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, 2010, Required Supplementary Information as of and for the Year Ended June 30, 2010, 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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Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Ave. Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

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, 2010, 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, 2010, 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 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 $38,834,000 (46% of total assets) as of June 30, 2010, 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, 2010, was approximately $283 million and 16.4%, 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 2018, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System. Management's plans concerning this matter are also described in Note 1.

Deloitte & Touche LLP

March 18, 2011

Stamp No. 2574857
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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, 2010. 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.

Statement of Plan Net Assets and Statement of Changes 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 changes in plan net assets reports changes 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.

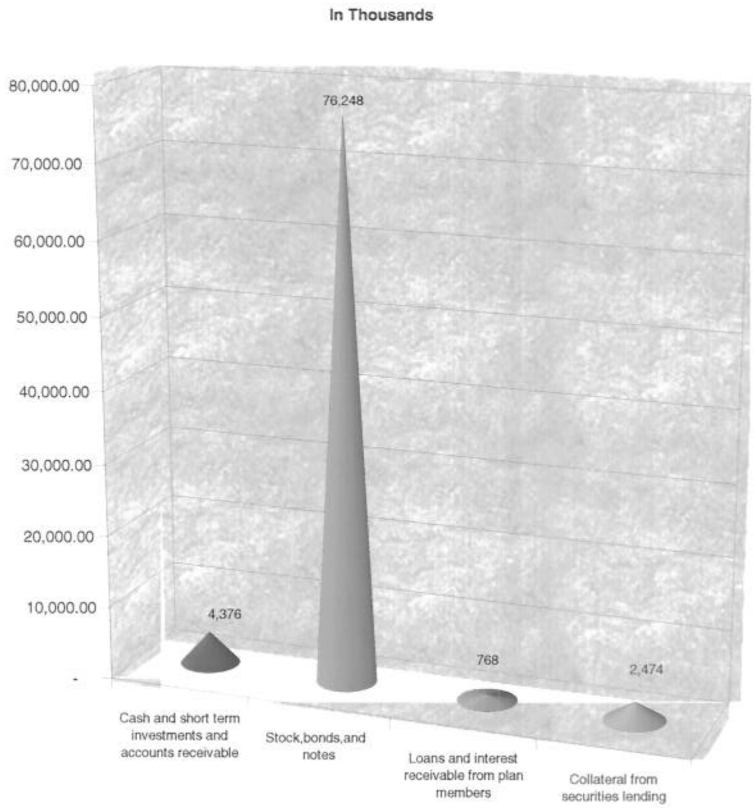
Required Supplementary Information

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.

Financial Highlights

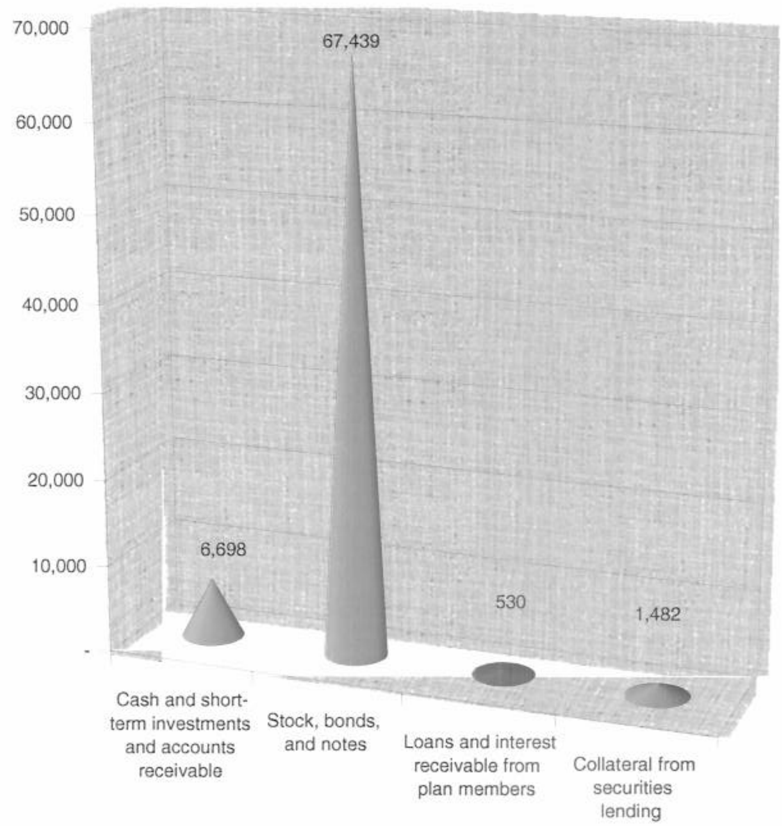
The System provides retirement benefits to the employees of the judiciary branch of the Commonwealth. As of June 30, 2010, the System has $83.9 million in total assets, which consisted of the following:

- $4.4 million in cash and short-term investments, and accounts receivable, plus $2.5 million in collateral from securities lending transactions
- $76.2 million in stocks, bonds, and notes
- $768 thousand in loans and interest receivable from plan members



The System had $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



- The System's total assets as of June 30, 2010, exceeded total liabilities by $55.4 million (net assets held in trust for pension benefits). As of June 30, 2009, total assets exceeded liabilities by $50.6 million.
- The fair value of the System's investments, excluding loans to plan members, as of June 30, 2010, amounted to $76.2 million compared to $67.4 million as of June 30, 2009.
- Loans and interest from plan members amounted to $768,000 as of June 30, 2010, compared to $530,000 as of June 30, 2009.
- The System's funded ratio of the actuarial accrued liability as of June 30, 2010 and 2009 was 16.4% and 15.6%, respectively.

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, 2010 and 2009:

Summary Comparative Statements of Plan Net Assets

	2010	2009 (in thousands)	Total Dollar Change	Total Percentage Change
Assets				
Cash and short-term investments, and total accounts receivable	$ 6,850	$ 8,180	$ (1,330)	-16.3%
Investments at fair value	76,248	67,439	8,809	13.1%
Loans and interest receivable from plan members	768	530	238	44.9%
Total assets	83,866	76,149	7,717	10.1%
Liabilities				
Accounts payable	24,979	22,455	2,524	11.2%
Insurance reserve for loans to plan members and investments settlements	931	926	5	0.5%
Payables for securities lending	2,474	1,482	992	66.9%
Other liabilities	72	720	(648)	-90.0%
Total liabilities	28,456	25,583	2,873	11.2%
Total net assets held in trust for pension benefits	$ 55,410	$ 50,566	$ 4,844	9.6%

Summary Comparative Statements of Change in Plan Net Assets

	2010	2009 (in thousands)	Total Dollar Change	Total Percentage Change
Additions:				
Contributions:				
Employer	$ 10,021	$ 9,970	$ 51	0.5%
Participating employees	3,104	3,138	(34)	-1.1%
Special laws	629	691	(62)	-9.0%
Investment income (loss)	8,716	(15,379)	24,095	-156.7%
Other income	804	50	754	100.0%
Total additions	23,274	(1,530)	24,804	-1621.2%
Deductions:				
Retirement and other benefits	17,897	16,229	1,668	10.3%
General and administrative expenses	533	986	(453)	-45.9%
Total deductions	18,430	17,215	1,215	7.1%
Increase (decrease) in net assets	$ 4,844	$ (18,745)	$ 23,589	-125.8%

Financial Analysis of the System

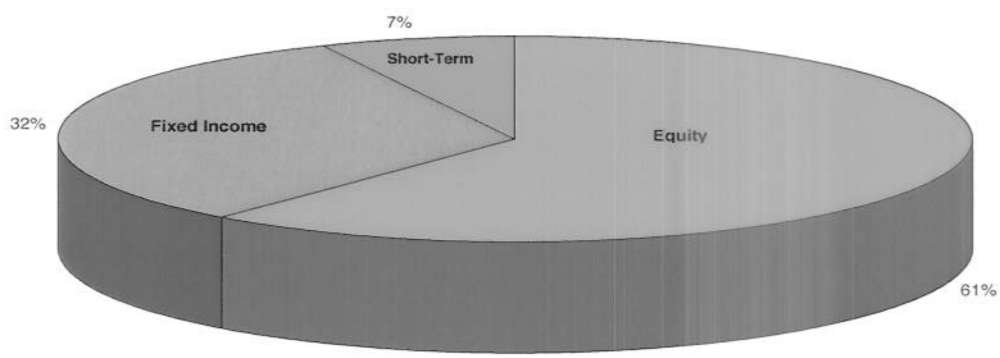
The basic financial statements of the System for the fiscal year ended June 30, 2010, present a net increase in net assets held in trust for pension benefits of approximately $4.8 million as compared to the fiscal year ended June 30, 2009. This was mainly the result of an increase in the fair value of investments of $8.8 million, offset by a decrease in cash and short-term investments, and total receivables of $1.3 million, an increase in loans to plan member of $238,000 and a net increase of $2.9 million in total liabilities. The increase in total liabilities consisted of an increase of $1.2 million in amounts due to the Commonwealth, an increase of $1.3 million in cash overdraft owed to the Department of Treasury and an increase of $992,000 in payables for securities lending, which were partially offset by a decrease of approximately $648,000 in other payables.

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 2010, employer and plan member contributions were $13.1 million. This was the same amount for the fiscal year 2009. The System recognized a net appreciation in the fair value of investments of $7.4 million during 2010, which represents an increase of $24.1 million from the net depreciation of $16.7 million recognized in 2009.

Investment and Other Transactions

As of June 30, 2010 and 2009, the System held approximately $768,000 and $530,000, respectively, in loans and interest receivable from plan members. As of June 30, 2010, these loans consist of $20,000 in mortgage loans, $690,000 in personal loans, $43,000 in cultural trip loans, and $15,000 of accrued interest receivable applicable to the pool of loans. As of June 30, 2009, these loans consisted 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.

The asset allocation of the System's investment portfolio 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, 2010, 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 invested in order to earn interest. For financial statements purposes, the amount of securities that was involved in securities lending transactions as of June 30, 2010, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. During fiscal years 2010 and 2009, income from the custodian securities lending activity amounted to approximately $25,278 and $4,516, respectively.

The System 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"). During the year ended June 30, 2010, the methodology used to determine the allocation of the Administration's expenses was modified from a fixed percentage to an annual allocation percentage, based on total employer and participating employees' contributions to the System, divided by the aggregate total of employers and participants' contributions to the System and ERS, combined. This new methodology resulted in a decrease in the percentage used to allocate such expenses from 3% in 2009 to 1.5317% in 2010.

Funding Status

According to the actuarial valuation as of June 30, 2010, the System's unfunded liability amounted to $283 million with a funded ratio of 16.4%. 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, 2010
(In thousands)

ASSETS:	
Cash and short-term investments:	
Deposits at commercial banks	$ 4,007
Deposits with Government Development Bank for Puerto Rico	30
Collateral for securities lending	2,474
Total cash and short-term investments	6,511
Investments — at fair value:	
Stocks	50,275
Bonds and notes	25,973
Total investments	76,248
Loans and interest receivable from plan members	768
Accounts receivable:	
Accrued interest	271
Investment sales	41
Other	27
Total accounts receivable	339
Total assets	83,866
LIABILITIES:	
Due to the Treasury Department of the Commonwealth of Puerto Rico	5,841
Payables for securities lending	2,474
Investment purchases	869
Due to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico	19,138
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	62
Other liabilities	72
Total liabilities	28,456
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 24)	$ 55,410

See notes to basic financial statements.

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

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

ADDITIONS:	
Contributions:	
Employer	$ 10,021
Participating employees	3,104
Special laws	629
Total contributions	13,754
Investment income:	
Net appreciation of investments	7,385
Dividend income	211
Interest income	1,284
Total investment income	8,880
Less investment expense	164
Net investment income	8,716
Other income	804
Total additions	23,274
DEDUCTIONS:	
Annuities	17,897
General and administrative expenses	533
Total deductions	18,430
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	4,844
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	50,566
End of year	$ 55,410

See notes to basic financial statements.

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, through the Office of the Administration of Court Facilities (the "Employer"). 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, 2010, the System has an unfunded actuarial accrued liability of approximately $283 million, representing a 16.4% 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 able to fully fund pensions during fiscal year 2018. 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, 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") 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 to improve the financial condition of the System.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, the System and the Employer, with the assistance of the System's external consulting actuaries, concluded that annual increases in the Employer's contributions would be required to fully fund pensions, without having to liquidate the System's investment portfolio. It is the intention of the Employer to make such additional contributions during its fiscal year 2012 and thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of the System.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

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 the 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 $38,834,000 or 46% of total assets as of June 30, 2010, 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. Such investments include non-exchange traded mutual funds.

Securities 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 changes 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 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 Administration. The Administration allocated 1.5317% of its general and administrative expenses to the System, which amounted to approximately $533,000 for the year ended June 30, 2010, and are included as part of general and administrative expenses in the accompanying statement of changes in plan net assets. During the year ended June 30, 2010, the methodology used to determine the allocation of the Administration's expenses was modified from a fixed percentage to an annual allocation percentage, based on total Employer and participating employees' contributions to the System, divided by the aggregate total of employers and participants' contributions to the System and ERS, combined. This new methodology resulted in a decrease in the percentage used to allocate such expenses from 3% in 2009 to 1.5317% in 2010.

Recent Accounting Pronouncements —In June 2007, the GASB issued GASB Statement No. 51, *Intangible Assets*, which was effective for periods beginning after Jun 15, 2009. GASB Statement No. 51 establishes guidance on the recognition, accounting, and financial reporting for intangible assets. The adoption of this statement did not have a material effect on the System's financial statements.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which was effective for periods beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. GASB Statement No. 55 codifies all generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Contained in the AICPA Statements on Auditing Standards*, which was effective on issuance. The objective of GASB Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The adoption of this statement did not have a material effect on the System's financial statements.

In December 2009, the GASB issued GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting standards for all governments that have petitioned for relief under Chapter 9 of the U.S. Bankruptcy Code or have been granted relief under the provisions of Chapter 9, including governments that enter into bankruptcy and are not expected to emerge as a going concern. The adoption of this statement did not have a material effect on the System's financial statements.

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2010:

a. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010.

b. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for financial statements for periods beginning after June 15, 2011.

c. GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for financial statements for periods beginning after June 15, 2010.

d. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for financial statements for periods beginning after December 15, 2011.

e. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, which is effective for financial statements for periods beginning after June 15, 2012.

f. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after December *15, 2011.*

The impact of these pronouncements in the System's 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 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, 2010, the System membership consists of the following:

Retirees and beneficiaries currently receiving benefits	394
Current participating employees	362
Total membership	756

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 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.

3. FUNDING POLICY

The contributions to the System are established by law and are not actuarially determined. During the year ended June 30, 2009, the System and 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, 2010, 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 .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, 2010, were $338.2 million and $282.8 million, respectively.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2010, 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 Covered Payroll	UAAL as a % of Annual Covered Payroll
June 30, 2010	$55,410	$338,195	$282,785	16.4%	$32,061	882.0%

The schedule of funding progress (see page 24), presented as required supplementary information 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 date of the latest actuarial valuation is as follows:

Valuation date	June 30, 2010
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	16 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.0%
Inflation	2.5%
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 adjustments for males and females, projected on a generational basis using Scale AA. Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.
Cost of Living Allowance	.99% annually to approximate 3% 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 the 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, 2010, the depository bank balance of approximately $6.5 million was uninsured and uncollateralized. The bank balance of deposits with GDB, which amounted to approximately $30 thousand 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 million and $2.5 million, respectively, represent cash held by the System's custodian banks and collateral received from securities lending transactions that was 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, 2010 (in thousands):

Stocks:	
U.S. corporate stocks	$ 11,441
Non-exchange traded mutual funds:	
U.S.	25,788
Non-U.S.	13,046
Total stocks	50,275
Bonds and notes:	
U.S. government and sponsored agencies' securities	9,092
U.S. corporate bonds and notes	16,881
Total bonds and notes	25,973
Total investments	$ 76,248

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, 2010:

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, 2010, 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 $2,077,000 of U.S. Treasury notes and approximately $2,416,000 of mortgage-backed securities 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, 2010, 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. government and sponsored agencies' securities	$ 4,598
Aaa	U.S. corporate bonds	387
Aa2	U.S. corporate bonds	424
Aa3	U.S. corporate bonds	991
A1	U.S. corporate bonds	2,624
A2	U.S. corporate bonds	3,158
A3	U.S. corporate bonds	1,467
Baa1	U.S. corporate bonds	1,940
Baa2	U.S. corporate bonds	3,856
Baa3	U.S. corporate bonds	1,792
Ba1	U.S. corporate bonds	243
	Total Bond and Notes	$ 21,480

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. As of June 30, 2010, the System owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), and the Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley Fund"), as follow:

Fund Name	Shares	Fair Value (In Thousands)
S&P 500 Fund	57,388	$ 12,100
Russell 3000 Fund	1,425,924	13,700
Morgan Stanley Fund	976,933	13,000
Total		$ 38,800

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. The objective of the Morgan Staley Fund is to achieve capital appreciation through exposure to non U.S. markets.

As of June 30, 2010, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, and the Morgan Stanley Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund
Information technology	18.70%	18.34%	6.94%
Health care	12.13%	12.28%	8.23%
Financials	16.29%	17.03%	19.56%
Energy	10.57%	9.93%	8.80%
Consumer staples	11.57%	9.77%	10.05%
Industrials	10.40%	11.27%	13.36%
Consumer discretionary	10.17%	10.96%	12.27%
Utilities	3.74%	3.79%	4.37%
Telecommunication services	3.01%	2.78%	4.41%
Materials	3.42%	3.85%	12.01%

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 maturities of the System's investment in bonds and notes as of June 30, 2010 (in thousands):

			Investment Maturities (in Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1–5	Between 5–10	More Than 10
U.S. government and sponsored agencies' securities	(2011–2039)	$ 9,092	$ 1	$ 14	$2,118	$ 6,959
U.S. corporate bonds and notes	(2011–2040)	16,881	607	5,421	5,863	4,990
Total bonds and notes		$25,973	$ 608	$5,435	$7,981	$11,949

As of June 30, 2010, investment maturities as a percentage of total bonds and notes are as follows:

Maturity	Maximum Maturity
Less than one year	2 %
One to five years	21
More than five to ten years	31
More than ten years	46

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, 2010, the System's investment in the Morgan Stanley Fund amounting to approximately $13 million represented 3.2% of the total commingled fund. As of June 30, 2010, this pooled trust has an asset mix and country allocation, as follows:

Morgan Stanley:

Assets Mix	Percent
Cash and equivalents	4.10
Future contracts	21.76
Equity securities	74.14
Total	100.00

Country Allocation		Currency	Currency Code	Portfolio Percent
Australia		Dollars	AUD	3.82
Hong Kong		Dollars	HKD	3.08
Singapore		Dollars	SGD	1.54
Japan		Yen	JPY	21.34
	Asia x Pacific			29.78
Austria		Euro	EUR	0.45
Belgium		Euro	EUR	0.32
EMU		Euro	EUR	5.18
European Union Growth		Euro	EUR	1.34
European Union Quality		Euro	EUR	1.06
Finland		Euro	EUR	0.74
France		Euro	EUR	6.05
Germany		Euro	EUR	9.84
Italy		Euro	EUR	0.80
Netherlands		Euro	EUR	1.93
Spain		Euro	EUR	0.02
	Euro Europe			27.73
Denmark		Kroner	DKK	0.55
Norway		Kroner	NOK	0.86
Sweeden		Krona	SEK	1.93
Switzerland		Francs	CHF	6.30
United Kingdom		Pounds	GBP	17.75
	Non-Euro Europe			27.39
United States		Dollars	USD	0.01
	North America			0.01
Egypt		Egyptian Pound	EGP	0.23
	Africa			0.23
China		Yuan Renminbi	CNY	1.47
India		Indian Rupee	INR	1.43
Indonesia		Rupiahs	IDR	0.80
Malaysia		Ringgits	MYR	0.57
South Korea		Won	KRW	0.49
Taiwan		New Dollars	TWD	1.00
	Asia Emerging			5.76
Poland		Zlotych	PLN	1.12
Russia		Ruble	RUB	1.26
Turkey		Turkish Lira	TRY	0.76
	Emerging Europe			3.14
Brazil		Real	BRL	0.91
	Latin America			0.91
Agriculture				0.96
	Thematic			0.96
Cash				4.10
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, 2010, the collateral received represented 102.26% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2010, consisted of the following (in thousands):

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$2,112
U.S. corporate stocks	307
Total	$2,419

The underlying collateral for these securities had a fair value of approximately $2,474 as of June 30, 2010. 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 2010 statement of plan net assets. As of June 30, 2010, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	67.16%
Commercial paper	3.69%
Certificates of deposit	1.29%
Floating rate notes	12.48%
Time deposits	15.38%

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, 2010, is summarized as follows (in thousands):

Loans receivable from plan members:	
Personal	$ 690
Cultural trips	43
Mortgage	20
Total loans receivable from plan members	753
Accrued interest receivable	15
Total loans and interest receivable from plan members	$ 768

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 INFORMATION

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

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

Years Ended June 30	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2010	$ 11,006	$ 28,127	39.13 %	$ 27,895	39.46 %
2009	11,105	22,195	50.03 %	22,123	50.20 %
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 %

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

See notes to supplementary schedules of employer's contributions 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 JUNE 30, 2010
(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, 2010	$ 55,410	$338,195	$282,785	16.4 %	$ 32,061	882.0 %
June 30, 2009	50,566	323,928	273,362	15.6 %	30,587	893.7 %
June 30, 2008	69,311	N/D	N/D	N/D	N/D	N/D
June 30, 2007	81,473	258,577	177,104	31.5 %	31,256	566.6 %
June 30, 2006	72,850	N/D	N/D	N/D	N/D	N/D
June 30, 2005	69,797	174,454	104,657	40.0 %	29,331	356.8 %

The above liabilities are for basic System benefits and selected System administered benefits.
N/D = Not Determined

See notes to supplementary schedules of employer's contributions and funding progress.

1. SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

The schedule of employer's 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 Employer's and participating employees' contributions. The Commonwealth's and Employer's 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, 2010.

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, 2010.

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