



The Commonwealth of Puerto Rico Judiciary Retirement System

(A Pension Trust Fund of the Commonwealth of
Puerto Rico)

Basic Financial Statements as of and for the Year
Ended June 30, 2009, Required Supplementary
Information as of June 30, 2009, and
Independent Auditors' Report

THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of The Commonwealth of Puerto Rico Judiciary Retirement System (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2009, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 misstatements. 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 statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2009, 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.

The management's discussion and analysis, and the supplemental schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. 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 such information and do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System held investments valued at approximately \$32,710,000 (42.96% of total assets) as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2009, were approximately \$323,928 million and 15.6%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System will not be able to fully fund pensions after the fiscal year 2015, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System.

Deloitte & Touche LLP

May 3, 2010

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The Commonwealth of Puerto Rico
Judiciary Retirement System
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Management's Discussion and Analysis
As of and for the Year Ended June 30, 2009

Introduction

The Commonwealth of Puerto Rico Judiciary Retirement System (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and nonoccupational disability annuities, and death benefits for the employees of the judiciary branch of the Commonwealth of Puerto Rico (the "Commonwealth"). The System is a pension trust fund of the Commonwealth. The pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2009. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements.

Overview of the Basic Financial Statements

The management's discussion and analysis introduces the System's basic financial statements. The basic financial statements include (1) statement of plan net assets, (2) statement of change in plan net assets, and (3) notes to basic financial statements. The System also includes additional information to supplement the basic financial statements as required by accounting principles generally accepted in the United States of America.

Statement of Plan Net Assets and Statement of Change in Plan Net Assets

Both of these statements provide information about the overall status of the System. The System uses the accrual basis of accounting to prepare its financial statements.

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. Over time, 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 change in plan net assets reports change in the System's assets and liabilities during the fiscal year. All current year additions and deductions are included, regardless of when the cash is received or paid.

Notes to the 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 statement of plan net assets and the statement of changes in plan net assets.

Required Supplementary Information

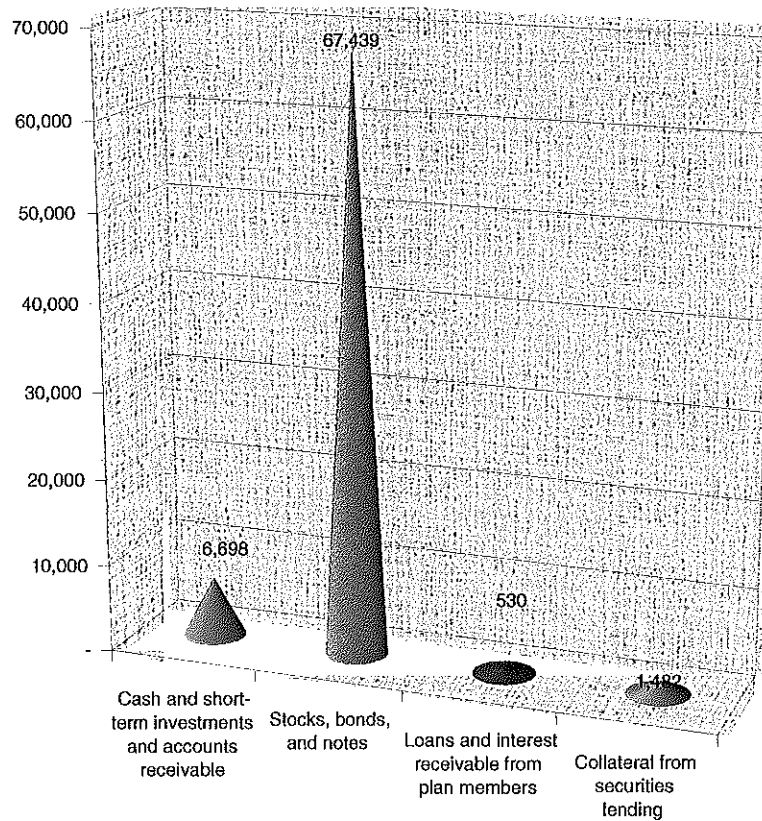
The required supplementary information consists of two schedules and related notes concerning the employer's contributions and the funded status of the pension plan administered by the System.

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Financial Highlights

The System provides retirement benefits to the employees of the judiciary branch of the Commonwealth. The System has \$76.1 million in total assets as of June 30, 2009, which consist of the following:

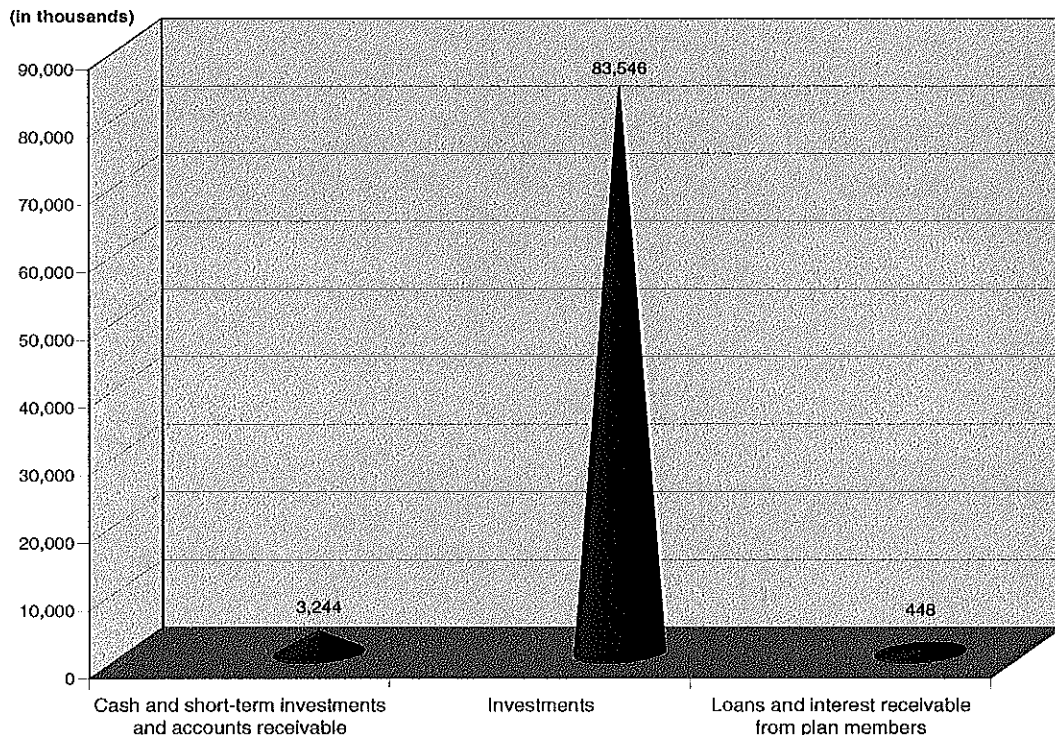
- \$6.7 million in cash and short-term investments and accounts receivable, plus \$1.5 million in collateral from securities lending transactions
- \$67.4 million in stocks, bonds, and notes
- \$530 thousand in loans and interest receivable from plan members



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As of June 30, 2008, the System had \$90.7 million in total assets, which consisted of the following:

- \$3.2 million in cash and short-term investments, and accounts receivable, plus \$3.6 million in collateral from securities lending transactions
- \$83.5 million in stocks, bonds, and notes
- \$448 thousand in loans and interest receivable from plan members



- The System's total assets as of June 30, 2009, exceeded total liabilities by \$51.5 million (net assets held in trust for pension benefits). As of June 30, 2008, total assets exceeded liabilities by \$69.3 million.
- The fair value of the System's investments, excluding loans to plan members, as of June 30, 2009, amounted to \$67.4 million compared to \$83.5 million as of June 30, 2008.
- Loans and interest from plan members amounted to \$530,000 as of June 30, 2009, compared to \$448,000 as of June 30, 2008.
- The System's funded ratio of the actuarial accrued liability as of June 30, 2009 and 2007 was 15.6% and 31.5%, respectively.

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The following schedules present comparative summary financial statements of the System's plan net assets and change in plan net assets as of and for the years ended June 30, 2009 and 2008:

Summary Comparative Statements of Plan Net Assets

	2009	2008	Total Dollar Change	Total Percentage Change
	(in thousands)			
Assets				
Cash and short-term investments, and total accounts receivable	\$ 8,180	\$ 6,712	\$ 1,468	21.9%
Investments at fair value	67,439	83,546	(16,107)	-19.3%
Loans and interest receivable from plan members	530	448	82	18.3%
Total assets	<u>76,149</u>	<u>90,706</u>	<u>(14,557)</u>	<u>-16.0%</u>
Liabilities				
Accounts payable	22,455	16,714	5,741	34.3%
Insurance reserve for loans to plan members and investments settlements	926	401	525	130.9%
Payables for securities lending	1,482	3,468	(1,986)	-57.3%
Other liabilities	720	812	(92)	-11.3%
Total liabilities	<u>25,583</u>	<u>21,395</u>	<u>4,188</u>	<u>19.6%</u>
Total net assets held in trust for pension benefits	<u>\$ 50,566</u>	<u>\$ 69,311</u>	<u>\$ (18,745)</u>	<u>-27.0%</u>

Summary Comparative Statements of Change in Plan Net Assets

	2009	2008	Total Dollar Change	Total Percentage Change
	(in thousands)			
Additions:				
Contributions:				
Employers	\$ 9,970	\$ 6,705	\$ 3,265	48.7%
Participating employees	3,138	3,076	62	2.0%
Special laws	691	597	94	15.7%
Investment loss	(15,379)	(6,334)	(9,045)	142.8%
Other income	50		50	100.0%
Total additions	<u>(1,530)</u>	<u>4,044</u>	<u>(5,574)</u>	<u>-137.8%</u>
Deductions:				
Retirement and other benefits	16,229	15,016	1,213	8.1%
Refunds of contributions		169	(169)	-100.0%
General and administrative expenses	986	1,021	(35)	-3.4%
Total deductions	<u>17,215</u>	<u>16,206</u>	<u>1,009</u>	<u>6.2%</u>
Decrease in net assets	<u>\$ (18,745)</u>	<u>\$ (12,162)</u>	<u>\$ (6,583)</u>	<u>54.1%</u>

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Financial Analysis of the System

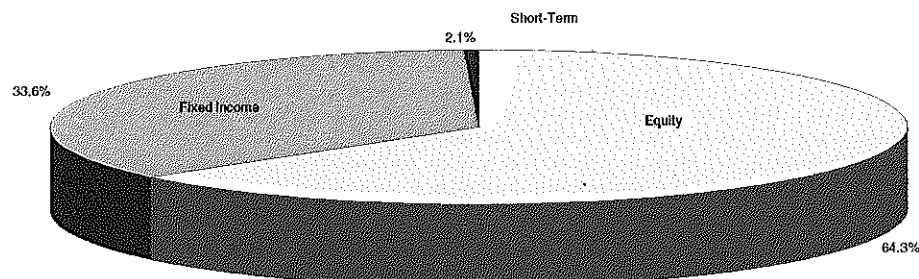
The basic financial statements of the System for the fiscal year ended June 30, 2009, present a net decrease in net assets held in trust for pension benefits of approximately \$18.7 million as compared to the fiscal year ended June 30, 2008. This was mainly the result of a decrease in the fair value of the investments of \$16.1 million, offset by an increase in cash and short-term investments, and total receivables of \$1.5 million, and a net increase of \$4.1 million in total liabilities. The increase in total liabilities consisted of an increase of \$4.7 million in the amounts due to the Commonwealth and an increase of \$500,000 in investment purchases, which were partially offset by a decrease of approximately \$2.0 million in payables for securities lending.

The System's additions in the statement of changes in plan net assets include employer and plan member contributions as well as investment income or loss. For the fiscal year 2009, employer and plan member contributions increased by approximately \$3.4 million, from \$10.4 million during fiscal year 2008 to \$13.8 million during fiscal year 2009. The increase in contributions was mainly due to an increase in the percentage of employer contributions from 20% in 2008 to 30.34% in 2009. The System recognized in 2009 and 2008 a net devaluation in the fair value of investments of \$16.7 and \$8 million, respectively.

Investment and Other Transactions

As of June 30, 2009 and 2008, the System held approximately \$530,000 and \$448,000, respectively, in loans and interest receivable from plan members. As of June 30, 2009, these loans consist of \$8,000 in mortgage loans, \$457,000 in personal loans, \$57,000 in cultural trip loans, and \$8,000 of accrued interest receivable applicable to the pool of loans. As of June 30, 2008, these loans consist of \$9,000 in mortgage loans, \$386,000 in personal loans, \$43,000 in cultural trip loans, and \$10,000 of accrued interest receivable applicable to the pool of loans.

The asset allocation of the System's investment portfolio is the one that fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2009, the asset allocation of the System's investment portfolio is as follows:



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 use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is

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invested in order to earn interest. For financial statements purposes, the amount of securities that as of June 30, 2009 and 2008, were involved in the securities lending transactions was presented with the required disclosures, according to the current government accounting pronouncements. During fiscal years 2009 and 2008, income from the custodian securities lending activity amounted to approximately \$4,516 and \$15,575, respectively.

The System operations and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), also a pension trust fund of the Commonwealth, are administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration"). The Administration allocates to the System 3% of its general and administrative expenses incurred.

Funding Status

According to the actuarial valuation as of June 30, 2009, the System's unfunded liability amounted to \$273 million with a funded ratio of 15.6%. In order to protect the System's financial health, the Commonwealth follows the practice of not allowing an increase in benefits unless an actuarial study is performed or the law provides the financing source.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico, 00918.

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THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2009
(In thousands)

ASSETS:

Cash and short-term investments:	
Deposits at commercial banks	\$ 3,985
Deposits with Government Development Bank for Puerto Rico	2,353
Collateral for securities lending	<u>1,482</u>
Total cash and short-term investments	<u>7,820</u>
Investments — at fair value:	
Stocks	44,634
Bonds and notes	<u>22,805</u>
Total investments	<u>67,439</u>
Loans and interest receivable from plan members	<u>530</u>
Accounts receivable:	
Accrued interest	215
Investment sales	117
Other	<u>28</u>
Total accounts receivable	<u>360</u>
Total assets	<u>76,149</u>

LIABILITIES:

Due to the Treasury Department of the Commonwealth of Puerto Rico	4,513
Payables for securities lending	1,482
Investment purchases	867
Due to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico	17,942
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	59
Other liabilities	<u>720</u>
Total liabilities	<u>25,583</u>

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 24) \$ 50,566

See notes to basic financial statements.

THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
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STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009
(In thousands)

ADDITIONS:	
Contributions:	
Employer	\$ 9,970
Participating employees	3,138
Special laws	<u>691</u>
Total contributions	<u>13,799</u>
Investment income (loss):	
Net depreciation of investments	(16,740)
Dividend income	218
Interest income	<u>1,313</u>
Total investment loss	(15,209)
Less investment expense	<u>170</u>
Net investment loss	<u>(15,379)</u>
Other income	<u>50</u>
Total additions	<u>(1,530)</u>
DEDUCTIONS:	
Annuities	16,229
General and administrative expenses	<u>986</u>
Total deductions	<u>17,215</u>
NET DECREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(18,745)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	<u>69,311</u>
End of year	<u>\$ 50,566</u>

See notes to basic financial statements.

THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM (A Pension Trust Fund of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Commonwealth of Puerto Rico Judiciary Retirement System (the “System”) is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the “Administration”) and was created by Act No. 12 on October 19, 1954 (“Act No. 12 of 1954”). The System is a pension trust fund of the Commonwealth of Puerto Rico (the “Commonwealth”) and is not an employer. The System provides retirement benefits to the employees of the judiciary branch of the Commonwealth. 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 on 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 for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2009, the System has an unfunded actuarial accrued liability of approximately \$323,928 million, representing a 15.6% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the System will not be able to fully fund pensions in the fiscal years starting after 2015. This situation could have a direct negative effect on the Commonwealth’s general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the System.

To attend to these issues immediately, the Governor of the Commonwealth (the “Governor”), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the “Commission”), as an instrument for its members to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions that will help the System.

The Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration will provide technical support to the Commission and its members. After receiving all available data, the Commission must present a report to the Governor, no later than September 30, 2010, which must include specific recommendations addressing the current fiscal crisis and cash flow problems of the System.

The following are the significant accounting policies followed by the System in the preparation of its basic financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50, *Pension*

Disclosures — an Amendment of GASB Statements No. 25 and No. 27. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 Short-Term Investments — Cash and short-term investments consist of deposits with commercial banks, deposits in the Government Development Bank for Puerto Rico (GDB), and securities lending collateral.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted market, if available. The System has investments valued at approximately \$32,710,000 or 42.96% of total assets as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund manager. Such investments include nonexchange traded mutual funds.

Security transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the statement of change in plan assets as part of the net appreciation (depreciation) of investments.

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, \$15,000, and \$10,000, 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 Administration. The Administration allocates 3% of the general and administrative expenses incurred to the System, which amounted to approximately \$986,000 during the year ended June 30, 2009 and are included as part of general and administrative expenses in the accompanying statement of change in plan net assets.

Adoption of Accounting Pronouncements — In March 2009, the GASB issued GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. This statement incorporates accounting and financial guidance previously contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature. GASB Statement No. 56 addresses three issues from the AICPA's literature: (1) related-party transactions; (2) going concern considerations; and (3) subsequent events. This statement brings existing guidance without substantive changes in the GASB's body of standards, as appropriate for governmental entities. GASB Statement No. 56 was effective immediately upon issuance. The adoption of GASB Statement No. 56 did not have a material impact on the System's net assets or change in net assets.

Future Adoption of Accounting Pronouncements — The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*, which is effective for fiscal years beginning after June 15, 2009.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for fiscal years beginning after June 15, 2009.

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

2. PLAN DESCRIPTION

The System consists of 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, 2009, the System membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	373
Current participating employees	<u>345</u>
 Total membership	 <u>718</u>

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 a 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% and a maximum of 100% of the average 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 or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for 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.

Postretirement:

- 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 appropriations by the general fund.

3. FUNDING POLICY

The contributions to the System are established by law and are not actuarially determined. During 2009, the System and the Office of the Administration of Court Facilities (the "Employer") entered into an agreement to increase the Employer's contributions from 20% to 30.34% effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's 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, 2009, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include (a) assumed rate of return on investments of 7.5%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual Cost of Living Adjustment (COLA) to approximate 3% triennial increases, and (e) assumed mortality as follows:

- Preretirement mortality — RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA.
- Postretirement healthy mortality — RP-2000 healthy annuitant mortality rates, with white collar adjustment for males and females, projected on a generational basis using Scale AA.
- Postretirement disabled mortality — RP-2000 disabled annuitant mortality rates, without projection.

The actuarial accrued liability and the unfunded actuarial accrued liability as of June 30, 2009, were \$323.9 and \$273.4 million, respectively.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2009, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Salary	UAAL as a % of Annual Salary
June 30, 2009	<u>\$ 50,566</u>	<u>\$ 323,928</u>	<u>\$ 273,362</u>	<u>15.6 %</u>	<u>\$ 30,587</u>	<u>893.7 %</u>

The schedule of funding progress (see page 24), presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial values of the System's assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2009
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level percentage of payroll
Remaining amortization period	17 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.00%
Inflation	2.50%
Mortality rate	Preretirement mortality — RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. Postretirement healthy mortality — RP-2000 healthy annuitant mortality rates, with white collar adjustment for males and females, projected on a generational basis using Scale AA. Postretirement disabled mortality — RP-2000 disabled annuitant mortality rates, without projection.
COLA	0.99% annually to approximate 3.00% triennial increases.

5. CASH AND INVESTMENTS

Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. Deposits at GDB are uninsured and uncollateralized, as GDB, which is a component unit of the Commonwealth, is exempt from compliance with the collateralization requirement.

As of June 30, 2009, the depository bank balance of approximately \$7.8 million was uninsured and uncollateralized. The bank balance of deposits with GDB, which amounted to approximately \$2.4 million are uninsured and collateralized since GDB is exempt from the collateral requirement established by the Commonwealth. Uninsured and uncollateralized cash and short-term investments amounting to approximately \$4.0 million and \$1.4 million, represent cash held by the System's custodian banks and collateral received from securities lending transactions that were invested in a short-term investment fund sponsored by the System's custodian banks. These deposits are also exempt from compliance with the collateralization requirements.

Investments — The following table shows the fair value of investments held by the System as of June 30, 2009 (in thousands):

Stocks:		
U.S. corporate stocks		11,924
Non-exchange traded mutual funds:		
U.S.		20,372
Non-U.S.		<u>12,338</u>
Total stocks		<u>44,634</u>
Bonds and Notes:		
U.S. government and sponsored agencies' securities		10,784
U.S. corporate bonds and notes		<u>12,021</u>
Total bonds and notes		<u>22,805</u>
Total investments		<u>\$ 67,439</u>

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, 2009:

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, 2009, securities were registered in the name of the System and were held in the possession of the System's custodian bank, The Bank of New York Mellon.

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 & Poor's or Moody's Investors Service, Inc. ("Moody's") credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately \$1,014,000 of U.S. Treasury notes and approximately \$2,980,000 of mortgage-backed securities (MBS) guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. Moody's credit ratings of bonds as of June 30, 2009, excluding U.S. Treasury notes and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
AAA	U.S. sponsored agencies' MBS	\$ 5,964
AAA	U.S. sponsored agencies' notes	826
A1	U.S. corporate bonds and notes	2,202
A2	U.S. corporate bonds and notes	2,626
A3	U.S. corporate bonds and notes	1,073
AA2	U.S. corporate bonds and notes	335
BA2	U.S. corporate bonds and notes	196
BAA1	U.S. corporate bonds and notes	1,851
BAA2	U.S. corporate bonds and notes	2,672
BAA3	U.S. corporate bonds and notes	<u>1,066</u>
Total bond and notes		<u>\$ 18,811</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. The System owns shares in the State Street Bank and Trust Company S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"). As of June 30, 2009, the fair value of the System's investment in 110,403 shares of the S&P 500 Fund amounted to approximately \$20.4 million. The investment objective of the S&P 500 Fund is to match the return of the Standard & Poor's 500 Index.

As of June 30, 2009, the investments underlying the S&P 500 Fund had the following sector allocations:

Sector	Percentage
Information technology	18.38 %
Health care	14.00
Financial	13.58
Energy	12.41
Consumer staples	11.99
Industrials	9.85
Consumer discretionary	8.96
Utilities	4.08
Telecommunication services	3.53
Materials	3.22

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. The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed income securities.

The following table summarizes the contractual maturity of the System's investment in bonds and notes as of June 30, 2009 (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 sponsored agencies' securities	(2009-2039)	\$ 10,784	\$ 826	\$ 24	\$ 1,067	\$ 8,867
U.S. corporate bonds and notes	(2009-2039)	<u>12,021</u>	<u>574</u>	<u>4,527</u>	<u>3,763</u>	<u>3,157</u>
Total bonds and notes		<u>\$ 22,805</u>	<u>1,400</u>	<u>4,551</u>	<u>4,830</u>	<u>12,024</u>

As of June 30, 2009, investment maturities as a percentage of total bonds and notes are as follows:

Maturity	Maximum Maturity
Less than one year	6 %
One to five years	20
More than five to ten years	21
More than ten years	53

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. As of June 30, 2009, the System owned approximately \$12.3 million, in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented approximately 3.2% of the total commingled fund. As of June 30, 2009, this pooled trust has an asset mix and country allocation as shown on the following page:

Assets Mix			Percent
Cash and equivalents			0.51 %
Future contracts			12.49
Equity securities			87.00
Total			100.00 %
Country Allocation	Currency	Currency Code	Portfolio %
Poland	Zlotych	PLN	0.48 %
Russia	Rubles	RUB	0.65
Eastern Europe			1.13
Austria	Euro	EUR	0.26
Belgium	Euro	EUR	0.38
Finland	Euro	EUR	1.15
France	Euro	EUR	8.39
Germany	Euro	EUR	7.82
Greece	Euro	EUR	0.36
Italy	Euro	EUR	2.22
Netherlands	Euro	EUR	2.24
Portugal	Euro	EUR	0.24
Spain	Euro	EUR	4.44
Euro Europe			27.50
India	Rupees	INR	1.08
Indian Sub-Continent			1.08
Brazil	Real	BRL	1.35
Mexico	Pesos	MXN	0.14
Latin America			1.49
Turkey	Lira	TRY	0.84
Middle East			0.84
Denmark	Kroner	DKK	0.58
Norway	Kroner	NOK	0.92
Sweden	Krona	SEK	2.17
Switzerland	Francs	CHF	6.26
United Kingdom	Pounds	GBP	18.79
Non-Euro Europe			28.72
Australia	Dollars	AUD	3.16
China	Yuan Renmimbi	CNY	2.25
Hong Kong	Dollars	HKD	4.05
Indonesia	Rupiahs	IDR	0.64
Japan	Yen	JPY	25.61
Malaysia	Ringgits	MYR	0.02
New Zealand	Dollars	NZD	0.01
Singapore	Dollars	SGD	2.24
Taiwan	New Dollars	TWD	0.75
Pacific			38.73
Cash			0.51
Total			100.00 %

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At the end of the year, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the “collateral”) exceeded the amounts the borrowers owe the System (the “loaned securities”). At June 30, 2009, the collateral received represented 102.71% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2009, consisted of the following (in thousands):

Securities Lent	Fair Value
U.S. government and sponsored agencies’ securities	\$ 1,096
U.S. corporate stocks	<u>347</u>
Total	<u>\$ 1,443</u>

The underlying collateral for these securities had a fair value of approximately \$1,482,000 as of June 30, 2009. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying 2009 statement of plan net assets. As of June 30, 2009, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	53.67 %
Commercial paper	20.01
Certificates of deposit	15.50
Floating rate notes	8.05
Time deposits	2.77

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities’ issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

6. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans and interest receivable from plan members are substantially guaranteed by the contributions of plan members 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. The maximum amounts that may be granted to plan members for personal and cultural trip loans are \$15,000 and \$10,000, respectively.

The composition of loans and interest receivable from plan members as of June 30, 2009, is summarized as follows (in thousands):

Loans receivable from plan members:	
Personal	\$ 457
Cultural trips	57
Mortgage	<u>8</u>
Total loans receivable from plan members	522
Accrued interest receivable	<u>8</u>
Total loans and interest receivable from plan members	<u>\$ 530</u>

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.

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**REQUIRED SUPPLEMENTARY SCHEDULES OF EMPLOYERS'
CONTRIBUTIONS AND FUNDING PROGRESS**

**THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
(A Pension Trust Fund of the Commonwealth of Puerto Rico)**

**SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009
(In thousands)**

Year Ended June 30	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2009	\$ 10,661	\$ 22,195	48.03 %	\$22,123	48.19 %
2008	7,262	19,803	36.67	19,829	36.62
2007	6,632	9,735	68.13	9,553	69.42
2006	6,727	9,735	69.10	9,553	70.42
2005	6,470	8,707	74.31	8,380	77.21
2004	5,556	8,707	63.81	8,380	66.30

The above liabilities are for basic System benefits and selected System-administered benefits.

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

**THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
(A Pension Trust Fund of the Commonwealth of Puerto Rico)**

**SCHEDULE OF FUNDING PROGRESS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009
(In thousands)**

Actuarial Valuation Data	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Salary	Unfunded UAAL as a % of Annual Salary
June 30, 2009	\$ 50,566	\$323,928	\$273,362	15.6 %	\$ 30,587	893.7 %
June 30, 2008	69,311	N/A	N/A	N/A	N/A	N/A
June 30, 2007	81,473	258,577	177,104	31.5	31,256	566.6
June 30, 2006	72,850	N/A	N/A	N/A	N/A	N/A
June 30, 2005	69,797	174,454	104,657	40.0	29,331	356.8
June 30, 2004	67,851	N/A	N/A	N/A	N/A	N/A

The above liabilities are for basic System benefits and selected System-administered Benefits.

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

**THE COMMONWEALTH OF PUERTO RICO JUDICIARY RETIREMENT SYSTEM
(A Pension Trust Fund of the Commonwealth of Puerto Rico)**

**NOTES TO SUPPLEMENTAL SCHEDULES OF
EMPLOYERS' CONTRIBUTION AND FUNDING PROGRESS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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 is based on total benefit and administration cost, net of member contributions; it includes both Commonwealth's and participating employees' contributions. The Commonwealth's and participating employers' contributions, ultimately, should cover any deficiency between the pension benefits and the System's administration costs, net of member contributions. The information was obtained from the last actuarial report as of June 30, 2009.

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, 2009.

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