

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

*Financial Statements (with Independent
Auditors' Report Thereon) for the
Years Ended June 30, 2006 and 2005*

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

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THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Management's Discussion and Analysis
June 30, 2006

Introduction

The Commonwealth of Puerto Rico Judiciary Retirement System (the System) administers retirement and other participant benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico. The Pension Trust resources are only held in trust to pay retirement benefits to participants. The System presents the annual financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2006. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures.

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 basic financial statements. The System also includes additional information to support the basic financial statements.

Statement of Plan Net Assets and Statement of Changes in Plan Net Assets

Both these statements provide information about the overall status of the System. The System uses full accrual accounting.

The Statement of Plan Net Assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. 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 Statement of Changes in Plan Net Assets reports changes in the System's assets and liabilities during the year. All current year revenues and expenses are included regardless of when cash is received or paid.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the Statements of Plan Net Assets and Changes in Plan Net Assets.

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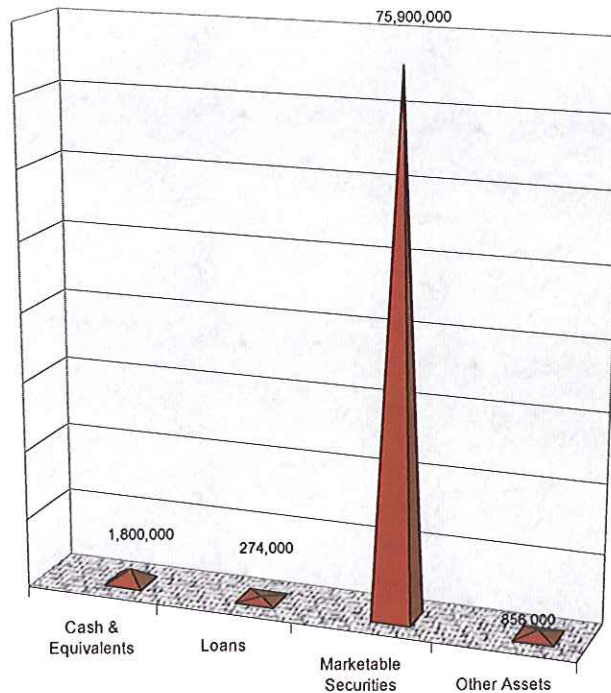
Supplementary Information

The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides the retirement benefits to the employees of the Judiciary System of Puerto Rico. The System has \$78.8 million in total assets as of June 30, 2006. The amount consists of the following:

- \$75.9 million in marketable securities
- \$274 thousand in loans to participants
- \$1.8 million in net cash and cash equivalents
- \$856 thousand in other assets



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Financial Highlights, (Continued)

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

- The System's assets exceeded liabilities by \$72.8 million (net assets held in trust for pension benefits) for the fiscal year reported when compared to the prior year which assets exceeded liabilities by \$69.8 million.
- The fair value of the System's investments, excluding loans to plan members, at June 30, 2006 amounted to \$75.9 million compared to \$69.3 million at June 30, 2005.
- Loans to plan members amounted to \$274,000 at June 30, 2006 compared to \$251,000 at June 30, 2005.
- The System's funded ratio of the actuarial accrued liability at June 30, 2005 and 2003 was 40% and 37%, respectively.

The financial statements of the System for the fiscal year ended June 30, 2006 present an increase in net assets held in trust for pension benefits as compared to the prior fiscal year of approximately \$3.1 million. This was mainly the result of an increase in the fair value of the investments of \$6.5 million, plus an increase in account receivable of \$452,000 offset by a reduction in net cash of \$948,000 and an increase of \$3 million in total liabilities.

The System's net assets held in trust for benefits include employer and employee contributions as well as investment income. For fiscal year 2006, employer and employee contributions increased by approximately \$442,000, from \$9.245 million during fiscal year 2005 to \$9.687 million during fiscal year 2006. The System recognized a net appreciation in the fair value of investment of \$5.8 million for fiscal year 2006.

Investment and Other Transactions

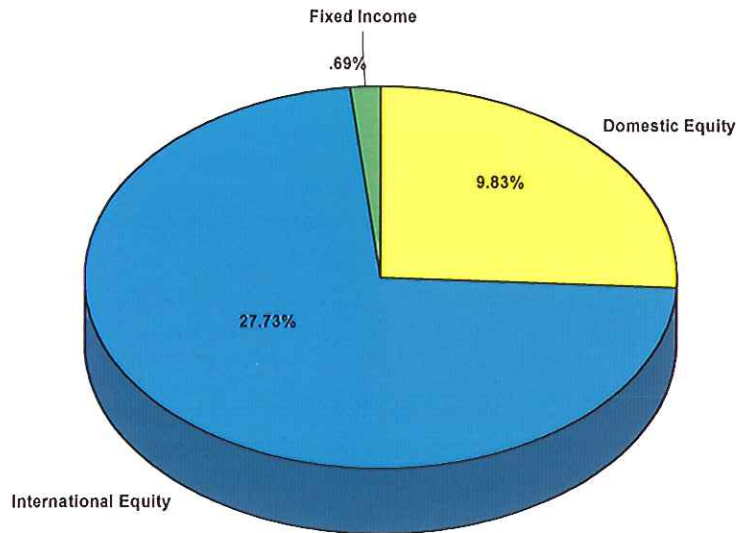
At June 30, 2006 and 2005, the System held approximately \$274,000 and \$251,000 respectively in loans and interests to plan members. As of June 30, 2006 these loans consist of \$34,000 in mortgage loans, \$182,000 in personal loans, \$46,000 in cultural trip loans, and \$12,000 of interest receivable applicable to the pool of loans.

The asset mix of the fund generated a positive gross return of approximately 9.16% for the year ended June 30, 2006. The new asset allocation is the one that fulfills the System's needs and since it is more adequately balanced, it provides protection in case of another market downturn. The target asset mix for International Equity is 27.73%, Domestic Equity is 9.83% and Fixed Income is .69%.

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Investment and Transactions, (Continued)



The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally used the borrowed security to cover short sales and failed trades. The cash collateral received from the brokers is invested in order to earn interests. For financial statements purposes, the amount of securities that as of June 30, 2006 were involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. For the fiscal year 2006, income from the custodian securities lending activity amounted to approximately \$9,000.

Funding Status

According to our most recent certified actuarial valuation report as of June 30, 2005, the System's unfunded actuarial accrued liability amounted to \$105 million with a capitalization level of 40%.

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.

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Increase in Economic Benefits for Retirees

From 2003 thru 2007, 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 in the Christmas Bonus to \$550 annually every December, starting December 2006.
- Increase from \$550 to \$600 in the Christmas Bonus effective on December 2007.

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 374 active participants and 313 retirees and beneficiaries. It provides approximately 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. This service operates through a toll-free number, with extended hours including Saturdays.

(Continued)

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

- New 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 at Mayagüez, Puerto Rico. It serves around 1,600 clientele a 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, 00918.



PARISSI P.S.C.

Certified Public Accountants, Tax & Business Advisors

Independent Auditors' Report

The Board of Trustees of
The Commonwealth of Puerto Rico Judiciary Retirement System
San Juan, Puerto Rico

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, 2006 and the related statement of changes in plan net assets for the year then ended. This financial statement is the responsibility of the System's management. Our responsibility is to express an opinion on this financial statement based on our audit. The financial statement of the System for the year ended June 30, 2005 was audited by other auditors whose report, dated December 21, 2005 expressed an unqualified opinion on that statement.

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

In our opinion the financial statement referred to above presents fairly, in all material respects, the net assets of the System at June 30, 2006 and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Management's Discussion and Analysis presented on pages 1 through 6 and supplementary schedules of employers' contributions and funding progress presented on pages 24 through 26 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.

San Juan, Puerto Rico
October 17, 2006, except for supplementary schedules of employers'
contributions and funding progress, as to which the date is February 12, 2007.

Stamp No. 2199158 was affixed to
the original of this report.
License Exp. December 1, 2008



THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Statement of Plan Net Assets

	June 30,	
	2006	2005
ASSETS	(in thousands)	
Cash:		
Cash and cash equivalents	\$ 1,599	\$ 1,804
Cash deposited with Government		
Development Bank of Puerto Rico	180	923
	1,779	2,727
Accounts receivable:		
Accrued interest	250	257
Investment sales	561	102
Other	45	45
	856	404
Marketable securities at fair value:		
Bonds and notes	19,822	20,031
Stocks	56,108	49,360
	75,930	69,391
Loans and interest receivable		
from plan members	274	251
Total assets	\$ 78,839	\$ 72,773
 LIABILITIES		
Due to Department of the Treasury	1,902	828
Due to the Employee's Retirement System		
of the Government of Puerto Rico and		
its Instrumentalities	3,161	1,376
Escrow funds to plan members and		
guarantee insurance reserve		
for loans to plan members	52	130
Investment purchases	67	123
Other liabilities	807	519
Total liabilities	5,989	2,976
 NET ASSETS HELD IN TRUST		
FOR PENSION BENEFITS	\$ 72,850	\$ 69,797

The accompanying notes are an integral part of these financial statements.

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Statements of Changes in Plan Net Assets

	June 30,	
	2006	2005
	(in thousands)	
ADDITIONS:		
Contributions:		
Employers	\$ 6,727	\$ 6,470
Participating employees	2,960	2,775
	<u>9,687</u>	<u>9,245</u>
Investment income:		
Net appreciation on investments	5,818	4,248
Dividend income	205	206
Interest income	1,220	1,159
	<u>7,243</u>	<u>5,613</u>
Less: Investment expense	279	197
	<u>6,964</u>	<u>5,416</u>
Total additions	<u>16,651</u>	<u>14,661</u>
DEDUCTIONS:		
Annuities	12,403	11,489
Administrative expenses	1,195	1,226
Total deductions	<u>13,598</u>	<u>12,715</u>
Net increase in assets held in trust for pension benefit	3,053	1,946
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>69,797</u>	<u>67,851</u>
END OF YEAR	<u><u>\$ 72,850</u></u>	<u><u>\$ 69,797</u></u>

The accompanying notes are an integral part of these financial statements.

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Notes to Basic Financial Statements
Years Ended June 30, 2006 and 2005

(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. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

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). ERS allocations of administration costs to the System amounted to approximately \$1,195,000 and \$1,226,000 for the years ended June 30, 2006 and 2005, 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted (GAAP) 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,

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

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, and certificates of deposits in Government Development Bank (GDB) and a commercial 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

Mortgages, 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.

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.

Allocation of Administrative Expenses

The System's operations are managed by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico Administration (ERS). Administrative expenses were estimated using an allocation percentage of 4%.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2006:

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

- GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after December 15, 2005.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, which is effective for fiscal years beginning after December 15, 2006.
- GASB Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is effective for fiscal years ending December 31, 2007.

The impact of these statements on the System's basic financial statements has not yet been determined.

(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.

The figures represented below for fiscal year 2005 were updated during current fiscal year based on improvements and thorough analysis made to the data base which contains the retirees, beneficiaries, and the current participant employees' information. At June 30, 2006 and 2005, membership consisted of the following:

	2006	2005
Retirees and beneficiaries		
currently receiving benefits	313	312
Current participating employees	374	376
Total membership	687	688

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.

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(2) Plan Description, (Continued)

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit 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.

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.

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(2) Plan Description, (Continued)

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.

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 2006 and 2005, 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.

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(3) Funding Policy, (Continued)

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2005, using the projected unit credit actuarial cost method. Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 8.50%, (b) assumed compound rate of wage increases of 5.00% per year, and (c) assumed mortality rate based on the Group Annuity Table for 1983.

The actuarial accrued liability and the unfunded actuarial accrued liability as of June 30, 2005 were \$174.5 and \$104.7 millions respectively.

(4) Cash and Investments

Cash Deposits

At June 30, 2006, the aggregate carrying amount of cash deposits and cash equivalents held by the System was approximately \$123,000 in overdraft, which includes \$1.6 million at commercial banks, and \$180,000 at the Government Development Bank for Puerto Rico (GDB) reduced by an overdraft of \$1.9 million at Treasury Department of the Commonwealth of Puerto Rico. 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 bank, and \$923,000 at the Government Development Bank for Puerto Rico (GDB) reduced by an overdraft of \$828,000 at Treasury Department of the Commonwealth of Puerto Rico.

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(4) Cash and Investments, (Continued)

The following table presents the carrying amount and the corresponding depository bank balances as of June 30, 2006 and 2005 (in thousands):

	2006	
	Carrying Amount	Depository Bank Balance
Deposits at commercial banks	\$ 1,599	1,599
Deposits with GDB	180	230
Deposits with Treasury Department	(1,902)	(662)
	\$ (123)	\$ 1,167

	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

The \$1.6 million and the \$1.8 million deposited at commercial banks for years 2006 and 2005, 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, 2006 and 2005, funds deposited at GDB for \$230,000 and \$4.8 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.

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(4) Cash and Investments, (Continued)

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.

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, 2006 and 2005, \$230,000 and \$5.8 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, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
US Government and agencies securities	9,700	6,938
US Corporate bonds	10,122	13,093
Total Bonds and Notes	<u>19,822</u>	<u>20,031</u>
US Corporate stocks	41,854	38,244
Non-US Corporate stocks	14,254	11,116
Total Stocks	56,108	49,360
Total Investments	<u>\$ 75,930</u>	<u>\$ 69,391</u>

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Notes to Basic Financial Statements
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(4) Cash and Investments, (Continued)

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk and interest rate risk. Following is a description of these risks as of June 30, 2006.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2006 securities investments were registered in the name of the System and were held in the possession of the System's custodian banks, State Street Bank and Trust, Citibank N.A., and Morgan Stanley.

Credit Risk

All fixed income securities at the time of purchase must be of investment grade quality. 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 and Poor's or Moody's credit ratings. The following table presents the bonds and notes Moody's ratings as of June 30, 2006 and 2005, respectively (in thousands):

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(4) Cash and Investments, (Continued)

Moody's Rating	Investment Type	Market Value (in thousand)	
		2006	2005
AAA	US Government Bonds	\$ 6,929	\$ 5,538
AAA	Corporate Bonds	737	796
A1	Corporate Bonds	728	806
A3	Corporate Bonds	1,246	2,045
AA3	Corporate Bonds	1,563	2,411
B1	Corporate Bonds	953	927
B3	Corporate Bonds	-	818
BAA	Corporate Bonds	-	750
BA1	Corporate Bonds	1,040	-
BAA1	Corporate Bonds	996	1,129
BAA2	Corporate Bonds	991	558
BAA3	Corporate Bonds	1,434	769
BBB+	Corporate Bonds	435	-
BAA3	Mortgage Backed	54	-
WR	Corporate Bonds	-	2,084
AGY	Mortgage Backed	1,793	-
AGY	US Government Bonds	923	1,400
	Total Bond and Notes	<u>\$ 19,822</u>	<u>\$ 20,031</u>

Concentration of Credit Risk

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

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

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Years Ended June 30, 2006 and 2005**

(4) Cash and Investments, (Continued)

they do not carry a maturity date. The System is expected to achieve capital preservation and income generation by investing in diversified portfolio of marketable, investment grade core fixed income securities.

The following table summarizes the investments on debt securities of the System at June 30, 2006 (in thousands):

	Maturity from	Fair Value	Investment Maturities (In Years)			
			Less than 1	1-5	More than 5-10	More than 10
U.S Government and Agencies securities	(2006-2036)	9,700	1,998	2,382	2,008	3,312
Corporate Bonds	(2007-2036)	10,122	-	1,695	5,258	3,169
Total Bonds and Notes		<u>19,822</u>	<u>1,998</u>	<u>4,077</u>	<u>7,266</u>	<u>6,481</u>

As of June 30, 2006, investments maturities are as follows:

Maturity	Maximum Maturity
Less than one year	10%
One to five years	20%
More than five to ten years	37%
Mora than ten years	33%

Foreign Currency Risk

The Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The international portfolio is expected to achieve long-term, aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

As of June 30, 2006, the System owned approximately \$14.3 million in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented

**THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Notes to Basic Financial Statements
Years Ended June 30, 2006 and 2005**

(4) Cash and Investments, (Continued)

approximately 2.5% of the total commingled fund. This pooled trust has an asset mix and country allocation as shown in the table below:

Assets Mix			Percent
Cash and Equivalents			0.94
Future Contracts			8.76
Equity Securities			90.30
Total			100.00
Country Allocation	Currency	Currency Code	Portfolio %
EMU	Euro	EUR	0.60
EMU			0.60
South Africa	Rand	ZAR	0.45
AFRICA			0.45
Poland	Zlotych	PLN	0.49
Russia	Rubles	RUB	1.51
EASTER EUROPE			2.00
Austria	Euro	EUR	0.78
Belgium	Euro	EUR	0.63
Finland	Euro	EUR	1.22
France	Euro	EUR	8.31
Germany	Euro	EUR	9.98
Greece	Euro	EUR	0.24
Netherlands	Euro	EUR	2.51
Portugal	Euro	EUR	0.14
Spain	Euro	EUR	2.27
EURO EUROPE			26.08
Brazil	Real	BRL	1.27
Mexico	Pesos	MXN	0.50
LATIN AMERICA			1.77
Turkey	Lira	TRY	0.71
MIDDLE EAST			0.71
Denmark	Kroner	DKK	0.40
Norway	Kroner	NOK	0.45
Sweeden	Krona	SEK	2.13
Switzerland	Francs	CHF	5.23
United Kingdom	Pounds	GBP	20.27
NON-EURO EUROPE			28.48
Australia	Dollars	AUD	3.65
Hong Kong	Dollars	HKD	3.38
Japan	Yen	JPY	29.70
New Zealand	Dollars	NZD	0.01
Singapore	Dollars	SGD	1.80
Thailand	Baht	THB	0.43
PACIFIC			38.97
Cash			0.94
CASH			0.94
TOTAL			100.00

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Notes to Basic Financial Statements
Years Ended June 30, 2006 and 2005

(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. At June 30, 2006 and 2005, the collateral received represents 103.66% and 103.48%, respectively, of the fair value of the securities lent.

Securities lending obligations for which collateral was received at June 30, 2006 and 2005 consisted of the following (in thousand)

Securities Lent	Fair Value	
	2006	2005
U.S. Corporate Bond	\$ 18	\$ 548
U.S. Equity	2,388	2,641
Total	\$ 2,406	\$ 3,189

The underlying collateral for these securities had a market value of approximately \$2.5 million and \$3.3 million as of June 30, 2006 and 2005 and was invested as follows (in thousands):

Collateral Description	2006		2005	
Asset Backed Commercial Paper	\$ 63	2.53%	\$ 963	29.18%
Reverse Repo U.S. Agency Delivered	350	14.03%	338	10.24%
Certificate of Deposits	189	7.58%	-	-
Reverse Repo Mortgage Backed Tri-party	1,892	75.86%	1,999	60.58%
Total	\$ 2,494	100%	\$ 3,300	100%

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.

**THE COMMONWEALTH OF PUERTO RICO
 JUDICIARY RETIREMENT SYSTEM
 Notes to Basic Financial Statements
 Years Ended June 30, 2006 and 2005**

(5) Loans and Interest Receivable from Plan Members

The composition of loans and interest receivable from plan members as of June 30, 2006 and 2005 is summarized as follows (in thousand):

	<u>2006</u>	<u>2005</u>
<u>Loans receivable:</u>		
Mortgage	\$ 34	\$ 43
Personal	182	166
Cultural trips	<u>46</u>	<u>31</u>
Total loans to plan members	262	240
Accrued interest receivable	<u>12</u>	<u>11</u>
Total loans and interest receivable	<u>\$ 274</u>	<u>\$ 251</u>

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.

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 SCHEDULES OF
EMPLOYERS' CONTRIBUTIONS AND
FUNDING PROGRESS

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Schedule of Employer Contributions
(in thousands)
June 30, 2006

Year Ended <u>June 30,</u>	Annual Required <u>Contributions</u>	<u>Contributions</u>	Percentage <u>Contributed</u>	(Excess)/ <u>Deficiency</u>
2006	\$ 9,735	N/A	N/A	N/A
2005	8,707	6,470	74%	(2,237)
2004	8,707	5,556	64%	(3,151)
2003	6,892	5,536	80%	(1,356)
2002	6,892	5,412	79%	(1,480)
2000	9,216	7,300	79%	(1,916)
1999	4,500	7,900	176%	3,400

See notes to supplementary schedules of employers' contribution and funding progress.

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Schedule of Funding Progress
(in thousands)
June 30, 2006

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability - Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
6/30/2005	\$ 69,797	\$ 174,454	\$ 104,657	40%	\$ 29,331	357%
6/30/2004	67,851	N/A	N/A	N/A	N/A	N/A
6/30/2003	61,781	166,732	104,951	37%	25,711	408%
6/30/2002	60,438	N/A	N/A	N/A	N/A	N/A
6/30/2001	70,083	162,186	92,103	43%	26,700	345%
6/30/2000	82,800	135,800	53,000	61%	25,700	206%
6/30/1999	73,900	118,200	44,300	63%	26,300	168%

See notes to supplementary schedules of employers' contribution and funding progress.

THE COMMONWEALTH OF PUERTO RICO
JUDICIARY RETIREMENT SYSTEM
Notes to Supplementary Schedules of
Employers' Contribution and Funding Progress
June 30, 2006

(1) 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, 2005

(2) 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, 2005.

(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	June 30, 2005
Actuarial Cost Method	Projected unit credit cost method
Amortization Method	Level percentage of pay
Remaining Amortization Period	21 years
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment rate of return*	8.50% per annum
Projected salary increases*	5.00% per annum
Mortality rate	Group Annuity Mortality Table for 1983
Cost of living adjustment	None

* Includes inflation at 3.50% per annum