



**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, 2022

(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, 2022

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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

#### *Opinions*

We have audited the financial statements of the governmental activities and the general fund 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 and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Trust’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Trust as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinions*

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

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of



internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

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

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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  
September 18, 2023

Stamp No. E520008 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



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Management’s Discussion and Analysis (Unaudited)

June 30, 2022

**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, 2022. 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, 2022, 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, 2022 were subsidized with revenues from the Commonwealth through the utilization of the assets on their custody. Revenues and expenses (expenditures), associated to the assets under the Trust’s custody are presented as part of the change in Due to Commonwealth.

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

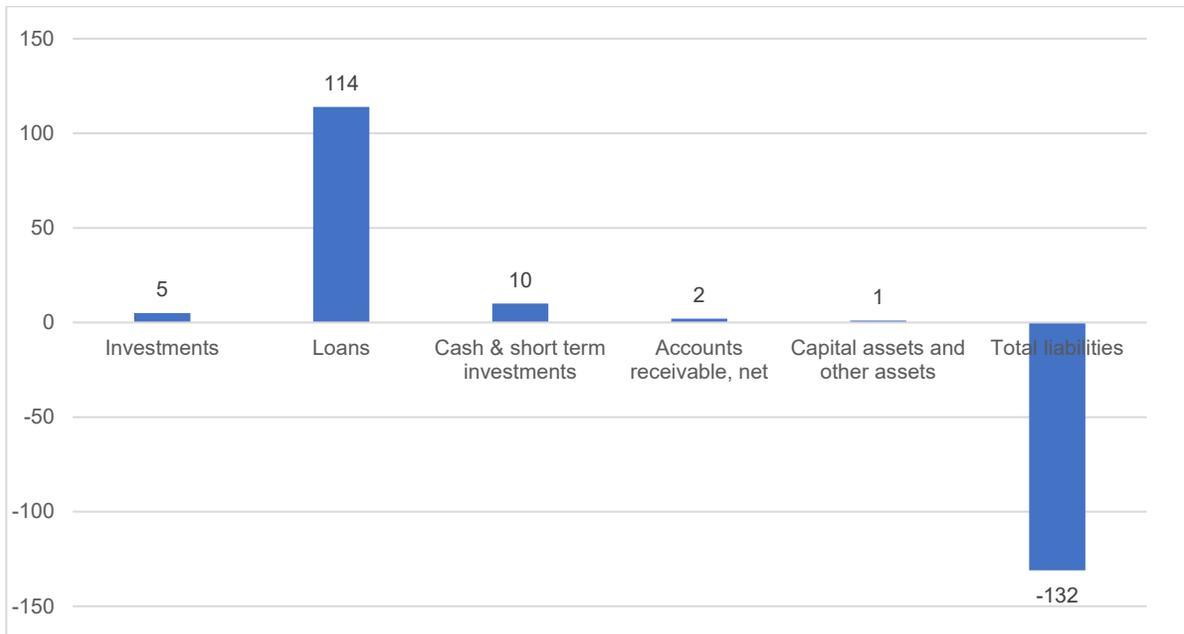
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**Financial Highlights**

As of June 30, 2022, the Trust’s total assets, including Commonwealth’s assets under the custody of the Trust, consisted of the following:

- \$9 million in capital assets
- \$132 million in Commonwealth’s assets under the custody of the Trust, which includes:
  - \$10 million in cash and cash equivalents
  - \$5 million in investments;
  - \$114 million in loans to plan members, net
  - \$2 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):



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- Investments under custody of the Trust (excluding loans to participants) at June 30, 2022 amounted to approximately \$5 million, similar to the balance as of June 30, 2021.
- Administrative expenses for the fiscal year ended June 30, 2022 amounted to approximately \$1 million, \$9 million less than the expense incurred during fiscal year ended June 30, 2021.
- The Trust recognized approximately \$141 thousands in revenues from the Commonwealth in the fiscal year ended June 30, 2022, to cover part of the administrative expenses, approximately \$2.2 million less than the revenue earned during fiscal year ended June 30, 2021.

**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.

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- *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.

**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 2022 and 2021.

Condensed Summary of Net Position (in thousands):

	<b>Condensed summary of net position</b>			
	<b>2022</b>	<b>2021</b>	<b>Change</b>	
			<b>Amount</b>	<b>Percentage</b>
<b>Assets:</b>				
Trust’s assets	\$ 9,211	9,861	(650)	(7)%
Assets under custody of the Trust	131,216	268,246	(137,030)	(51)%
Total assets	<u>\$ 140,427</u>	<u>278,107</u>	<u>(137,680)</u>	<u>(50)%</u>
<b>Liabilities and net position:</b>				
Other liabilities	\$ 4,209	2,558	1,651	65 %
Due to Commonwealth	126,149	262,971	(136,822)	(52)%
Due to Retirement Board	714	—	714	100 %
Long term liabilities	—	2,717	(2,717)	(100)%
Total liabilities	<u>\$ 131,072</u>	<u>268,246</u>	<u>(137,174)</u>	<u>(51)%</u>
Deferred Inflow of Resources	144	—	144	100 %
<b>Net position:</b>				
Net investment in capital assets	\$ 9,211	9,861	(650)	(7)%
Unrestricted deficit	—	—	—	— %
Total net position	<u>\$ 9,211</u>	<u>9,861</u>	<u>(650)</u>	<u>(7)%</u>

The decrease in total assets is mostly due to the use of existing cash for the contribution requested by the Commonwealth to cover agreements under the ratified Plan of Debt Adjustment of the Commonwealth that was effective on March 15, 2022. The decrease in due to Commonwealth is mostly related to the use of Trust assets to cover the contribution requested by Commonwealth. The decrease in long-term liabilities is mainly due to the transfer of accrued expenses related to reduced salaries payable to the Retirement Board. The increase in other liabilities is attributable to the increase in collection of contributions from participants that are required to be transferred to the pay go account and the outstanding pending benefits to participants in process as of the end of the fiscal year.



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Condensed Summary of Statement of Activities (in thousands):

	2022	2021	Change	
			Amount	Percentage
Revenues:				
Revenues from commonwealth	\$ —	2,313	(2,313)	(100)%
Revenue from the retirement board	374	—	374	100 %
Lease income	714	327	387	118 %
Total revenues	1,088	2,640	(1,552)	(59)%
Expenditures/expenses:				
General and administrative expenses	1,738	9,868	(8,130)	(82)%
Total expenses	1,738	9,868	(8,130)	(82)%
Transfer in from the Retirement Board	—	6,517	—	100 %
Changes in net position	(650)	(711)	6,578	(925)%
Fund balance/net position				
Beginning of year	9,861	10,572	(711)	(7)%
End of year	\$ 9,211	9,861	(650)	(7)%

The decrease in net position is related to the depreciation expense related to the building. The decrease in general and administrative expenses is attributable to the transfer of employees and other administrative expenses to the Retirement Board at the beginning of fiscal year 2022.

#### Financial Analysis of the Trust

The Trust’s net position as of June 30, 2022, amounted to approximately \$9.2 million, a decrease of approximately \$650 thousand from approximately \$9.9 million at June 30, 2021. Said decrease is attributed to the depreciation expense incurred on the building during fiscal year 2022.

#### Investment Portfolio

As of June 30, 2022, the Trust had some exposure to limited partnerships of private equity investments valued at approximately \$5.4 million. The increase of approximately \$500 thousand is attributed to the increase in the asset value of one of the two partnership investments.

#### Loans Portfolio

As of June 30, 2022, the Trust held \$113 million in loans to participants. Loan balances as of June 30, 2022 were approximately \$16 million lower than the prior fiscal year ended June 30, 2021 mainly as a result of principal repayments and the suspension of originations.

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**Capital Assets**

Capital assets of the Trust as of June 30, 2022 and 2021 amounted to approximately \$9.2 million and \$9.9 million, respectively, net of accumulated depreciation and amortization. Also as of June 30, 2022, the Trust held in custody on behalf of the Commonwealth \$300 thousands in capital assets and other assets, net of accumulated depreciation and amortization. Capital assets include building and improvements, furniture, equipment and software. Building and improvements consist of the facilities in which the Trust has its operations. Refer to Note 5 of the basic financial statements for further information regarding the Trust’s net capital assets.

**Request for Information**

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

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Statement of General Fund Balance Sheet and Statement of Net Position

June 30, 2022

	<u>General fund balance sheet</u>	<u>Adjustments</u>	<u>Statement of net position</u>
<b>Assets:</b>			
Commonwealth's assets in custody of the Trust:			
Cash and cash equivalents:			
Deposits at Puerto Rico commercial banks	\$ 10,336	—	10,336
Other Receivables, net	1,107	—	1,107
Lease receivable	145	—	145
Investments in limited partnerships	5,357	—	5,357
Loans to plan members, net	113,972	—	113,972
Capital assets, net	—	74	74
Other assets	—	225	225
Capital assets, net	—	9,211	9,211
Total assets	<u>130,917</u>	<u>9,510</u>	<u>140,427</u>
<b>Liabilities:</b>			
Accounts payable	2,661	—	2,661
Accrued expenses	1,548	—	1,548
Due to Commonwealth	125,849	300	126,149
Due to Retirement Board	714	—	714
Other long-term liabilities, due within one year	—	—	—
Other long-term liabilities, due after one year	—	—	—
Total liabilities	<u>130,772</u>	<u>300</u>	<u>131,072</u>
Deferred Inflow of resources	<u>145</u>	<u>(1)</u>	<u>144</u>
<b>Fund balance/net position:</b>			
Fund balance—Restricted:	—		
Total liabilities and fund balance	<u>\$ 130,917</u>		
<b>Net position:</b>			
Net investment in capital assets		9,211	9,211
Unrestricted deficit		<u>—</u>	<u>—</u>
		<u>\$ 9,211</u>	<u>9,211</u>

See accompanying notes to basic financial statements.

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Statement of General Fund Revenues, Expenditures and changes in Fund Balance

Year ended June 30, 2022

(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 Retirement Board of the Government of PR	\$ 374	—	374
Lease income	714	—	714
	<u>1,088</u>	<u>—</u>	<u>1,088</u>
Expenditures/expenses:			
General and administrative expenses	1,088	650	1,738
Total expenditures/expenses	<u>1,088</u>	<u>650</u>	<u>1,738</u>
Excess of expenditures and special items over revenues	<u>—</u>	<u>(650)</u>	<u>(650)</u>
Change in net position	—	(650)	(650)
Fund balance/net position			
Beginning of year	<u>—</u>	<u>9,861</u>	<u>9,861</u>
End of year	<u>\$ —</u>	<u>9,211</u>	<u>9,211</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

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**(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, and general and administrative expenses paid by the Trust. The funds received for general and administrative expenses are recognized as transfer in from the Retirement Board in the Statement of General Fund Revenues, Expenditures and changes in the Fund Balance of the Trust.

**(2) Summary of Significant Accounting Policies**

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

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

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

**(a) Basis of Presentation**

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

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

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

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

**(b) Basis of accounting**

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

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

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

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**(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.

**(d) Cash and Cash Equivalents**

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

**(e) Investments**

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

**(f) Loans to Plan Members**

Mortgages, personal and cultural trip loans to plan members under custody of the Trust are stated at their outstanding principal balance net of allowance for uncollectible amounts. Loans to plan members are collected through payroll withholdings and secured by mortgage deeds, plan members’ contributions, and any unrestricted amount remaining in the escrow funds. Act 106-2017 suspended the issuance of new loans effectively August 23, 2017. The maximum amounts that were loaned to plan members for mortgage and cultural trip loans were \$125,000 and \$5,000, respectively. The maximum amount of personal loans that was granted to participating employees was up to 85% of their accumulated contributions, but not more than \$5,000. As instructed by Act 106-2017, the origination or renewal of loans to plan members had been suspended.

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

**(g) Capital Assets**

Capital assets of the Trust include building and building improvements. Capital assets held on behalf of the Commonwealth are composed of equipment, furniture, fixtures and vehicles. Capital assets are defined as assets, which have an initial individual cost of \$500 or more at the date of acquisition and have a useful life of four or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at the time of donation.

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

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

**(h) Termination Benefits**

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

**(i) Fund Balance / Net Position**

**(a) Fund Balance**

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

- Fund balance is reported as non-spendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. There was no nonspendable fund balance as of June 30, 2022.
- 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, 2022.
- 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, 2022.



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- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Trust for any purpose.

*(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, 2022.
- 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, 2022 (In thousands):

Reconciliation:

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		9,365
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>(154)</u>
Net position	\$	<u><u>9,211</u></u>

The following is a reconciliation between the excess of expenditures over revenues and the statement of activities at June 30, 2022 (In thousands):

Net change in fund balance	\$	—
Less expenditures related to capital assets reported on Government-wide financial statements		<u>(650)</u>
Change in net position:	\$	<u><u>(650)</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, 2022:

- GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87, Leases, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.
- GASB Statement No. 99 – Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.
- 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.

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

**(k) Current adoption of New Accounting Pronouncement**

In fiscal year 2022, the Trust implemented GASB 87, Leases. This statement requires the recognition of certain lease assets and liabilities for leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use and underlying asset. Under this statement, a lessor is required to recognize a lease receivable and a deferred inflow of

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resources. The Trust adopted this statement as of July 1, 2021. The result of this adoption had effect only in lease transactions of offices of the Trust to other public entities.

**(3) Deposits and Investments**

**(a) Deposits**

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

Cash and cash equivalents in custody of the Trust as of June 30, 2022 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	\$ 10,247	10,247	—

**(b) Investments**

Investments under custody of the Trust are classified as limited partnerships, which are measured at Net Asset Value (NAV). Investments measured at NAV are not subject to GAAP level hierarchy. The balance of limited partnerships at June 30, 2022 amounted to approximately \$5.4 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, 2022, the Trust does not intend to sell the investments in limited partnerships for an amount different to that presented in the financial statements.

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As of June 30, 2022 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	302
Guayacán Private Equity Fund, L.P.	5,000	—	4,645	5,056
Total	\$ <u>30,000</u>	<u>—</u>	<u>28,326</u>	<u>5,358</u>

- *Net Appreciation in Fair Value of Investments*

For the year ended June 30, 2022, the net appreciation in fair value of investments amounted to approximately \$461 million was recorded as an increase in due to Commonwealth. The segregated net appreciation in fair value is as follows (in thousands):

<u>Investment type</u>	<u>Realized gain (loss)</u>	<u>Unrealized gain (loss)</u>	<u>Net appreciation in fair value of investments</u>
Investments in limited partnerships	\$ —	461	461
Total	\$ <u>—</u>	<u>461</u>	<u>461</u>

#### (4) Loans to Members

As of June 30, 2022, the composition of loans from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	\$	8,548
Mortgage		116,065
Cultural trips		96
Total loans to plan members		<u>124,709</u>
Less:		
Escrow funds of mortgage loans and guarantee insurance reserve		(5,345)
Allowance for adjustments and losses in realization		(5,392)
Total loans from plan members – net	\$	<u>113,972</u>

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The originations of mortgage, personal and cultural loans were frozen in August 2017. No originations occurred during fiscal year 2022.

The allowance for personal and cultural loans as of June 30, 2022, includes the full uncollected loan balances from participants who have been deceased for more than 6 years, as well as loan balances that are not collateralized with a participant's contributions to any of the Trust's retirement programs and have been in default for more than three months. The allowance for personal and cultural loans is estimated using quantitative methods that consider a variety of factors such as historical loss experience, accumulated contributions, death benefits, and payments in transit. The Trust's allowance for mortgage loan losses is based on ASC 450-20 (General Reserve) and ASC 310-10 (Specific Reserve). 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. Accordingly, the mortgage loan portfolio is segmented into three categories: performing loans (PLs), which consist of a homogeneous pool of loans that are deemed not impaired; nonperforming loans (NPLs), which are loans in non-accrual status and in the process of evaluation for foreclosure. Performing loans comprise: (i) loans to active participants or retirees, which are considered collectible since the repayment of the loan is guaranteed through payroll/pension withholdings; (ii) loans to separate employees that are current in their payments. Nonperforming loans represent loans for which members are in default and have not made any scheduled payments of principal or interest for some time (at least 90 days).

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**(5) Capital Assets**

For the year ended June 30, 2022, changes in capital assets consisted of the following (in thousands):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets of the Trust:				
Building	\$ 26,008	—	—	26,008
Building improvements	765	—	—	765
Total capital assets of the Trust, being depreciated	26,773	—	—	26,773
Accumulated depreciation and amortization	(16,912)	(650)	—	(17,562)
Total capital assets of the Trust, being depreciated, net	<u>\$ 9,861</u>	<u>(650)</u>	<u>—</u>	<u>9,211</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	109	—	—	109
Total capital assets, being depreciated	12,290	—	—	12,290
Accumulated depreciation and amortization	(11,831)	(385)	—	(12,216)
Total capital assets under custody of the Trust, net	<u>\$ 459</u>	<u>(385)</u>	<u>—</u>	<u>74</u>

**(6) Long-Term Liabilities**

Long-term liabilities activity for the year ended June 30, 2022, was as follows (in thousands):

	<u>Beginning balance June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance June 30, 2022</u>	<u>Due within one year</u>	<u>Long-term portion</u>
Accrued compensated absences	\$ 821		(821)	—	—	—
Voluntary termination benefits	1,896	—	(1,896)	—	—	—
	<u>\$ 2,717</u>	<u>—</u>	<u>(2,717)</u>	<u>—</u>	<u>—</u>	<u>—</u>

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**(7) Lease of Office Space**

The Trust owns a sixteen-floor office building that is partially used for the operations of the Retirement Board. The space not used by the Retirement Board is leased to other public entities. The lease agreements duration vary among for terms of twelve (12) to thirty-nine (39) months. During the fiscal year the Trust recognized approximately \$588,687 as offices lease revenue and \$1,848 as interest income. Revenues for the rental of parking spaces amounted to \$125,745. Lease contracts may be terminated by either the Trust or the lessees, provided advanced notification is given to the other party involved in the contract. The rent amount is negotiated and considers the market values of rent for similar office spaces in the building's area.

At June 30, 2022, the balance of lease receivable was approximately \$144,833, and the balance of deferred inflows of resources was approximately \$144,146. Future annual minimum rental income commitments are as follows:

Year End June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 61,596	1,342	62,938
2024	62,208	630	62,838
2025	<u>20,929</u>	<u>50</u>	<u>20,979</u>
	<u>\$ 144,733</u>	<u>2,022</u>	<u>146,755</u>

**(8) Contingencies**

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

**(9) Subsequent Events**

Subsequent events were evaluated through September 18, 2023 to determine if any such events should either be recognized or disclosed in the 2021 basic financial statements. The subsequent event disclosed below is the only one management believes is of public interest for disclosure.

**(a) Commonwealth Execution of a Purchase Option of Retirement Plans Private Equity Portfolios**

Under the Plan of Adjustment of the Commonwealth that was effective on March 15, 2022, (i) the Commonwealth was granted an option through April 10, 2023 to purchase the Trust's and Employees Retirement System (ERS) Private Equity Portfolios for \$70,750,000, (ii) in the event the Commonwealth declines to exercise such option, pursuant to the Bondholder Election, ERS bondholders have the option to purchase the ERS Private Equity Portfolio for \$70,750,000, plus such amount as may be necessary to reimburse the Commonwealth for any funded shortfall amounts in connection with the Private Equity Portfolio, and (iii) in the event that the Bondholder Election is not exercised, the Commonwealth shall purchase the Private Equity Portfolios for \$70,750,000. On November 18, 2022, the Commonwealth exercised the option and purchased the Private Equity Portfolio.