

ARTHUR ANDERSEN LLP

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM

FINANCIAL STATEMENTS  
AS OF JUNE 30, 1993, 1992 AND 1991  
TOGETHER WITH AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees of  
The Commonwealth of Puerto Rico  
Judiciary Retirement System:

We have audited the accompanying statements of net assets available for benefits of The Commonwealth of Puerto Rico Judiciary Retirement System (the System) as of June 30, 1993, 1992 and 1991, and the related statements of changes in net assets available for benefits for each of the three years in the period then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 4 to the financial statements, the report of the System's actuary reflects that, as of June 30, 1993, 1992 and 1991, there is an excess of accumulated plan benefits over the assets available for benefits of approximately \$20,864,000, \$20,935,000, and \$21,447,000, respectively.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of The Commonwealth of Puerto Rico Judiciary Retirement System as of June 30, 1993, 1992 and 1991, and the changes in its net assets for each of the three years in the period then ended in conformity with generally accepted accounting principles.



San Juan, Puerto Rico,  
July 22, 1994.

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THE COMMONWEALTH OF PUERTO RICO

JUDICIARY RETIREMENT SYSTEM

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

JUNE 30, 1993, 1992 AND 1991

(In thousands)

	<u>1993</u>	<u>1992</u>	<u>1991</u>
<b>CASH AND INVESTMENTS:</b>			
Cash and cash equivalents	\$ 2,894	\$ 1,251	\$ 1,085
Cash deposited with Government Development Bank for Puerto Rico	29	359	1,080
<b>Total cash</b>	<u>2,923</u>	<u>1,610</u>	<u>2,165</u>
<b>Marketable securities:</b>			
Notes and bonds	10,307	10,587	10,295
Stocks	22,259	19,488	15,797
<b>Total marketable securities</b>	<u>32,566</u>	<u>30,075</u>	<u>26,092</u>
 Mortgage notes acquired from third parties	 735	 864	 988
<b>Total cash and investments</b>	<u>36,224</u>	<u>32,549</u>	<u>29,245</u>
<b>LOANS TO PARTICIPANTS:</b>			
Mortgage	801	848	810
Personal	71	63	62
Cultural trips	29	27	21
<b>Total loans to participants</b>	<u>901</u>	<u>938</u>	<u>893</u>
<b>Total cash, investments and loans to participants</b>	<u>37,125</u>	<u>33,487</u>	<u>30,138</u>
 <b>ACCRUED INTEREST RECEIVABLE</b>	 233	 224	 269
<b>Total assets</b>	<u>37,358</u>	<u>33,711</u>	<u>30,407</u>
 <b>DUE TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF PUERTO RICO</b>	 573	 504	 414
 <b>ESCROW FUNDS OF MORTGAGE LOANS TO PARTICIPANTS</b>	 143	 136	 134
 <b>OTHER LIABILITIES</b>	 6	 6	 6
<b>Total liabilities</b>	<u>722</u>	<u>646</u>	<u>554</u>
<b>Net assets available for benefits</b>	<u>\$36,636</u>	<u>\$33,065</u>	<u>\$29,853</u>

The accompanying notes are an integral part of these statements.

THE COMMONWEALTH OF PUERTO RICO

JUDICIARY RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED JUNE 30, 1993, 1992 AND 1991

(In thousands)

	<u>1993</u>	<u>1992</u>	<u>1991</u>
INCOME FROM CASH, INVESTMENTS AND LOANS:			
Interest and dividends	\$ 1,356	\$ 1,392	\$ 1,476
Net appreciation of investments	2,915	2,844	1,031
Other	8	-	29
Total income from cash, investments and loans	<u>4,279</u>	<u>4,236</u>	<u>2,536</u>
CONTRIBUTIONS:			
Employer	2,910	2,548	2,363
Participants	1,220	1,042	966
Total contributions	<u>4,130</u>	<u>3,590</u>	<u>3,329</u>
Total additions	<u>8,409</u>	<u>7,826</u>	<u>5,865</u>
BENEFITS AND EXPENSES:			
Annuities	4,666	4,306	3,892
Administrative expenses	172	308	397
Total deductions	<u>4,838</u>	<u>4,614</u>	<u>4,289</u>
Net increase in net assets available for benefits	<u>3,571</u>	<u>3,212</u>	<u>1,576</u>
NET ASSETS AVAILABLE FOR BENEFITS:			
Beginning of year	<u>33,065</u>	<u>29,853</u>	<u>28,277</u>
End of year	<u>\$36,636</u>	<u>\$33,065</u>	<u>\$29,853</u>

The accompanying notes are an integral part of these statements.

THE COMMONWEALTH OF PUERTO RICO

JUDICIARY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1993, 1992 AND 1991

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Commonwealth of Puerto Rico Judiciary Retirement System (the System) was created by Act No. 12 on October 19, 1954. The System is considered an integral part of the Commonwealth of Puerto Rico (the Commonwealth) financial reporting entity and is included in the Commonwealth's financial reports as a Trust Fund. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the operation and administration of the System is vested in a Board of Trustees, composed of two participants and one pensioner, who are appointed by the Governor of the Commonwealth and four government agencies representatives.

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

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the provisions of Statement of Financial Accounting Standards No. 35, "Accounting and Reporting by Defined Benefit Pension Plans", and complied with the disclosure requirements of Governmental Accounting and Financial Reporting Standard Statement No. 5. Participant's and employer's contributions are recognized as revenues in the period in which the employee services are rendered.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of "overnight deposits" guaranteed by the custodial bank.

**Investments**

Investments are carried at fair value, except for certain mortgage notes which have no market. The fair value of notes, bonds and stocks is based on quotations obtained from national securities exchanges.

Securities transactions are accounted for on the settlement date. Differences in the accounting of securities based on the trade date, as required by generally accepted accounting principles, is not material. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in net assets available for benefits.

Mortgages acquired from third parties are held to maturity and are not readily marketable. Consequently, these are carried at amortized cost.

No investment in any organization represents 5% or more of the System's net assets available for benefits.

**Loans to Participants**

Mortgage, personal and cultural trips loans to participants are stated at their outstanding principal balance. No allowance for uncollectible amounts has been established since the entire outstanding balance is secured by mortgage deeds, judges' contributions and any unrestricted amount remaining in the escrow funds. Maximum amounts that may be granted for mortgage, personal and cultural trip loans to participants are \$75,000, \$1,500 and \$5,000, respectively.

**2. PLAN DESCRIPTION:**

The System is a defined benefit plan sponsored by the Commonwealth. Under the terms of the Act No. 12 of 1954, as amended, all judges of the Judiciary Branch of the Commonwealth are members of the System. At June 30, 1993, 1992 and 1991, membership consisted of the following:

	<u>1993</u>	<u>1992</u>	<u>1991</u>
Retirees and beneficiaries currently receiving benefits	200 ===	192 ===	197 ===
Current participant employees	258 ===	262 ===	262 ===

The participants of the System are eligible for the following benefits:

**Retirement Annuity**

Participants with 10 years of credited service are eligible for retirement upon reaching age 60.

Participants are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the participant's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System, except for the judges of the Supreme Court for whom it is based on the last month of compensation. The annuity for which a participant is eligible is limited to a minimum of 25% and a maximum of 75% of the average compensation.

**Reversionary Annuity**

A participant, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, in an amount not less than \$120 yearly nor greater than the annuity payments being received by the retiree.

**Occupational Disability Annuity**

A participant with 10 years of credited service and permanently disabled is eligible for a disability annuity of 50% of the annuity benefits that he/she would receive if retired.

**Death Benefits**

Upon the death of a participant the beneficiary(ies) is(are) eligible to receive the following:

- Active employee - the contributions and interest accumulated as of date of the death plus an amount equal to one year of the deceased's compensation at the time of the death.
- Retiree - the excess, if any, of the accumulated contributions at the time of retirement over total annuity benefits received before death, unless the aforementioned reversionary annuity benefits had been elected.

**Refunds**

A participant who ceases his/her employment with the Commonwealth has the right to a refund of the contributions to the System plus any interest earned.

**Termination**

Although the Commonwealth has not expressed any intent to terminate the plan, it may do so at any time. In the event of termination of the plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the plan shall be nonforfeitable to the extent funded.

**3. FUNDING POLICY:**

The contribution requirement to the System is established by law and is not actuarially determined. The current level of contributions from the Commonwealth and the members, together with the income of the System's investments and others, should theoretically be sufficient to cover the payments of annuities and benefits to be provided by the System in the near term.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 1993, 1992 and 1991, using the projected unit credit actuarial cost method. Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 8.5% for 1993, and 9% for 1992 and 1991; (b) assumed compounded rate of wage increases of 5% per year for 1993, and 6% for 1992 and 1991; (c) assumed mortality rate based on the Group Annuity Table for 1951 for the three years. The effect of changed assumptions on the 1993 total benefit obligation was to increase the total obligation by \$1,400,000.

**4. FUNDING STATUS AND HISTORICAL TREND INFORMATION:**

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the System (Note 3).

The actuarial present value of accumulated plan benefits is summarized as follows:

	<u>1993</u>	<u>1992</u>	<u>1991</u>
	(In thousands)		
Retirees, beneficiaries and former judges	\$35,500	\$35,000	\$35,000
Active judges-			
Accumulated contributions	8,700	7,400	6,100
Employer-financed vested benefits	11,100	9,300	7,900
Employer-financed nonvested benefits	2,200	2,300	2,300
	-----	-----	-----
	22,000	19,000	16,300
	-----	-----	-----
Total pension benefit obligation	57,500	54,000	51,300
Net assets available for benefit	36,636	33,065	29,853
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Accumulated benefits in excess of net assets available	\$20,864	\$20,935	\$21,447
	=====	=====	=====

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Available trend information is as follows:

	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
	(In thousands)					
Net assets available for benefits	\$36,636	\$33,065	\$29,853	\$28,277	\$25,236	\$22,086
Total pension benefit obligation	\$57,500	\$54,000	\$51,900	\$46,500	\$43,200	\$47,700
Net assets available for benefits as a percentage of total pension benefit obligation	64%	61%	58%	61%	58%	46%
Unfunded pension benefit obligation	\$20,864	\$20,935	\$21,447	\$18,223	\$17,964	\$25,614
Annual covered payroll	\$13,227	\$13,290	\$13,352	\$10,920	\$10,716	\$10,529
Unfunded pension benefit obligation as a percentage of covered payroll	158%	158%	161%	167%	168%	243%
Employer contributions as a percentage of covered payroll	22%	19%	18%	20%	20%	20%

Analysis of the dollar amounts of net assets available for benefits, total pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of total pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Trend information prior to 1988 is not available.



The information presented on the following table from 1984 through 1987, inclusive, is unaudited. From 1988 to 1990 it was audited by a firm other than Arthur Andersen LLP:

Fiscal Year	Revenues by Source			Total
	Participants Contributions	Employer Contributions	Investment and Dividends	
			(In thousands)	
1984	\$ 591	\$1,484	\$1,346	\$3,421
1985	631	1,588	1,367	3,586
1986	621	1,615	1,306	3,542
1987	760	2,013	1,298	4,071
1988	839	2,106	1,444	4,389
1989	833	2,143	1,476	4,452
1990	899	2,184	1,287	4,370
1991	966	2,363	1,476	4,805
1992	1,042	2,548	1,392	4,982
1993	1,220	2,910	1,356	5,486

Fiscal Year	Expenses by Type			Total
	Benefits	Administrative Expenses	Refunds	
			(In thousands)	
1984	\$2,045	\$ 2	\$20	\$2,067
1985	2,220	-	4	2,224
1986	2,664	-	75	2,739
1987	2,611	50	23	2,684
1988	2,836	100	-	2,936
1989	2,891	125	-	3,016
1990	3,373	158	-	3,531
1991	3,892	397	-	4,289
1992	4,306	308	-	4,614
1993	4,666	172	-	4,838

5. CASH AND INVESTMENTS:

Pursuant to the provisions of Act No. 46 of 1988, the System may invest, with certain restrictions, in obligations of the Commonwealth and its Instrumentalities, the United States of America, private corporations and foreign countries. The System may also invest in common and preferred stock issued by any corporation incorporated under the laws of the Commonwealth and the United States of America. In addition, the System may invest in income-producing real properties and in high-risk securities.

Cash and cash equivalents are guaranteed by the custodial bank. Cash deposited with Government Development Bank for Puerto Rico amounting to \$29,000, \$359,000 and \$1,080,000 as of June 30, 1993, 1992 and 1991, respectively, is not collateralized.

The following table shows the market value and carrying amount of the investments in marketable securities held by the System as of June 30, 1993, 1992 and 1991. The following investments are held by agents in the System's name:

	1993		1992		1991	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
			(In thousands)			
U.S. Government and agencies' securities	\$ 7,545	\$ 8,014	\$ 7,931	\$ 8,229	\$ 6,700	\$ 6,741
Corporate bonds	2,233	2,293	2,315	2,358	3,304	3,320
Miscellaneous bonds	-	-	-	-	218	234
Corporate stocks	17,230	22,259	15,313	19,488	12,593	15,797
	<u>\$27,008</u>	<u>\$32,566</u>	<u>\$25,559</u>	<u>\$30,075</u>	<u>\$22,815</u>	<u>\$26,092</u>
	=====	=====	=====	=====	=====	=====

The net changes in the appreciation of investments in marketable securities are as follows:

	1993	1992	1991
	(In thousands)		
Securities held at year-end-			
Notes and bonds	\$ 187	\$ 269	\$ 82
Stocks	855	970	204
Securities sold during the year	1,873	1,605	745
	<u>\$2,915</u>	<u>\$2,844</u>	<u>\$1,031</u>
	=====	=====	=====

**6. GUARANTEE INSURANCE RESERVE OVER LOANS TO PARTICIPANTS:**

The system provides life insurance which guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trips loans in case of death of a participant. This coverage is paid in its entirety by the participants who obtain these loans from the System. The life insurance rates are actuarially determined, and do not vary by age, sex or health status.