



**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, 2020

(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, 2020

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KPMG LLP  
Suite 1400  
55 Second Street  
San Francisco, CA 94105

## 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, 2020, 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 information of the Puerto Rico System of Annuities and Pensions for Teachers – “TRS Legacy Trust”, as of June 30, 2020, 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  
June 1, 2022

Stamp No. E470560 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS—  
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Management’s Discussion and Analysis (Unaudited)

June 30, 2020

**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, 2020. 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 Notes 1 and 3 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, 2020, 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, 2020 were subsidized with revenues from the Commonwealth through the utilization of the assets on their custody. The most significant changes in the presentation of the basic financial statements is that current year revenues and expenses (expenditures) are limited to the administration of the assets under its 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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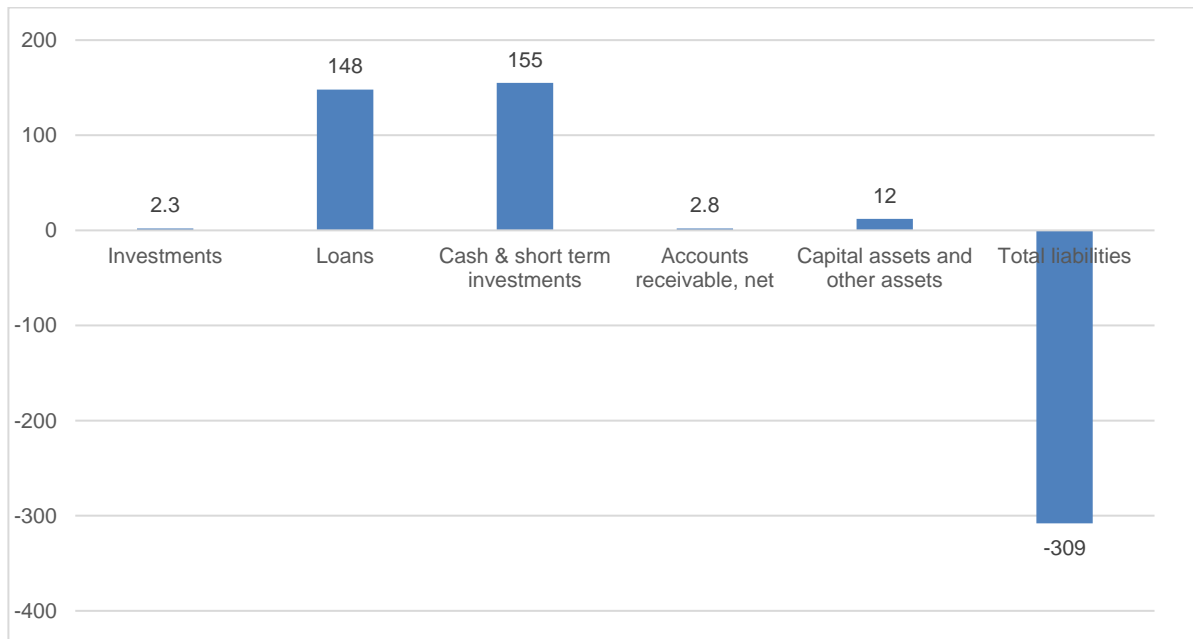
June 30, 2020

**Financial Highlights**

As of June 30, 2020, the Trust’s total assets, including Commonwealth’s assets under the custody of the Trust, consisted of the following:

- \$11 million in capital assets
- 309 million in Commonwealth’s assets under the custody of the Trust, which includes:
  - \$155 million in cash and cash equivalents
  - \$2.3 million in investments;
  - \$148 million in loans to plan members, net
  - \$2.8 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, 2020 amounted to approximately \$2 million, similar to the investments balance as of June 30, 2019.
- Administrative expenses for the fiscal year ended June 30, 2020 amounted to approximately \$10 million, as compared to approximately \$21 million for the year ended June 30, 2019.

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- The Trust recognized approximately \$9 million in revenues from the Commonwealth in the fiscal year ended June 30, 2020, to cover part of the administrative expenses, as compared to approximately \$19.5 million in fiscal year ended June 30, 2019.

**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, 2020

**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 2020 and 2019:

Condensed Summary of Net Position (in thousands):

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percentage</u>
<b>Assets:</b>				
Trust’s assets	\$ 10,572	11,295	(723)	(6)%
Assets under custody of the Trust	<u>309,219</u>	<u>324,670</u>	<u>(15,451)</u>	(5)
Total assets	<u>\$ 319,791</u>	<u>335,965</u>	<u>(16,174)</u>	(5)
<b>Liabilities and Net Position:</b>				
Other liabilities	\$ 7,554	2,045	5,509	269
Due to Commonwealth	298,363	317,917	(19,554)	(6)
Due to Hybrid Program Members	—	699	(699)	(100)
Long term liabilities	<u>3,302</u>	<u>4,009</u>	<u>(707)</u>	(18)
Total liabilities	<u>\$ 309,219</u>	<u>324,670</u>	<u>(15,451)</u>	(5)
<b>Net Position</b>				
Net investment in capital assets	\$ 10,572	11,295	(723)	(6)
Unrestricted deficit	<u>—</u>	<u>—</u>	<u>—</u>	—
Total net position	<u>\$ 10,572</u>	<u>11,295</u>	<u>(723)</u>	(6)

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. Decrease in due to Hybrid Program Members is explained by the transfer of \$700 thousands to a temporary Trust for the new Defined Contribution Program under Act 106-2017. The decrease in long-term liabilities is mainly due to a decrease in accrued expenses related to reduced salaries payable.



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Condensed Summary of Statement of Activities (in thousands):

	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>Percentage</b>
Revenues:				
Revenues from Commonwealth	\$ 8,991	19,563	(10,572)	(54)%
Other income	282	358	(76)	(21)
Total revenues	9,273	19,921	(10,648)	(53)
Expenditures/expenses:				
General and administrative expenses	9,996	20,644	(10,648)	(52)
Total expenses	9,996	20,644	(10,648)	(52)
Changes in net position	(723)	(723)	—	—
Fund balance/net position:				
Beginning of year	11,295	12,018	(723)	(6)
End of year	\$ 10,572	11,295	(723)	(6)

Decrease in operational expenses is mostly related to the adoption during fiscal year 2019 of a voluntary transition program that granted eligible employees certain increased benefits for their resignation or retirement. The decrease in net position is related with the depreciation expense related to the building and its improvements.

**Financial Analysis of the Trust**

The Trust’s net position as of June 30, 2020, amounted to approximately \$10.6 million, a decrease of approximately \$723 thousands from approximately \$11.3 million at June 30, 2019. Said decrease is attributed to the depreciation expense incurred on the building during fiscal year 2020.

**Investment Portfolio**

As of June 30, 2020, the Trust had some exposure to limited partnerships of private equity investments valued at approximately \$2 million.

**Loans Portfolio**

As of June 30, 2020, the Trust held \$148 million in loans to participants. Loan balances as of June 30, 2020 were approximately \$38 million lower than the prior fiscal year ended June 30, 2019 mainly as a result of principal repayments and the suspension of originations.

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June 30, 2020

**Capital Assets**

Capital assets of the Trust as of June 30, 2020 and 2019 amounted to approximately \$10 and \$11 million, respectively, net of accumulated depreciation and amortization. Also as of June 30, 2020, the Trust held in custody on behalf of the Commonwealth \$1 million 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 6 of the basic financial statements for further information regarding the Trust’s net capital assets.

**Management’s Conclusion on Going Concern**

Notwithstanding the facts and circumstances existing on June 30, 2020 and that the Trust is financially dependent on the Commonwealth as a result of Act 106-2017, based on subsequent events that remedied the Commonwealth’s financial condition and addressed its liabilities, the Trust’s management does not believe that there is substantial doubt as to the ability of the Trust to continue as a going concern as of the date of these financial statements in accordance with the Governmental Accounting Standard Board (GASB) Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Audit Standards.

Detailed information about the Commonwealth’s historical budgetary constraints and liquidity risks that have been resolved as of the date of these financial statements that indicate the Trust will be able to continue as a going concern are disclosed in the Note 3 and Note 10 of these financial statements.

**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.

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(A Component Unit of the Commonwealth of Puerto Rico)

Statement of General Fund Balance Sheet and Statement of Net Position

June 30, 2020

(in Thousands)

	<b>General Fund Balance Sheet</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets:</b>			
Commonwealth's assets in custody of the System:			
Cash and cash equivalent:			
Deposits at Puerto Rico commercial banks	\$ 155,211	—	155,211
Other, net	2,801	—	2,801
Investments in limited partnerships	2,324	—	2,324
Loans to plan members, net	147,856	—	147,856
Capital assets, net	—	861	861
Other assets	—	166	166
Capital assets, net	—	10,572	10,572
Total assets	308,192	11,599	319,791
<b>Liabilities:</b>			
Accounts payable	6,321	—	6,321
Accrued expenses	1,233	—	1,233
Due to Commonwealth	300,638	(2,275)	298,363
Other long-term liabilities, due within one year	—	876	876
Other long-term liabilities, due after one year	—	2,426	2,426
Total liabilities	308,192	1,027	309,219
<b>Fund balance/net position:</b>			
Fund balance – Restricted:	—		
Total liabilities and fund balance	\$ 308,192		
<b>Net position:</b>			
Net investment in capital assets		10,572	10,572
Unrestricted deficit		—	—
		\$ 10,572	10,572

See accompanying notes to basic financial statements.

**PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS—  
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Statement of General Fund Revenues, Expenditures, and changes in Fund Balance

Year ended June 30, 2020

(in Thousands)

	<b>Statement of general fund revenues, expenditures, and changes in Fund Balance</b>	<b>Adjustments</b>	<b>Statement of activities</b>
Revenues:			
Revenues from Commonwealth	\$ 9,699	(708)	8,991
Other income	282	—	282
	9,981	(708)	9,273
Expenditures/expenses:			
General and administrative expenses	9,981	15	9,996
Total expenditures/expenses	9,981	15	9,996
Excess of expenditures and special items over revenues	—	(723)	(723)
Changes in net position	—	(723)	(723)
Fund balance/net position:			
Beginning of year	—	11,295	11,295
End of year	\$ —	10,572	10,572

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2020

**(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, Government Employees Retirement System (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.

**(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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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, 2020

**(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 and mortgages 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:

	<b>Years</b>
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 nonspendable 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, 2020.
- 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, 2020.
- 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, 2020.
- 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

June 30, 2020

*(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, 2020.
- 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, 2020 (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		11,599
Less: accrued compensated absences, escrow funds of mortgages loans and voluntary termination benefits as they are not reported in the General Fund		<u>(1,027)</u>
Net position	\$	<u><u>10,572</u></u>

The following is a reconciliation between the excess of expenditures and special items over revenues and the statement of activities at June 30, 2020 (in thousands):

Revenues related to capital assets as reimbursed by the Commonwealth	\$	(708)
Less: expenditures related to capital assets reported on Government-wide financial statements		<u>(15)</u>
Change in net position	\$	<u><u>(723)</u></u>

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**(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, 2020:

- 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.

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

**(3) Going Concern**

Notwithstanding the budgetary constraints and historical liquidity risks faced by the Trust and the Commonwealth, and other circumstances existing on June 30, 2020, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Trust's ability to continue as a going concern as of the date of these financial statements because of the following:

- Since the effective date of Act 106-2017 and Joint Resolution 188, the Trust's operations have been 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 to the Commonwealth. Although the Trust is financially dependent of the Commonwealth, the Commonwealth's liquidity risk and other fiscal uncertainties have been addressed under the Commonwealth Plan of Adjustment (as defined and discussed in Note 10).

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As further discussed in Note 10 to the basic financial statement, on January 18, 2022, the United States District Court for the District of Puerto Rico (the Title III Court) confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth, ERS, and Public Building Authority (PBA) each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. 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 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%. In addition, the Commonwealth Plan of Adjustment does not reduce current retiree benefits, but imposed a benefit freeze and elimination of cost of living adjustments in the defined benefit plans for active teachers under the Trust and for active judges under JRS. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth’s future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) would approve the future financing needs of the Trust.

**(4) 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, 2020 consisted of the following (in thousands):

	<b>Carrying amount</b>	<b>Depository bank balance</b>	<b>Amount uninsured and uncollateralized</b>
Deposits at commercial banks	\$ 155,211	157,263	—

**(b) Investments**

Investments under custody of the Trust are classified as limited partnerships, which are measured at Net Asset Value (NAV) for fair value. Investments measured at NAV are not subject to GAAP level hierarchy. The ending balance of limited partnerships at June 30, 2020, amounted to approximately \$2.3 million. The allocations of net gains and losses to limited partners are based on certain

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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, 2020, 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, 2020, 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	355
Guayacán Private Equity Fund, L.P.	5,000	—	4,645	1,969
Total	<u>\$ 30,000</u>	<u>—</u>	<u>28,326</u>	<u>2,324</u>

- *Net Appreciation in Fair Value of Investments*

For the year ended June 30, 2020 the net appreciation in fair value of investments amounted to approximately \$191 thousand 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	\$ —	191	191
Total	<u>\$ —</u>	<u>191</u>	<u>191</u>

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**(5) Loans to Members**

As of June 30, 2020, the composition of loans from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	\$ 23,164
Mortgage	136,084
Cultural trips	<u>604</u>
Total loans to plan members	159,852
Less:	
Escrow funds of mortgage loans and guarantee insurance reserve	(6,770)
Allowance for adjustments and losses in realization	<u>(5,226)</u>
Total loans from plan members – net	<u>\$ 147,856</u>

The originations of mortgage, personal and cultural loans were frozen in August 2017. No originations occurred during fiscal year 2020.

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

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**(6) Capital Assets**

For the year ended June 30, 2020, 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	(15,478)	(723)	—	(16,201)
Total capital assets of the Trust, being depreciated, net	<u>\$ 11,295</u>	<u>(723)</u>	<u>—</u>	<u>10,572</u>
Capital assets under custody of the Trust:				
Capital assets, being depreciated:				
Furniture and equipment	\$ 1,266	1	—	1,267
Computers and software	10,616	9	—	10,625
Branches improvements	274	—	—	274
Vehicles	109	—	—	109
Total capital assets, being depreciated	12,265	10	—	12,275
Accumulated depreciation and amortization	(10,968)	(446)	—	(11,414)
Total capital assets under custody of the Trust, net	<u>\$ 1,297</u>	<u>(436)</u>	<u>—</u>	<u>861</u>

**(7) Long-Term Liabilities**

Long-term liabilities activity for the year ended June 30, 2020 was as follows:

	<u>Beginning balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance June 30, 2020</u>	<u>Due within one year</u>	<u>Long-term portion</u>
Accrued compensated absences	\$ 870	—	(98)	772	229	543
Voluntary termination benefits	3,139	—	(610)	2,529	646	1,883
	<u>\$ 4,009</u>	<u>—</u>	<u>(708)</u>	<u>3,301</u>	<u>875</u>	<u>2,426</u>

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**(8) 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, 2020 does not consider the future payment of the employer's contributions. As of June 30, 2020, the Trust has recorded a liability of approximately \$1.9 million for its responsibility as an employer under Act No. 70, which is included within other long term liabilities.

**(9) 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.

**(10) Subsequent Events**

Subsequent events were evaluated through June 1, 2022, which is the date these financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2020 financial statements. The subsequent events disclosed are those which management believes are of public interest for disclosure.

*Plan of Adjustment for the Commonwealth, ERS, and PBA*

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

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On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Oversight Board, an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the COFINA, the ERS, the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the PBA initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

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 United States District Court for the District of Puerto Rico (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), 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 Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers’ associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.



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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 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 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.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum

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tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.
- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other

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general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with \$200 million on the Effective Date and will be replenished with an additional aggregate total amount of \$375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to \$30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of \$500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants in the benefit plans for the Trust and JRS will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the Trust and JRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which was filed on May 2, 2022 and subsequently amended on May 16, 2022 [Case No. 17-3567, ECF No. 1177].

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

*Impact of Coronavirus (COVID-19) Pandemic*

On March 11, 2020, the World Health Organization (WHO) declared the coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Vázquez-Garced issued executive order 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Secretary of the Treasury and the Executive Director of the Oversight Board to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Numerous executive orders have been subsequently issued by the governor to manage all COVID-19 matters.

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As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will reevaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.