as of June 30, 2024 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Deposits at commercial banks	\$ 50,095	48,962	—

**(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 partnership at June 30, 2024 amounted to approximately \$5.0 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, 2024, the Trust does not intend to sell the investments in limited partnerships for an amount different to that presented in the financial statements.

As of June 30, 2024 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 Private Equity Fund, L.P.	5,000	—	4,645	4,992

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June 30, 2024

- *Net Appreciation in Fair Value of Investments*

For the year ended June 30, 2024, the net appreciation in fair value of investments amounted to approximately \$25 thousands was recorded as an increase in due to Commonwealth. The segregated net appreciation in fair value is as follows (in thousands):

<b>Investment type</b>	<b>Realized gain (loss)</b>	<b>Unrealized gain (loss)</b>	<b>Net apreciation in fair value of investments</b>
Investments in limited partnerships	\$ —	25	25
Total	\$ <u>—</u>	<u>25</u>	<u>25</u>

**(4) Loans to Members**

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

Loans receivable:		
Personal	\$	7,266
Mortgage		98,916
Cultural trips		<u>54</u>
Total loans to plan members		106,236
Less:		
Escrow funds of mortgage loans and guarantee insurance reserve		(4,507)
Allowance for adjustments and losses in realization		<u>(4,346)</u>
Total loans from plan members – net	\$	<u>97,383</u>

The originations of mortgage, personal and cultural loans were frozen in August 2017. No originations occurred during fiscal year 2024.

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Notes to Basic Financial Statements

June 30, 2024

**(5) Capital Assets**

For the year ended June 30, 2024, 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	(18,212)	(650)	—	(18,862)
Total capital assets of the Trust, being depreciated, net	<u>\$ 8,561</u>	<u>(650)</u>	<u>—</u>	<u>7,911</u>
Capital assets under custody of the Trust:				
Capital assets, being depreciated:				
Furniture and equipment	1,275	—	—	1,275
Computers and software	10,632	—	—	10,632
Branches improvements	274	—	—	274
Vehicles	98	—	—	98
Total capital assets, being depreciated	12,279	—	—	12,279
Accumulated depreciation and amortization	(12,231)	(12)	—	(12,243)
Total capital assets under custody of the Trust, net	<u>\$ 48</u>	<u>(12)</u>	<u>—</u>	<u>36</u>

**(6) 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 \$12 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 June 30, 2024:

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Notes to Basic Financial Statements

June 30, 2024

	In thousands
Due to Commonwealth beginnig balance:	\$ 143,844
Additions:	
Contributions from Retirement Board	11,903
Loans portfolio interest	5,799
Total additions	17,702
Deductions:	
Death benefits	4,691
Refunds of contributions	6,236
Net depreciation of investments	(25)
Other expenses	9
Total deductions	10,912
Net increase	6,790
Ending balance	\$ 150,634

**(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 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 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.

**(7) 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.

**(8) Subsequent Events**

Subsequent events were evaluated through May 5, 2025, to determine if any such events should either be recognized or disclosed in the 2024 basic financial statements. Management believes that no subsequent event is of public interest for disclosure