

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM

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Independent Auditors' Report

The Board of Trustees of  
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, 2005 and 2004, 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 those financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2005 and 2004, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted 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 5 and supplemental schedules of employers' contributions and funding progress presented on pages 22 and 24 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.

December 21, 2005

*Zayas, Morazzani & Co.*

Stamp No. 2107164 of the Puerto  
Rico Society of Certified Public  
Accountants was affixed to original.

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Management's Discussion and Analysis  
June 30, 2005

**Introduction**

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, 2005. 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 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.

THE COMMONWEALTH OF PUERTO RICO  
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Management's Discussion and Analysis  
June 30, 2005

Financial Highlights

As of June 30, 2005, the System has \$72.8 million in total assets consisting, in summary of the following:

- \$69.4 million in marketable securities
- \$251,000 in loans to participants
- \$2.7 million in net cash and equivalents
- \$404,000 in other net assets

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

- The System's assets exceeded liabilities by \$69,797,000 (net assets) for the fiscal year reported when compared to the prior year which assets exceeded liabilities by \$67,851,000.
- The fair value of the System's investments (excluding participants' loans) at June 30, 2005 amounted to \$69,391,000 compared to \$69,726,000 at June 30, 2004.
- Participants' loan amounted to \$251,000 at June 30, 2005 compared to \$212,000 at June 30, 2004.
- The System's funded ratio of the actuarial accrued liability at June 30, 2003 and 2001 was 37% and 43%, respectively.

The financial statements of the System for the fiscal year ended June 30, 2005 present an increase in net assets as compared to the prior fiscal year of approximately \$2 million. This increase was mainly the result of a decrease in net liabilities of \$2.6 million, a decrease in net cash of \$352,000 and a reduction in the value of marketable securities of \$335,000.

For financial statements purposes, the amount of securities that as of June 30, 2005 were involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. For the fiscal year 2005, income from the custodian securities lending activity amounted to approximately \$7,600.

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Management's Discussion and Analysis  
June 30, 2005

Funding Status

According to our last certified actuarial valuation as of June 30, 2003, the System's unfunded liability amounted to \$105 million with a capitalization level of 37%.

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

For Fiscal years 2003, 2004 and 2005 the Governor of Puerto Rico granted several new benefits to the System's retirees to help them 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, starting January 1, 2004;
- Increase in the Christmas Bonus to \$500 annually every December, starting December 2005;
- Increase from \$500 to \$550 and to \$600 in the Christmas Bonus for the retiree, effective on December 2006 and 2007 respectively.

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 372 active participants and 309 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.

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June 30, 2005

Initiatives to Provide Better Services to Our Participants and Retirees,  
Continued

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.
- Personal Loans Program - a program that provides the granting of personal loans up to \$5,000 with a 5 year term.

In December 2005 a new office for the Government Retirement System of P.R. was opened on Mayagüez.

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, 00918.

THE COMMONWEALTH OF PUERTO RICO  
 JUDICIARY RETIREMENT SYSTEM  
 Statements of Plan Net Assets  
 June 30, 2005 and 2004  
 (In Thousands)

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Cash:		
Cash and cash equivalents	\$ 1,804	1,029
Cash deposited with Government Development Bank of Puerto Rico	923	2,050
	<u>2,727</u>	<u>3,079</u>
Accounts receivable:		
Accrued interest	257	305
Investment sales	102	27
Other	45	45
	<u>404</u>	<u>377</u>
Marketable securities at fair value:		
Bonds and notes	20,031	20,782
Stocks	49,360	48,944
	<u>69,391</u>	<u>69,726</u>
Loans and interest receivable from plan members	251	212
Total assets	<u>\$ 72,773</u>	<u>73,394</u>
<u>Liabilities</u>		
Book overdraft	828	1,827
Due to the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities	1,376	3,472
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	130	129
Investment purchases	123	66
Other liabilities	519	49
Total liabilities	<u>2,976</u>	<u>5,543</u>
Net assets held in trust for pension benefits	<u>\$ 69,797</u>	<u>67,851</u>

See accompanying independent auditors' report  
 and notes to financial statements.



THE COMMONWEALTH OF PUERTO RICO  
 JUDICIARY RETIREMENT SYSTEM  
 Statements of Changes in Plan Net Assets  
 June 30, 2005 and 2004  
 (In Thousands)

	<u>2005</u>	<u>2004</u>
Additions:		
Contributions:		
Employers	\$ 6,470	5,556
Participating employees	<u>2,775</u>	<u>2,578</u>
	9,245	8,134
Investment income:		
Net appreciation on investments	4,248	8,093
Dividend income	206	159
Interest income	<u>1,159</u>	<u>1,177</u>
	5,613	9,429
Less: Investment expense	<u>197</u>	<u>206</u>
	5,416	9,223
Total additions	<u>14,661</u>	<u>17,357</u>
Deductions:		
Annuities	11,489	9,927
Administrative expenses	1,226	1,143
Net adjustments in the conversion to a new loans application (note 5)	<u>-</u>	<u>217</u>
Total deductions	<u>12,715</u>	<u>11,287</u>
Net increase in assets held in trust for pension benefit	1,946	6,070
Net assets held in trust for pension benefits:		
Beginning of year	<u>67,851</u>	<u>61,781</u>
End of year	\$ <u>69,797</u>	<u>67,851</u>

See accompanying independent auditors' report  
and notes to financial statements.

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Notes to Financial Statements  
June 30, 2005 and 2004

(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 proper operation and administration of the System is vested in a Board of Trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth, and four Commonwealth government agency representatives.

The System is not an employer. The System's operations are managed by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico Administration (ERS) (formerly Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities). ERS allocations of administration costs to the System amounted to approximately \$1,226,000 and \$1,143,000 for the years ended June 30, 2005 and 2004, 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.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(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 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.

Loans to Plan Members

Mortgage, personal and cultural trip loans to plan members are stated at their outstanding principal balance. Maximum amounts that may be granted to plan members for mortgage, personal and cultural trip loans are \$100,000, \$5,000 and \$5,000, respectively. The carrying value of these loans approximates their fair value.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(1) Organization, and Summary of Significant Accounting Policies,  
Continued

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.

(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, 2005 and 2004, membership consisted of the following:

	<u>2005</u>	<u>2004</u>
Retirees and beneficiaries currently receiving benefits	309	282
Current participating employees	<u>372</u>	<u>338</u>
Total membership	<u>681</u>	<u>620</u>

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(2) Plan Description, Continued

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 dependants. 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.

Non-occupational 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.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(2) Plan Description, Continued

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.

Non-occupational:

- 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 right to a retirement annuity has the right to a refund of the contributions to the System plus any interest earned thereon.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Notes to Financial Statements

(2) Plan Description, Continued

Cost of Living Adjustment for 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.

During fiscal year 2005 and 2004, the System received grants from the General Fund of \$372,000 for each year to cover special laws. The grants are accounted as a reduction of benefits payments.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2003, using the projected unit credit actuarial cost method. Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 8.5%, (b) assumed compound rate of wage increases of 5% per year, and (c) assumed mortality rate based on the Group Annuity Table for 1983.

The actuarial accrued liability was \$166,732,000 as of June 30, 2003. At June 30, 2003, the unfunded actuarial accrued liability was approximately \$104,951,000.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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 Notes to Financial Statements

(4) Cash and Investments

Cash Deposits

At June 30, 2005, the aggregate carrying amount of cash deposits and cash equivalents held by the System was approximately \$1.9 million, which includes \$1.8 million at commercial banks, and \$923 thousand at the Government Development Bank for Puerto Rico (GDB) reduced by an overdraft of \$828 thousand at Treasury Department of the Commonwealth of Puerto Rico. At June 30, 2004, the aggregate carrying amount of cash deposits and cash equivalents held by the System was approximately \$1.3 million, which includes \$1.0 million at commercial banks, and \$2.1 million at GDB reduced by an overdraft of \$1.8 million at Treasury Department.

The following table presents the carrying amount and the corresponding depository bank balances as of June 30, 2005 and 2004 (in thousands):

	2005	
	Carrying Amount	Depository Bank Balance
Deposits at commercial banks	\$ 1,804	1,804
Deposits with GDB	923	4,787
Deposits with Treasury Department	(828)	1,037
	\$ 1,899	7,628
	2004	
	Carrying Amount	Depository Bank Balance
Deposits at commercial banks	\$ 1,029	1,029
Deposits with GDB	2,050	2,050
Deposits with Treasury Department	(1,827)	1,194
	\$ 1,252	4,273

(Continued)



THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(4) Cash and Investments, Continued

Cash Deposits, Continued

The \$1.8 million and the \$1.0 million deposited at commercial banks for years 2005 and 2004, 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.

As of June 30, 2005 and 2004, funds deposited at GDB for \$4.8 million and \$2.1 million, respectively, are uninsured and uncollateralized.

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 institution of public funds. Such deposits are guaranteed by sufficient collateral under the name and custody of the Secretary of the Treasury.

At June 30, 2005 and 2004, cash consists of deposits in banks and is categorized following the "Guide to Implementation of GASB No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", as amended.

Deposits with financial institutions are subject to custodial credit risk when they are not covered by depository insurance and have one of the three following characteristics (GASB-40, paragraph 8):

1. Uncollateralized (no securities are pledged to the depositor government).
2. Collateralized with securities held by the pledging financial institution.
3. Collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the depositor government's name.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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 Notes to Financial Statements

(4) Cash and Investments, Continued

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. As of June 30, 2005 and 2004, \$5.8 million and \$3.2 million, respectively, of the System's deposit balance of \$7.6 million and \$4.3 million, respectively, was exposed to custodial credit risk since it was uninsured and uncollateralized.

Investments

The following table shows the fair value of the investments in marketable securities held by the System as of June 30, 2005 and 2004 (in thousands):

<u>Investment Type</u>	<u>2005</u>	
	<u>Fair Value</u>	<u>Weighted average maturity (years)</u>
U.S. Treasury securities	\$ 990	0.04
U.S. Government agencies securities	4,653	0.77
Collateralized mortgage obligations	1,295	1.58
Corporate bonds	13,093	7.14
Domestic mutual funds	24,201	N/A
International mutual funds	11,116	N/A
Domestic corporate stocks	14,043	N/A
Total	\$ <u>69,391</u>	<u>9.53</u>

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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 Notes to Financial Statements

(4) Cash and Investments, Continued

Investments, Continued

<u>Investment Type</u>	<u>2004</u>	
	<u>Fair Value</u>	<u>Weighted average maturity (years)</u>
U.S. Government agencies securities	\$ 3,737	1.94
Collateralized mortgage obligations	1,821	2.24
Corporate bonds	15,224	8.97
Domestic mutual funds	26,093	N/A
International mutual funds	9,862	N/A
Domestic corporate stocks	<u>12,989</u>	<u>N/A</u>
Total	\$ <u>69,726</u>	<u>13.15</u>

Interest Rate Risk

In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date.

Credit Risk

The System's investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations. The policy requires the debt securities portfolio to maintain a minimum weighted average credit quality of either "A" or better using either Standard & Poor's or Moody's credit ratings.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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 Notes to Financial Statements

(4) Cash and Investments, Continued

Custodial Credit Risk Related to Investments

Investments held by financial institutions are subject of custodial credit risk when they are uninsured or unregistered securities. These may be classified in one of the following three categories:

Category A: Uninsured and unregistered investments held by the governmental entity or held by the governmental entity's agent in the name of the governmental entity.

Category B: Uninsured or unregistered investments held in the name of the governmental entity, but held by the counterparty's trust department or the counterparty's agent.

Category C: Uninsured and unregistered investments held by the counterparty, the counterparty's trust department, or the counterparty's agent, but not held in the governmental entity's name.

As of June 30, 2005 and 2004, the System's investments held by financial institutions were exposed to custodial credit risk as follows:

	<u>2005</u>	<u>2004</u>
Uninsured and unregistered investments held by the governmental entity's agent in the name of the governmental entity.	\$ 69,391	69,726
Uninsured or unregistered investments held in the name of the governmental entity, but held by the counterparty's trust department or the counterparty's agent.	-	-
Uninsured or unregistered investments held by the counterparty, the counterparty's trust department, or the counterparty's agent, but not held in the governmental entity's name.	-	-
	<u>\$ 69,391</u>	<u>69,726</u>

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
 JUDICIARY RETIREMENT SYSTEM  
 Notes to Financial Statements

(4) Cash and Investments, Continued

Concentration of Credit Risk

No investment in any organization represents 5% or more of the System's net assets held in trust for pension benefits.

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. At June 30, 2005 and 2004, the collateral received represents 103.48% and 103.15%, respectively, of the fair value of the securities lent.

Securities lending obligations for which collateral was received at June 30, 2005 and 2004 consisted of the following (in thousands):

	Fair Value	
	2005	2004
<b>Securities Lent</b>		
U.S. Corporate Bonds	\$ 548	614
U.S. Equity	<u>2,641</u>	<u>3,135</u>
<b>Total</b>	<b>\$ <u>3,189</u></b>	<b><u>3,749</u></b>

The underlying collateral for these securities had a market value of approximately \$3,300,000 and \$3,867,000 and was invested as follows (in thousands):

	2005	2004
Asset Backed Commercial Paper	\$ 963	614
Reverse Repo U.S. Agency Delivered	338	-
Reverse Repo Government Delivered	-	2,844
Reverse Repo Mortgage Backed Tri-party	1,999	-
Master Note	<u>-</u>	<u>409</u>
<b>Total</b>	<b>\$ <u>3,300</u></b>	<b><u>3,867</u></b>

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
 JUDICIARY RETIREMENT SYSTEM  
 Notes to Financial Statements

(4) Cash and Investments, Continued

Securities Lending Transactions, Continued

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's creditworthiness is also proactively reviewed by the Lending Agent.

(5) Loans and Interest Receivable from Plan Members

The composition of loans and interest receivable from plan members is summarized as follows:

	<u>2005</u>	<u>2004</u>
Loans receivable:		
Mortgage	\$ 43,524	48,345
Personal	165,872	116,842
Cultural trips	<u>30,664</u>	<u>42,467</u>
Total loans to plan members	240,060	207,654
Accrued interest receivable	<u>11,210</u>	<u>4,177</u>
Total loans and interest receivable	\$ <u>251,270</u>	\$ <u>211,831</u>

During the year ended June 30, 2004, the System completed a significant phase in the development and implementation of a new computerized system for the accounting and management of loans.

The process allowed the determination of the balance of interest and charges receivable and the identification of loans that were not activated in the former system and in process of activation.

(Continued)

THE COMMONWEALTH OF PUERTO RICO  
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Notes to Financial Statements

(5) Loans and Interest Receivable from Plan Members, Continued

The net effect of the process in the financial statements of the System was recognized in fiscal year 2004 operations and amounted approximately \$217,000.

The loans receivable from participants are substantially guaranteed by the contributions of participants and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll deductions.

(6) 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.

SUPPLEMENTARY SCHEDULE  
OF TREND INFORMATION

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Schedule of Contributions  
(Dollar amounts in Thousands)  
June 30, 2005

<u>Year Ended</u> <u>June 30,</u>	<u>Annual</u> <u>Required</u> <u>Contributions</u>	<u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
2003	\$ 6,900	\$ 5,536	80%
2002	6,900	5,412	79
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 schedule of trend information.



SUPPLEMENTARY SCHEDULE  
OF TREND INFORMATION

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Schedule of Funding Progress  
(Dollar amounts in thousands)  
June 30, 2005

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
7/1/2003	\$ 61,781	\$ 165,732	\$ 104,951	37%	\$ 25,711	408%
7/1/2001	70,583	162,186	92,103	43	26,700	345
7/1/2000	82,800	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 schedule of trend information.

SUPPLEMENTARY SCHEDULE  
OF TREND INFORMATION

THE COMMONWEALTH OF PUERTO RICO  
JUDICIARY RETIREMENT SYSTEM  
Notes to Schedules of Trend Information  
June 30, 2005

(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. The information was obtained from the last actuarial report as of June 30, 2003.

(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 employees' contributions, the pension benefits and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2003.

(3) Actuarial Data

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Starting July 1, 2001, the actuarial valuation is being performed every two years. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2003
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of the projected payroll
Remaining Amortization Period	23 years
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment rate of return*	8.5%
Projected salary increases*	5%
Mortality Rate	Group Annuity Table for 1983
Cost of living adjustment	None

\* Includes inflation at 3.5%

