



**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, 2018

(With Independent Auditors' Report Thereon)

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OF THE COMMONWEALTH OF PUERTO RICO
“JRS LEGACY TRUST”**
(A Component Unit of the Commonwealth of Puerto Rico)

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KPMG LLP
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San Juan, PR 00918-1819

Independent Auditors' Report

The Retirement Board of
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, 2018, 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 the general fund of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust”, as of June 30, 2018, and the respective changes in financial position for the year then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

Uncertainty about the Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Trust will continue as a going concern. As discussed in note 3 to the basic financial statements, after the effective date of Act 106-2017, the Trust's operations are limited to maintaining custody of the unliquidated assets that are pending to be transferred to the Commonwealth and administrative services on behalf of the Commonwealth. The Trust is economically dependent of the Commonwealth, which is facing significant risks and uncertainties, including liquidity risk. Additionally, on May 3, 2017 and May 21, 2017 the Financial Oversight and Management Board for Puerto Rico – at the request of the Governor – commenced Title III cases for the Commonwealth and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), respectively, by filing a petition for relief under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. The Trust is not a debtor in a case under Title III of PROMESA, but the result of the Commonwealth and ERS' Title III cases may have an indirect impact on the Trust. Management of the Trust has stated that substantial doubt exists about the Trust's ability to continue as a going concern and its evaluation of the events and conditions and plans regarding these matters are also described in note 3. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–11 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
March 4, 2022

Stamp No. E470480 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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Management's Discussion and Analysis

(Unaudited)

June 30, 2018

Introduction

The following management's 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, 2018. 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 4, 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 contribute their available funds to the General Fund 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 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 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.

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

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part of the blended component units of the Commonwealth's financial statements. As of June 30, 2018, the 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, 2018 were subsidized with revenues from the Commonwealth through the use of the assets on its custody. The most significant change in the presentation of the basic financial statements is that current year revenues and expenses (expenditures) are limited to the administration of the assets under its custody. Revenues and expenses (expenditures), associated to the assets under the Trust's custody are presented as part of the change in Due to Commonwealth.

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 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

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balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

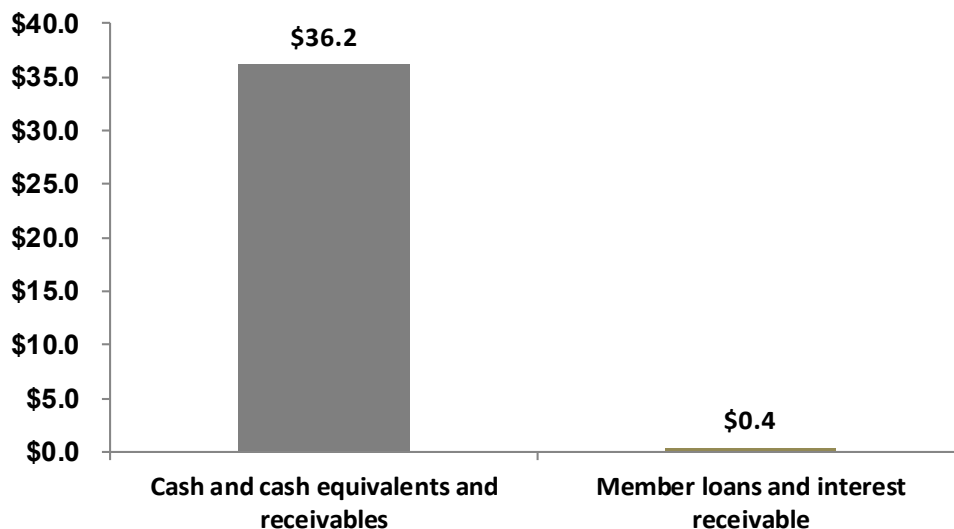
- *Notes to the Basic Financial Statements* - Provide additional information that is essential for an understanding of the data provided in the financial statements. The notes present information about the Trust's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Financial Highlights

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 and other receivables
- \$407,000 in member loans and interest receivable from plan members

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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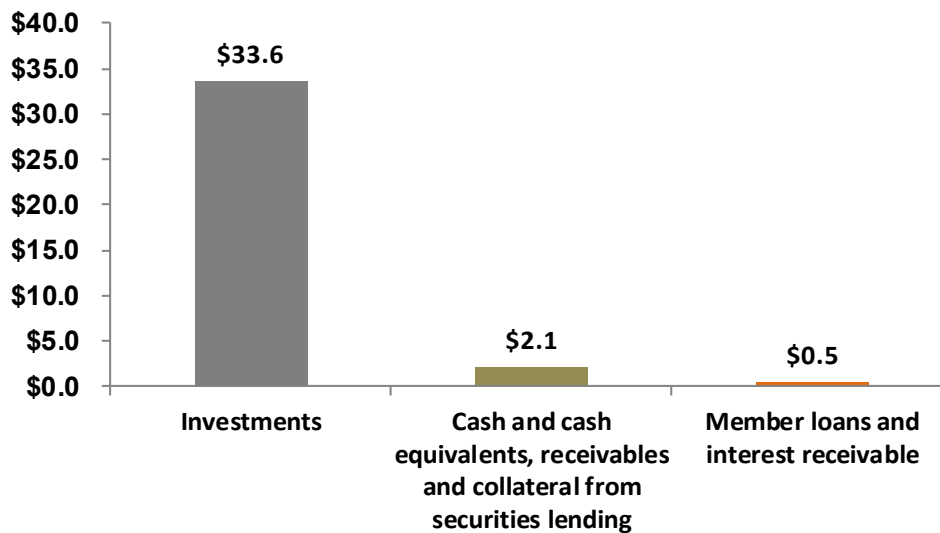
(Unaudited)

June 30, 2018

As of June 30, 2017, the Trust had approximately \$36.2 million in total assets, which consisted of the following:

- \$33.6 million in investments
- \$2.1 million in cash and cash equivalents, receivables, and collateral from securities lending transactions
- \$486,000 in member loans and interest receivable from plan members

The Trust's total assets as of June 30, 2017 are presented in the following chart (in millions):



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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, 2018 and 2017:

Comparative Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Amount of change</u>	<u>Percentage change</u>
		(Dollars in thousands)		
Assets:				
Trust's assets	\$ —	36,222	(36,222)	(100.0)%
Assets under custody of the Trust	36,559	—	36,559	100.0
Total assets	<u>36,559</u>	<u>36,222</u>	<u>337</u>	<u>0.9</u>
Liabilities:				
Accounts payable and accrued liabilities	90	9,339	(9,249)	(99.0)
Due to ERS Legacy Trust	1,797	628	1,169	186.1
Due to Commonwealth of Puerto Rico	34,672	—	34,672	100.0
Total liabilities	<u>36,559</u>	<u>9,967</u>	<u>26,592</u>	<u>266.8</u>
Net position:				
Net position	—	26,255	(26,255)	(100.0)
Total liabilities and net position	<u>\$ 36,559</u>	<u>36,222</u>	<u>337</u>	<u>0.9 %</u>

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Comparative Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Amount of change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
Additions:				
Contributions:				
Employer:				
Basic benefits	\$ —	10,065	(10,065)	(100.0)%
Special benefits	—	1,908	(1,908)	(100.0)
Member	—	3,084	(3,084)	(100.0)
Net investment and security lending transactions	—	2,077	(2,077)	(100.0)
Other income	—	365	(365)	(100.0)
Revenue from Commonwealth	399	—	399	100.0
Total additions	<u>399</u>	<u>17,499</u>	<u>(17,100)</u>	<u>(97.7)</u>
Deductions:				
Benefits paid to participants	—	25,313	(25,313)	(100.0)
Refunds of contributions	—	92	(92)	(100.0)
General and administrative expenses	399	571	(172)	(30.1)
Other deductions	—	43	(43)	(100.0)
Total deductions	<u>399</u>	<u>26,019</u>	<u>(25,620)</u>	<u>(98.5)</u>
Special item:				
Loss on implementation of Act No. 106 of 2017	26,255	—	26,255	100.0
Change in net position	<u>(26,255)</u>	<u>(8,520)</u>	<u>(17,735)</u>	<u>208.2</u>
Net position:				
Beginning of year	26,255	34,775	(8,520)	(24.5)
End of year	<u>\$ —</u>	<u>26,255</u>	<u>(26,255)</u>	<u>(100.0)%</u>

- The fair value of the Trust's investments, excluding member loans and interest receivable, as of June 30, 2018 amounted to approximately \$0 compared to approximately \$33.6 million as of June 30, 2017.
- The total aggregate amount of member loans and interest receivable from participants amounted to approximately \$407,000 as of June 30, 2018, compared to \$486,000 as of June 30, 2017.

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Going Concern

The discussion in note 3 to the financial statements provides information regarding the Trust's ability to continue as a going concern.

Management believes that there is substantial doubt about the ability of the Trust to continue as a going concern because of the following:

- After the effective date of Act 106-2017 and Joint Resolution 188, the Trust's operations are 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. The Trust is economically dependent of the Commonwealth, which is facing significant risks and uncertainties, including liquidity risk.
- As a result of fiscal and economic challenges, on May 3, 2017 and May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) – at the request of the Governor of Puerto Rico – commenced Title III cases for the Commonwealth and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), by filing a petition for relief under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). The Trust is not a debtor in a case under Title III of PROMESA, but the results of the Commonwealth and ERS Title III cases may have an indirect impact on the Trust, as the Trust is a component unit of the Commonwealth.
- Additionally, the Commonwealth's Legislature passed Act 106-2017 to adopt a new PayGo pension system. Effective as of July 1, 2017, these measures eliminated all employer payments to the Trust, contributions ordered by special laws and the additional uniform contribution. All members' contributions are being deposited in the new PayGo pension system. With all these measures, the Commonwealth, not JRS, makes all direct benefit payments to retired judges. Accordingly, the Trust is no longer receiving any contributions from its employer nor participating members.

Management's Conclusion on Going Concern Consideration and Remediation Plan

In accordance with Act 106-2017, the Trust's remediation plan will be dependent on the Commonwealth plan of adjustment and ongoing measures between the government and the Oversight Board.

Detailed information about the Commonwealth's condition and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plan are disclosed in the notes of the Commonwealth's 2018 audited basic financial statements.

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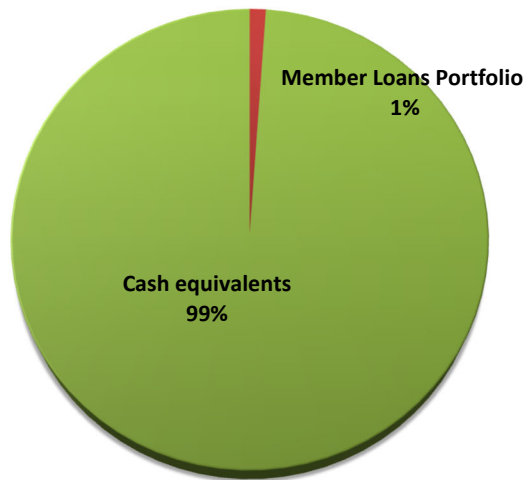
Management's Discussion and Analysis

(Unaudited)

June 30, 2018

Assets Portfolio

As of June 30, 2018, the asset composition held by the Trust on behalf of the Commonwealth, including member loans, was 1% in member loans, and 99% in cash and cash equivalents (collectively, the assets portfolio) as shown in the following chart:



Per Joint Resolution 188, during August 2017 and December 2017, the Trust liquidated all its investments in public markets in the total aggregate amount of approximately \$35.5 million. While Joint Resolution 188 required ERS and TRS to transfer a specific amount to the Treasury Department, it did not require the Trust to transfer any amount, and accordingly, as of the date of these financial statements, no funds have been transferred to the Treasury Department.

Member Loans Portfolio

As of June 30, 2017, the Trust held approximately \$486,000 in member loans and interest receivable, which represented 1% of the total assets. Member loan balances as of June 30, 2018 were approximately \$79,000 lower than a year ago. 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. As of June 30, 2017, these loans consisted of approximately \$96,000 in mortgage loans \$350,000 in personal loans, \$30,000 in cultural trip loans, and \$10,000 of interest receivable applicable to the pool of loans.

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Recent Developments

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system. With the start of fiscal year 2018, employers’ (contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated and replaced by a monthly PayGo fee that will be collected from the aforementioned government entities to reimburse the Commonwealth’s General Fund that directly pays retiree benefits. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) will determine the PayGo fees that will be charged to each agency, public corporation and municipality, while the Trust is helping to administer the PayGo System.

The PayGo system was one component of Act No. 106 of 2017, which the Governor signed into law on August 23, 2017. In addition, Act No. 106 of 2017 created the legal framework for the Commonwealth to guarantee benefit payments to pensioners through the PayGo system. Approximately \$2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106 of 2017 also created a Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Future benefits will not be paid by the Retirement Systems.

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, 2018

(In thousands)

	General Fund Balance Sheet	Adjustments	Statement of Net Position
Assets:			
Commonwealth's assets in custody of the Trust:			
Cash and cash equivalents:			
Deposits at commercial banks:			
Unrestricted	\$ 325	—	325
Restricted	35,669	—	35,669
Money market funds	158	—	158
Employer's receivable – net of allowance for uncollectible accounts of \$37,200	—	—	—
Member loans and interest receivable	407	—	407
Total assets	36,559	—	36,559
Liabilities:			
Accounts payable and accrued liabilities	90	—	90
Due to ERS Legacy Trust	1,797	—	1,797
Due to Commonwealth of Puerto Rico	34,672	—	34,672
Total liabilities	36,559	—	36,559
Fund balance/net position:			
Fund balance	—	—	—
Total liabilities and fund balance	\$ 36,559	—	
Total liabilities and net position			\$ 36,559

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, 2018

(In thousands)

	General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues:			
Revenues from Commonwealth	\$ 399	—	399
Expenditures/expenses:			
General government:			
General and administrative expenses	399	—	399
Excess of revenues over expenditures/ Operating income	—	—	—
Special items:			
Loss on implementation of Act 106-2017	26,255	—	26,255
Excess of expenditures and special items over revenues	(26,255)	—	
Change in net position		—	(26,255)
Fund balance/Net position:			
Beginning of year	26,255	—	26,255
End of year	\$ —	—	—

See accompanying notes to basic financial statements.

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(Audited)

June 30, 2018

(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. The Trust was administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and governed by a board of trustees. 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 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).

As discussed in greater detail on note 4, 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.

The Commonwealth’s General Fund became the only recipient of the assets maintained under the custody of the Trust. The product of the liquidation of said assets is designated by law to be used by the General Fund to cover pension benefits that used to be administered by the Trust. Therefore, the Trust’s assets and activities are 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, 2018 the Trust has not completed the transfer of the net assets to the Commonwealth and is managing the remaining assets as custodian.

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

(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.

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Notes to Basic Financial Statements

(Audited)

June 30, 2018

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.

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 of 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, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

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(Audited)

June 30, 2018

(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 and money market funds.

(e) Investments

The Trust liquidated all its position in public investment markets at approximately \$35.5 million as of June 30, 2018.

(f) 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. Act 106-2017 suspended the issuance of new loans effectively August 23, 2017. The maximum amount was loaned to plan members for mortgage loans is \$100,000 and \$5,000 for personal and cultural trip loans. The carrying value of these loans approximates their fair value.

These loans are substantially guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll deductions. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural loans were frozen in November 2016.

(g) Fund Balance / Net Position

(i) Fund Balance

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, 2018.

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- 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, 2018.
- 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, 2018.
- 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, 2018.
- Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the Trust for any purpose.

(ii) 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, 2018.
- 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, 2018.
- Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

At June 30, 2018, 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 and special items 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, 2018 totaled (\$26,255), which is mainly related to special item associated to loss on implementation of Act 106 of 2017.

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(3) Going Concern Uncertainty

Management believes that there is substantial doubt about the ability of the Trust to continue as a going concern because of the following:

- After the effective date of Act 106-2017 and Joint Resolution 188, the Trust's operations are 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. The Trust is economically dependent of the Commonwealth, which is facing significant risks and uncertainties, including liquidity risk.
- As a result of fiscal and economic challenges, on May 3, 2017 and May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) – at the request of the Governor of Puerto Rico – commenced Title III cases for the Commonwealth and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), by filing a petition for relief under Title III of the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico (the Title III Court). The Trust is not a debtor in a case under Title III of PROMESA, but the results of the Commonwealth and ERS Title III cases may have an indirect impact on the Trust, as the Trust is a component unit of the Commonwealth.
- Additionally, the Commonwealth's Legislature passed Act 106-2017 to adopt a new PayGo pension system. Effective as of July 1, 2017, these measures eliminated all employer payments to the Trust, contributions ordered by special laws and the additional uniform contribution. All members' contributions are being deposited in the new PayGo pension system. With all these measures, the Commonwealth, not JRS, makes all direct benefit payments to retired judges. Accordingly, the Trust is no longer receiving any contributions from its employer nor participating members.

Management's Conclusion on Going Concern Consideration and Remediation Plan

In accordance with Act 106-2017, the Trust's remediation plan will be dependent on the Commonwealth plan of adjustment and ongoing measures between the government and the Oversight Board.

Detailed information about the Commonwealth's condition and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plan are disclosed in the notes of the Commonwealth's 2018 audited basic financial statements.

(4) Pension Reform

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 a pay-as-you-go (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

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the PayGo system, the Commonwealth's General Fund makes direct pension payments to the retired judges. In addition, Joint Resolution 188 of the Legislature of Puerto Rico and Act 106-2017 required the Trust to liquidate its assets in the total aggregate amount of approximately \$35.5 million. Eventually, this amount will be transferred to the Commonwealth to make benefits payments.

As part of the pension reform, Act 106-2017 created the New Defined Contribution Plan for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the Trust. Under the New Defined Contribution Plan, members of the prior programs and new judges hired on and after July 1, 2017 will be enrolled in the New Defined Contributions Program on a voluntary basis.

Among other things, Act 106-2017 amended Act No.12 of 1954 with respect to the Trust's governance, and funding. Under Act 106-2017, the Trust's Board of Trustees was eliminated, and a new Retirement Board was created. 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.

Act 106-2017 also ordered a suspension of the Trust's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the administration of the Trust benefits may be managed by a third-party service provider.

In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating other incentives, opportunities and retraining program for public workers.

The ERS and JRS Administration allocated 2% of its general and administrative expenses to the Trust during the fiscal year ended June 30, 2018 for the services provided to membership and the Commonwealth. 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 ERS.

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(5) Deposits and Investments

Deposits in Custody of the Trust

Deposits in custody of the Trust as of June 30, 2018 consisted of the following (in thousands):

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Deposits at commercial banks	\$ 35,994	35,984	—
Money market funds	158	158	158
Total	\$ 36,152	36,142	158

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.

Investments

Sale of Trust's Investments

On June 23, 2017, the Legislature approved certain other assignments for fiscal year 2018 under Joint Resolution 188, which among other things, ordered the Retirement Systems to liquidate their assets and pass the net proceeds to the Treasury Department. During August 2017 and December 2017, the Trust sold investments in the total aggregate amount of approximately \$35.5 million and accordingly, liquidated all its positions in the public investment market, as required under Joint Resolution 188. Joint Resolution 188 did not include any amount allocated to the Trust, and accordingly, as of the date of these financial statements no funds have been transferred to the Treasury Department and its use is restricted.

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(6) Member Loans and Interest Receivable

The composition of loans and interest receivable from plan members as of June 30, 2018 is summarized as follows (in thousands):

Member loans receivable:		
Personal	\$	281
Mortgage		81
Cultural trips		24
Total member loans receivable		386
Accrued interest receivable		21
Total member loans and interest receivable	\$	407

(7) Subsequent Events

Subsequent events were evaluated through March 4, 2022 to determine if any such events should either be recognized or disclosed in the 2018 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 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] (the Seventh Amended Disclosure Statement). The Seventh Amended Plan incorporated the terms of (i) a plan support agreement (the 2021 PSA), dated February 22, 2021, between the Oversight Board, certain Commonwealth general obligation bondholders, and PBA bondholders; (ii) a restructuring support agreement with the Retiree Committee, in which the Retiree Committee agreed to a maximum 8.5% pension cut that would only be applicable to retirees with monthly retirement benefits of more than \$1,500 (the Monthly Benefit Modification), as well as freezes in pension benefits for teachers and judges; (iii) the HTA/CCDA Related Plan Support Agreement (the HTA/CCDA PSA), dated May 5, 2021, between the Oversight Board, Assured Guaranty Corp. and National Public Finance Guarantee Corp. (together, the Settling Monoline Insurers); and (iv) a stipulation between the Oversight Board and System bondholders, dated April 2, 2021 (the ERS Stipulation), which set forth an agreement on the economic terms upon which the System bondholders would support a plan of adjustment.

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On October 26, 2021, the Governor signed into law Act No. 53 of 2021, 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 the Monthly Benefit Modification in an amended version of that plan.

On November 3, 2021, the Oversight Board filed the Eighth Amended Plan, which further revised the Seventh Amended Plan to eliminate its Monthly Benefit Modification provisions, 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].

On January 18, 2022, the Title III Court entered its Findings of Fact [ECF No. 19812] and Confirmation Order [ECF No. 19813] with respect to the Eighth Amended Plan. Accordingly, the Eighth Amended Plan has been confirmed by the Title III Court, but remains subject to the occurrence of various conditions—which the Oversight Board and Government are actively pursuing—before the Effective Date of the plan can occur. It is not certain when the Eighth Amended Plan will become effective.

Importantly, when it becomes effective, the Eighth Amended Plan preserves all accrued pension benefits for active and retired public employees. However, JRS and TRS participants will be subject to a benefits freeze and the elimination of any cost-of-living adjustments previously authorized under the JRS 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 IT security policies, which as of the date of our financial statements were already implemented.

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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.