

**Deloitte &  
Touche**



## ***Commonwealth of Puerto Rico Judiciary Retirement System***

*Financial Statements for the Years Ended  
June 30, 2000 and 1999, Additional Information  
for the Year Ended June 30, 2000 and  
Independent Auditors' Report*

**Deloitte Touche  
Tohmatsu**

10/10/00



**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of plan net assets of The Commonwealth of Puerto Rico Judiciary Retirement System (the "System") as of June 30, 2000 and the related statement of changes in plan net assets for the year 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 audit. The financial statements of the System for the year ended June 30, 1999 were audited by other auditors whose report, dated December 10, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, such 2000 financial statements present fairly, in all material respects, the 2000 plan net assets of The Commonwealth of Puerto Rico Judiciary Retirement System as of June 30, 2000, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic 2000 financial statements taken as a whole. The supplementary information included in the schedules of funding progress and of contributions is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the System's management. Such information included in the schedules of funding progress as of June 30, 1999, 1998, 1997, 1996, 1995 and 1994, and of employer contributions for each of the years then ended was subjected to auditing procedures by other auditors whose report dated December 10, 1999 referred to above, stated that such information is fairly stated in all material respects when considered in relation to the basic 1999 financial statements taken as a whole.

*Deloitte & Touche LLP*

December 22, 2000

Stamp No. 1691243

affixed to original.

**THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM**

**STATEMENTS OF PLAN NET ASSETS  
JUNE 30, 2000 AND 1999 (In Thousands)**

<b>ASSETS</b>	<b>2000</b>	<b>1999</b>
<b>CASH AND INVESTMENTS:</b>		
Cash and cash equivalents	\$ 1,036 <sup>(1)</sup>	\$ 1,635
Cash deposited with Government Development Bank for Puerto Rico	<u>2,988<sup>(2)</sup></u>	<u>1,787</u>
Total cash	<u>4,024</u>	<u>3,422</u>
Marketable securities:		
Notes and bonds	19,901 <sup>(3)</sup>	18,549
Stocks	<u>60,103<sup>(4)</sup></u>	<u>53,853</u>
Total marketable securities	<u>80,004</u>	<u>72,402</u>
Mortgage notes acquired from third parties	<u>70<sup>(5)</sup></u>	<u>136</u>
Total cash and investments	<u>84,098</u>	<u>75,960</u>
<b>LOANS TO PLAN MEMBERS:</b>		
Mortgage	20 <sup>(6)</sup>	28
Personal	190 <sup>(7)</sup>	153
Cultural trips	<u>53<sup>(8)</sup></u>	<u>63</u>
Total loans to plan members	<u>263</u>	<u>244</u>
Total cash, investments and loans to plan members	<u>84,361</u>	<u>76,204</u>
<b>RECEIVABLES:</b>		
Accrued interest	325 <sup>(9)</sup>	317
Investment sales		101
Other	<u>477<sup>(10)</sup></u>	<u>580</u>
Total receivables	<u>802</u>	<u>998</u>
Total assets	<u>85,163</u>	<u>77,202</u>
<b>LIABILITIES</b>		
<b>DUE TO THE EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF PUERTO RICO</b>	1,751 <sup>(11)</sup>	3,100
<b>ESCROW FUNDS TO PLAN MEMBERS AND GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS</b>	142 <sup>(12)</sup>	121
<b>INVESTMENT PURCHASES</b>	413 <sup>(13)</sup>	72
<b>OTHER LIABILITIES</b>	49 <sup>(14)</sup>	2
Total liabilities	<u>2,355</u>	<u>3,295</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b> (see accompanying Schedule of Funding Progress)	<u>\$ 82,808</u>	<u>\$ 73,907</u>

See notes to financial statements.

**THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM**

**STATEMENTS OF CHANGES IN PLAN NET ASSETS  
YEARS ENDED JUNE 30, 2000 AND 1999 (In Thousands)**

	2000	1999
<b>ADDITIONS:</b>		
Contributions:		
Employer	\$ 5,222	\$ 5,744
Participating employees	<u>2,094</u>	<u>2,115</u>
Total contributions	<u>7,316</u>	<u>7,859</u>
Investment income:		
Net appreciation in investments reported at fair value	9,299	5,557
Dividend income	303	398
Interest income	<u>1,473</u>	<u>1,534</u>
Total	11,075	7,489
Less investment expense	<u>413</u>	<u>447</u>
Net investment income	<u>10,662</u>	<u>7,042</u>
Total additions	<u>17,978</u>	<u>14,901</u>
<b>DEDUCTIONS:</b>		
Annuities	7,705	7,099
Administrative expenses	<u>1,372</u>	<u>1,074</u>
Total deductions	<u>9,077</u>	<u>8,173</u>
Net increase	8,901	6,728
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b>		
Beginning of year	<u>73,907</u>	<u>67,179</u>
End of year	<u>\$82,808</u>	<u>\$73,907</u>

See notes to financial statements.

# THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2000 AND 1999

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization* - 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 participating employees and one pensioner, who are appointed by the Governor of the Commonwealth and four Commonwealth government agency representatives.

The System is not an employer. The System's operations are managed by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS allocations of administration costs to the System amounted to approximately \$1,372,000 and \$1,074,000 for the years ended June 30, 2000 and 1999, respectively.

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 employer's 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 accounting principles generally accepted in the United States of America 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.

*Investments* - Investments are carried at fair value, except for certain mortgage notes which have no readily determinable fair value. The fair value of notes, bonds and stocks is based on quotations obtained from national securities exchanges. Securities transactions are accounted for on the trade date.

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 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, participants' 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 \$241,400 to Federal National Mortgage Association (FNMA) at a gain of approximately \$8,800. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days. As of June 30, 2000 and 1999, the System had not repurchased any loans.

*Guarantee Insurance Reserve* - Premiums collected and benefits claimed are recorded as additions and deductions of the guarantee insurance reserve, respectively.

*Reclassifications* - Certain reclassifications were made to the 1999 financial statements to conform them with the 2000 presentation.

## 2. PLAN DESCRIPTION

The System is a single-employer 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 plan members of the System. At June 30, 2000 and 1999, membership consisted of the following:

	2000	1999
Retirees and beneficiaries currently receiving benefits	<u>269</u>	<u>248</u>
Current participating employees	<u>343</u>	<u>355</u>

The plan members of the System are eligible for the following benefits:

*Retirement Annuity* - Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

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 last three years of service (effective July 28, 1993, highest monthly salary), except for the judges of the Supreme Court for whom it is based on the last month of compensation. The annuity for which a plan member is eligible is limited to a minimum of 25% and a maximum of 75% of the average compensation except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation.

*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, for an amount not less than \$120 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 a disability 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 75% 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 ineligible for survivor benefit - 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.
- Surviving spouse and child, 21 or under - up to 60% of the pension that would have been payable had the participating employee retired on the date of death.

Post-retirement:

- Beneficiary - with surviving spouse and child, 21 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 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 thereon.

*Amendments to Benefits Payable to Plan Members Effective January 1, 1999* - Act No. 177 of 1997 provides, effective January 1, 1999, 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.

*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 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 participating employees. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 1999 and 1998, 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%; and (c) assumed mortality rate based on the Group Annuity Table for 1951.

The actuarial accrued liability was \$118,200,000 and \$95,600,000 as of June 30, 1999 and 1998, respectively. At June 30, 1999 and 1998, the unfunded actuarial accrued liability was approximately \$44,300,000 and \$28,400,000, 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 \$2,988,000 and \$1,787,000 as of June 30, 2000 and 1999, respectively, is not collateralized.

The following table shows the cost and fair value of the investments in marketable securities held by the System as of June 30, 2000 and 1999. The following investments are held by agents in the System's name:

	2000		1999	
	Cost	Fair Value (In Thousands)	Cost	Fair Value
U.S. Government and agencies' securities	\$ 13,979	\$ 13,731	\$ 13,403	\$ 13,160
Corporate bonds	6,611	6,170	5,668	5,389
Domestic corporate stocks	38,756	51,038	31,683	46,530
International corporate stocks	8,815	9,065	6,084	7,314
Preferred stocks			11	9
Total	<u>\$ 68,161</u>	<u>\$ 80,004</u>	<u>\$ 56,849</u>	<u>\$ 72,402</u>



5. **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.

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**THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM**

**SCHEDULE OF CONTRIBUTIONS  
(Dollar Amounts In Thousands)**

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Year Ended June 30,	Annual Required Contribution	Contributions	Percentage Contributed
1999	\$4,500	\$7,900	176%
1998	2,800	6,100	218
1997	1,900	5,900	311
1996	2,400	5,500	229
1995	2,700	4,600	170
1994	2,600	4,300	165

See notes to schedules of trend information.

**THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM**

**SCHEDULE OF FUNDING PROGRESS  
(Dollar Amounts In Thousands)**

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UUAL as a Percentage of Annual Covered Payroll
7/1/1999	\$73,900	\$ 118,200	\$ 44,300	63%	\$ 26,300	168%
7/1/1998	67,200	95,600	28,400	70	18,000	158
7/1/1997	57,300	76,500	19,200	75	18,000	107
7/1/1996	50,000	63,100	13,100	79	16,600	79
7/1/1995	42,100	60,800	18,700	69	15,800	118
7/1/1994	35,600	58,900	23,300	60	12,600	185

See notes to schedules of trend information.

# THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM

## NOTES TO SCHEDULES OF TREND INFORMATION

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### 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 Systems' administration costs.

### 3. ACTUARIAL DATA

The information presented in the required supplementary 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, 1999
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of the projected payroll
Remaining Amortization Period	27 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%