



**Commonwealth Plan of Adjustment  
Pension Reserve Trust**

**Fund Financial Statements  
For the Period March 14, 2022 (Inception) To June 30, 2022  
(With Independent Auditors' Report)**

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KPMG LLP  
American International Plaza  
Suite 1100  
250 Muñoz Rivera Avenue  
San Juan, PR 00918-1819

## Independent Auditors' Report

Board of Trustees  
Puerto Rico Pension Reserve Trust

### *Opinion*

We have audited the fund financial statements of the Puerto Rico Pension Reserve Trust (the Trust) as of June 30, 2022 and for the period from March 14, 2022 (inception) to June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the of the Trust, as of June 30, 2022, and the changes in its financial position for the period from March 14, 2022 (inception) to June 30, 2022 in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

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

### *Emphasis of Matter*

As discussed in Note 1, the financial statements of the Trust are intended to present the financial position and changes in financial position of only that portion of the general fund of the Commonwealth of Puerto Rico (the Commonwealth) that is attributable to the transactions of the Trust. They do not purport to, and do not, present fairly the financial position of the Commonwealth, as of June 30, 2022, and the changes in its financial position for the period from March 14, 2022 (inception) to June 30, 2022 in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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

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

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

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



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

In performing an audit in accordance with GAAS, we:

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

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

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*KPMG LLP*

San Juan, Puerto Rico  
January 23, 2024

Stamp No. E520155 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2022

(Unaudited)

**Overview**

This section presents management’s discussion and analysis of the Commonwealth Plan of Adjustment Pension Reserve Trust’s (“Pension Reserve Trust” or the “Trust”) financial performance for the fiscal year ended June 30, 2022 and should be read in conjunction with the financial statements, which follow this section.

The Pension Reserve Trust is a Puerto Rico irrevocable public trust duly organized due to the execution of that certain Deed of Public Trust (the “Deed of Trust”), effective as of March 14th, 2022, pursuant to the provisions of Chapter III of Act 219 of August 31st, 2012, as amended (the “Trust Act”). The Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits (the “Guidelines”) are incorporated to the Deed of Trust. The Trust is overseen by a five-person board of trustees (the “Pension Reserve Board” or the “Board”), which is tasked with providing independent and professional management of the Trust’s assets. As part of the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, the Government of Puerto Rico (the “Government”) has agreed to provide contributions to the Trust on a yearly basis through the fiscal year ending June 30, 2031. These contributions will be received in the form of a base contribution, as well as an additional contribution contingent on the economic performance of the Government.

Upon execution of the Deed of Trust, the Fiscal Oversight Management Board shall have the authority to perform certain start-up functions for the purpose of performing initial tasks such as (i) establish an interest-bearing checking account and (ii) commence administration of the Pension Reserve Trust, among other things. Such role concludes upon the earlier to occur between October 1, 2022, or the day the Pension Reserve Board commences its inaugural Board meeting. The Pension Reserve Board’s inaugural meeting occurred on July 19, 2022.

During FY 2022, the Trust was established and duly set up, with initial start-up funding of \$4.45M provided by the Government of Puerto Rico. Furthermore, the trustees composing the Pension Reserve Board were appointed and formally announced. At the end of the first quarter of FY 2023, the Trust received the first Annual Contribution from the Government. For further information on this contribution, as well as the Investment Policy Statement approved by the Pension Reserve Board, please refer to the Subsequent Events section of the notes to the financial statements.

The financial statements include the balance sheet and the statement of revenues, expenditures, and change in fund balance. They present the financial position of the Trust as of June 30, 2022, and its financial activities for the year then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the Pension Reserve Trust and provide detailed disclosures on certain account balances.

The financial statements of the Pension Reserve Trust are prepared in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) for governments as prescribed by the Governmental Accounting Standards Board (“GASB”) and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Further, this complies with Article 5.7 of the Deed of Trust, which requires the Trust to “... *keep accurate records and books of account of all transactions affecting assets of the Pension Reserve Trust, following standards that are generally accepted in public pension funds in the United States*”.

Required Supplementary Information –  
Management’s Discussion and Analysis

June 30, 2022

(Unaudited)

**Other Information**

On May 5, 2023, the Pension Reserve Board approved the Investment Policy Statement for the Commonwealth of Puerto Rico Plan of Adjustment Pension Reserve Trust, which details the Trust’s investment objectives, eligible asset classes, asset allocations, among other information in order to invest the contributions received from the Government.

This financial report is designed to provide a general overview of the PRT’s financial results. Additional information can be found on the PRT Board’s website at [www.prtpr.org](http://www.prtpr.org). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pension Reserve Trust Board via e-mail through [comments@prtpr.org](mailto:comments@prtpr.org) or by mail to B5 Tabonuco Street, Suite 216, PMB 355, Guaynabo, Puerto Rico 00968.

Required Supplementary Information –  
Management’s Discussion and Analysis

For the Period March 14, 2022 (Inception) to June 30, 2022

(Unaudited)

**Condensed Financial Information**

Summary balances and activities of the Pension Reserve Trust as of and for the year ended June 30, 2022 are presented below:

*Summary of fund balance:*

	<u>June 30, 2022</u>
Assets:	
Cash	\$ 4,450,562
Total assets	<u>4,450,562</u>
Liabilities:	
Accrued expenses	<u>17,911</u>
Total liabilities	<u>17,911</u>
Fund balance – restricted	<u>\$ 4,432,651</u>

*Summary of revenues, expenditures, and change in fund balance:*

	<u>June 30, 2022</u>
Revenues:	
Interest Income	\$ <u>652</u>
Expenditures:	
General government	<u>18,001</u>
Other financing sources (uses):	
Transfer in - Commonwealth	5,000,000
Transfer out – Pension Benefits Council (“PBC”)	<u>(550,000)</u>
Total other financing sources (uses)	<u>4,450,000</u>
Change in fund balance	4,432,651
Fund balance, beginning of year – restricted	-
Fund balance, end of year – restricted	<u>\$ 4,432,651</u>

Balance Sheet  
June 30, 2022

	<u>2022</u>
Assets:	
Cash	\$ <u>4,450,562</u>
Total assets	<u>4,450,562</u>
Liabilities:	
Accrued expenses	<u>17,911</u>
Total liabilities	<u>17,911</u>
Fund balance - restricted	<u>\$ 4,432,651</u>

The accompanying notes are an integral part of these financial statements.

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Statement of Revenues, Expenditures, and Change in Fund Balance  
For the Period March 14, 2022 (Inception) to June 30, 2022

	<u>2022</u>
Revenues:	
Interest Income	\$ <u>652</u>
Expenditures:	
General government	
Trustees	17,911
Administrative	<u>90</u>
Total expenditures	<u>18,001</u>
Other financing sources (uses):	
Transfer in - Commonwealth	5,000,000
Transfer out – Pension Benefits Council (“PBC”)	<u>(550,000)</u>
Total other financing sources	<u>4,450,000</u>
Change in fund balance	4,432,651
Fund balance, beginning of year – restricted	<u>-</u>
Fund balance, end of year – restricted	<u>\$ <u>4,432,651</u></u>

The accompanying notes are an integral part of these financial statements.

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Notes to the Fund Financial Statements

For the Period March 14, 2022 (Inception) to June 30, 2022

**(1) Description of the Pension Reserve Trust**

Pursuant to the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico (the “Plan”), the Government of Puerto Rico (the “Government”), and the Financial Oversight and Management Board for Puerto Rico (“FOMB”) have established the Commonwealth Plan of Adjustment Pension Reserve Trust (the “Pension Reserve Trust” or the “Trust”) to provide financial support for the Government’s pension obligations under the pay-as-you-go pension system (the “PayGo System”) created pursuant to the provisions of Act 106 of August 23, 2017. The Pension Reserve Trust is a Puerto Rico irrevocable public trust duly organized due to the execution of that certain Deed of Public Trust (the “Deed of Trust”), effective as of March 14th, 2022, pursuant to the provisions of Chapter III of Act 219 of August 31st, 2012, as amended (the “Trust Act”).

As outlined in the Deed of Trust and the Guidelines, the Pension Reserve Trust is an independent and separate legal entity from the Government. The Government has the obligation to provide the Trust with initial funding, an annual base contribution (the “Annual Contribution”), and an additional contribution based on the Government surplus (the “Additional Contribution”) while remaining responsible for all pension payments, current and future. The Trust is overseen by a five-person board of trustees (the “Pension Reserve Board” or the “Board”), which is tasked with providing independent and professional management of the Trust’s assets. Assets under the Trust are irrevocably held by the Board for the exclusive purposes of: (i) paying the operating and administrative expenses of the Trust and the Pension Benefits Council, and (ii) making disbursements to the Government as the Trust’s sole beneficiary pursuant to the Guidelines.

An additional entity composed of nine members appointed by different key stakeholders, and some elected by eligible retirees (the “Pension Benefits Council” or the “Council”) was established for the purpose of ensuring the Government’s compliance with the Plan of Adjustment and the Guidelines in funding the Pension Reserve Trust through annual contributions and shall, along with the Pension Reserve Board, administer requests by the Commonwealth to withdraw funds from the Trust.

The Commonwealth deposited an initial funding of \$5,000,000 as provided for in the Plan, as follows: (i) \$550,000 was deposited into the administrative and operating account of the Pension Benefits Council; and (ii) \$4,450,000 was deposited into the administrative and operating account of the Pension Reserve Board. Over the next decade, after the close of each fiscal year, the Commonwealth must make deposits to the Pension Reserve Trust based on the annual surplus from the most recent fiscal year. The Annual Contributions are expected for a duration of ten (10) fiscal years, with the final payment anticipated to occur based on the fiscal year ending on June 30, 2031. Most of the deposits are expected to be received as a base contribution by October 1 of each year, although the Additional Contribution is contingent on the economic performance of Commonwealth and may not be known until November of each year. The Trust will commence transferring funds back to the Commonwealth no earlier than 2032, as required to assist the Commonwealth in meeting its pension obligations.

Notes to the Fund Financial Statements

For the Period March 14, 2022 (Inception) to June 30, 2022

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

**(a) Basis of Accounting and Financial Statement Presentation**

The preparation of these financial statements is in conformity with generally accepted accounting principles in the United States of America as promulgated for governmental funds by the Governmental Accounting Standards Board. The financial activities of the Pension Reserve Trust are reported as part of the Commonwealth's general fund in the Commonwealth's financial statements. For its reporting purposes, the Trust has presented only governmental fund financial statements, which are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Trust's assets are restricted assets of the Commonwealth and represent only the portion of the Commonwealth's General Fund related to the Trust; therefore, the basic financial statements of the Trust are not intended to present the financial position or changes in financial position of the Commonwealth as a whole in conformity with U.S. generally accepted accounting principles.

**(b) Cash**

Cash includes deposits held in the Trust's operating bank accounts and custodian bank.

**(c) Transfers from the Commonwealth of Puerto Rico**

The Commonwealth's Annual Contributions to the Trust are recognized as an other financing source when received.

**(d) Transfers to the Pension Benefits Council**

Funding of the Council's administrative and operating budget by the Trust is recognized as an other finance use when paid.

**(e) Use of Estimates**

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Fund Financial Statements

For the Period March 14, 2022 (Inception) to June 30, 2022

**(f) Fund Balance**

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

Fund balance is reported as restricted when 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 provisions or by enabling legislation. As the assets held by the Trust are restricted to provide financial support for the Government's pension obligations under the PayGo System in accordance with the Guidelines, and to pay the expenses of the Pension Reserve Board and the Pension Benefits Council, the Trust classifies fund balance as restricted.

**(3) Deposit Risks**

**(a) Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the Pension Reserve Trust's deposits may not be returned. The Trust maintains cash with Banco Popular de Puerto Rico, a major financial institution in Puerto Rico. The combined account balances at a specific financial institution may periodically exceed federally insured limits. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2022, the Trust's bank balance was \$4,450,562, and \$4,200,562 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The Trust, through its consultants, monitors the credit quality of the financial institutions and does not anticipate its nonperformance.

**(4) Management Fees**

Expenses incurred by the Board in managing the Trust are charged to the Pension Reserve Trust in the form of management fees. These expenses consist of investment management fees, investment advisory fees, custodian fees and professional fees, as well as staff salaries and other administrative expenses of the Board. For the year ended June 30, 2022, administrative expenses totaled \$18,001 and are included in the accompanying Statement of Revenues, Expenditures, and Change in Fund Balance.

Notes to the Fund Financial Statements

For the Period March 14, 2022 (Inception) to June 30, 2022

**(5) Subsequent Events**

On July 19, 2022, the trustees held the first meeting of the Pension Reserve Board and assumed responsibility for the operations of the Trust.

On September 30, 2022, the Pension Reserve Trust received the Annual Contribution for fiscal year 2023 due from the Government in the amount of \$1,420,936,000.

On September 30, 2023, the Pension Reserve Trust received the Annual Contribution for fiscal year 2024 due from the Government in the amount of \$1,003,528,908.

On October 31, 2023, the Pension Reserve Trust received the Additional Contribution for fiscal year 2024 due from the Government in the amount of \$87,818,199.

