



**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

Year Ended June 30, 2023

(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)

Year ended June 30, 2023

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KPMG LLP
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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 Statement

Opinion

We have audited the statement of net position and statement of revenues, expenditures and changes in net position Puerto Rico System of Annuities and Pension for Teachers – “TRS Legacy Trust” (the Trust), a component unit of the Commonwealth of Puerto Rico (the Commonwealth) as of June 30, 2023, and the related notes to the financial statement, which collectively comprise the Trust’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Trust as of June 30, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statement 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 opinion.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibilities for the Audit of the Financial Statement

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



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

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

KPMG LLP

San Juan, Puerto Rico
June 13, 2024

Stamp No. E556111 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 – "TRS Legacy Trust"**

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2023

Assets:

Commonwealth's assets in custody of the Trust:

Cash and cash equivalents:

Deposits at puerto rico commercial banks	\$	36,435
Other receivables, net		148
Investments in limited partnerships		4,967
Loans to plan members, net		104,711
Capital assets, net		48
Other assets		225
Capital assets, net		8,561

Total assets		155,095
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Liabilities:

Accounts payable		1,717
Accrued expenses		615
Due to commonwealth		143,844
Due to retirement board		358
Other long-term liabilities, due within one year		—
Other long-term liabilities, due after one year		—

Total liabilities		146,534
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Net position:

Net position balance – restricted		—
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Total liabilities and fund balance		146,534
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Net position:

Net investment in capital assets		8,561
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Unrestricted		—
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	\$	8,561
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See accompanying notes to basic financial statements.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures and changes in Net Position

Year ended June 30, 2023

(in thousands)

Expenditures/expenses:	
Depreciation expense	\$ <u>650</u>
Total expenditures/expenses	<u>650</u>
Excess of expenditures and special items over revenues	<u>(650)</u>
Change in net position	(650)
Net position	
Beginning of year	<u>9,211</u>
End of year	\$ <u><u>8,561</u></u>

See accompanying notes to basic financial statements.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Year ended June 30, 2023

(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.

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 Revenues, Expenditures and changes in the Net Position 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 governmental accounting standards board (GASB) standards in the preparation of its basic financial statements.

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Notes to Basic Financial Statements

Year ended June 30, 2023

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 Statement of Net position and Statement of Revenues, Expenditures, and changes of net position.

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.

(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.

(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.

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Notes to Basic Financial Statements

Year ended June 30, 2023

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.

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

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

(h) Net Position

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

- Net investment in capital assets – This consists of capital assets, less accumulated depreciation and amortization amounting to \$8.8 million as of June 30, 2023.
- 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, 2023.
- Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

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Notes to Basic Financial Statements

Year ended June 30, 2023

(i) Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective during the fiscal year ended June 30, 2023:

- 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.
- GASB Statement No. 101, Compensated Absences. This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). The requirements of this Statement apply to the financial statements of all state and local governments. The Statement does not apply to benefits that are within the scope of Statement No. 47, Accounting for Termination Benefits, as amended.

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

(3) Deposits and Investments

(a) Deposits

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

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Year ended June 30, 2023

Cash and cash equivalents in custody of the Trust as of June 30, 2023 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	\$ 36,435	35,499	—

(b) Investments

Investments under custody of the Trust are classified as limited partnerships, which are measured at Net Asset Value (NAV). Investments measured at NAV are not subject to GAAP level hierarchy. The balance of limited partnership at June 30, 2023 amounted to approximately \$5.0 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationality recognized statistical rating organization.

In accordance with the partnership agreements, the investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2023, 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, 2023 the Trust had capital commitments and contributions as follows (in thousands):

	<u>Total commitments</u>	<u>Fiscal year contributions</u>	<u>Cumulative contributions</u>	<u>Fair value</u>
Guayacán Private Equity Fund, L.P.	\$ 5,000	—	4,645	4,967

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Year ended June 30, 2023

Net Appreciation in Fair Value of Investments

For the year ended June 30, 2023, the net appreciation in fair value of investments amounted to approximately \$39 thousands was recorded as an increase in due to Commonwealth. The segregated net appreciation in fair value is as follows (in thousands):

Investment type	Realized gain (loss)	Unrealized gain (loss)	Net depreciation in fair value of investments
Investments in limited partnerships	\$ (35)	(4)	(39)
Total	\$ (35)	(4)	(39)

(4) Loans to Members

As of June 30, 2023, the composition of loans from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	\$	7,763
Mortgage		106,850
Cultural trips		63
Total loans to plan members		114,676
Less:		
Escrow funds of mortgage loans and guarantee insurance reserve		(5,112)
Allowance for adjustments and losses in realization		(4,853)
Total loans from plan members – net	\$	104,711

The originations of mortgage, personal and cultural loans were frozen in August 2017. No originations occurred during fiscal year 2023.

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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Notes to Basic Financial Statements

Year ended June 30, 2023

(5) Capital Assets

For the year ended June 30, 2023, 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	(17,562)	(650)	—	(18,212)
Total capital assets of the Trust, being depreciated, net	<u>\$ 9,211</u>	<u>(650)</u>	<u>—</u>	<u>8,561</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	—	(11)	98
Total capital assets, being depreciated	12,290	—	(11)	12,279
Accumulated depreciation and amortization	(12,216)	(26)	11	(12,231)
Total capital assets under custody of the Trust, net	<u>\$ 74</u>	<u>(26)</u>	<u>—</u>	<u>48</u>

(6) Related Parties' Transactions

(a) Commonwealth of Puerto Rico

The Trust pays death benefits and refunds of contributions to beneficiaries and terminated members on behalf of the Commonwealth and provides the servicing to loans to members portfolio, as well as membership services. During the year ended June 30, 2023, the Trust paid on behalf of the Commonwealth approximately \$17 million in death benefits and refunds of contributions.

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Notes to Basic Financial Statements

Year ended June 30, 2023

The following table presents the activities managed by the Trust on behalf of the Commonwealth during the year ended June 30, 2023 (in thousands):

Due to commonwealth rollforward:	
Due to Commonwealth beginning balance	\$ 126,148
Additions:	
Contributions from retirement board	28,993
Loans portfolio interest	6,423
Total additions	<u>35,416</u>
Deductions:	
Death benefits	4,472
Refunds of contributions	12,899
Net depreciation of investments	39
Other expenses	310
Total deductions	<u>17,720</u>
Net increase	<u>17,696</u>
Ending balance	<u><u>\$ 143,844</u></u>

(b) Retirement Board of the Government of Puerto Rico

During the year ended June 30, 2022, the Retirement Board began operations as an instrumentality of the Commonwealth and assumed responsibility for the administrative and general expenses of the Trust, JRS, and TRS. Also, the Retirement Board received appropriations from Commonwealths' General Fund for the pension benefits managed by the Trust. Accordingly, during the year ended June 30, 2023, the Trust received transfers of cash from the Retirement Board of approximately \$16 million for the payment of refunds of contributions and death benefits to inactive members on behalf of the Commonwealth. The transfer of funds from the Retirement board and the benefits payment to the Trust membership were recorded as a change in Due to Commonwealth.

(7) Contingencies

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

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Notes to Basic Financial Statements

Year ended June 30, 2023

(8) Subsequent Events

Subsequent events were evaluated through June 13, 2024 to determine if any such events should either be recognized or disclosed in the 2023 basic financial statements. Management believes that no subsequent event is of public interest for disclosure.