

ARTHUR ANDERSEN LLP

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM

FINANCIAL STATEMENTS
AS OF JUNE 30, 1994 AND 1993
TOGETHER WITH AUDITORS' REPORT

ARTHUR ANDERSEN LLP

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, 1994 and 1993, and the related statements of changes in net assets available for benefits for the years 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.

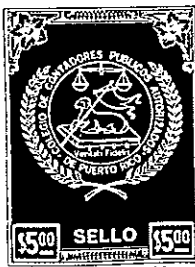
As explained in Note 4 to the financial statements, the report of the System's actuary reflects that, as of June 30, 1994 and 1993, there is an excess of accumulated plan benefits over the assets available for benefits of approximately \$23,293,000 and \$20,864,000, respectively.

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, 1994 and 1993, and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

San Juan, Puerto Rico,
December 30, 1994.

12564 62



THE COMMONWEALTH OF PUERTO RICO

JUDICIARY RETIREMENT SYSTEM

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

JUNE 30, 1994 AND 1993

(In thousands)

	<u>1994</u>	<u>1993</u>
CASH AND INVESTMENTS:		
Cash and cash equivalents	\$ 1,926	\$ 2,894
Cash deposited with Government Development Bank for Puerto Rico	-	29
Total cash	<u>1,926</u>	<u>2,923</u>
Marketable securities-		
Notes and bonds	11,909	10,307
Stocks	21,593	22,259
Total marketable securities	<u>33,502</u>	<u>32,566</u>
Mortgage notes acquired from third parties	647	735
Total cash and investments	<u>36,075</u>	<u>36,224</u>
LOANS TO PARTICIPANTS:		
Mortgage	630	801
Personal	97	71
Cultural trips	33	29
Total loans to participants	<u>760</u>	<u>901</u>
Total cash, investments and loans to participants	<u>36,835</u>	<u>37,125</u>
ACCRUED INTEREST RECEIVABLE	243	233
Total assets	<u>37,078</u>	<u>37,358</u>
DUE TO THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO	448	-
DUE TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF PUERTO RICO	761	573
ESCROW FUNDS OF MORTGAGE LOANS TO PARTICIPANTS	148	143
OTHER LIABILITIES	114	6
Total liabilities	<u>1,471</u>	<u>722</u>
Net assets available for benefits	<u>\$35,607</u>	<u>\$36,636</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, 1994 AND 1993

(In thousands)

	<u>1994</u>	<u>1993</u>
INCOME FROM CASH, INVESTMENTS AND LOANS:		
Interest and dividends	\$ 1,378	\$ 1,356
Net (depreciation) appreciation of investments	(1,247)	2,915
Other	44	8
	<hr/>	<hr/>
Total income from cash, investments and loans	175 ✓	4,279 ✓
	<hr/>	<hr/>
CONTRIBUTIONS:		
Employer	2,996 ✓	2,910 ✓
Participants	1,280 ✓	1,220 ✓
	<hr/>	<hr/>
Total contributions	4,276	4,130
	<hr/>	<hr/>
Total additions	4,451	8,409
	<hr/>	<hr/>
BENEFITS AND EXPENSES:		
Annuities	4,946 ✓	4,666 ✓
Administrative expenses	534 ✓	172 ✓
	<hr/>	<hr/>
Total deductions	5,480	4,838
	<hr/>	<hr/>
Net (decrease) increase in net assets available for benefits	(1,029)	3,571
	<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	36,636	33,065
	<hr/>	<hr/>
End of year	\$35,607	\$36,636
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

THE COMMONWEALTH OF PUERTO RICO

JUDICIARY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1994 AND 1993

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 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 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 in accordance with the provisions of Statement of Financial Accounting Standards No. 35, "Accounting and Reporting by Defined Benefit Pension Plans", and with the standards for disclosure established under Statement of Governmental Accounting Standards No. 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employees". Participants' 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 trip loans to participants are stated at their outstanding principal balance. No allowance for uncollectible amounts has been established since loans to participants are 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 \$100,000, \$3,000 and \$5,000, respectively, for 1994 and \$75,000, \$1,500 and \$5,000, respectively, for 1993.

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, 1994 and 1993, membership consisted of the following:

	<u>1994</u>	<u>1993</u>
Retirees and beneficiaries currently receiving benefits	211 ===	200 ===
Current participant employees	248 ===	258 ===

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 60 years of age.

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 last 36 consecutive months of compensation (effective July 28, 1993, highest annual salary) 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 permanently disabled is eligible for a disability annuity of 50% of the annuity benefits that he/she would receive if retired.

Nonoccupational Disability Annuity

A participant 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-

- Widow - annuity equal to 50% of the participant'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 participant's salary at the date of the death. If no widow 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 widow and child, 18 or under, up to 60% 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 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. Required contributions consist of 20% of applicable payroll for the employer and 8% for the participants. The current level of contributions from the Commonwealth and the participants, 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, 1994 and 1993, 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%; (c) assumed mortality rate based on the Group Annuity Table for 1951.

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>1994</u>	<u>1993</u>
	(In thousands)	
Retirees, beneficiaries and former judges	\$37,000	\$35,500
Active judges-		
Accumulated contributions	8,600	8,700
Employer-financed vested benefits	11,100	11,100
Employer-financed nonvested benefits	2,200	2,200
	-----	-----
	21,900	22,000
	-----	-----
Total pension benefit obligation	58,900	57,500
Net assets available for benefits	35,607	36,636
	-----	-----
Accumulated benefits in excess of net assets available	\$23,293	\$20,864
	=====	=====

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>1994</u>	<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	\$35,607	\$36,636	\$33,065	\$29,853	\$28,277	\$25,236	\$22,086
	=====	=====	=====	=====	=====	=====	=====
Total pension benefit obligation	\$58,900	\$57,500	\$54,000	\$51,300	\$46,500	\$43,200	\$47,700
	=====	=====	=====	=====	=====	=====	=====
Net assets available for benefits as a percentage of total pension benefit obligation	60%	64%	61%	58%	61%	58%	46%
	=====	=====	=====	=====	=====	=====	=====
Unfunded pension benefit obligation	\$23,293	\$20,864	\$20,935	\$21,447	\$18,223	\$17,964	\$25,614
	=====	=====	=====	=====	=====	=====	=====
Annual covered payroll	\$12,591	\$13,227	\$13,290	\$13,352	\$10,920	\$10,716	\$10,529
	=====	=====	=====	=====	=====	=====	=====
Unfunded pension benefit obligation as a percentage of covered payroll	185%	158%	158%	161%	167%	168%	243%
	=====	=====	=====	=====	=====	=====	=====
Employer contributions as a percentage of covered payroll	24%	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 1985 through 1987, inclusive, is unaudited. From 1988 to 1990 it was audited by a firm other than Arthur Andersen LLP:

<u>Fiscal Year</u>	<u>Revenues by Source</u>			<u>Total</u>
	<u>Participants Contributions</u>	<u>Employer Contributions</u>	<u>Investment and Dividends</u>	
	(In thousands)			
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
1994	1,280	2,996	1,378	5,654

<u>Fiscal Year</u>	<u>Expenses by Type</u>			<u>Total</u>
	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	
	(In thousands)			
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
1994	4,946	534	-	5,480

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 as of June 30, 1993, is not collateralized.

The following table shows the carrying amount and market value of the investments in marketable securities held by the System as of June 30, 1994 and 1993. The following investments are held by agents in the System's name:

	1994		1993	
	Cost or Amortized Cost	Fair Value (In thousands)	Cost or Amortized Cost	Fair Value
U.S. Government and agencies' securities	\$ 9,490	\$ 9,206	\$ 7,545	\$ 8,014
Corporate bonds	2,828	2,660	2,233	2,293
Miscellaneous bonds	52	43	-	-
Corporate stocks	18,976	21,593	17,230	22,259
	-----	-----	-----	-----
	\$31,346	\$33,502	\$27,008	\$32,566
	=====	=====	=====	=====

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

	<u>1994</u>	<u>1993</u>
	(In thousands)	
Securities held at year-end-		
Notes and bonds	\$(2,413)	\$ 187
Stocks	(977)	855
	-----	-----
	(3,390)	1,042
Securities sold during the year	2,143	1,873
	-----	-----
	\$(1,247)	\$2,915
	=====	=====

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.