



Kevane

Grant Thornton

Financial Statements and Report of
Independent Certified Public Accountants

**Retirement System for the Judiciary
of the Commonwealth of Puerto Rico
“JRS Legacy Trust”**

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2022

Retirement System for the Judiciary of the Commonwealth of Puerto Rico
“JRS Legacy Trust”
(A Component Unit of the Commonwealth of Puerto Rico)

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Report of Independent Certified Public Accountants

To the Retirement Board of the Government of Puerto Rico
of the Retirement System for the Judiciary of
the Commonwealth of Puerto Rico:

Opinion

We have audited the accompanying financial statements of governmental activities and the General Fund of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico** (“the Trust”), a component unit of the Commonwealth of Puerto Rico (“the Commonwealth”), as of and for the year ended June 30, 2022, and the related notes to financial statements, which collectively comprise the Trust’s basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and General Fund of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico** as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Basic Financial Statements

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

In preparing the basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico**’s ability to continue as a going concern within one year after the date that the basic financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Basic Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a

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guarantee that an audit conducted in accordance with generally accepted auditing standards 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 basic financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the basic 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 basic 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 **Retirement System for the Judiciary of the Commonwealth of Puerto Rico'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 basic financial statements.
- Conclude whether in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico's** ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

San Juan, Puerto Rico,
September 12, 2023.



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Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited)

June 30, 2022

Management’s discussion and analysis

This section represents a discussion and analysis of the financial performance of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust” (the “Trust” or “JRS”), which provides an overview of the Trust’s financial activities for the fiscal year ended June 30, 2022. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and notes to the basic financial statements. This discussion and analysis are intended to be read in conjunction with the Trust’s financial statements including the notes thereto.

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. 12 of October 19, 1954 (“Act No. 12 of 1954”), as amended, to provide pension and other benefits to retired judges of the judiciary branch of the Commonwealth of Puerto Rico (“the Commonwealth”). Prior to this date, the Trust administered two benefit structures based on a member’s date of hire: (i) a contributory, defined benefit program for judges hired on or before June 30, 2014 with certain distinctions for judges hired between December 24, 2013 and June 30, 2014 and (ii) a contributory, hybrid program for judges hired on or after July 1, 2014. The Trust was a single-employer pension plan.

As discussed in greater detail in Note (1) to the financial statements, Act No. 106, enacted on August 23, 2017, known as the “*Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants*” (“Act No. 106 of 2017”), approved a substantial pension reform for all the Commonwealth’s Retirement Systems, including the Trust.

After Act No. 106 of 2017 was enacted, the main purpose of the Trust is to transfer its available funds to the General Fund of the Commonwealth to cover the payment of accumulated pension benefits of retired judges and beneficiaries of the Judiciary Branch of the Commonwealth. Also, the Trust, continues to pay death benefits and refunds of contributions on behalf of the Commonwealth to terminated participants and provides the servicing of loans to participants portfolio and membership services.

Effective on July 1, 2017, the accumulated pension benefits administered by the Trust under the defined-benefit pension plan, were assumed and guaranteed by the Commonwealth through a pay-as-you-go system (“PayGo System”). Also, a new defined contribution plan was created for existing active members and new employees hired after July 1, 2017. Before and after the enactment of Act No. 106 of 2017, the Trust continues to administer data related to the postemployment healthcare benefits provided by the Commonwealth to retired plan members through the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (“the System MIPC”).

The Trust is considered an integral part of the financial reporting of the Commonwealth. Since Act No. 106 of 2017 transferred the primarily responsibility of payment of pensions to the Commonwealth General Fund and instructed the Trust to liquidate its assets to fund the pension benefits, it is determined that Trust’s assets and activities are no longer reported as a pension trust fiduciary funds. Instead, since fiscal year 2018, the Trust has been reported as part of the blended nonmajor governmental fund in the Commonwealth’s financial statements. During the year ended June 30, 2022, the Trust transferred approximately \$34M (most of its remaining net assets) to the Commonwealth as a contribution to the Commonwealth debt liquidation to its bondholders under Title III of the Puerto Rico Oversight Management, and Economic Stability Act, (PROMESA). As of June 30, 2022, the Trust has not completed the transfer of all its net assets to the Commonwealth and is managing the remaining assets as custodian.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) June 30, 2022

Overview of the financial statements

The following discussion and analysis are 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, 2) fund financial statements and 3) notes to basic financial statements themselves.

- *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.

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Trust’s near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the 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.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust” (A Component Unit of the Commonwealth of Puerto Rico)

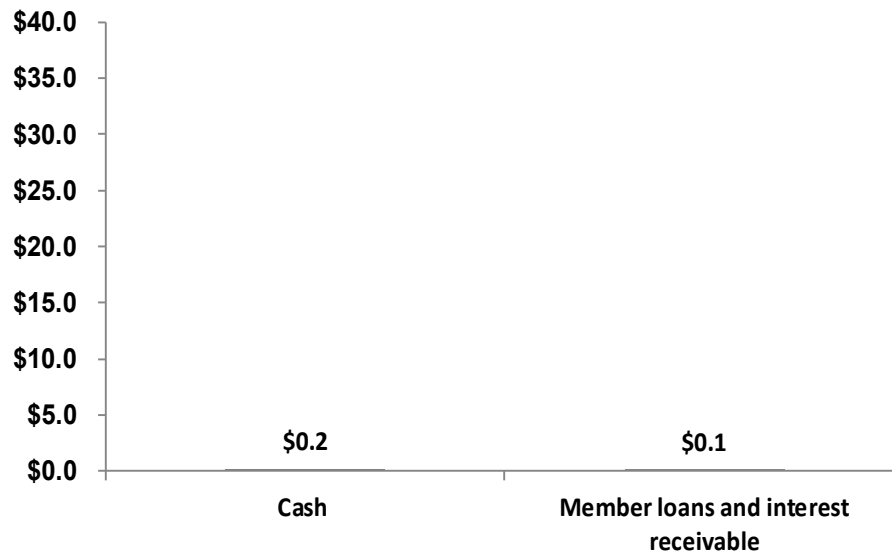
Management’s Discussion and Analysis (Unaudited) June 30, 2022

Financial highlights

As of June 30, 2022, the Trust had custody of approximately \$242,000 in total assets, which consisted of the following:

- Approximately \$157,000 in cash
- Approximately \$85,000 in member loans and interest receivable from plan members

The Commonwealth’s total assets in custody of the Trust as of June 30, 2022, are presented in the following chart (in millions):



As of June 30, 2021, the Trust had custody of approximately \$35.1 million in total assets, which consisted of the following:

- Approximately \$35 million in cash
- Approximately \$78,000 in member loans and interest receivable from plan members

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) June 30, 2022

The Commonwealth’s total assets in custody of the Trust as of June 30, 2021 are presented in the following chart (in millions):



Statements of net position

The following schedules present comparative summary of the Trust’s net position as of June 30, 2022 and 2021:

Assets:				
Assets under custody of the Trust	<u>\$ 242</u>	<u>\$ 35,134</u>	<u>\$ (34,892)</u>	-99.31%
Liabilities:				
Accounts payable and accrued liabilities	\$ 78	\$ -	\$ 78	100.00%
Due to ERS Legacy Trust	-	2,163	(2,163)	-100.00%
Due to Commonwealth of Puerto Rico	<u>164</u>	<u>32,971</u>	<u>(32,807)</u>	-99.50%
Total liabilities	<u>242</u>	<u>35,134</u>	<u>(34,892)</u>	-99.31%
Net Position				
Total liabilities and net position	<u>\$ 242</u>	<u>\$ 35,134</u>	<u>\$ (34,892)</u>	-99.31%

- Total assets under custody of the Trust decreased significantly by approximately \$35M, as a result of the Trust transferring to the Commonwealth approximately the same amount as contribution to the Commonwealth debt liquidation to its bondholders, pursuant Tittle III PROMESA.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

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Management’s Discussion and Analysis (Unaudited) June 30, 2022

- The total aggregate amount of member loans and interest receivable from participants amounted to approximately \$85,000 as of June 30, 2022, compared to \$112,000 as of June 30, 2021, representing a decrease of approximately \$27,000. This decrease is primarily attributed to the net combined effect of a decrease of approximately \$13,000 in personal loans, a decrease of approximately \$4,000 in mortgage loans, and a decrease of approximately \$1,000 in cultural loans, when compared with prior year, mostly as a result of scheduled collections of such loans.

Statements of activities

The statement of activities shows the sources of the Trust’s changes in net position as they arise. The following schedules present comparative summary of the Trust’s change in net position for the years ended June 30, 2022 and 2021:

(Dollars in thousands)	<u>2022</u>	<u>2021</u>	<u>Amount of change</u>	<u>Percentage change</u>
Additions--				
Revenue from the Commonwealth	\$ -	\$ 501	\$ (501)	-100.00%
Deductions--				
General and administrative expenses	-	501	(501)	-100.00%
Change in net position	-	-	-	-
Net position at beginning of year	-	-	-	-
Net position at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-

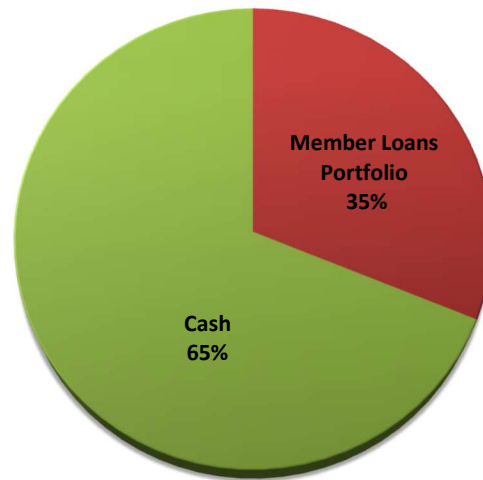
- The general and administrative expenses of the Trust amounted to approximately \$0 during the year ended June 30, 2022, compared to approximately \$501,000 during the year ended June 30, 2021, experiencing a 100% when compared to prior year. This decrease is primarily attributed to the newly created Retirement Board of the Government of Puerto Rico, (the Retirement Board Agency), that during fiscal year ended June 30, 2022 was responsible for all administrative expenses of the Trust, as required by Act 106 of 2017.

**Retirement System for the Judiciary
of the Commonwealth of Puerto Rico
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**Management’s Discussion and Analysis (Unaudited)
June 30, 2022**

Assets portfolio

As of June 30, 2022, the composition of assets held by the Trust on behalf of the Commonwealth, includes 35% in member loans and 65% in cash (collectively, the assets portfolio), as shown in the following chart:



As of June 30, 2022, the Trust held approximately \$85,000 in member loans and interest receivable, which represented 35% of the total assets’ portfolio. Member loans balance as of June 30, 2022 was approximately \$27,000 lower than a year ago. As of June 30, 2022, these loans consisted of approximately \$82,000 in mortgage loans, \$30,000 in personal loans, \$1,000 in cultural trip loans, \$1,000 of interest receivable net of an allowance for loan losses applicable to the pool of loans of \$29,000. As of June 30, 2021, these loans consisted of approximately \$95,000 in mortgage loans, \$12,000 in personal loans, \$3,000 in cultural trip loans and \$2,000 of interest receivable applicable to the pool of loans.

Requests for information

The 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 Board Administration, 235 Ave. Arterial Hostos, Edificio Capital Center Torre Norte, Piso 8, Hato Rey, Puerto Rico 00918.

**Retirement System for the Judiciary
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**General Fund Balance Sheet and Statement of Net Position
June 30, 2022**

(In thousands)

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>Assets:</u>			
Commonwealth's assets in custody of the Trust:			
Cash:			
Deposits at commercial banks			
Unrestricted	\$ 11	\$ -	\$ 11
Restricted	146	-	146
Member loans and interest receivable	85	-	85
Total assets	<u>\$ 242</u>	<u>\$ -</u>	<u>\$ 242</u>
<u>Liabilities:</u>			
Accounts payable and accrued liabilities	\$ 78	\$ -	\$ 78
Due to Commonwealth of Puerto Rico	164	-	164
Total liabilities	<u>242</u>	<u>-</u>	<u>242</u>
<u>Fund balance/net position:</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 242</u>	<u>-</u>	<u>-</u>
Net position		<u>\$ -</u>	<u>\$ -</u>

**Retirement System for the Judiciary
of the Commonwealth of Puerto Rico
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**General Fund Statement of Revenues, Expenditures and Changes in Fund Balance and
Statement of Activities
Year Ended June 30, 2022**

(In thousands)

	General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues from Commonwealth	\$ -	\$ -	\$ -
Expenditures/expenses:			
General government:			
General and administrative expenses	-	-	-
Excess of revenues over expenditures / operating income	-	-	-
Net change in fund balance	-	-	-
Change in net position		-	-
Fund Balance/Net position:			
Beginning of year	-	-	-
End of year	\$ -	\$ -	\$ -

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2022

(1) Reporting entity:

Prior to July 1, 2017, the Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust” (the “Trust” or “JRS”), was a pension trust fund created by the Legislature of the Commonwealth of Puerto Rico (“the Legislature”) under Act No. 12 of October 19, 1954 (“Act No. 12 of 1954”), as amended, to provide pension and other benefits to retired judges of the judiciary branch of the Commonwealth of Puerto Rico (“the Commonwealth”). During this time, the Trust administered a single-employer defined-benefit pension plan (“the pension plan”) and a hybrid defined contribution plan for its participants.

The Joint Resolution 188 from the Legislature and Act No. 106, enacted on August 23, 2017, known as the “*Law to Guarantee the Payment of Our Pensioners and Establish a New Plan of Defined Contributions for Public Servants*” (“Act No. 106 of 2017”), together required the Trust to liquidate its assets. As per Act No. 106 of 2017, the accumulated pension benefits administered by the Trust under the defined-benefit pension plan, were assumed and guaranteed by the Commonwealth through a pay-as-you-go system (“PayGo System”). Also, a new defined contribution plan was created for existing active members and new employees hired after July 1, 2017.

Act 106 of 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 transitioned to the PayGo System, in which the Trust stopped receiving contributions from its sole sponsor and plan participants and is no longer managing contributions on behalf of the active participants. Under the PayGo System, the Commonwealth’s General Fund makes direct pension payments to the retired judges. In addition, Joint Resolution 188 of the Legislature and Act 106 of 2017, required the Trust to liquidate its assets in the total aggregate amount of approximately \$35.5 million. Eventually, the remaining of assets in custody, including this amount will be transferred to the Commonwealth to make benefits payments. Act 106 of 2017 also ordered a suspension of the Trust’s loan program 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 used to be administered by the Trust. Therefore, the Trust’s assets and activities are no longer reported as a pension trust fiduciary fund. Instead, starting in fiscal year 2018, the Trust is reported as part of the blended nonmajor governmental funds in the Commonwealth’s financial statements. During the year ended June 30, 2022, the Trust transferred approximately \$34 million (most of its remaining net assets) to the Commonwealth as a contribution to the Commonwealth debt liquidation to its bondholders under Title III of the Puerto Rico Oversight Management, and Economic Stability Act, (PROMESA). As of June 30, 2022, the Trust has not completed the transfer of all of its net assets to the Commonwealth and is managing the remaining assets as custodian.

The Trust also administers, on behalf of the Commonwealth, the data related to postemployment healthcare benefits provided by the Commonwealth to retired plan members through the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (“the OPEB Medical Insurance Plan”), an unfunded, single-employer defined benefit other postemployment benefit plan.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico "JRS Legacy Trust"

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2022

The Trust continues to pay death benefits and refund contributions to terminated members on behalf of the Commonwealth and provides the servicing to loans to participants portfolio, as well as, membership services.

Pursuant to Act 106 of 2017, a retirement board (the "Retirement Board") is currently responsible for governing, the Trust, ERS 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.

(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. Also, the Trust follows Governmental Accounting Standards Board (GASB) standards in the preparation of its 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.

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.

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.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements

June 30, 2022

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) **Member loans** -

Mortgage, personal, and cultural trip loans to plan members 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. 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 originations of mortgage loans were frozen in December 2013 and those related to personal and cultural were frozen in November 2016.

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 percentage determined by management.

(d) **Use of estimates** -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

(e) **Fund balance (deficit) / net position** -

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 non-spendable when the resources cannot be spent because they are either in a non-spendable form or legally or contractually required to be maintained intact. There was no non-spendable fund balance as of June 30, 2022.
- Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other

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(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2022

governments; or imposed by law through constitutional provision or by enabling legislation. There was no restricted fund balance as of June 30, 2022.

- The Trust’s highest decision-making level of authority rests with the Retirement Board (“the Board”). Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution. There was no committed fund balance as of June 30, 2022.
- Resources that are constrained by the government’s intent to use them for a specific purpose but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Board. There was no assigned fund balance as of June 30, 2022.
- 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 - 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 at June 30, 2022.
- *Restricted* – this consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Trust’s policy to use restricted resources first, then unrestricted resources when they are needed. There was no restricted net position at June 30, 2022.
- *Unrestricted* – this consists of net position that does not meet the definition of restricted or net investment in capital assets.

(3) **Restatement:**

During 2022, the Trust identified an error related to prior year basic financial statements, attributed to an understatement of loans in the amount of approximately \$34,000. As all of the Trust’s assets are held in custody for an eventual transfer of such assets to the Commonwealth, such understatement also created an understatement for the same amount in the balance due to the Commonwealth; therefore, the impact to the Trust beginning net position and fund balance offset each other.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

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Notes to the Basic Financial Statements June 30, 2022

(4) Deposits in custody of the Trust:

Deposits in custody of the Trust as of June 30, 2022 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Deposits at commercial banks	\$ 157	\$ 160	\$ -

Custodial credit risk for deposits is the risk that, in the 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 commercial banks in Puerto Rico be fully collateralized for the amount deposited in excess of the federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth’s name.

(5) Member loans and interest receivable:

The composition of loans and interest receivable from plan members as of June 30, 2022 is summarized as follows (in thousands):

Member loans receivable:		
Mortgage	\$	82
Personal		30
Cultural trips		1
		<u>113</u>
Accrued interest receivable		1
Less:		
Allowance for loan losses, including interest		<u>(29)</u>
Total member loans and interest receivable	\$	<u>85</u>

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

(6) Related parties’ transactions:

- **Commonwealth of Puerto Rico**

The Trust provides administrative support to the Commonwealth in regard to the data related to pension benefits and postemployment healthcare benefits provided by the Commonwealth to retired plan members through the Retirement System for the Judiciary of the Commonwealth Pension Benefits Plan (PayGo Plan) and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (“the OPEB Medical Insurance Plan”).

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Also, the Trust pays death benefits and refunds of contributions to terminated members on behalf of the Commonwealth and provides the servicing to loans to participants portfolio, as well as membership services.

During the year ended June 30, 2022, the Trust transferred approximately \$34 million to the Commonwealth as a contribution to the Commonwealth debt liquidation to its bond holders under title III of Promesa. Also, as of June 30, 2022, Due to Commonwealth amounted to \$164,000.

- **Retirement Board of the Government of Puerto Rico**

The Trust continues to pay death benefits and refund contributions to terminated members on behalf of the Commonwealth and certain administrative expenses pertaining to the Commonwealth and the Retirement Board are also paid by the Trust on their behalf. None of these expenses and payments incurred pertain to the Trust, but the funding for its payments is usually channeled through the Trust, impacting the intercompany accounts with the Commonwealth. During the fiscal year ended June 30, 2022, approximately \$483,000 was transferred by the Retirement Board to the Trust to fund payments of death benefits, refund contributions and administrative expenses on behalf of the Commonwealth and the Retirement Board. See Note (1).

(7) Confirmation of joint plan of adjustment for the Commonwealth, ERS 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 No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both, the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge’s Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties’ motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers’ associations. See Case No. 22-1080. Oral argument

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on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

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

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately \$34.3 billion of prepetition debt to only approximately \$7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of the Puerto Rico Sales Tax Financing Corporation (COFINA) debt service) from approximately \$4.2 billion to \$1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

Pursuant to the order and judgment of the U.S. District Court for the District of Puerto Rico, confirming the Eight Amended Plan (Docket No. 19813), the AAFAF ordered the transfer of approximately \$34.9 million in cash deposits in custody of the Trust to the Puerto Rico Treasury Single Account (“TSA”). Although this transfer occurred, as of the date of these financial statements, the Trust continues to manage the remaining assets of the Trust and provides administrative support related to pension benefits to the Commonwealth of Puerto Rico. The Trust does not foresee a closure of its operations.

The Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Trust and Teachers Retirement System of Puerto Rico (TRS) will be subject to benefits freeze and the elimination of any cost of living adjustments previously authorized under the Trust and TRS pension plans.

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

(8) Subsequent events:

Subsequent events were evaluated through September 12, 2023, to determine if any such events should either be recognized or disclosed in the 2022 financial statements. However, no significant events occurred after June 30, 2022 that require to be disclosed.