

ARTHUR ANDERSEN LLP

**EMPLOYEES' RETIREMENT SYSTEM OF THE
GOVERNMENT OF PUERTO RICO AND ITS
INSTRUMENTALITIES**

*FINANCIAL STATEMENTS
AS OF JUNE 30, 1998 AND 1997
TOGETHER WITH AUDITORS' REPORT*

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees of
Employees' Retirement System of the
Government of Puerto Rico and its
Instrumentalities:

We have audited the accompanying statements of plan net assets of Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) as of June 30, 1998 and 1997, and the related statements of changes in plan net assets for the years then ended. These financial statements and the schedules referred to below are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements and schedules 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities as of June 30, 1998 and 1997, and the changes in its plan net assets for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown in the accompanying schedules of Funding Progress and Contributions and related notes are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



San Juan, Puerto Rico,
September 28, 1998.

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EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF PUERTO RICO AND ITS INSTRUMENTALITIES

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 1998 AND 1997

(In thousands)

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
CASH AND INVESTMENTS:		
Cash and cash equivalents	\$ 186,176	\$ 126,760
Cash deposited with Government Development Bank for Puerto Rico-		
Unrestricted	168,033	108,314
Restricted	1,293	3,543
Total cash	355,502	238,617
Marketable securities	1,020,414	887,860
Mortgage notes acquired from third parties	3,525	4,701
Other investments	7,171	2,377
Total cash and investments	1,386,612	1,133,555
LOANS TO PLAN MEMBERS:		
Mortgage	85,918	124,603
Personal	158,057	150,202
Cultural trips	9,389	9,150
Total loans to plan members	253,364	283,955
Total cash, investments and loans to plan members	1,639,976	1,417,510
ACCOUNTS RECEIVABLE:		
Employers	26,158	21,693
General fund of the Government of Puerto Rico	6,533	3,325
The Commonwealth of Puerto Rico Judiciary Retirement System	3,120	1,268
Accrued interest	464	1,223
Other	12,101	3,472
Total accounts receivable	48,376	30,981
PROPERTY AND EQUIPMENT, net	9,355	9,768
OTHER ASSETS	17,695	17,360
Total assets	1,715,402	1,475,619
<u>LIABILITIES</u>		
ESCROW FUNDS OF MORTGAGE LOANS AND GUARANTEE INSURANCE RESERVE OVER LOANS TO PLAN MEMBERS	16,640	17,556
OTHER LIABILITIES	23,332	13,592
Total liabilities	39,972	31,148
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see accompanying Schedule of Funding Progress)	\$1,675,430	\$1,444,471

The accompanying notes are an integral part of these statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT

OF PUERTO RICO AND ITS INSTRUMENTALITIES

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

(In thousands)

	<u>1998</u>	<u>1997</u>
ADDITIONS:		
Contributions-		
Employers	\$ 270,696	\$ 232,674
Participating employees	217,890	206,094
Special	13,504	15,849
Total contributions	<u>502,090</u>	<u>454,617</u>
Investment income-		
Net appreciation in investment reported at fair value	183,314	173,281
Interest and dividend income	44,234	51,797
	<u>227,548</u>	<u>225,078</u>
Less investment expense	996	240
Net investment income	<u>226,552</u>	<u>224,838</u>
Other income	1,582	5,334
Total additions	<u>730,224</u>	<u>684,789</u>
DEDUCTIONS:		
Annuities	446,234	416,676
Death benefits	6,256	8,492
Refunds-		
Employers	1,068	982
Participating employees	14,138	10,919
Administrative expenses	31,569	32,761
Total deductions	<u>499,265</u>	<u>469,830</u>
Net increase	<u>230,959</u>	<u>214,959</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>1,444,471</u>	<u>1,229,512</u>
End of year	<u>\$1,675,430</u>	<u>\$1,444,471</u>

The accompanying notes are an integral part of these statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF PUERTO RICO AND ITS INSTRUMENTALITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998 AND 1997

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) was created by Act No. 447 on May 15, 1951. The System started operations on January 1, 1952, at which date contributions by employers and participating employees commenced. 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 statements 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 proper operation and administration of the System is vested in a Board of Trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth, and four Commonwealth government agency 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 in accordance with the provisions of Statement of Governmental Accounting Standards No. 25 (SGAS No. 25), "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". Participating employees' and employers' contributions are recognized as revenues in the period in which the employee services are rendered. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of "overnight deposits" guaranteed by the custodial bank. Restricted cash deposited with Government Development Bank for Puerto Rico (GDB) consists of payments received from mortgage loanholders to be used by Banco Popular de Puerto Rico in the servicing of loan escrows.

Investments

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

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of changes in plan net assets.

Mortgage notes 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 held in trust for pension benefits.

Loans to Plan Members

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 secured by mortgage deeds, plan members' contributions and any unrestricted amount remaining in the escrow funds. Maximum amounts that may be granted to plan members for mortgage, personal and cultural trip loans are \$100,000, \$3,000 and \$5,000, respectively. The carrying value of these loans approximates their fair value.

During fiscal 1998, the System sold mortgage loans with a principal balance of approximately \$23,000,000 to FNMA at a gain of approximately \$900,000. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days. As of June 30, 1998, the System had repurchased approximately \$790,000. In addition, on June 30, 1998, the System sold mortgage loans with a principal balance of approximately \$7,000,000 to a local bank at a loss of approximately \$200,000. A receivable of \$7,032,000 from the local bank has been included in *Accounts Receivable, Other* caption of the accompanying statement of plan net assets at June 30, 1998. This amount was collected during July 1998. The sale contract stipulates that the System must repurchase any loans in arrears over 120 days during 18 months from the date of the contract.

Guarantee Insurance Reserve

Premiums collected and benefits claimed are recorded as an addition and as a deduction of the guarantee insurance reserve, respectively.

2. PLAN DESCRIPTION:

The System is a cost-sharing multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by the System under the terms of the Act No. 447 of 1951. All regular, appointed and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for members of the Cabinet of the Governor and Heads of Agencies. At June 30 total membership consisted of the following:

	<u>1998</u>	<u>1997</u>
Retirees and beneficiaries currently receiving benefits	70,900	67,700
	=====	=====
Current participating employees	162,600	159,600
	=====	=====

The plan members of the System, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity

Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firemen

- Age 50 with 25 years of credited service, 30 years of credited service or age 58 with 10 years of credited service

Other Employees

- Age 55 with 25 years of credited service, 30 years of credited service or age 58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

Merit Annuity

Plan members are eligible for a merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity

A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of ten years of credited service qualifies for a retirement benefit provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Reversionary Annuity

A plan member, 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 \$240 yearly nor greater than the annuity payments being received by the retiree.

Occupational Disability Annuity

A participating employee who as a direct result of the performance of his/her occupation is totally and permanently disabled is eligible for an annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity

A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 30% of the average compensation of the first 10 years of credited services increased by 1% for every additional year of credited service in excess of 10 years up to a maximum of 50% of the average compensation.

Death Benefits

Occupational-

- Surviving spouse - annuity equal to 50% of the participating employee's salary at the date of the death.
- Children - \$10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of \$20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational-

- Beneficiary - the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Post-retirement-

- Beneficiary - with surviving spouse age 60 or over and child, 18 or under, up to 30% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of \$500.

Refunds

A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the System plus any interest earned.

Amendment to Benefits Payable to Plan Members Who Joined the System on or after April 1, 1990

Act No. 1 of 1990 made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 58 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

Amendment to Benefits Payable to Plan Members Effective January 1, 1998

Act No. 10 of 1992 provides, subject to the approval of the Legislature, for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. On August 9, 1998, Act. No. 221 was approved which provides, retroactively to January 1, 1998, for increases of the pensions paid by the System to those plan members with three or more years of retirement.

Early Retirement

On July 28, 1998, Act No. 182 was approved, which provides that effective March 31, 1998, plan members are eligible for early retirement upon attaining age 55 with 25 years of service or 30 years of service but under 55 years of age. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. Plan members may also elect an alternative early retirement annuity upon attaining 25 years of service but under 55 years of age or age 65 with 24 years of service. Under this election, plan members will receive monthly benefits equal to 65% of their average compensation. In these cases, the employer will contribute to the System an additional amount to cover the benefits payments until the participant reaches the normal retirement age.

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 plan members and beneficiaries to whom benefits have been 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. Required contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government and public corporations, and 5.775% of the first \$550 of the monthly salary with the excess at 8.275% or 8.275% of the total monthly salary for participating employees' contributions. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs.

The special contributions of approximately \$13,504,000 and \$15,849,000 in 1998 and 1997, respectively, represent the reimbursement to the System of the benefits paid on behalf of the General Fund of the Commonwealth under the provision of Law No. 127 of 1958, which covers the occupational disability of firemen, policemen and others, and under the provisions of Law No. 23 of 1983, which covers half of the increase in pension benefit annuities.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 1998 and 1997, 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%; (b) assumed compound rate of wage increases of 5% per year; and (c) assumed mortality rate based on the Group Annuity Table for 1951.

The actuarial accrued liability as of June 30, 1998 and 1997, was approximately \$7,638,000,000 and \$6,914,000,000, respectively. At June 30, 1998 and 1997, the unfunded actuarial accrued liability was approximately \$5,963,000,000 and \$5,470,000,000, respectively.

The Legislature of the Commonwealth enacted Act No. 1, effective April 1, 1990, which is directed to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increases the level of contribution to the System and limits benefits for new participating employees by increasing the age from 58 to 65 years for the vesting of certain benefits and reducing the level of benefits in the case of early retirement. The legislation also reduces the level of occupational injury and death benefits received by new participating employees from 50% to 40% (see Note 2).

As an employer, the System has contributed \$935,000, \$930,000 and \$843,000, which represented its contractually required contribution for the years ended June 30, 1998, 1997 and 1996, respectively.

4. 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. In addition, the System may invest in common and preferred stock, 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 approximately \$169,326,000 and \$111,857,000 as of June 30, 1998 and 1997, respectively, is not collateralized.

The following table shows the cost and market value of the investments in marketable securities held by the System as of June 30, 1998 and 1997. The following investments are held by agents in the System's name:

	1998		1997	
	(In thousands)		(In thousands)	
	Cost	Fair Value	Cost	Fair Value
Domestic corporate stocks	\$608,199	\$ 841,615	\$560,192	\$750,656
International corporate stocks	120,052	140,086	114,877	137,204
Emerging markets stocks	41,190	38,713	-	-
	<u>\$769,441</u>	<u>\$1,020,414</u>	<u>\$675,069</u>	<u>\$887,860</u>

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

	1998	1997
	(In thousands)	
Stocks held at year-end	\$ 38,174	\$ 93,397
Stocks sold during the year	145,140	79,884
	<u>\$183,314</u>	<u>\$173,281</u>

Other investments include \$4,896,000 and \$1,351,000 as of June 30, 1998 and 1997, respectively, in Guayacán Fund of Funds, L. P. (the Fund), a Delaware limited partnership, which invests in United States and international private equity investment partnerships, which in turn, invest in equity and equity related investments primarily in private equity. The System is committed to invest up to \$25,000,000 in the Fund.

The System services mortgage loans with principal balances of approximately \$61,789,509 and \$46,749,000 at June 30, 1998 and 1997, related to certain mortgage loans sold to FNMA for a fee of 0.25%.

The System may issue Collateralized Promissory Notes (the Notes) to generate additional funds to carry out the investment objectives and to improve the investment portfolio. The Notes cannot exceed, in an aggregate principal amount, \$400,000,000 outstanding at any time, and a term to maturity up to 90 days so that at the end of each quarter the outstanding balance equals zero. The Notes are secured by a pledge on the System's securities. GDB acts as the System's agent for selling the Notes, effecting the pledge on the securities, securing them, investing their proceeds and acting as custodian of the securities purchased with the proceeds. GDB issues and sells the Notes through brokers and records the transfer of and make payments of principal and interest on the Notes, all under such terms and conditions, and at such interest rates and prices, as the GDB shall consider to be in the best interest of the System. In connection with such issuance, GDB pays a commission from the proceeds of the Notes to these brokers.

5. PROPERTY AND EQUIPMENT:

Property and equipment acquisitions are recorded at cost. Depreciation is provided using the straight-line method over the useful life of the asset. At June 30, 1998 and 1997, property and equipment consist of the following:

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
		(In thousands)	
Land	-	\$ 969	\$ 969
Building	50 years	7,631	7,631
Furniture and equipment	5 - 10 years	8,196	7,870
		-----	-----
		16,796	16,470
Accumulated depreciation		(7,441)	(6,702)
		-----	-----
		\$ 9,355	\$ 9,768
		=====	=====

6. OTHER ASSETS:

At June 30, 1998 and 1997, other assets consist of the following:

	<u>1998</u>	<u>1997</u>
	(In thousands)	
Repossessed and in-substance foreclosed properties	\$ 3,195	\$ 2,860
Executed land	14,500	14,500
	-----	-----
	\$17,695	\$17,360
	=====	=====

Repossessed and in-substance foreclosed properties consist mainly of properties acquired or to be acquired upon foreclosure proceedings as collateral from delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage upon foreclosure. These will be sold under a bidding process intended to recover the outstanding principal balance. Gain or loss is recognized at the time of sale. Differences resulting from recognition of losses at the point of sale rather than upon foreclosure, as required by generally accepted accounting principles, is not material. Management believes that the carrying value of these properties approximates its fair value.

The executed land located in Hato Rey was acquired on February 19, 1991, from the Metropolitan Bus Authority (MBA), a government agency, as settlement for the debt MBA had with the System relative to employer and participants contributions and loans payments withholdings from June 1985 through December 1988. The System has been renting this land to a third party that operates it as a parking facility. Rental income for 1998 and 1997 amounted to \$240,000 for each year, respectively, and is reflected as part of other income in the accompanying statements of changes in plan net assets. According to an independent appraisal dated April 1, 1996, the market value of this land approximates \$14,500,000. The System has been informed that a portion of this land will be acquired by another instrumentality of the Commonwealth. At June 30, 1998, there is no estimate of the proceeds that will be received by the System, but these would normally approximate its market value.

7. GUARANTEE INSURANCE RESERVE OVER LOANS TO PLAN MEMBERS:

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

8. COMMITMENTS AND CONTINGENT LIABILITIES:

The System is defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverage, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

9. YEAR 2000 CONVERSION (UNAUDITED):

The System has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and is currently evaluating external consultants as part of the plan to resolve the issue. The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The System presently believes that, with modifications to existing software and converting to new software, the Year 2000 Issue will not pose significant operational problems for the computer systems as so modified and converted. However, if such modifications and conversions are not completed timely, the Year 2000 Issue may have a material impact on the operations of the System.

As of June 30, 1998, the System's Year 2000 Compliance Project (the Project) stages and their completion are as follows:

Awareness stage	100%
Assessment stage	10%
Remediation stage	40%
Validation/Testing stage	Not commenced
Implementation stage	Not commenced

Although the System has completed the awareness stage of the Project as of June 30, 1998, it is management's opinion that information related to the Project will have to be revised due to the delays in its implementation.

As of June 30, 1998, the System has incurred expenses amounting to approximately \$300,000 in equipment upgrades related specifically to the Project. An additional expense of approximately \$18,000 was incurred in equipment upgrades related to the Project, but which would have been replaced in the near future due to obsolescence. The System has entered into contracts amounting to approximately \$825,000 related to services required to complete the Project.

9. RECLASSIFICATIONS:

Reclassifications were made to the fiscal year 1997 financial statements to conform these with the current year presentation.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT

OF PUERTO RICO AND ITS INSTRUMENTALITIES

SCHEDULE OF FUNDING PROGRESS

(Dollars amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Annual Covered Payroll</u>
7/1/98	\$1,675,000	\$7,638,000	\$5,963,000	22%	\$2,366,000	252%
7/1/97	1,444,000	6,914,000	5,470,000	21%	2,363,000	231%
7/1/96	1,230,000	6,320,000	5,090,000	19%	2,223,000	229%
7/1/95	1,075,000	6,033,000	4,958,000	18%	2,087,000	238%
7/1/94	954,000	5,542,000	4,588,000	17%	1,867,000	246%
7/1/93	943,000	5,275,000	4,332,000	18%	1,882,000	230%

The accompanying notes to schedules are an integral part of this schedule.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT

OF PUERTO RICO AND ITS INSTRUMENTALITIES

SCHEDULE OF CONTRIBUTIONS

(Dollars amounts in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Contributions</u>	<u>Percentage Contributed</u>
1998	\$777,800	\$502,100	65%
1997	722,300	454,600	62%
1996	677,200	402,200	59%
1995	608,800	380,700	63%
1994	566,900	353,900	62%
1993	486,400	328,800	68%

The accompanying notes to schedules are an integral part of this schedule.

EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT

OF PUERTO RICO AND ITS INSTRUMENTALITIES

NOTES TO SCHEDULES OF TREND INFORMATION

JUNE 30, 1998 AND 1997

1: SCHEDULE OF FUNDING PROGRESS:

The Schedule of Funding Progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due.

2: SCHEDULE OF CONTRIBUTIONS:

The Schedule of Contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters which include actuarial methods and assumptions.

The System's Schedule of Contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth contributions, ultimately, should cover any deficiency between the participating employees' contributions, the pension benefits and the System's administration costs.

3: ACTUARIAL DATA:

The information presented in the schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 1998
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of the projected payroll
Remaining Amortization Period	28 years
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment rate of return*	8.5%
Projected salary increases*	5%
Cost of living adjustment	3%, every three years

*Includes inflation at 3.5%