

Audited Financial Statements

*The Commonwealth of Puerto Rico
Judiciary Retirement System*

June 30, 2002



The Commonwealth of Puerto Rico
Judiciary Retirement System

Audited Financial Statements

June 30, 2002

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Report of Independent Auditors

The Board of Trustees
The Commonwealth of Puerto Rico
Judiciary Retirement System

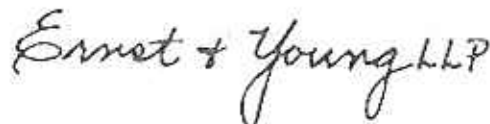
We have audited the accompanying statements of plan net assets of the Commonwealth of Puerto Rico Judiciary Retirement System (the System) as of June 30, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility 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 auditing standards generally accepted in the United States. 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 discussed in Note 1 to the financial statements, in 2001 the System has adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Government*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2002 and 2001, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management's discussion and analysis and supplemental schedules of employer contributions and funding progress are presented for purposes of complying with requirements of the Governmental Accounting Standards Board, and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information contained in the management's discussion and analysis and supplemental schedules and express no opinion on it.



September 6, 2002
San Juan, Puerto Rico

Stamp No. 1825900
affixed to the
original copy
of this report.

The Commonwealth of Puerto Rico
Judiciary Retirement System
June 30, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Commonwealth of Puerto Rico Judiciary Retirement System (the System) annual financial statements, the System's management provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2002. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The System's assets exceeded liabilities by \$60,438,000 (net assets) for the fiscal year reported when compared to the prior year which assets exceeded liabilities by \$70,083,000.
- The fair value of the System's investments at June 30, 2002 amounted to \$59,194,000, compared to \$67,816,000 at June 30, 2001.
- The System's funded ratio of the actuarial accrued liability at June 30, 2000 and 1999 was 61 % and 63%, respectively.

Overview of the Financial Statements

Management Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include: 1) statements of plan net assets 2) statements of changes in plan net assets, and 3) notes to the financial statements. The System also includes additional information to supplement the basic financial statements.

Basic Financial Statements

The System's financial statements consist of two basic financial statements. These statements provide information about the overall status of the System. The System uses full accrual accounting.

The first of the basic financial statements is the *Statement of Plan Net Assets*. This statement includes all of the System's assets and liabilities, with the difference reported as net assets. Overtime, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The second of the basic financial statement is the *Statement of Changes in Plan Net Assets*. This statement reports changes in the System's assets during the year. All current year revenues and expenses are included regardless of when cash is received or paid.

The System is a pension trust fund of the Commonwealth of Puerto Rico. Pension trust resources are only held in trust to pay retirement benefits to participants.

Financial Analysis

The financial statements of the System for the fiscal year ended June 30, 2002 present a decrease in net assets as compared to the prior fiscal year of approximately \$9.6 million. This decrease is mainly the result of a net realized and net unrealized losses experienced in the investment portfolio during the 2002 fiscal year of approximately \$9.4 million.

As of June 30, 2002, the System has \$60.438 million in total net assets consisting, in summary of the following:

- \$59.2 million in marketable securities
- \$348,000 in loans to participants
- \$678,000 in net cash and equivalents
- \$218,000 in other

Our investment portfolio, highly concentrated in stocks, faced a significant decrease in value during the fiscal year 2002, directly related to the downturn in the investment securities market which was negatively impacted by the events on September 11, 2001 and the fraud allegations in large and prominent companies in the United States. Therefore, for the fiscal year 2002, the portfolio recognized a depreciation of approximately \$9.4 million.

For financial statements purposes, the amount of securities that as of June 30, 2002 were involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. For the fiscal year 2002, income from the securities lending activity amounted to approximately \$6,000.

According to the last certified actuarial valuation, as of June 30, 2000, the System's unfunded liability amounts to \$53 million with a capitalization level of 61%. The annual actuarial valuation for the fiscal year 2001 is in process. Based on our preliminary estimate of the unfunded actuarial obligation as of June 30, 2001, it represents approximately \$92 million for a capitalization level of 43%.

In order to protect the System's financial health, the Government follows the practice of not allowing an increase in benefits unless an actuarial study is performed or the law provides the financing source.

Requests for Information

The financial report is designed to provide a general overview of the System'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 Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Statements of Plan Net Assets

	June 30	
	2002	2001
	<i>(In Thousands)</i>	
Assets		
Cash:		
Cash and cash equivalents	\$ 2,971	\$ 2,127
Cash deposited with Government Development Bank for Puerto Rico	817	1,596
	3,788	3,723
Accounts receivable:		
Accrued interest	313	388
Investment sales	123	583
Other	43	63
	479	1,034
Marketable securities:		
Notes and bonds	23,455	20,940
Stocks	35,730	46,850
Mortgage notes acquired from third parties	9	26
	59,194	67,816
Loans to plan members:		
Mortgage	43	55
Personal	265	234
Cultural trips	40	43
	348	332
Total assets	63,809	72,905
Liabilities		
Due to the Employee's Retirement System of the Government of Puerto Rico	3,110	1,908
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	124	144
Investment purchases	87	720
Other liabilities	50	50
Total liabilities	3,371	2,822
Net assets held in trust for pension benefits	\$60,438	\$70,083

See accompanying notes.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Statements of Changes in Plan Net Assets

	Year ended June 30	
	2002	2001
	<i>(In Thousands)</i>	
Additions:		
Contributions:		
Employer	\$ 5,412	\$ 5,394
Participating employees	2,448	2,240
	7,860	7,634
Investment income:		
Realized loss	(4,737)	(2,869)
Unrealized loss	(4,678)	(8,315)
Dividend income	199	173
Interest income	1,743	304
	(7,473)	(10,707)
Less investment expense	318	341
	(7,791)	(11,048)
Total additions	69	(3,414)
Deductions:		
Annuities	8,642	8,262
Administrative expenses	1,072	1,049
Total deductions	9,714	9,311
Net decrease in assets held in trust for pension benefit	(9,645)	(12,725)
Net assets held in trust for pension benefits:		
Beginning of year	70,083	82,808
End of year	\$60,438	\$70,083

See accompanying notes.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements

June 30, 2002

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 \$1,402,000 and \$1,049,000 for the years ended June 30, 2002 and 2001, 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.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

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 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 personal loans and cultural trip loan to plan members are secured by plan members' contributions and mortgage loans are secured by mortgage deeds 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.

Reserve for Life Insurance on Loans to Plan Members

Premiums collected and benefits claimed are recorded as additions and deductions of the guarantee insurance reserve for life insurance on loans to plan members, respectively.

Reclassifications

Certain amounts from fiscal 2001 have been reclassified to conform to the current year's presentation.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

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, 2002 and 2001, membership consisted of the following:

	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries currently receiving benefits	268	269
Current participating employees	<u>357</u>	<u>346</u>
Total membership	<u>625</u>	<u>615</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 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 the time of the disability.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

2. Plan Description (continued)

Nonoccupational Disability Annuity

A participating employee totally and permanently disabled for causes not related to his/her occupation, and with to less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services increased by 1% for every additional year or 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:

- 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:

- Surviving spouse and child, 21 or under - up to 60% of the retiree's pension.
- Other designated by the retiree - 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 having the right to a retirement annuity has the right to a refund of the contributions to the System plus any interest earned thereon.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

2. Plan Description (continued)

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, 2000 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 \$135,800,000 as of June 30, 2000. At June 30, 2000, the unfunded actuarial accrued liability was approximately \$53,000,000.

4. Cash and Investments

Cash Deposits

At June 30, 2002, the aggregate carrying amount of cash deposits and cash equivalents held by the System was approximately \$3.8 million, which includes \$2.9 million at commercial banks, \$817 thousands at Government Development Bank for Puerto Rico (GDB).

As of June 30, 2001, the aggregate carrying amount of cash and cash equivalents held by the System was approximately \$3.7 million, which includes \$2.1 million at commercial banks, \$1.6 million at Government Development Bank of Puerto Rico (GDB).

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Cash Deposits (continued)

The \$2.9 million and \$2.1 million deposited at commercial banks for years 2002 and 2001 respectively, are insured by the Federal Deposit Insurance Corporation or collateralized with securities held on behalf of the System by the Secretary of the Treasury of the Commonwealth of Puerto Rico, or the Secretary's agent in the name of the Secretary.

Pursuant to present statutes, deposits of financial institutions, other than with GDB, shall be in banks designated by the Puerto Rico Secretary of the Treasury as depository institutions of public funds. Such deposits are guaranteed by sufficient collateral under the name and custody of the Secretary of the Treasury.

At June 30, 2002, cash consists of deposits in banks and is categorized following the "Guide to Implementation of GASB Statement 3 on Deposits with Financial Institution." Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

The categories for deposits are the following:

Category 1 - insured or collateralized with securities held by the financial institution or by its agent in the System's name.

Category 2 - collateralized with securities held by the pledging financial institution's trust department or its agent in the System's name.

Category 3 - uncollateralized.

The carrying amount of the deposits approximates their fair value. The following presents the deposits categorized (in thousands):

	Category			Market Value
	1	2	3	
Deposits in commercial banks	\$2,971	\$ -	\$ -	\$2,971
Deposits in governmental banks	-	-	817	817
	\$2,917	\$ -	\$ 817	\$3,788

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Investments

The following table shows the cost and market value of the investments in marketable securities held by the System as of June 30, 2002 and 2001:

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
	(In Thousands)			
U.S. Government and agencies' securities	\$15,705	\$15,705	\$13,954	\$14,015
Corporate bonds	7,435	7,750	6,973	6,925
Total bonds and notes	23,140	23,455	20,927	20,940
Domestic corporate stocks	29,802	28,106	35,941	39,056
International corporate stocks	9,065	7,624	9,065	7,794
Total stocks	38,867	35,730	45,006	46,850
Total investments	\$62,007	\$59,185	\$65,933	\$67,790

The Credit Risk categories for investments are:

Category 1 - Insured or registered in the entity's name, or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Credit Risk Classification is as follows:

	Category			Market Value
	1	2	3	
Bonds and notes	\$ -	\$ -	\$23,455	\$23,455
Stocks	-	-	35,730	35,730
	\$ -	\$ -	\$59,185	\$59,185

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Securities Lending Transactions

During the year the System entered into securities lending transactions. The System's securities custodian, as agent, manages the securities lending program and receives liquid collateral. The collateral requirement is equal to 102.17% of the fair value of the security lent.

Securities lending obligations for which collateral was received at June 30, 2002 consisted of the following (in thousands):

Securities Lent	Fair Value of Securities
U.S. Equity	<u>\$1,428</u>
The underlying collateral for these securities had a market value of approximately \$1,459 thousand and was invested as follows:	
Asset Backed Commercial Paper	\$ 259
Reverse Repo US Agency Delivered	28
Reverse Repo Mortgage - Backed Tri-Party	<u>1,172</u>
	<u>\$1,459</u>

The System has very low credit risk exposure to borrowers. The System rights to collateral are defined in the contractual agreement. There is excess collateral above 100%. In case of borrower default the System has immediate rights to collateral. Borrower credit worthiness is also proactively reviewed by the Lending Agent.

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.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Schedule of Contributions

June 30, 2002

Year Ended June 30	Annual Required Contribution	Contributions	Percentage Contributed
2000	\$9,200	\$7,300	79%
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

June 30, 2002

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
7/1/2000	\$82,900	\$135,800	\$53,000	61%	\$25,700	206%
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

June 30, 2002

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 employee's contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employee's 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 later actuarial valuation follows:

Valuation Date	July 1, 2000
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of the projected payroll
Remaining Amortization Period	26 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%*

1741 1742 1743 1744 1745 1746 1747 1748 1749 1750 1751 1752 1753 1754 1755 1756 1757 1758 1759 1760 1761 1762 1763 1764 1765 1766 1767 1768 1769 1770 1771 1772 1773 1774 1775 1776 1777 1778 1779 1780 1781 1782 1783 1784 1785 1786 1787 1788 1789 1790 1791 1792 1793 1794 1795 1796 1797 1798 1799 1800