

Audited Financial Statements

*The Commonwealth of Puerto Rico
Judiciary Retirement System*

June 30, 2003

The Commonwealth of Puerto Rico
Judiciary Retirement System

Audited Financial Statements

June 30, 2003

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Report of Independent Auditors

To the Board of Trustees of the
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, 2003 and 2002, 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 2002 the System adopted Governmental Accounting Standards Board No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2003 and 2002, 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 presented on pages 2 through 4 and supplemental schedules of employer contributions and funding progress presented on pages 17 through 19 are supplementary information required by 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, therefore, express no opinion on them.



September 26, 2003
San Juan, Puerto Rico

Stamp No. 1920984
affixed to
the original
copy of
this report.

The Commonwealth of Puerto Rico
Judiciary Retirement System
June 30, 2003

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, 2003. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

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 statements 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 Highlights

As of June 30, 2003, the System has \$64.1 million in total assets consisting, in summary of the following:

- \$59.8 million in marketable securities
- \$389,000 in loans to participants
- \$3.5 million in net cash and equivalents
- \$429,000 in other net assets

The following provides a comparison of certain items within the financial statements:

- The System's assets exceeded liabilities by \$61,781,000 (net assets) for the fiscal year reported when compared to the prior year which assets exceeded liabilities by \$60,438,000.
- The fair value of the System's investments (excluding participants' loans) at June 30, 2003 amounted to \$59,831,000, compared to \$59,194,000 at June 30, 2002.
- Participants' loans amounted to \$389,000 at June 30, 2003 compared to \$348,000 at June 30, 2002.
- The System's funded ratio of the actuarial accrued liability at June 30, 2001 and 2000 was 43% and 61%, respectively.

The financial statements of the System for the fiscal year ended June 30, 2003 present an increase in net assets as compared to the prior fiscal year of approximately \$1.3 million. This increase was mainly the result of a net appreciation experienced in the investment portfolio during the 2003 fiscal year of approximately \$2.4 million offsetted by the repayment of amounts due to the Government Employees Retirement System of the Government of Puerto Rico and its Instrumentalities.

Our investment portfolio was re-structured during fiscal year 2003 by implementing a new asset allocation to fulfill the System's cash flow needs as well as to sustain an appropriate growth and return. In addition, the new asset mix and investment management structure provided savings in management fees. For the fiscal year 2003, the portfolio experienced an increase of approximately \$637 thousand. During fiscal years 2001, 2002 and beginning of fiscal year 2003, the System's investment portfolio experienced several losses as a direct result of the market conditions prevailing during that period that were mainly caused by the adjustments in stock prices, especially those in the technology sector, followed by the terrorist attacks on September 11, 2001 and corruption cases in large U.S. companies. Finally, during the semester ended June 30, 2003 the market sustained a recovery and the System experienced positive returns of 11.92% (net of fees).

For financial statements purposes, the amount of securities that as of June 30, 2003 were involved in the securities lending transactions were presented with the required disclosures, according to the current government accounting pronouncements. For the fiscal year 2003, income from the securities lending activity amounted to approximately \$3,500. In addition, the System invests in a commingled fund, which engages in securities lending transactions that resulted in earning \$301 as securities lending income.

Funding Status

According to the last certified actuarial valuation as of June 30, 2001, the System's unfunded liability amounted to \$92 million with a capitalization level of 43%. The annual actuarial valuation for the fiscal year 2003 is in process.

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.

Increase in Economic Benefits for Retirees Granted in Summer 2003

In summer 2003, the Governor of Puerto Rico, Sila M. Calderón granted three new benefits to the System's retirees to help cope with the increase in the cost of living, which consisted of:

- Medicine Bonus of \$100 payable annually every July, starting July 2003;
- Increase in the Christmas Bonus to \$400 annually every December, starting December 2003;
- Increase in the monthly employer contribution for the medical plan to \$100, effective January 1, 2004.

To avoid any adverse economic impact on the System, these benefits are financed through legislative assignments in the General Fund.

Initiatives to Provide Better Services to Our Participants and Retirees

The System serves around 338 active participants and 285 retirees and beneficiaries. It provides a range of close to 50 different types of services to its clientele, including pension applications, disability benefits, mortgage and personal loans and the payment of unpaid services. Because of that, our clientele frequently demands fast services, access to information and benefits orientation.

During fiscal year 2003, the System launched several initiatives to improve its services to its participants and retirees. They are:

- TELERETIRO -- a telephone calls center to provide information about benefits and services. TELERETIRO operates through a toll-free number, with extended hours including Saturdays.
- New Personal Loans Program -- a program (to be launched in November 2003) that contemplates the granting of personal loans up to \$5,000 with a 5 year term.

During fiscal years 2001 and 2002, the System's management already took steps to improve the processing time for service requests. As a result of those efforts, now personal loans are granted within three to five business days, pensions and other services alike are granted within one month. The System's management has also taken other steps to improve the operational efficiency and productiveness. With a strong commitment, the System's management continues its efforts to implement innovative initiatives to provide even better services to its clientele and protect the System's financial condition.

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,	
	2003	2002
	<i>(In thousands)</i>	
Assets		
Cash:		
Cash and cash equivalents	\$ 2,555	\$ 2,971
Cash deposited with Government Development Bank for Puerto Rico	990	817
	<u>3,545</u>	<u>3,788</u>
Accounts receivable:		
Accrued interest	350	313
Investment sales	33	123
Other	46	43
	<u>429</u>	<u>479</u>
Marketable securities at fair value:		
Bonds and notes	19,773	23,455
Stocks	40,058	35,730
Mortgage notes acquired from third parties	-	9
	<u>59,831</u>	<u>59,194</u>
Loans to plan members:		
Mortgage	31	43
Personal	307	265
Cultural trips	51	40
	<u>389</u>	<u>348</u>
Total assets	<u>64,194</u>	<u>63,809</u>
Liabilities		
Due to the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities	2,179	3,110
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	126	124
Investment purchases	59	87
Other liabilities	49	50
Total liabilities	<u>2,413</u>	<u>3,371</u>
Net assets held in trust for pension benefits	<u>\$61,781</u>	<u>\$60,438</u>

See accompanying notes.

The Commonwealth of Puerto Rico
Judiciary Retirement System
Statements of Changes in Plan Net Assets

	Year ended June 30,	
	2003	2002
	<i>(In Thousands)</i>	
Additions:		
Contributions:		
Employer	\$ 5,536	\$ 5,412
Participating employees	2,479	2,448
	8,015	7,860
Investment income:		
Net appreciation (depreciation) on investments	2,414	(9,415)
Dividend income	168	199
Interest income	1,804	1,743
	4,386	(7,473)
Less investment expense	255	318
	4,131	(7,791)
Total additions	12,146	69
Deductions:		
Annuities	9,330	8,642
Administrative expenses	1,473	1,072
Total deductions	10,803	9,714
Net increase (decrease) in assets held in trust for pension benefit	1,343	(9,645)
Net assets held in trust for pension benefits:		
Beginning of year	60,438	70,083
End of year	\$61,781	\$60,438

See accompanying notes.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements

June 30, 2003

I. 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 Administration (ERS). ERS allocations of administration costs to the System amounted to approximately \$1,473,000 and \$1,072,000 for the years ended June 30, 2003 and 2002, 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 Governmental Accounting Standards Board No. 25 (GASB 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.

Change in Accounting Principle

The System adopted the provisions of GASB No. 34 in fiscal year 2002, effective July 1, 2001. GASB No. 34 established financial and reporting standards for all state and local governments and related entities. GASB No. 34 did not have a significant effect on the System's financial position or changes in net assets. The only significant effect of the implementation of GASB No. 34 relates to the inclusion of Management's Discussion and Analysis as supplemental information.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

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

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 custodian bank.

Investments

Investments are carried at 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 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 and cultural trip loans 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.

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, 2003 and 2002, membership consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits	285	268
Current participating employees	338	357
Total membership	<u>623</u>	<u>625</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% the average compensation and a maximum of 100% of the compensation received by the active members of the Supreme Court.

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.

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 no 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 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:

- 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)

Cost of Living Adjustment to Pension Benefits

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. The Act requires further legislation to grant this increase every three years. To protect the financial health of the System the increase granted in 2002 is being financed through grants from the General Fund.

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 employers' and 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, 2001 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 \$162,186,000 as of June 30, 2001. At June 30, 2001, the unfunded actuarial accrued liability was approximately \$92,103,000.

4. Cash and Investments

Cash Deposits

At June 30, 2003, the aggregate carrying amount of cash deposits and cash equivalents held by the System was approximately \$3.6 million, which includes \$2.6 million at commercial banks, and \$990 thousand at Government Development Bank for Puerto Rico (GDB).

As of June 30, 2002, the aggregate carrying amount of cash and cash equivalents held by the System was approximately \$3.8 million, which includes \$2.9 million at commercial banks, and \$817 million at GDB.

The \$2.5 million and \$2.9 million deposited at commercial banks for years 2003 and 2002 respectively, are insured by the Federal Deposit Insurance Corporation up to \$100,000 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.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Cash Deposits (continued)

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, 2003, cash consists of deposits in banks and is categorized following the "Guide to Implementation of GASB No. 3, "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 approximate their fair value. The following presents the deposits categorized (in thousands):

	Category			Fair Value
	1	2	3	
Deposits in commercial banks	\$2,555	\$ -	\$ -	\$2,555
Deposits in GDB	-	-	990	990
	\$2,555	\$ -	\$990	\$3,545

The Commonwealth of Puerto Rico
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Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Investments (continued)

The following table shows the fair value of the investments in marketable securities held by the System as of June 30, 2003 and 2002 (in thousands):

	2003 Fair Value	2002 Fair Value
U.S. Government and agencies' securities	\$ 6,728	\$15,705
Corporate bonds	13,045	7,750
Total bonds and notes	<u>19,773</u>	<u>23,455</u>
Domestic corporate stocks	32,451	28,106
International corporate stocks	7,607	7,624
Total stocks	<u>40,058</u>	<u>35,730</u>
	<u>\$59,831</u>	<u>\$59,185</u>

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 (in thousands):

	Category			Fair Value
	1	2	3	
Bonds and notes	\$ -	\$ -	\$19,773	\$19,773
Stocks	-	-	40,058	40,058
	<u>\$ -</u>	<u>\$ -</u>	<u>\$59,831</u>	<u>\$59,831</u>

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

4. Cash and Investments (continued)

Securities Lending Transactions

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 102.79% of the fair value of the security lent.

Securities lending obligations for which collateral was received at June 30, 2003 and 2002 consisted of the following (in thousands):

	Fair Value of Securities	
	2003	2002
Securities Lent		
U.S. Corporate Bonds	\$1,111	\$1,428
U.S. Equity	729	-
Total	\$1,840	\$1,428

The underlying collateral for these securities had a market value of approximately \$1,892,000 and \$1,459,000 and was invested as follows (in thousands):

	2003	2002
Asset Backed Commercial Paper	\$ 253	\$ 259
Reversed Repo U.S. Agency Delivered	1,343	28
Reversed Repo U.S. Agency-Backed Tri-Parties	-	1,172
Promissory Note	148	-
Certificate of Deposit	49	-
Time Deposit	99	-
	\$1,892	\$1,459

The System has very low credit risk exposure to borrowers. The System's 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.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Financial Statements (continued)

5. Guarantee Insurance Reserve for 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.

Supplemental Information

The Commonwealth of Puerto Rico
Judiciary Retirement System

Schedule of Contributions
(Dollar amounts in thousands)

June 30, 2003

Year Ended June 30	Annual Required Contribution	Contributions	Percentage Contributed
2001	\$6,900	\$7,900	114%
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

See notes to schedules of trend information.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Schedule of Funding Progress
(Dollar amounts in thousands)

June 30, 2003

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
7/1/2001	\$70,000	\$162,200	\$92,103	43	\$26,700	345%
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

See notes to schedules of trend information.

The Commonwealth of Puerto Rico
Judiciary Retirement System

Notes to Schedules of Trend Information

June 30, 2003

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, 2001
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of the projected payroll
Remaining Amortization Period	25 years
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment rate of return*	8.5%
Projected salary increases*	5%
Mortality Rate	Group Annuity Table for 1951.
Cost of living adjustment	3%, every three years for the increase granted in 1999.

**Includes inflation at 3.5%*