



**RETIREMENT SYSTEM FOR THE JUDICIARY  
OF THE COMMONWEALTH OF PUERTO RICO  
“JRS LEGACY TRUST”**

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements

June 30, 2019

(With Independent Auditors' Report Thereon)

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

## Independent Auditors' Report

The Retirement Board of the Government of Puerto Rico  
The Retirement System for the Judiciary  
of the Commonwealth of Puerto Rico – “JRS Legacy Trust”:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust” (the Trust), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2019, 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 Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust” as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



## **Other Matter**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 – 10 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  
September 1, 2022

Stamp No. E481773 of the Puerto Rico  
Society of Certified Public Accountants was  
affixed to the record copy of this report.

**RRETIREMENT SYSTEM FOR THE JUDICIARY  
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(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

(Unaudited)

June 30, 2019

**Introduction**

The following 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”) provides an overview of its activities for the fiscal year ended June 30, 2019. 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 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. 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 on 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 provide 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. Active members of the Trust participate in this new defined contribution plan on a voluntarily basis.

Both 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. Due to Act No. 106 of 2017 transferred the primarily responsibility of payment of 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 are no longer reported as a pension trust fiduciary fund. Instead, since fiscal year 2018, the Trust is being reported as part of the blended component units of the Commonwealth’s Financial Statements. As of June 30, 2019, the

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June 30, 2019

Trust has not completed the transfer of the net assets to the Commonwealth and is managing the remaining assets as custodian. Accordingly, the Trust's operations during the year ended June 30, 2019 were subsidized with revenues from the Commonwealth through the use of the assets on its custody.

**Overview of the Basic Financial Statements**

The following discussion and analysis 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.

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

Because the focus of governmental fund 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.

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(Unaudited)

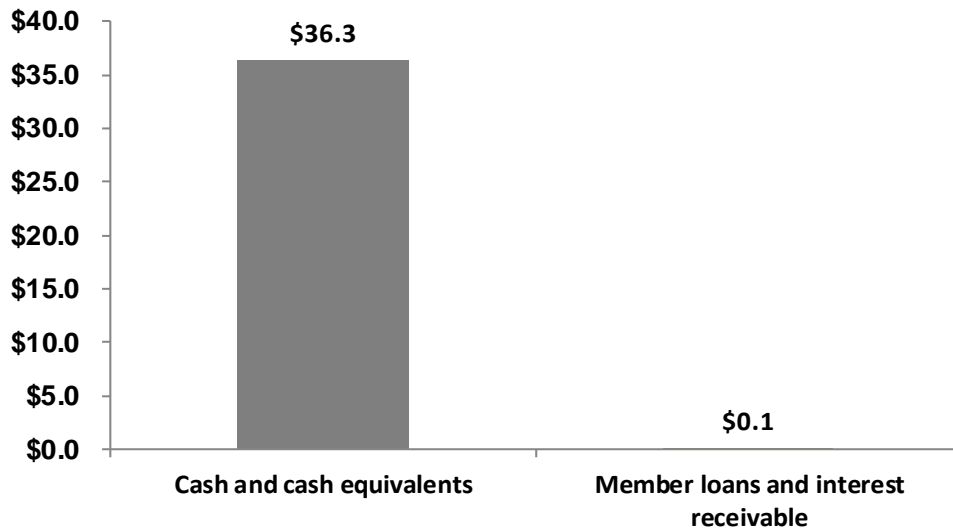
June 30, 2019

*Financial Highlights*

As of June 30, 2019, the Trust had custody of approximately \$36.4 million in total assets, which consisted of the following:

- \$36.3 million in cash and cash equivalents
- \$104,000 in member loans and interest receivable from plan members

The Commonwealth's total assets in custody of the Trust as of June 30, 2019 are presented in the following chart (in millions):



As of June 30, 2018, the Trust had custody of approximately \$36.6 million in total assets, which consisted of the following:

- \$36.2 million in cash and cash equivalents
- \$407,000 in member loans and interest receivable from plan members

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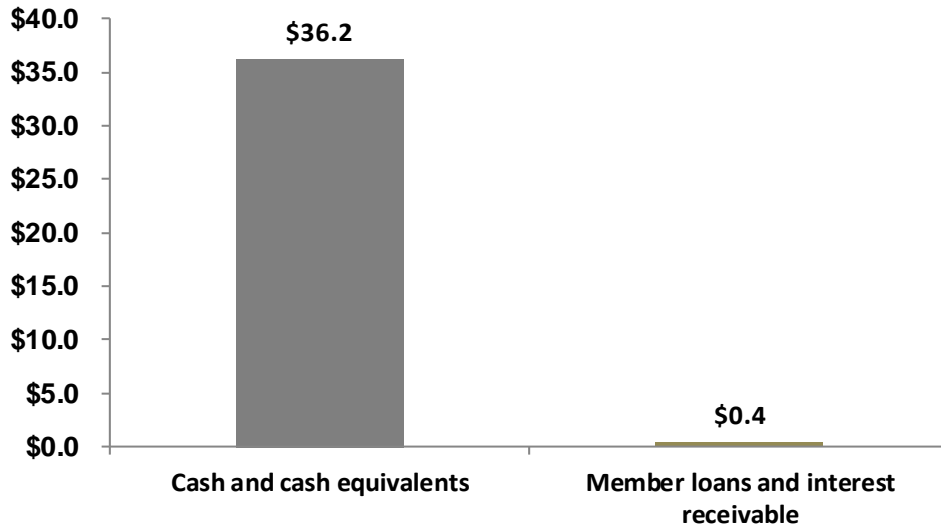
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Management's Discussion and Analysis

(Unaudited)

June 30, 2019

The Commonwealth's total assets in custody of the Trust as of June 30, 2018 are presented in the following chart (in millions):





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Management's Discussion and Analysis

(Unaudited)

June 30, 2019

The following schedules present comparative summary of the Trust's net position and changes in net position as of and for the years ended June 30, 2019 and 2018:

**Comparative Summary of Net Position**

	<u>2019</u>	<u>2018</u>	<u>Amount of change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
Assets:				
Assets under custody of the Trust	\$ 36,427	36,559	(132)	(0.4)
Total assets	<u>\$ 36,427</u>	<u>36,559</u>	<u>(132)</u>	(0.4)
Liabilities:				
Accounts payable and accrued liabilities	\$ 45	90	(45)	(50.0)
Due to ERS Legacy Trust	2,076	1,797	279	15.5
Due to Commonwealth of Puerto Rico	<u>34,306</u>	<u>34,672</u>	<u>(366)</u>	(1.1)
Total liabilities	<u>36,427</u>	<u>36,559</u>	<u>(132)</u>	(0.4)
Net position:				
Net position	<u>—</u>	<u>—</u>	<u>—</u>	
Total liabilities and net position	<u>\$ 36,427</u>	<u>36,559</u>	<u>(132)</u>	(0.4)%

- The total aggregate amount of member loans and interest receivable from participants amounted to approximately \$104,000 as of June 30, 2019, compared to \$407,000 as of June 30, 2018, representing a decrease of approximately of \$303,000. This decrease is primarily attributed to a decrease of approximately \$257,000 in personal loans, when compared with prior year.

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June 30, 2019

**Comparative Summary of Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>Amount of change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
Additions:				
Revenue from Commonwealth	\$ 522	399	123	30.8 %
Total additions	<u>522</u>	<u>399</u>	<u>123</u>	<u>30.8</u>
Deductions:				
General and administrative expenses	522	399	123	30.8
Loss on implementation of Act No. 106 of 2017	<u>—</u>	<u>26,255</u>	<u>(26,255)</u>	<u>100.0</u>
Total deductions	<u>522</u>	<u>26,654</u>	<u>(26,132)</u>	<u>(98.0)</u>
Change in net position	—	(26,255)	26,255	(100.0)
Net position restricted for pensions:				
Beginning of year	<u>—</u>	<u>26,255</u>	<u>(26,255)</u>	<u>(100.0)</u>
End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>— %</u>

- The general and administrative expenses amounted to approximately \$522,000 during year ended June 30, 2019, compared to approximately \$399,000 during year ended June 30, 2018, experiencing an increase of approximately \$123,000. This increase is primarily attributed to an increase in the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS & JRS administration) other professional expenses of approximately \$7 million. The ERS & JRS Administration allocated 1.75% of its general and administrative expenses to the Trust, including other professional expenses.

**Management's Conclusion on Going Concern**

Notwithstanding the facts and circumstances existing on June 30, 2019, and that the Trust is financially dependent on the Commonwealth as a result of Act 106 of 2017, based on subsequent events that remedied the Commonwealth's financial condition and addressed its liabilities, the Trust's management does not believe that there is substantial doubt as to the ability of the Trust to continue as a going concern as of the date of these financial statements in accordance with the Governmental Accounting Standard Board (GASB) Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Audit Standards.

Detailed information about the Commonwealth's liquidity risks 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 Note 3 and Note 6 of these financial statements.

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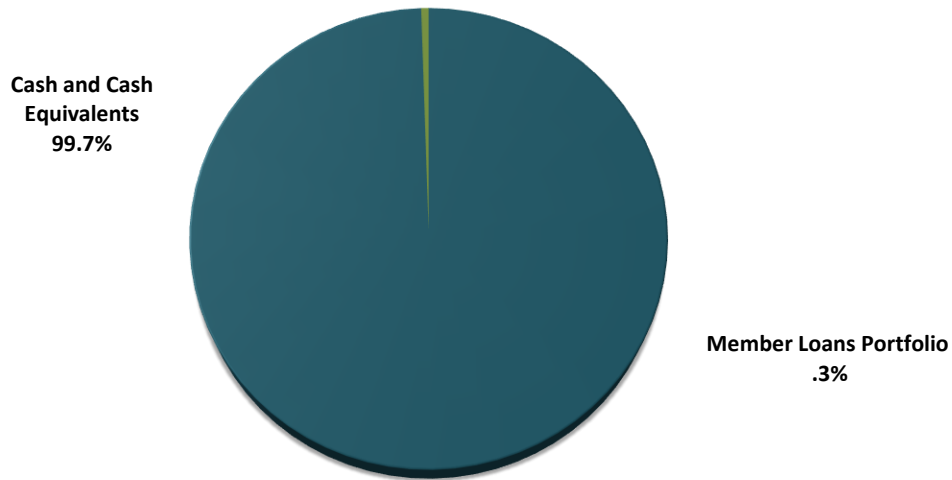
Management's Discussion and Analysis

(Unaudited)

June 30, 2019

**Assets Portfolio**

As of June 30, 2019, the asset composition held by the Trust on behalf of the Commonwealth, including member loans, was 0.3% in member loans, and 99.7% in cash and cash equivalents (collectively, the assets portfolio) as shown in the following chart:



As of June 30, 2019, the Trust held approximately \$104,000 in member loans and interest receivable, which represented .3% of the total investment portfolio, including member loans. Member loan balances as of June 30, 2019 were approximately \$303,000 lower than a year ago. As of June 30, 2019, these loans consisted of approximately \$74,000 in mortgage loans, \$24,000 in personal loans, \$4,000 in cultural loans and \$2,000 of interest receivable applicable to the pool of loans. As of June 30, 2018, these loans consisted of approximately \$81,000 in mortgage loans \$281,000 in personal loans, \$24,000 in cultural trip loans, and \$21,000 of interest receivable applicable to the pool of loans.

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June 30, 2019

**Recent Developments**

During January 2020, the ERS and JRS Administration discovered that an external agent gained access to the Administration'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 ERS and JRS Administration contracted the services of GM Security Technologies and Microsoft to investigate in depth this incident. These entities concluded with their respective investigations and provided recommendations to the Trust's Information Technology security policies, which were implemented as of the date of these financial statements were available to be issued.

On January 18, 2022, Judge Laura Taylor Swain confirmed the Commonwealth Plan of Adjustment restructuring approximately \$34.3 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), as well as more than \$50 billion of unfunded pension liabilities. 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 saves Puerto Rico more than \$50 billion in debt service and reduces outstanding obligations to just over \$7 billion. Refer to note 3 for analysis of the impact of this event on the Trust's operations.

**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, 2019

(In thousands)

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Assets:</b>			
Commonwealth's assets in custody of the Trust:			
Cash and cash equivalents:			
Deposits at commercial banks:			
Unrestricted	\$ 91	—	91
Restricted	36,230	—	36,230
Money market funds	2	—	2
Member loans and interest receivable	104	—	104
Total assets	<u>36,427</u>	<u>—</u>	<u>36,427</u>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	45	—	45
Due to ERS Legacy Trust	2,076	—	2,076
Due to Commonwealth of Puerto Rico	34,306	—	34,306
Total liabilities	<u>36,427</u>	<u>—</u>	<u>36,427</u>
<b>Fund balance/net position:</b>			
Fund balance	—	—	—
Total liabilities and fund balance	<u>\$ 36,427</u>	<u>—</u>	<u>—</u>
Net position		<u>\$ —</u>	<u>—</u>

See accompanying notes to basic financial statements.

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

Year ended June 30, 2019

(In thousands)

	<b>General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
Revenues:			
Revenues from Commonwealth	\$ 522	—	522
Expenditures/expenses:			
General government:			
General and administrative expenses	522	—	522
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	\$ —	—	—

See accompanying notes to basic financial statements.

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**(1) Organization**

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), 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 of Puerto Rico 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. Active members of the Trust participate in this new defined contribution plan on a voluntarily basis.

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 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 its 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 106-2017 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 106-2017 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 component units in the Commonwealth’s financial statements. As of June 30, 2019, the Trust has not completed the transfer of the 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

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(the OPEB Medical Insurance Plan), an unfunded, single-employer defined benefit other postemployment benefit plan.

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

The Retirement Board is currently responsible for governing, the Trust, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (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.

As of June 30, 2019, the Trust and ERS, also a component unit of the Commonwealth, continue to be both administered by the ERS and JRS Administration. The ERS and JRS Administration allocated 1.75% of its general and administrative expenses to the Trust during the fiscal year ended June 30, 2019. 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 ERS, plus total annual payroll of active participants of both the Trust and the ERS.

**(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 basic financial statements.

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

**(a) Basis of Presentation**

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

*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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June 30, 2019

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.

*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 the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

**(d) Cash and Cash Equivalents**

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

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Notes to Basic Financial Statements

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**(e) Member Loans**

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. No allowance for uncollectible amounts has been established since loans to plan members are collected through payroll withholdings and secured by mortgage deeds and plan members' contributions. The maximum amount that was loaned to plan members for mortgage loans is \$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.

**(f) 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, 2019.
- 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. There was no restricted fund balance as of June 30, 2019.
- 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, 2019.
- 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, 2019.
- 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, 2019.
- 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 at June 30, 2019.

- Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

At June 30, 2019, both fund balance per the General Fund Balance Sheet and net position per the Statement of Net Position totaled \$0.

In addition, the excess of expenditures over revenues in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and the changes in net position in the Statement of Activities for the fiscal year ended June 30, 2019 totaled \$0.

**(3) Considerations for Going Concern**

Notwithstanding the budgetary constraints and historical liquidity risks faced by the Trust and the Commonwealth, and other circumstances existing on June 30, 2019, based on subsequent events that remedied the Commonwealth’s financial condition and addressed its liabilities, 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 because of the following:

- Since the effective date of Act 106 of 2017 and Joint Resolution 188, the Trust’s operations have been limited to maintaining custody of the unliquidated assets and proceeds from the liquidated assets that are pending to be transferred to the Commonwealth’s General Fund, and to provide administrative services to the Commonwealth. Although the Trust is financially dependent of the Commonwealth, the Commonwealth’s liquidity risk and other fiscal uncertainties have been addressed under the Commonwealth Plan of Adjustment (as defined and discussed in Note 6 of these financial statements.
- As further discussed in Note 6 to these financial statements, on January 18, 2022, the United States District Court for the District of Puerto Rico (the Title III Court) confirmed the Commonwealth Plan of Adjustment. On March 15, 2022 (the Effective Date), the Commonwealth, ERS, and the Puerto Rico Public Building Authority (PBA), each emerged from their Title III cases. On the Effective Date, the Commonwealth Plan of Adjustment was consummated and became effective. As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth’s total funded debt obligations from approximately \$34.3 billion of pre-petition debts to only approximately \$7.4 billion, representing a total debt reduction of 78%. 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. Although the Commonwealth Plan of Adjustment does not reduce current retiree benefits, it imposed a benefit freeze and elimination of cost-of-living adjustments in the defined benefit plans for active teachers under TRS and for active judges under JRS. This significant reduction in total debt and annual debt service payments provides a path for the Commonwealth’s future economic growth and alleviates the historical budgetary constraints that caused doubt as to whether the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) would approve the future financing needs of the Trust.

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**(4) Deposits in custody of the Trust**

Deposits in custody of the Trust as of June 30, 2019 consisted of the following (in thousands):

	<b>Carrying amount</b>	<b>Depository bank balance</b>	<b>Amount uninsured and uncollateralized</b>
Deposits with Puerto Rico commercial banks	\$ 36,321	36,325	—
Money market funds	2	2	2
Total in custody of the Trust	\$ 36,323	36,327	2

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, 2019 is summarized as follows (in thousands):

Member loans receivable:		
Personal	\$	24
Mortgage		74
Cultural trips		4
Total member loans receivable		102
Accrued interest receivable		2
Total member loans and interest receivable	\$	104

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**(6) Subsequent Events**

Subsequent events were evaluated through September 1, 2022 to determine if any such events should either be recognized or disclosed in the 2019 basic financial statements. The subsequent events disclosed below are principally those related to fiscal events, legislation (both local and federal), and litigation that management believes are of public interest for disclosure.

**(a) Oversight Board Files 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 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 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.

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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.

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>.

**(b) Cybersecurity Attack**

During January 2020, the ERS and JRS Administration discovered that an external agent gained access to the Administration'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 ERS and JRS Administration contracted the services of GM Security Technologies and Microsoft to investigate in depth this incident. These entities concluded with their respective investigations and provided recommendations to the Trust's Information Technology security policies, which were implemented as of the date of these financial statements were available to be issued.

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**(c) *Coronavirus Pandemic***

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.

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 re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.