



Kevane

Grant Thornton

Basic Financial Statements and Report of
Independent Certified Public Accountants

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

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2023

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

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Report of Independent Certified Public Accountants

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

Opinion

We have audited the accompanying basic financial statements of governmental activities and the General Fund of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico** (“the Trust”), a component unit of the Commonwealth of Puerto Rico (“the Commonwealth”), as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the Trust’s basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and General Fund of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico** as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Basic Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the basic financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the basic financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the basic financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico’s** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the basic financial statements.
- Conclude whether in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Retirement System for the Judiciary of the Commonwealth of Puerto Rico’s** ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico,
May 3, 2024.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
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Retirement System for the Judiciary of the Commonwealth of Puerto Rico “JRS Legacy Trust”

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) June 30, 2023

Management’s discussion and analysis

This section represents a discussion and analysis of the financial performance of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico – “JRS Legacy Trust” (the “Trust” or “JRS”), which provides an overview of the Trust’s financial activities for the fiscal year ended June 30, 2023. Its purpose is to provide explanations and insights into the information presented in the basic financial statements and notes to the basic financial statements. This discussion and analysis are intended to be read in conjunction with the Trust’s basic financial statements including the notes thereto.

Prior to July 1, 2017, the Trust was a pension trust fund created by the Legislature of the Commonwealth of Puerto Rico (“the Legislature”) by Act No. 12 of October 19, 1954 (“Act No. 12 of 1954”), as amended, to provide pension and other benefits to retired judges of the judiciary branch of the Commonwealth of Puerto Rico (“the Commonwealth”). Prior to this date, the Trust administered two benefit structures based on a member’s date of hire: (i) a contributory, defined benefit program for judges hired on or before June 30, 2014 with certain distinctions for judges hired between December 24, 2013 and June 30, 2014 and (ii) a contributory, hybrid program for judges hired on or after July 1, 2014. The Trust was a single-employer pension plan.

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

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

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

The Trust is considered an integral part of the financial reporting of the Commonwealth. Since Act No. 106 of 2017 transferred the primarily responsibility of payment of pensions to the Commonwealth General Fund and instructed the Trust to liquidate its assets to fund the pension benefits, it is determined that Trust’s assets and activities are no longer reported as a pension trust fiduciary funds. Instead, since fiscal year 2018, the Trust has been reported as part of the blended nonmajor governmental funds in the Commonwealth’s financial statements. During the year ended June 30, 2022, the Trust transferred approximately \$34M (most of its remaining net assets) to the Commonwealth as a contribution to the Commonwealth debt liquidation to its bondholders under Title III of the Puerto Rico Oversight Management, and Economic Stability Act, (PROMESA). As of June 30, 2023, the Trust has not completed the transfer of all its net assets to the Commonwealth and is managing the remaining assets as custodian.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited)

June 30, 2023

Overview of the basic financial statements

The following discussion and analysis are intended to serve as an introduction to the Trust’s basic financial statements. The Trust’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements themselves.

- *Government-wide financial statements* - the government-wide financial statements are designed to provide readers with a broad overview of the Trust’s financial position, in a manner similar to a private-sector business.

The statement of net position presents information of all of the Trust’s assets and deferred outflows of resources and liabilities and deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating as a result of the year’s operations.

The statement of activities presents information showing how the Trust’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- *Fund financial statements* - for accounting purposes, a fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

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

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Trust’s governmental activities. Both, the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balance, provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

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

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

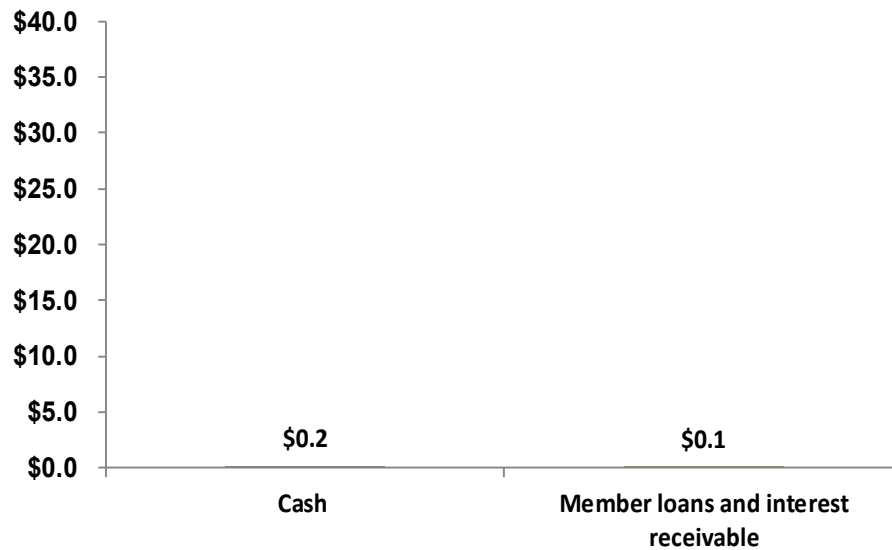
Management’s Discussion and Analysis (Unaudited) June 30, 2023

Financial highlights

As of June 30, 2023, the Trust had custody of approximately \$238,000 in total assets, which consisted of the following:

- Approximately \$159,000 in cash
- Approximately \$79,000 in member loans and interest receivable from plan members

The Commonwealth’s total assets in custody of the Trust as of June 30, 2023, are presented in the following chart (in millions):



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

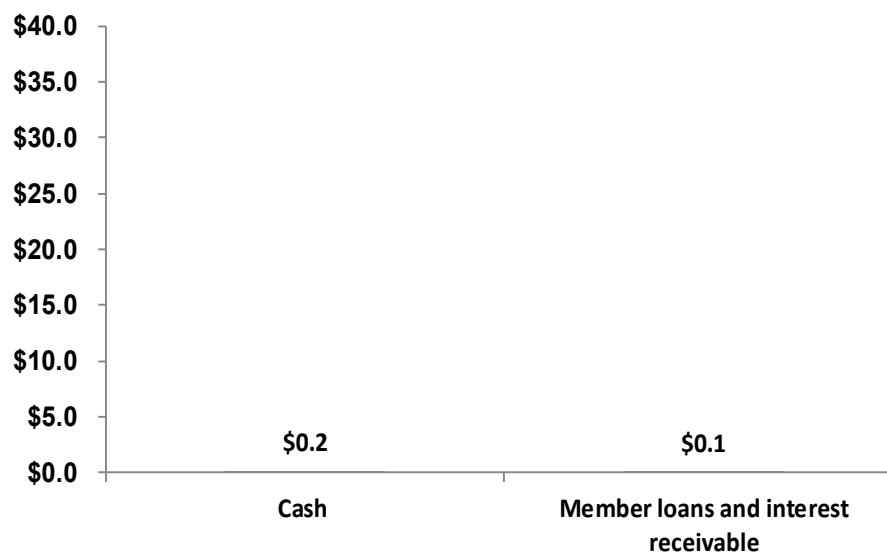
- Approximately \$157,000 in cash
- Approximately \$85,000 in member loans and interest receivable from plan members

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

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) June 30, 2023

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



Statements of net position

The following schedules present comparative summary of the Trust’s net position as of June 30, 2023 and 2022:

(Dollars in thousands)	<u>2023</u>	<u>2022</u>	<u>Amount of change</u>	<u>Percentage change</u>
Assets:				
Assets under custody of the Trust	\$ 238	\$ 242	\$ (4)	(1.7)%
Liabilities:				
Accounts payable and accrued liabilities	\$ 1	\$ 78	\$ (77)	(98.7)%
Due to Commonwealth of Puerto Rico	237	164	73	44.5 %
Total liabilities	<u>238</u>	<u>242</u>	<u>(4)</u>	<u>(1.7)%</u>
Net position	<u>-</u>	<u>-</u>	<u>-</u>	
Total liabilities and net position	\$ <u>238</u>	\$ <u>242</u>	\$ <u>(4)</u>	<u>(1.7)%</u>

- Total assets under custody of the Trust decreased by approximately \$4,000, as a result of the Trust increase in cash by \$2,000 and the decrease in member loans by \$6,000, caused by loans’ collections during the year.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Management’s Discussion and Analysis (Unaudited) June 30, 2023

- The total aggregate amount of member loans and interest receivable from participants amounted to approximately \$79,000 as of June 30, 2023, compared to \$85,000 as of June 30, 2022, representing a decrease of approximately \$6,000. This decrease is primarily attributed to the net combined effect of a decrease of approximately \$21,000 in personal loans and interest receivable, a decrease of approximately \$8,000 in mortgage loans, and a decrease of approximately \$23,000 in the allowance for loan losses, when compared with prior year, mostly as a result of scheduled collections of such loans.

Statements of activities

The statement of activities shows the sources of the Trust’s changes in net position as they arise. The following schedules present comparative summary of the Trust’s change in net position for the years ended June 30, 2023 and 2022:

(Dollars in thousands)	<u>2023</u>	<u>2022</u>	<u>Amount of change</u>	<u>Percentage change</u>
Additions--				
Revenue from the Commonwealth	\$ -	\$ -	\$ -	0.00%
Deductions--				
General and administrative expenses	-	-	-	0.00%
Change in net position	-	-	-	-
Net position at beginning of year	-	-	-	-
Net position at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-

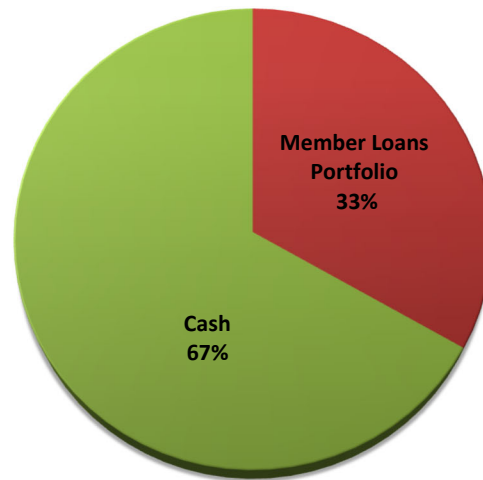
- As in prior year, the Retirement Board of the Government of Puerto Rico, (the Retirement Board Agency), was responsible for all administrative expenses of the Trust, as required by Act 106 of 2017, accordingly there is no account movement in the Statements of Activities during the years ended June 30, 2023 and 2022.

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

**Management’s Discussion and Analysis (Unaudited)
June 30, 2023**

Assets portfolio

As of June 30, 2023, the composition of assets held by the Trust on behalf of the Commonwealth, includes 33% in member loans and 67% in cash (collectively, the assets portfolio), as shown in the following chart:



As of June 30, 2023, the Trust held approximately \$79,000 in member loans and interest receivable, which represented 33% of the total assets’ portfolio. Member loans balance as of June 30, 2023 was approximately \$6,000 lower than a year ago. As of June 30, 2023, these loans consisted of approximately \$74,000 in mortgage loans, \$7,000 in personal loans and \$4,000 in cultural trip loans, less \$6,000 of an allowance for loan losses applicable to the pool of loans. As of June 30, 2022, these loans consisted of approximately \$82,000 in mortgage loans, \$30,000 in personal loans, \$1,000 in cultural trip loans and \$1,000 of interest receivable applicable to the pool of loans, less \$29,000 of an allowance for loan losses applicable to the pool of loans.

Requests for information

The financial report is designed to provide a general overview of the Trust’s finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Retirement Board Administration, 235 Ave. Arterial Hostos, Edificio Capital Center Torre Norte, Piso 8, Hato Rey, Puerto Rico 00918.

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

**General Fund Balance Sheet and Statement of Net Position
June 30, 2023**

(In thousands)

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<u>Assets:</u>			
Commonwealth's assets in custody of the Trust:			
Cash:			
Deposits at commercial banks			
Restricted	\$ 159	\$ -	\$ 159
Member loans and interest receivable	79	-	79
Total assets	<u>\$ 238</u>	<u>\$ -</u>	<u>\$ 238</u>
<u>Liabilities:</u>			
Accounts payable and accrued liabilities	\$ 1	\$ -	\$ 1
Due to Commonwealth of Puerto Rico	237	-	237
Total liabilities	<u>238</u>	<u>-</u>	<u>238</u>
<u>Fund balance/net position:</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 238</u>	<u>-</u>	<u>-</u>
Net position		<u>\$ -</u>	<u>\$ -</u>

**Retirement System for the Judiciary
of the Commonwealth of Puerto Rico
“JRS Legacy Trust”
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**General Fund Statement of Revenues, Expenditures and Changes in Fund Balance and
Statement of Activities
Year Ended June 30, 2023**

(In thousands)

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

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2023

(1) Reporting entity:

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

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

Act 106 of 2017 approved a substantial pension reform for all of the Commonwealth’s retirement systems, including the Trust. This reform modified most of the Trust’s activities, restructured the Trust’s operations and created the legal framework, so that the Commonwealth can make benefit payments to current pensioners. Effective on July 1, 2017, the Trust’s previously existing pension programs transitioned to the PayGo System, in which the Trust stopped receiving contributions from its sole sponsor and plan participants and is no longer managing contributions on behalf of the active participants. Under the PayGo System, the Commonwealth’s General Fund makes direct pension payments to the retired judges. In addition, Joint Resolution 188 of the Legislature and Act 106 of 2017, required the Trust to liquidate its assets in the total aggregate amount of approximately \$35.5 million. Eventually, the remaining of assets in custody, including this amount will be transferred to the Commonwealth to make benefits payments. Act 106 of 2017 also ordered a suspension of the Trust’s loan program and ordered a merger of the administrative structures of the retirement systems.

The Commonwealth’s general fund became the only recipient of the assets maintained under the custody of the Trust. The product of the liquidation of said assets is designated by law to be used by the General Fund to cover pension benefits used to be administered by the Trust. Therefore, the Trust’s assets and activities are no longer reported as a pension trust fiduciary fund. Instead, starting in fiscal year 2018, the Trust is reported as part of the blended nonmajor governmental funds in the Commonwealth’s financial statements. During the year ended June 30, 2022, the Trust transferred approximately \$34 million (most of its remaining net assets) to the Commonwealth as a contribution to the Commonwealth debt liquidation to its bondholders under Title III of the Puerto Rico Oversight Management, and Economic Stability Act, (PROMESA). As of June 30, 2023, the Trust has not completed the transfer of all of its net assets to the Commonwealth and is managing the remaining assets as custodian.

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

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

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements

June 30, 2023

Pursuant to Act 106 of 2017, the Retirement Board of The Government of Puerto Rico (the "Retirement Board") is currently responsible for governing, the Trust, ERS and the Puerto Rico System of Annuities and Pensions for Teachers ("TRS"). The Retirement Board is comprised of 13 members, including (i) six ex-officio members (or their designees): (1) the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), (2) the Secretary of Treasury of the Commonwealth, (3) the Director of the Office of Management and Budget, (4) the Director of the Office for the Administration and Transformation of Human Resources of the Government of Puerto Rico, (5) the President of the Federation of Mayors and (6) the President of the Association of Mayors; (ii) three Governor-appointed representatives of the teachers of the Department of Education, the public corporations, and the judiciary branch; and (iii) four additional Governor-appointed members as representatives of the public interest.

(2) Summary of significant accounting policies:

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities. Also, the Trust follows Governmental Accounting Standards Board (GASB) standards in the preparation of its 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.

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 basic 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.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements

June 30, 2023

Fund financial statements: The General Fund, as a governmental fund, is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

(c) **Member loans** -

Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance less an allowance for uncollectible amounts. Loans to plan members mostly are collected through payroll withholdings and secured by mortgage deeds, plan members' contributions and any unrestricted amount remaining in the escrow funds. The maximum amount that was loaned to plan members for mortgage loans was \$100,000 and \$5,000 for personal and cultural trip loans. The originations of mortgage loans were frozen in December 2013 and those related to personal and cultural were frozen in November 2016.

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

(d) **Use of estimates** -

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

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

Fund balance (deficit) - the fund balance for the General Fund is reported in classifications based on the extent to which the Trust is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

- Fund balance is reported as non-spendable when the resources cannot be spent because they are either in a non-spendable form or legally or contractually required to be maintained intact. There was no non-spendable fund balance as of June 30, 2023.
- 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, 2023.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2023

- The Trust’s highest decision-making level of authority rests with the Retirement Board (“the Board”). Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution. There was no committed fund balance as of June 30, 2023.
- Resources that are constrained by the government’s intent to use them for a specific purpose but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by the Board. There was no assigned fund balance as of June 30, 2023.
- 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, 2023.
- *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, 2023.
- *Unrestricted* – this consists of net position that does not meet the definition of restricted or net investment in capital assets.

(3) Deposits in custody of the Trust:

Deposits in custody of the Trust as of June 30, 2023 consisted of the following (in thousands):

	<u>Carrying amount</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
Deposits at commercial banks	\$ 159	\$ 164	\$ -

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.

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

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Basic Financial Statements June 30, 2023

(4) Member loans and interest receivable:

The composition of loans and interest receivable from plan members as of June 30, 2023 is summarized as follows (in thousands):

Member loans receivable:		
Mortgage	\$	74
Personal		7
Cultural trips		4
		<hr/>
Total member loans receivable		85
Less:		
Allowance for loan losses, including interest		(6)
		<hr/>
Total member loans and interest receivable	\$	<u>79</u>

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

(5) Related parties' transactions:

• **Commonwealth of Puerto Rico**

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

Also, the Trust pays death benefits and refunds of contributions to terminated members on behalf of the Commonwealth and provides the servicing to loans to participants portfolio, as well as membership services. During the fiscal year ended June 30, 2023, the Trust paid approximately \$244,000 in death benefits and refunds of contributions on behalf of the Commonwealth.

As of June 30, 2023, balance due to the Commonwealth amounted to \$237,000.

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

The Trust continues to pay death benefits and refund contributions to terminated members on behalf of the Commonwealth and certain administrative expenses pertaining to the Commonwealth and the Retirement Board are also paid by the Trust on their behalf. None of these expenses and payments incurred pertain to the Trust, but the funding for its payments is usually channeled through the Trust, impacting the intercompany accounts with the Commonwealth. During the fiscal year ended June 30, 2023, approximately \$246,000 was transferred by the Retirement Board to the Trust to fund payments of death benefits, refund contributions and administrative expenses on behalf of the Commonwealth and the Retirement Board. See Note (1).

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Notes to the Basic Financial Statements
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(6) Subsequent event:

Subsequent events were evaluated through May 3, 2024, to determine if any such events should either be recognized or disclosed in the 2023 financial statements. However, no significant events occurred after June 30, 2023 that require to be disclosed.