



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

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

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June 30, 2020

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and the general fund of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico – "ERS Legacy Trust" (the Trust), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of 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 general fund of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico – "ERS 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.



Emphasis of Matters

Approval of the Plan of Adjustment

As discussed in notes 1, 3 and 13 to the basic financial statements, on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico created by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) filed a petition for relief under Title III of PROMESA similar to bankruptcy for the Trust. On January 18, 2022, the Title III Court entered an order confirming the Eighth Amended Plan of Adjustment (the Plan) for the Trust. The Plan became effective in accordance with its terms on March 15, 2022, and the Trust emerged from Title III of PROMESA. The basic financial statements do not include any adjustments that might result from the outcome of this matter. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–12 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
August 1, 2022

Stamp No. E481704 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, 2020

Introduction

The following discussion and analysis of the financial performance of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico — “ERS Legacy Trust” (the “Trust” or “ERS”) provides an overview of its activities for the fiscal year ended June 30, 2020. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and required supplementary information. This discussion and analysis 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 by the Legislature of the Commonwealth of Puerto Rico (the Legislature) by Act No. 447 of May 15, 1951, known as the *Retirement System for Employees of the Government of the Commonwealth of Puerto Rico* (Act No. 447 of 1951), as amended, to provide pension and other benefits to retired employees of the Commonwealth of Puerto Rico (the Commonwealth), its public corporations, and municipalities. The Trust was administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and governed by a board of trustees (the Board of Trustees). During this time, the Trust administered a cost-sharing, multiemployer, pension plan consisting of three benefit structures: (i) a cost-sharing, multiemployer, defined benefit program (the Defined Benefit Program); (ii) a defined contribution program (the System 2000 Program); and (iii) a contributory hybrid program (the Contributory Hybrid Program).

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 of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants* (Act 106-2017), which completely transformed the Trust by, among other things, (i) replacing the Trust's Board of Trustees and the governing boards of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS, and collectively with the Trust and JRS, 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 individual government employers through an applicable PayGo fee. The Trust's assets are being liquidated, and programs and activities were terminated or suspended. Refer to Note 1 to the basic financial statements for further information regarding Act 106-2017.

As of July 1, 2017, Joint Resolution 188 from the Legislature of Puerto Rico and Act 106-2017 together required the Trust to liquidate its assets. Act 106-2017 also mandated the transfer of all of the Trust's existing retirement plans and benefits to a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired after July 1, 2017. The New Defined Contribution Plan and the individual beneficiary accounts established thereunder were officially launched on June 22, 2020.

The Trust continues to administer postemployment healthcare benefits provided by the Commonwealth to retired plan members (ERS OPEB MIP), an unfunded, cost-sharing, multiemployer defined benefit other postemployment benefit plan. ERS OPEB MIP is also funded through the PayGo System.

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In addition, between May 21, 2017 and March 15, 2022, the Trust operated in a case under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). On March 15, 2022, the conditions precedent to the effective date of the Plan of Adjustment (as defined in Note 13)—which resolved all obligations against the Commonwealth, the Trust, and the Puerto Rico Public Buildings Authority (PBA)—were satisfied and/or waived by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), and that plan, which as defined in Note 13 also included a plan of adjustment for the Trust, became effective. Accordingly, the Plan of Adjustment has been confirmed and is currently effective as of the date hereof, and thus the Trust's Title III case has been concluded. Refer to Note 3 to the basic financial statements for a detailed explanation of the Trust's Title III proceeding case.

The Trust is considered an integral part of the financial reporting of the Commonwealth. Since Act 106-2017 transferred the primary responsibility of the payment of the pensions to the general fund and instructed the Trust to liquidate its assets to fund the pension benefits it is determined that Trust's assets and activities should not be reported as a pension trust fiduciary funds. 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. As of June 30, 2020, the Trust had not completed the transfer of the net assets to the Commonwealth and continues managing the remaining assets as 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 under custody. As in the last two previous years, current year revenues and expenses (expenditures) are limited to the administration of the assets under its custody. Revenues and expenses (expenditures), associated with the assets under the Trust's custody are presented as part of the change in Due to Commonwealth.

Financial Highlights

The Trust's total assets as of June 30, 2020 and 2019 amounted to approximately \$990 million and \$1.033 billion, respectively.

As of June 30, 2020, the Trust's total assets consisted of the following:

- \$95 million in cash and cash equivalents
- \$895 million in Commonwealth's assets in custody of the Trust, which includes:
 - \$127 million of investments in bonds and notes
 - \$54 million in investments in limited partnerships
 - \$2 million in due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS)
 - \$243 million in member loans and interest receivable
 - \$465 million in cash and cash equivalents and net receivables
 - \$3 million in capital and other assets.

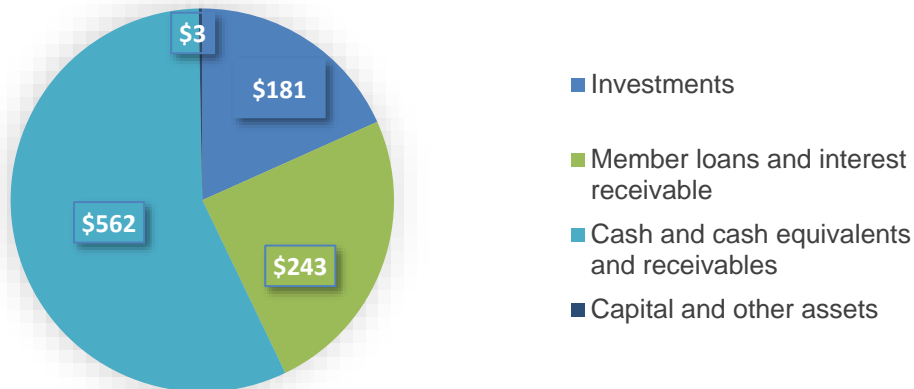
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The Trust's total assets, excluding amounts due from JRS, as of June 30, 2020 are presented in the following chart (in millions):



As of June 30, 2019, the Trust's total assets consisted of the following:

- \$94 million in cash and cash equivalents; and
- \$939 million in Commonwealth's assets in custody of the Trust, which includes:
 - \$132 million of investments in bonds and notes
 - \$77 million in investments in limited partnerships
 - \$2 million in due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico
 - \$297 million in member loans and interest receivable
 - \$428 million in cash and cash equivalents and net receivables
 - \$3 million in capital and other assets.

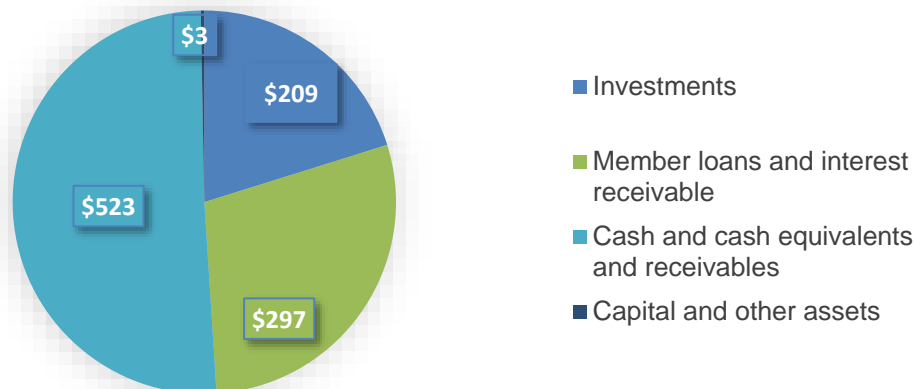
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The Trust's total assets, excluding amounts due from JRS, as of June 30, 2019 are presented in the following chart (in millions):



The Trust has been in a net deficit position since fiscal year 2015. The Trust's total liabilities exceeded total assets, representing a net deficit position of approximately \$3.506 billion as of June 30, 2020, compared with net deficit position of approximately \$3.302 billion as of June 30, 2019.

Overview of the Basic Financial Statements

This Management's Discussion and Analysis section is intended to serve as an introduction to the Trust's 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 statement of net position presents information of all 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.

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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 Authority's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the Trust's information presented for governmental funds 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.

Financial Analysis of the Governmental Activities

Net Position

The statement of net position serves as an indicator of the Trust's financial position at the end of each fiscal year. As of June 30, 2020, the Trust's net position is composed of a net deficit of approximately \$3.506 billion. The following is condensed summary information for fiscal years ended June 30, 2020 and 2019:

	Condensed summary of net deficit			
	2020	2019	Change	
			Amount	Percentage
	Dollars in thousands			
Assets:				
Trust's assets	\$ 94,671	94,015	656	0.7%
Assets under custody of the Trust	895,319	939,347	(44,028)	-4.7%
Total assets	989,990	1,033,362	(43,372)	-4.2%
Liabilities and net position:				
Other liabilities	345,811	182,724	163,087	89.3%
Due to Commonwealth	865,265	901,736	(36,471)	-4.0%
Long-term liabilities	3,285,284	3,251,331	33,953	1.0%
Total liabilities	4,496,360	4,335,791	160,569	3.7%
Net position:				
Net deficit – unrestricted	\$ (3,506,370)	(3,302,429)	(203,941)	6.2%

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As of June 30, 2020 and 2019, the Trust's assets represent cash and cash equivalents to be used in the debt servicing. Increase in Trust's assets from approximately \$94 million in fiscal year 2019 to \$95 million in fiscal year 2020 was due to the payment of interest income.

As of June 30, 2020, and 2019, the Trust held under custody approximately \$243 million and \$297 million, respectively, in loans and interest receivable from plan members, which represents 57% and 59%, respectively, of the total investment portfolio, including loans. As of June 30, 2020, member loans and interest receivable consisted of \$146 million in mortgage loans, \$104 million in personal loans, \$10 million in cultural trips loans, and \$17 million in interest receivable, less \$12 million in escrow funds and less \$22 million in the allowance for loan losses. As of June 30, 2019, member loans and interest receivable consisted of \$154 million in mortgage loans, \$144 million in personal loans, \$15 million in cultural trips loans, and \$20 million in interest receivable, less \$12 million in escrow fund and less \$24 million in the allowance for loan losses. As of June 30, 2020 and 2019, the fair value of the Trust's investment in limited partnerships amounted to approximately \$54 million and \$77 million, respectively, which represented approximately 13% and 14% of the investment portfolio, as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the fair value of the Trust's investment in bonds and notes amounted to approximately \$127 million and \$132 million, respectively, which represented approximately 30% and 14% of the investment portfolio, as of June 30, 2020 and 2019, respectively.

The increase in other liabilities from approximately \$183 million in 2019 to approximately \$346 million in 2020 was due to trust defaulting on interest payments on the debt since August 1, 2018.

Capital Assets

The capital assets under custody of the Trust are those assets that are used in the performance of its functions. During the year ended June 30, 2020, capital assets decreased by approximately \$164 thousand.

Capital assets, net decreased primarily due to the net effect of the following:

- Current year's depreciation and amortization of approximately \$160 thousand
- Disposal of capital assets of approximately \$5 thousand
- The acquisition of equipment at a cost of approximately \$1 thousand.

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Changes in Net Position

The following summary of activities reflects how the Trust's net position changed during the fiscal years ended June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percentage</u>
			(Dollars in thousands)	
Additions:				
Revenue from Commonwealth	\$ 35,310	61,802	(26,492)	(43)%
Other income	2,669	1,147	1,522	133
Total additions	<u>37,979</u>	<u>62,949</u>	<u>(24,970)</u>	<u>(40)</u>
Deductions:				
Interest on bonds payable	206,474	202,289	4,185	2
General and administrative	28,550	46,618	(18,068)	(39)
Other expenses	6,896	15,184	(8,288)	(55)
Total deductions	<u>241,920</u>	<u>264,091</u>	<u>(22,171)</u>	<u>(8)</u>
Net decrease in net position	(203,941)	(201,142)	(2,799)	1
Net position (deficit):				
Beginning of year	<u>(3,302,429)</u>	<u>(3,101,287)</u>	<u>(201,142)</u>	<u>6</u>
End of year	<u>\$ (3,506,370)</u>	<u>(3,302,429)</u>	<u>(203,941)</u>	<u>6 %</u>

Total additions decrease of approximately \$26 million in fiscal year 2020 is mostly due to the revenues from Commonwealth, which represents Trust's use of assets under custody to cover Trust's expenses, excluding debt service-related expenses.

Total deductions decreased by approximately \$22 million in fiscal year 2020, mainly because of the decrease of approximately \$18 million in general and administrative expenses and \$8 million in other operating expenses. General and administrative expenses amounted to approximately \$28 million for the fiscal year 2020, as compared to approximately \$47 million for the fiscal year 2019. The decrease in general and administrative expenses is mostly due to legal expenses for services related to the ongoing Title III of PROMESA case and a significant reduction in depreciation expense related to the building which was reclassified in the prior fiscal year as other asset held for sale.

Going Concern and Liquidity Risk

Prior to March 15, 2022, the Trust was in the midst of a fiscal, economic and liquidity crisis, the culmination of many years of net position deficits, a pension reform under Act No. 106-2017, and high levels of pension related contribution receivables from employers.

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In response to the Commonwealth's and certain public corporations, including the Trust's existing fiscal crisis, the United States Congress enacted PROMESA on June 30, 2016. In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

Pursuant to PROMESA and the requirements imposed by the Oversight Board, on January 27, 2022, the Oversight Board certified the Fiscal Plan for the Commonwealth. The Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. On March 15, 2022, the conditions precedent to the Effective Date of the Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

The Plan of Adjustment remedied the Commonwealth's financial condition, as well as the Trust's financial condition and addressed their liabilities, accordingly, 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.

Detailed information about the Trust and the Commonwealth's conditions 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 notes 3 and 13 of these financial statements.

Investment Portfolio

Total investment assets under the custody of the Trust, including member loans, investments in limited partnerships, and bond and notes (investment portfolio, including loans), as of June 30, 2020 totaled approximately \$425 million. Member loans amounted to \$243 million as of June 30, 2020.

Debt Administration

The Trust historical long-term debt obligations include the Trust's senior funding bonds (the ERS bonds) and amounted to approximately \$3,274 million and \$3,236 million as of June 30, 2020 and 2019, respectively. During fiscal year ended June 30, 2008, the Trust issued three series of revenue bonds designated as "Senior Pension Funding Bonds", the proceeds of which were used mainly to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded actuarial accrued liability. The Bonds were limited, nonrecourse obligations of the Trust, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The Bonds were not payable from contributions made to the Trust by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the Trust after funding of required reserves, or from

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June 30, 2020

any other assets of the Trust. Previous to March 15, 2022, the Plan of Adjustment's effective date, these bonds were rated “C” by Moody's Investors Service and “CC” by Standard & Poor's Ratings Services.

On the Effective Date of the Plan of Adjustment, the ERS Bonds—which were classified as ERS Bond Claims under Class 65— were discharged and all related litigation dismissed in exchange for a 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (defined below). Specifically holders of the ERS Bonds received (i) \$373 million in cash distributions, with such cash payments being made available from ERS and the Commonwealth from the purchase of ERS assets, and (ii) interests in a trust holding a portfolio of private equity interests held by ERS as of the Effective Date (the ERS Private Equity Portfolio), which assets continue to be managed by ERS up to the date that such assets are purchased by the Commonwealth or holders of the ERS Bonds Claims, pursuant to an election provided in the Plan of Adjustment (the Bondholder Election). In particular, under the Plan of Adjustment, (i) the Commonwealth is granted an option through April 10, 2023 to purchase the ERS Private Equity Portfolio 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 ERS Private Equity Portfolio, and (iii) in the event that the Bondholder Election is not exercised, the Commonwealth shall purchase the ERS Private Equity Portfolio for \$70,750,000.

Refer to Note 8 to the basic financial statements for further information regarding the Trust's long-term obligations. For the suspension of the monthly payments to the trustee of the Trust's bonds in August 2018, refer to Note 8 of these financial statements and the financial impact of Title III Plan of Adjustment, refer to Note 13 of these financial statements.

Cybersecurity Attack

During January 2020, the Trust discovered that an external agent gained access to the Trust's Office 365 application. Apparently, the attacker impersonated a Finance Department's employee email account and sent electronic communications to multiple public corporations. In the aforementioned electronic communications, the attacker gave instructions to change deposit bank accounts. As a result of this event four public corporations transferred funds to the fraudulent banks' accounts in the amount of approximately \$4.4 million. This event, at the request of the Trust, was investigated by state and federal agencies. Also, the Trust contracted the services of GM Security Technologies and Microsoft to investigate in depth this incident. These entities concluded their respective investigations and provided recommendations to the Trust's Information Technology security policies, which were already implemented as of the date these financial statements were available to be issued. Refer to note 10 for additional information.

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Requests for Information

This financial report is designed to provide a general overview of the Trust's finances, 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 Commonwealth of Puerto Rico Retirement Systems Administration, 235 Ave. Arterial Hostos, Edificio Capital Center Torre Norte, Piso 8, Hato Rey, Puerto Rico 00918.

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General Fund Balance Sheet and Statement of Net Position (Deficit)

June 30, 2020

(In thousands)

Assets	General fund Balance sheet	Adjustments	Statement of net position (deficit)
Cash and cash equivalents:			
Deposits at commercial banks – restricted	\$ 94,591	—	94,591
Money market funds – restricted	80	—	80
Commonwealth's assets in custody of the Trust:			
Cash and cash equivalents:			
Deposits at commercial banks:			
Unrestricted	53,611	—	53,611
Restricted	384,425	—	384,425
Money market funds	26,700	—	26,700
Employers contribution receivable – net of allowance for uncollectible accounts of \$386,099	—	—	—
Other receivables	516	—	516
Due from Retirement System for the Judiciary of the Commonwealth of Puerto Rico	2,373	—	2,373
Investments:			
Bonds and notes	127,498	—	127,498
Limited partnerships	54,168	—	54,168
Member loans and interest receivable – net	242,955	—	242,955
Capital assets – net	—	306	306
Other assets	—	2,767	2,767
Total assets	\$ 986,917	3,073	989,990
Liabilities			
Accounts payable and accrued liabilities	\$ 16,253	—	16,253
Bonds interest payable	326,919	—	326,919
Other long-term liabilities, due within one year	—	2,639	2,639
Due to Commonwealth of Puerto Rico	875,994	(10,729)	865,265
Other long-term liabilities, due after one year	—	11,163	11,163
Bonds payable	—	3,274,121	3,274,121
Total liabilities	1,219,166	3,277,194	4,496,360
Fund balance/net deficit			
Fund balance—unrestricted	(232,249)	232,249	—
Total liabilities and fund balance	\$ 986,917		
Net deficit		\$ (3,506,370)	(3,506,370)

See accompanying notes to basic financial statements.

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Statement of Revenues, Expenditures, and Changes in Fund Balance and Statement of Activities

Year ended June 30, 2020

(In thousands)

	General fund Statement of revenues, expenditures, and changes in fund balance	Adjustments	Statement of activities
Revenues:			
Revenues from Commonwealth	\$ 40,799	(5,489)	35,310
Interest income	2,669	—	2,669
	<u>43,468</u>	<u>(5,489)</u>	<u>37,979</u>
Expenditures/expenses:			
General government:			
Interest on bonds payable	168,397	38,077	206,474
General and administrative	34,039	(5,489)	28,550
Other expenses	6,896	—	6,896
Total expenditures/expenses	<u>209,332</u>	<u>32,588</u>	<u>241,920</u>
Excess of expenses over revenues	(165,864)	(38,077)	
Change in net position			(203,941)
Fund balance/net deficit:			
Beginning of year	<u>(66,385)</u>	<u>(3,236,044)</u>	<u>(3,302,429)</u>
End of year	<u>\$ (232,249)</u>	<u>(3,274,121)</u>	<u>(3,506,370)</u>

See accompanying notes to basic financial statements.

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(1) Organization

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

After the enactment of Act No. 106 of 2017, known as *the Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), the Trust's operations are limited to maintain custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund, servicing the bonds payable and administrative services on behalf of the Commonwealth. 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.

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

The Commonwealth's General Fund became the only recipient of the assets maintained under the custody of the Trust. The product of the liquidation of said assets is designated by law to be used by the General Fund to cover pension benefits. Therefore, the basic financial statements of the Trust are blended in the Commonwealth's fund financial statements. The financial activities of the Trust consist only of governmental activities. Refer to Note 2 for basis of presentation.

Between May 21, 2017 and March 15, 2022, the Trust operated in a case under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). On March 15, 2022, the conditions precedent to the effective date of the Plan of Adjustment (as defined in Note 13)—which resolved all obligations against the Commonwealth, the Trust, and the Puerto Rico Public Buildings Authority (PBA)—were satisfied and/or waived by the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), and the

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plan became effective. Accordingly, the Plan of Adjustment has been confirmed and is currently effective as of the date hereof, and thus the Trust's Title III case has been concluded. Refer to Note 3 to the basic financial statements for a detailed explanation of the Trust's Title III case and Note 13 for other activities mandated by the Title III Court.

The Retirement Board is currently responsible for governing, the Trust, the Judiciary of the Commonwealth of Puerto Rico (JRS) and the Puerto Rico System of Annuities and Pensions for Teachers (TRS). The Retirement Board is comprised of 13 members, including (i) six ex-officio members (or their designees): (1) the Executive Director of the Puerto Rico Fiscal Agency and 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.

As of June 30, 2020, the Trust and JRS, also a component unit of the Commonwealth, continue to be both administered by the ERS and JRS Administration. The ERS and JRS Administration allocated 98.25% of its general and administrative expenses to the Trust during the fiscal year ended June 30, 2020. The methodology used to determine the allocation is based on total PayGo fees corresponding to retirees of the Trust, plus total annual payroll of active participants of the Trust, divided by the aggregate total of PayGo fees corresponding to retirees of both the Trust and JRS, plus total annual payroll of active participants of both the Trust and the JRS.

(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

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

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

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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 financial activities of the Trust consist only of governmental activities, which are primarily supported by the Trust's revenue from the Commonwealth for the custody and administration services performed by the Trust and the servicing of the bonds payable.

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 (deficit) during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments with original maturities of three months or less from the date of acquisition and consist of deposits and money market funds and are restricted for the payment of the bonds payable.

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

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(e) Investments

Investments are reported at fair value. The fair value of investments is based on quoted prices, if available. The Trust had investments in limited partnerships and COFINA bonds of approximately \$54 million and \$127 million, respectively, as of June 30, 2020. Investments in limited partnerships are reported at their Net Asset Value (NAV). The NAV of each fund includes the market value of the investments in the fund plus any receivables, payables, and accrued fund expenses.

(f) Member Loans

Mortgage, personal, and cultural trip loans to plan members in custody are stated at their outstanding principal balance less an allowance for uncollectible amounts. Loans to plan members mostly are collected through payroll withholdings and secured by mortgage deeds, plan members' contributions, and any unrestricted amount remaining in the escrow funds. Act 106-2017 suspended the issuance of new loans effective on August 23, 2017. The maximum amount that was loaned to plan members for mortgage loans was \$100,000 and \$5,000 for personal, and cultural trip loans.

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

(g) Capital Assets

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

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

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

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(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 (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, 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 (Deficit)/Net Position (Deficit)

Fund Balance (Deficit)

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.

Net Position (Deficit)

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

- Net investment in capital assets – This consists of capital assets, less accumulated depreciation and amortization. There was no net investment in capital assets net position as of June 30, 2020.
- 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

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resources are available for use, generally it is the Trust's policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position as of June 30, 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 (deficit) at June 30, 2020:

Fund balance:	\$	(232,249)
Add capital assets, net of accumulated depreciation, and other assets as they are not financial resources and, therefore, are not reported in the general fund		3,073
Less long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund:		
Due to Commonwealth		10,729
Accrued compensated absence		(1,112)
Voluntary termination		(12,690)
Pension obligation bonds		<u>(3,274,121)</u>
Net deficit position	\$	<u><u>(3,506,370)</u></u>

The following is a reconciliation of the statement of revenues, expenditures, and changes in fund balances of general fund to the statement of activities for the fiscal year ended June 30, 2020:

Net changes in fund balance:	\$	(165,864)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		<u>(38,077)</u>
Change in net position	\$	<u><u>(203,941)</u></u>

(3) Considerations for Going concern

For many years, the Trust suffered a fiscal, economic and liquidity crisis. This crisis caused the Trust to be in a significant deficit net position.

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In response to the then-existing fiscal crisis, the United States Congress enacted PROMESA on June 30, 2016. In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

As result of PROMESA, on May 3, 2017 and May 21, 2017, the Oversight Board, at the request of the Governor, commenced Title III cases for the Commonwealth and the Trust, respectively, by filing petitions for relief under Title III of PROMESA in Title III Court. By commencing a Title III case, the Trust has benefited from an automatic stay prohibiting creditors from pursuing litigation or collecting any debt payments and had the opportunity to adjust its debts through a plan of adjustment.

In addition, after the effective date of Act 106-2017 (which was passed by the Commonwealth to address the Trust's financial condition), the Trust's operations were reorganized and were limited to debt servicing, maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth's General Fund, and providing administrative services to the Commonwealth. The Commonwealth's Legislature passed Act 106-2017 to adopt a new PayGo pension system. Effective as of July 1, 2017, these measures eliminated all employer payments, contributions ordered by special laws, and the additional uniform contribution. Instead, the Commonwealth, not the Trust, makes all direct benefit payments to pensioners with the participating employers responsible for reimbursing the Commonwealth through PayGo fees that are remitted to the Commonwealth's Treasury Department.

After years of extensive litigation with creditors, on January 18, 2022, the Title III Court confirmed the Plan of Adjustment (the "Plan") for the Commonwealth, the PBA, and the Trust. The Plan went effective on March 15, 2022 (the Effective Date). The confirmed Plan of Adjustment, (as described in detail in Note 13) has remediated the Commonwealth's financial condition, as well as the Trust's financial condition and addressed their liabilities. Based on such subsequent events, 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.

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(4) Deposits and Investments

(a) Deposits

Deposits as of June 30, 2020 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Trust's deposits:			
Deposits with Puerto Rico commercial banks	\$ 94,591	94,591	—
Money market funds	<u>80</u>	<u>80</u>	<u>80</u>
Trust's Total	<u>\$ 94,671</u>	<u>94,671</u>	<u>80</u>
Deposits in custody of the Trust:			
Deposits with Puerto Rico commercial banks	\$ 438,036	454,898	—
Money market funds	<u>26,700</u>	<u>26,700</u>	<u>560</u>
Total in custody of the Trust	<u>\$ 464,736</u>	<u>481,598</u>	<u>560</u>

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

(b) COFINA Bonds Restructuring

On February 12, 2019, the COFINA Plan of Adjustment was substantially consummated and became effective. As result, COFINA's existing senior and subordinated bondholders, including the Trust, received new senior secured bonds issued by COFINA in accordance with the COFINA Plan of Adjustment. During the year fiscal ended June 30, 2020, COFINA bonds generated unrealized losses of approximately \$4.1 million.

(c) Fair Value Measurement

The Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used in valuation, gives the highest priority to unadjusted quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is

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disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – Inputs whose values are based on unadjusted quoted prices for identical instruments in active markets that the Trust has the ability to access.

Level 2 – Inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Trust's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as practical expedient are not subject to level classification.

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

<u>Investment type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments measured at fair value:				
COFINA bonds	\$ 127,498	—	—	127,498
Investments measured at NAV as practical expedient:				
Investments in limited partnerships				54,168
Total Investments			\$	<u>181,666</u>

The Trust's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2020:

(a) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Trust may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2020, securities investments were registered in the name of the Trust and were held in the possession of the Trust's custodian banks.

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(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. COFINA Bonds has not been rated as of June 30, 2020.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer. As of June 30, 2020, all investments in COFINA Bonds and in limited partnerships, maintained by the Trust represent 5% or more of the Trust's total investments.

(d) Interest Rate Risk

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

The contractual maturity of investments as of June 30, 2020, is summarized below (in thousands). Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>Investment type</u>	<u>Maturity (in years)</u>				<u>Total</u>
	<u>Within one year</u>	<u>After one to five years</u>	<u>After five to ten years</u>	<u>After ten years</u>	
Bonds and notes:					
COFINA bonds	\$ —	—	—	127,498	127,498

(e) Investments in Limited Partnerships

The fair value of investments in limited partnerships at June 30, 2020, amounted to approximately \$54 million and is presented as private equity investments in the statement of net position. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

In accordance with the partnership agreements, the Trust's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. As of June 30, 2020, the Trust does not intend to sell its investments in limited partnerships for an amount different to that presented in the financial statements. Refer to Note 13 to these financial statements for other actions mandated by the Title III Court included in the Commonwealth's Plan of Adjustment.

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As of June 30, 2020, the date of commitment, total commitment, 2020 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	<u>Date of commitment</u>	<u>Total commitment</u>	<u>2020 Contributions</u>	<u>Unfunded Commitments</u>	<u>Estimated fair value</u>
Grupo Guayacán, Inc.:					
Guayacán Fund of Funds II, LP	September 1999	\$ 25,000	—	1,319	352
Advent-Morro Equity Partner, Inc.:					
Guayacán Private Equity Fund, LP	February 1997	5,000	—	355	1,999
Guayacán Private Equity Fund II, LP	April 2007	25,000	—	453	14,895
Venture Capital Fund, Inc.	October 1995	800	—	—	720
GF Capital Management and Advisors, LLC – GF Capital Private Equity Fund LP	December 2006	25,000	—	7	10,991
Courage Credit	July 2016	2,251	—	—	613
Medley Credit Opportunity	July 2016	15,000	—	2,981	7,661
MCOY Investments	December 2016	10,000	—	—	12,212
Phoenix	July 2016	10,000	—	—	—
Terracap	July 2016	6,829	—	—	4,725
Total		\$ <u>124,880</u>	<u>—</u>	<u>5,115</u>	<u>54,168</u>

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

For the year ended June 30, 2020, the net depreciation in fair value of investments amounted to approximately \$3.0 million and was recorded as a decrease in due to Commonwealth. The segregated net depreciation in fair value is as follows (in thousands):

<u>Investment type</u>	<u>Realized gain/(loss)</u>	<u>Unrealized gain/(loss)</u>	<u>Net appreciation/ (depreciation) in fair value of investments</u>
Bonds and notes	\$ —	(4,076)	(4,076)
Investments in limited partnerships	<u>985</u>	<u>45</u>	<u>1,030</u>
Total investments	\$ <u>985</u>	<u>(4,031)</u>	<u>(3,046)</u>

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(5) Member Loans and Interest Receivable

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

Loans receivable:			
Personal		\$	103,615
Mortgage			146,598
Cultural trips			<u>10,190</u>
Total loans to plan members			260,403
Accrued interest receivable			17,102
Less:			
Escrow funds of mortgage loans and guarantee insurance reserve			(12,069)
Allowance for loan losses, including interest			<u>(22,481)</u>
Total loans and interest receivable from plan members – net		\$	<u><u>242,955</u></u>

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

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

(6) Capital Assets

Capital assets in custody of the Trust's activity for the year ended June 30, 2020 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets depreciable:				
Equipment	\$ 2,434	1	(2)	2,433
Office furniture	2,719	—	(52)	2,667
Vehicles	<u>82</u>	<u>—</u>	<u>—</u>	<u>82</u>
Total capital asset, depreciable	<u>5,235</u>	<u>1</u>	<u>(54)</u>	<u>5,182</u>

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	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Less accumulated depreciation and amortization for:	\$			
Building and improvements	—	—	—	—
Equipment	2,277	67	(2)	2,342
Office furniture	2,407	93	(48)	2,452
Vehicles	82	—	—	82
	<u>4,766</u>	<u>160</u>	<u>(50)</u>	<u>4,876</u>
Total accumulated depreciation and amortization				
Total capital asset depreciable	<u>469</u>	<u>(159)</u>	<u>(4)</u>	<u>306</u>
Capital assets, net	<u>\$ 469</u>	<u>(159)</u>	<u>(4)</u>	<u>306</u>

(7) Long-Term Liabilities

Long-term liability 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	\$ 960	557	(405)	1,112	399	713
Voluntary termination benefits	14,327	867	(2,504)	12,690	2,240	10,450
Bonds payable	3,236,044	38,077	—	3,274,121	—	3,274,121
	<u>\$ 3,251,331</u>	<u>39,501</u>	<u>(2,909)</u>	<u>3,287,923</u>	<u>2,639</u>	<u>3,285,284</u>

(8) Bonds Payable

Senior Pension Funding Bonds – On February 27, 2007, the Trust's administration and GDB, acting as the Trust's fiscal agent (the Fiscal Agent), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the Trust's unfunded actuarial accrued liability. The Bonds were limited, nonrecourse obligations of the Trust, payable solely from and secured solely by a pledge of employer contributions, as defined in the ERS Bond Resolution, made after the date of issuance of the first series of Bonds, and from funds held on deposit with the Bank of New York (the Fiscal Agent). The Bonds were not payable from contributions made to the Trust by participating employees, or from the assets acquired with the proceeds of the Bonds, or from employer contributions released by the Fiscal Agent to the Trust after funding of required reserves, or from any other assets of the Trust. The Trust

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invested the proceeds of the Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the Trust issued the first series of Bonds, which consisted of approximately \$1.589 billion aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the Trust issued the second of such series of Bonds, which consisted of approximately \$1.059 billion aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the Trust issued the third and final of such series of Bonds, which consisted of approximately \$300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds).

The following is a summary of changes in the bonds payable principal balance (in thousands):

	<u>Maturity</u>	<u>Balance at June 30, 2019</u>	<u>Accretion</u>	<u>Balance at June 30, 2020</u>
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2022–2058	\$ 1,634,220	5,693	1,639,913
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028–2058	1,304,855	31,874	1,336,729
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028–2043	302,454	294	302,748
Bond discounts		<u>(5,485)</u>	<u>216</u>	<u>(5,269)</u>
Total		<u>\$ 3,236,044</u>	<u>38,077</u>	<u>3,274,121</u>

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As of June 30, 2020, the outstanding principal balance of the bonds payable is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	\$ 96,143
Term Bonds, maturing from 2022 through 2024, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,639,913
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	302,079
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	218,550
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,336,729
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	4,748
Term Bonds, maturing from 2024 through 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing from 2029 through 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing from 2039 through 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	302,748
Total bonds outstanding	3,279,390
Less bonds discount	(5,269)
Bonds payable – net	\$ 3,274,121

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately \$1.589 billion of which \$1.544 billion were issued as term bonds (the Series A Term Bonds) and \$45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates) and are treated as if

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accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of 12 30-day months.

The Series A Bonds are subject to redemption at the option of the Trust from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

<u>Redemption period</u>	<u>Subject bonds</u>	<u>Amount</u>
July 1, 2021	Term bonds (final maturity July 1, 2023)	\$ 50,000
July 1, 2022	Term bonds (final maturity July 1, 2023)	70,000
July 1, 2023	Term bonds (final maturity July 1, 2023)	80,000
	Subtotal	<u>200,000</u>
July 1, 2034	Term bonds (final maturity July 1, 2038)	133,500
July 1, 2035	Term bonds (final maturity July 1, 2038)	133,500
July 1, 2036	Term bonds (final maturity July 1, 2038)	133,500
July 1, 2037	Term bonds (final maturity July 1, 2038)	133,500
July 1, 2038	Term bonds (final maturity July 1, 2038)	133,500
	Subtotal	<u>667,500</u>
Total		<u>\$ 867,500</u>

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately \$1.059 billion of which \$816 million were issued as term bonds (the Series B Term Bonds) and \$243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series B Bonds are subject to redemption at the option of the Trust from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

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Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately \$300 million of which \$298 million were issued as term bonds (the Series C Term Bonds) and \$2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series C Bonds are subject to redemption at the option of the Trust from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

<u>Redemption period</u>	<u>Subject bonds</u>	<u>Amount</u>
July 1, 2024	Term bonds (final maturity July 1, 2028)	\$ 18,700
July 1, 2025	Term bonds (final maturity July 1, 2028)	22,000
July 1, 2026	Term bonds (final maturity July 1, 2028)	29,150
July 1, 2027	Term bonds (final maturity July 1, 2028)	36,300
July 1, 2028	Term bonds (final maturity July 1, 2028)	3,850
	Subtotal	<u>110,000</u>
July 1, 2029	Term bonds (final maturity July 1, 2038)	100
July 1, 2030	Term bonds (final maturity July 1, 2038)	540
July 1, 2031	Term bonds (final maturity July 1, 2038)	100
July 1, 2032	Term bonds (final maturity July 1, 2038)	3,420
July 1, 2033	Term bonds (final maturity July 1, 2038)	4,320
July 1, 2034	Term bonds (final maturity July 1, 2038)	100
July 1, 2035	Term bonds (final maturity July 1, 2038)	11,940
July 1, 2036	Term bonds (final maturity July 1, 2038)	2,160
July 1, 2037	Term bonds (final maturity July 1, 2038)	7,920
July 1, 2038	Term bonds (final maturity July 1, 2038)	14,400
	Subtotal	<u>45,000</u>

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<u>Redemption period</u>	<u>Subject bonds</u>	<u>Amount</u>
July 1, 2039	Term bonds (final maturity July 1, 2043)	28,600
July 1, 2040	Term bonds (final maturity July 1, 2043)	28,600
July 1, 2041	Term bonds (final maturity July 1, 2043)	28,600
July 1, 2042	Term bonds (final maturity July 1, 2043)	28,600
July 1, 2043	Term bonds (final maturity July 1, 2043)	28,600
		<u>143,000</u>
Total		\$ <u><u>298,000</u></u>

Debt service requirements in future years on the Trust's bonds as of June 30, 2020 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2021	\$ —	326,919	326,919
2022	50,000	166,519	216,519
2023	70,000	163,594	233,594
2024	80,000	159,499	239,499
2025	18,700	154,819	173,519
2026-2030	648,068	752,853	1,400,921
2031-2035	897,165	716,078	1,613,243
2036-2040	1,036,940	543,510	1,580,450
2041-2045	279,250	282,791	562,041
2046-2050	—	247,568	247,568
2051-2055	—	247,568	247,568
2056-2060	761,000	127,436	888,436
	<u>3,841,123</u>	\$ <u><u>3,889,154</u></u>	<u><u>7,730,277</u></u>
Less:			
Unaccreted interest	(561,733)		
Unamortized discount	<u>(5,269)</u>		
Total	\$ <u><u>3,274,121</u></u>		

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Pledge of Employer Contributions Pursuant to Security Agreement – The Trust entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the Trust pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the Trust and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the Trust set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

Starting in August 2016, and monthly thereafter until the Effective Date, the Fiscal Agent under the Resolution of the Trust's bonds notified to the Trust that it failed to transfer the requisite employers' contributions on the last business day of each month. The Fiscal Agent averred that it was not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the Trust, or exercise any act that is stayed by PROMESA, the Puerto Rico Financial Emergency and Fiscal Responsibility Act of January 29, 2017 (Act No. 5 or the Financial Emergency Act), the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Act No. 21 or the Moratorium Act), or any Executive Orders related thereto. Consistent with PROMESA, the Financial Emergency Act, the Moratorium Act, and any Executive Orders, the Fiscal Agent is not exercising at this time any rights or remedies against the Commonwealth of Puerto Rico or any of its instrumentalities, including the Trust.

Bonds Credit Rating Downgrades – On June 24, 2016, Fitch Ratings Inc. downgraded the Trust's Bonds from “CC” to “C” and placed them on “negative” outlook. Fitch cited “the breakdown of negotiations between the Commonwealth and major bondholders, the recent ruling by the U.S. Supreme Court on the Commonwealth's bankruptcy legislation, and the slow process of federal legislation in support of the Commonwealth as indicators that a debt restructuring, deferral or default has become inevitable. On April 5, 2017, Moody's Investors Service downgraded the Trust's Bonds to from “C” to “Ca” and placed them on “negative” outlook, citing “persistent pressures on Puerto Rico's economic base that indicate a diminishing perceived capacity to repay.” Standard & Poor's Ratings Services rated the Trust's Bonds at “CC.”

As further discussed in Note 13 to these financial statements, on January 18, 2022, the Title III Court confirmed the Plan of Adjustment for the Commonwealth, PBA, and the Trust. The Plan of Adjustment went effective on March 15, 2022.

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On the Effective Date, the Trust's Bond Claims (Class 65) were discharged and all related litigation dismissed in exchange for a 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio. Specifically holders of the Trust's bonds received (i) \$373,000,000 in cash distributions, with such cash payments being made available from the Trust and the Commonwealth from the purchase of the Trust's assets, and (ii) interest in a trust holding a portfolio of private equity interests held by the Trust as of the Effective Date (the ERS Private Equity Portfolio), which assets continue to be managed by the Trust up to the date that such assets are purchased by the Commonwealth or holders of the Trust's Bonds Claims, pursuant to an election provided in the Plan (the Bondholder Election). In particular, under the Plan, (i) the Commonwealth is granted an option through April 10, 2023 to purchase the ERS Private Equity Portfolio for \$70,750,000, (ii) in the event the Commonwealth declines to exercise such option, pursuant to the Bondholder Election, the Trust's 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 ERS Private Equity Portfolio, and (iii) in the event that the Bondholder Election is not exercised, the Commonwealth shall purchase the ERS Private Equity Portfolio for \$70,750,000. Refer to Note 13 to these financial statements for additional details on the confirmed Plan of Adjustment.

(9) Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 establishing a program that provides economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 of 2010 (Act No. 70) also established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable 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 the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act No. 1, or the date the plan member would have completed 30 years of service had the member continued employment. In addition, the public corporations will also be required to continue making the required employee and employer contributions to the Trust. The Commonwealth's General Fund will be required to continue making its required employer contributions. The Trust will be responsible for benefit payments afterwards. As of June 30, 2020, the Trust's liability amounts to approximately \$7 million for its responsibility as an employer under Act No. 70.

On December 8, 2015, the Commonwealth enacted the Voluntary Early Retirement Law, Act No. 211 of 2015 (Act No. 211), establishing a voluntary program to provide preretirement benefits to eligible employees, as defined. Act No. 211 applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that preretirement benefits would be provided to eligible employees who started contributing to the Trust before April 1, 1990 with at least 20 years of service and would consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015, as defined. Pursuant to Act No. 211, the employers will continue making the applicable employee and employer contributions to the Retirement Systems and the employer Social Security and Medicare contributions based on average

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employee salary, as defined, as of December 31, 2015. Individual Social Security and Medicare contribution would be deducted from the biweekly benefits to be paid to the participant. These payments would be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program. Once the participant reaches 61 years of age, the participant would be eligible to receive payments from the Trust and would be entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%), and related costs would be paid by the employer. As of June 30, 2020, the Trust's liability amounts to approximately \$5.7 million for its responsibility as an employer under Act No. 211.

Act 106-2017 repealed Act No. 211, while creating other incentives, opportunities, and retraining program for public workers.

(10) Cybersecurity Attack

During January 2020, the Trust discovered that an external agent gained access to the Trust's Office 365 application. Apparently, the attacker impersonated a Finance Department's employee email account and sent electronic communications to multiple public corporations. In the aforementioned electronic communications, the attacker gave instructions to change deposit bank accounts. As a result of this event four public corporations transferred funds to the fraudulent banks' accounts in the amount of approximately \$4.4 million. This event, at the request of the Trust, was investigated by state and federal agencies. Also, the Trust contracted the services of GM Security Technologies and Microsoft to investigate in depth this incident. These entities concluded their respective investigations and provided recommendations to the Trust's Information Technology security policies, which were already implemented as of the date these financial statements were available to be issued.

(11) Contingencies

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

Administración de los Sistemas de Retiro de los Empleados del Gobierno y la Judicatura de Puerto Rico, et. al v. UBS Fin. Servs. Inc. of Puerto Rico, et al., Civ. No. KAC-2011-1067 (803) (P.R. Ct. of First Instance Sept. 29, 2011)

On September 29, 2011, two beneficiaries commenced a derivative suit in the Commonwealth of Puerto Rico Court of First Instance, San Juan Part (the Commonwealth Court), alleging breach of fiduciary duties and breach of contract against the underwriters in the issuance and underwriting of \$3 billion of the Trust bonds in 2008 (the UBS Action). On December 7, 2016, the Commonwealth Court allowed the Trust to intervene and ordered the plaintiffs, which now include the Trust and seven individual plaintiffs (collectively, the Plaintiffs), to file a third amended complaint against the underwriters, including UBS Financial Services Inc. of Puerto Rico (UBS), and related entities (collectively, the UBS Defendants). UBS had served as the lead underwriter of the 2008 ERS bonds.

Among other things, Plaintiffs allege that by participating as the lead underwriter of the 2008 ERS bonds, UBS violated its contractual, noncontractual and fiduciary obligations to the Trust. The Plaintiffs seek a ruling that UBS is liable to the Trust for over \$800 million for underwriting the 2008 ERS bonds.

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On March 6, 2019, Plaintiffs filed the Fourth Amended Complaint against the UBS Defendants, which was accepted by the Commonwealth Court on April 15, 2019. On April 29, 2019, UBS filed its answer and an informative motion regarding its intent to file a counterclaim if the Trust's Title III automatic stay were to be lifted. The proposed counterclaim attached to the informative motion alleges breach of contract and indemnification arising out of the Trust's issuance of the 2008 ERS bonds.

On June 25, 2019, the Oversight Board filed a motion to stay certain contested matters pending confirmation of a proposed plan of adjustment for the Commonwealth. On July 24, 2019, the Title III Court entered an order staying until November 30, 2019, various adversary proceedings and claims objections before it with overlapping issues, including those involving the validity of the Trust bond issuances. UBS contends that the UBS Action in the Commonwealth Court should be stayed pending the Title III Court's resolution of alleged common legal issues.

On October 8, 2019, UBS filed a motion for relief from the automatic stay in order to assert counterclaims in the Commonwealth Court for breach of contract and indemnification against the Trust in the UBS Action. UBS asserted that the Trust represented in the 2008 Bond Offering Statements that it was issuing the 2008 ERS bonds in accordance with the authority provided under the Retirement Act, and that the 2008 ERS bonds would be legally binding special obligations of the Trust. UBS also argued that the Trust represented in the purchase contracts entered into with UBS that the Trust had full right, power and legal authority to issue the bonds, and it was not in violation of any law. On December 11, 2019, the Title III Court held a hearing on UBS's stay relief motion. On December 16, 2019, the Title III Court granted UBS limited relief from the stay solely to allow UBS to present its proposed counterclaims in the Commonwealth Court. On February 4, 2020, UBS submitted its counterclaims in the Commonwealth Court. On March 9, 2020, the Oversight Board filed its objections to the counterclaims. On March 30, 2020, UBS renewed its stay relief motion, arguing that the Oversight Board's objection to the counterclaims violated the December limited lift-stay order and the Commonwealth Court should now be free to hear the Oversight Board's objections. On April 22, 2020, the Title III Court denied the motion. The case remains pending in the Commonwealth Court and is currently in discovery.

UBS has also filed two proofs of claim against the Trust related to the UBS Action, as well as two proofs of claim related to *Casasnovas Balado v. UBS Fin. Servs., Inc.*, No. K AC-2014-0072 (905) (P.R. Ct. of First Instance Jan. 29, 2016), an action filed by a group of individual plaintiffs arising from the Trust bond issuances.

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

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

On March 14, 2021, La Liga de Ciudades de Puerto Rico (“La Liga”), a non-profit corporation claiming to have as members mayors of Puerto Rico's municipalities, filed a complaint against the Oversight Board, FAFAA, the Municipal Revenues Collection Center (“CRIM”), the Puerto Rico Health Insurance Administration (“ASES”), and Luis M. Collazo Rodríguez, in his capacity as administrator of the System

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(collectively, “Defendants”). The complaint alleges that CRIM, ASES, and the System are collecting and withholding money from Puerto Rico’s municipalities based on an incorrect interpretation of an order entered in the Act 29 Litigation (discussed above), in which the Title III Court declared Act 29 “unenforceable and of no effect.”

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

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

On January 4, 2022, the Title III Court entered an order granting the motions to dismiss. On January 18, 2022 La Liga filed a notice of appeal in the First Circuit under Case No. 22-1062. La Liga’s opening brief was filed on July 20, 2022 and the response briefs are due August 19, 2022.

(12) Impact of COVID-19 Pandemic

(i) Executive Orders

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.

(ii) Fluctuations in Global Markets

Subsequent to the declaration of a global pandemic by WHO, the United States and global markets experienced initial significant declines in value resulting from uncertainty caused by COVID-19. Management is closely monitoring the Trust's investment portfolio and its liquidity and has been actively working to minimize the impact of these declines. The accompanying financial statements do not include adjustments to fair value, if any, that have resulted from these potential declines.

(13) Subsequent Events

Subsequent events were evaluated through August 1, 2022, the date the 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 below are principally those related to debt activities, including fiscal events and related legislation, both local and federal, that management believes are of public interest for disclosure.

(a) Confirmation of Joint Plan of Adjustment for the Commonwealth, the Trust, and PBA

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 Title III Court.

On October 26, 2021, the Governor signed into law Act 53, 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 Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Plan of Adjustment [ECF No. 19812] (the Findings of Fact) and an order confirming the Plan of Adjustment [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 Plan of Adjustment.

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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 Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. On July 18, 2022, the First Circuit affirmed the Title III Court's finding that the Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. Oral argument on the merits of the remaining three appeals [Case Nos. 22-1079, 22-1092, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to 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) 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 have been deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

The Plan of Adjustment classifies claims into 69 classes, of which the following classes are related to the Trust's creditors who will receive the following aggregate recoveries as follows:

- ERS Bond Claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio; and
- Various categories of General Unsecured Claims (Classes 13, 58, and 66): 21% recovery in cash.

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On the Effective Date of the Plan of Adjustment, the ERS Bonds—which were classified as ERS Bond Claims under Class 65— were discharged and all related litigation dismissed in exchange for a 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (defined below). Specifically holders of the ERS Bonds received (i) \$373 million in cash distributions, with such cash payments being made available from ERS and the Commonwealth from the purchase of ERS assets, and (ii) interest in a trust holding a portfolio of private equity interests held by ERS as of the Effective Date (the ERS Private Equity Portfolio), which assets continue to be managed by ERS up to the date that such assets are purchased by the Commonwealth or holders of the ERS Bonds Claims, pursuant to an election provided in the Plan of Adjustment (the Bondholder Election). In particular, under the Plan of Adjustment, (i) the Commonwealth is granted an option through April 10, 2023 to purchase the ERS Private Equity Portfolio 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 ERS Private Equity Portfolio, and (iii) in the event that the Bondholder Election is not exercised, the Commonwealth shall purchase the ERS Private Equity Portfolio for \$70,750,000.

For general unsecured claims, the Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against ERS are discharged, and 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.

Importantly, the Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51.

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