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Oficina del Presidente

Katherine Erazo
CHIEF OF STAFF

Fecha 17 de mayo de 2012

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- [ ] Para su información
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- [ ] Para trabajar y contestar directamente
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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, 2011, Required Supplementary Information as of and for the Year Ended June 30, 2011, 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, 2011, 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, 2011, 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's unfunded actuarial accrued liability and funded ratio as of June 30, 2011, was approximately $318.8 million and 16.7%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's net assets will be exhausted by the fiscal year 2019, 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

April 23, 2012

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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 non-occupational 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, 2011. 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.

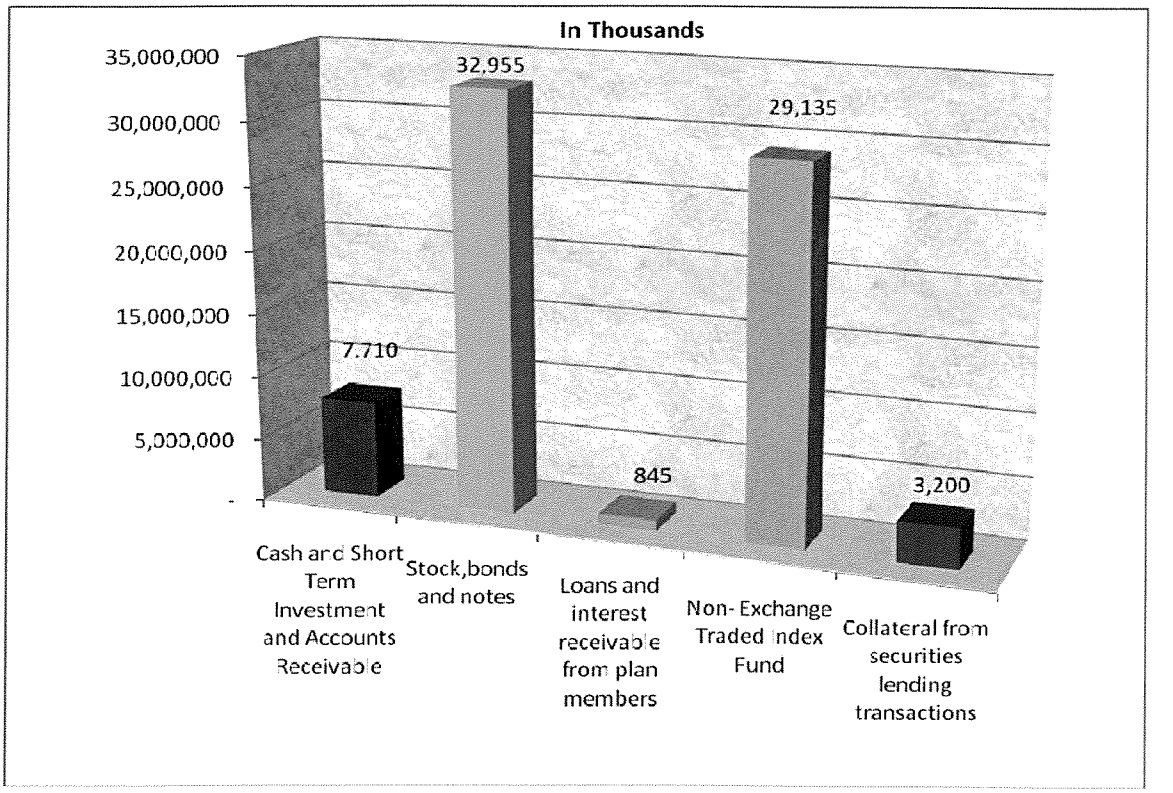
Required Supplementary Information

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

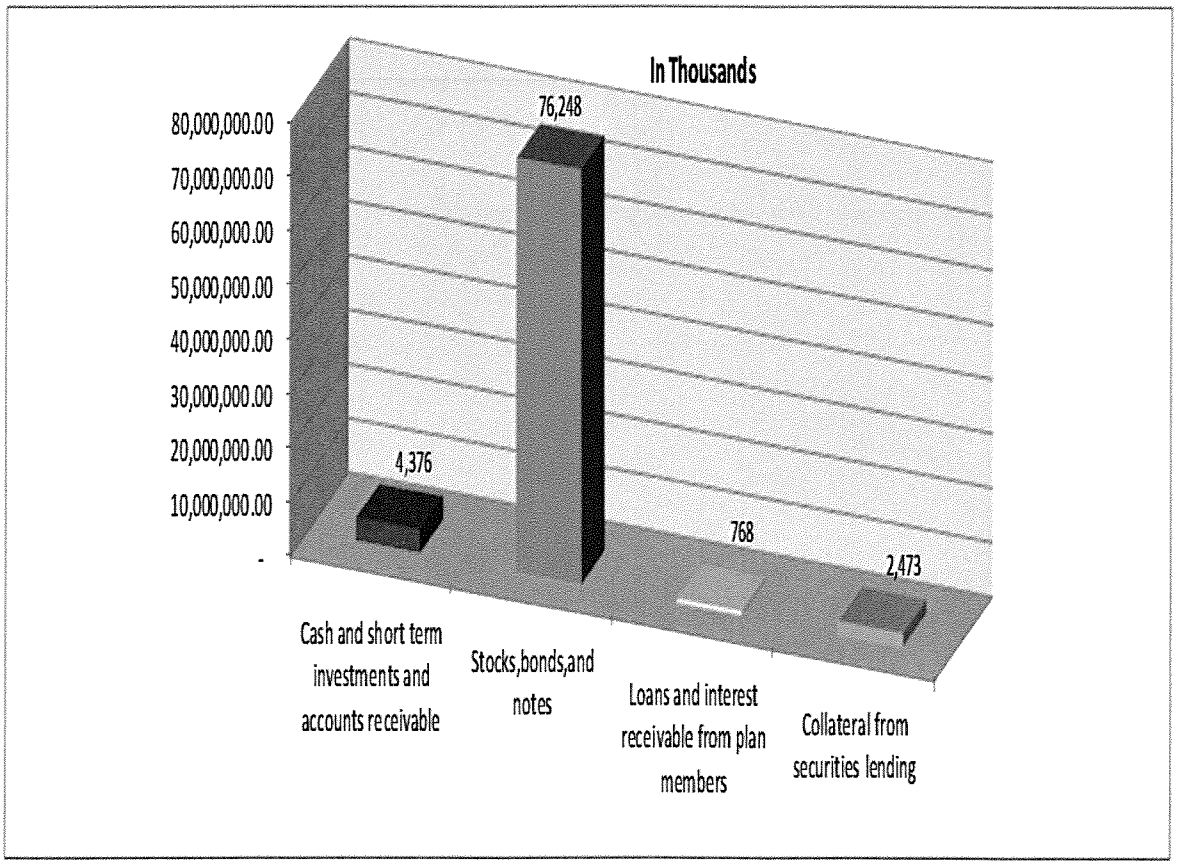
The System provides retirement benefits to the employees of the judiciary branch of the Commonwealth. As of June 30, 2011, the System has $73.9 million in total assets, which consisted of the following:

- $7.7 million in cash and short-term investments, and accounts receivable, plus $3.2 million in collateral from securities lending transactions
- $33 million in investments in stocks, bonds, and notes
- $29 million in non-exchange traded mutual funds
- $845 thousand in loans and interest receivable from plan members



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 investments in stocks, bonds, notes, and non-exchange traded mutual funds
- $768 thousand in loans and interest receivable from plan members



The following schedules present comparative summary financial statements of the System's plan net assets and changes in plan net assets as of and for the years ended June 30, 2011 and 2010:

Summary Comparative Statements of Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets				
Cash and short-term investments, and total accounts receivable	$ 10,928	$ 6,850	$ 4,078	59.5%
Investments at fair value	62,090	76,248	(14,158)	-18.6%
Loans and interest receivable from plan members	845	768	77	10.0%
Total assets	73,863	83,866	(10,003)	-11.9%
Liabilities				
Accounts payable	6,441	24,979	(18,538)	-74.2%
Insurance reserve for loans to plan members and investments settlements	68	931	(863)	-92.7%
Payables for securities lending	3,218	2,474	744	30.1%
Other liabilities	161	72	89	123.6%
Total liabilities	9,888	28,456	(18,568)	-65.3%
Total net assets held in trust for pension benefits	$ 63,975	$ 55,410	$ 8,565	15.5%

Summary Comparative Statements of Changes in Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Additions:				
Contributions:				
Employer	$ 9,966	$ 10,021	$ (55)	-0.5%
Participating employees	2,789	3,104	(315)	-10.1%
Special laws	629	629	—	0.0%
Investment income	14,294	8,716	5,578	64.0%
Other income	10	804	(794)	100.0%
Total additions	27,688	23,274	4,414	19.0%
Deductions:				
Retirement and other benefits	18,627	17,897	730	4.1%
General and administrative expenses	496	533	(37)	-6.9%
Total deductions	19,123	18,430	693	3.8%
Increase in net assets	$ 8,565	$ 4,844	$ 3,721	76.8%

- The System's total assets as of June 30, 2011, exceeded total liabilities by $64 million (net assets held in trust for pension benefits). As of June 30, 2010, total assets exceeded liabilities by $55.4 million.
- The fair value of the System's investments, excluding loans to plan members, as of June 30, 2011, amounted to $62.1 million compared to $76.2 million as of June 30, 2010.
- Loans and interest receivable from plan members amounted to $845,000 as of June 30, 2011, compared to $768,000 as of June 30, 2010.

Financial Analysis of the System

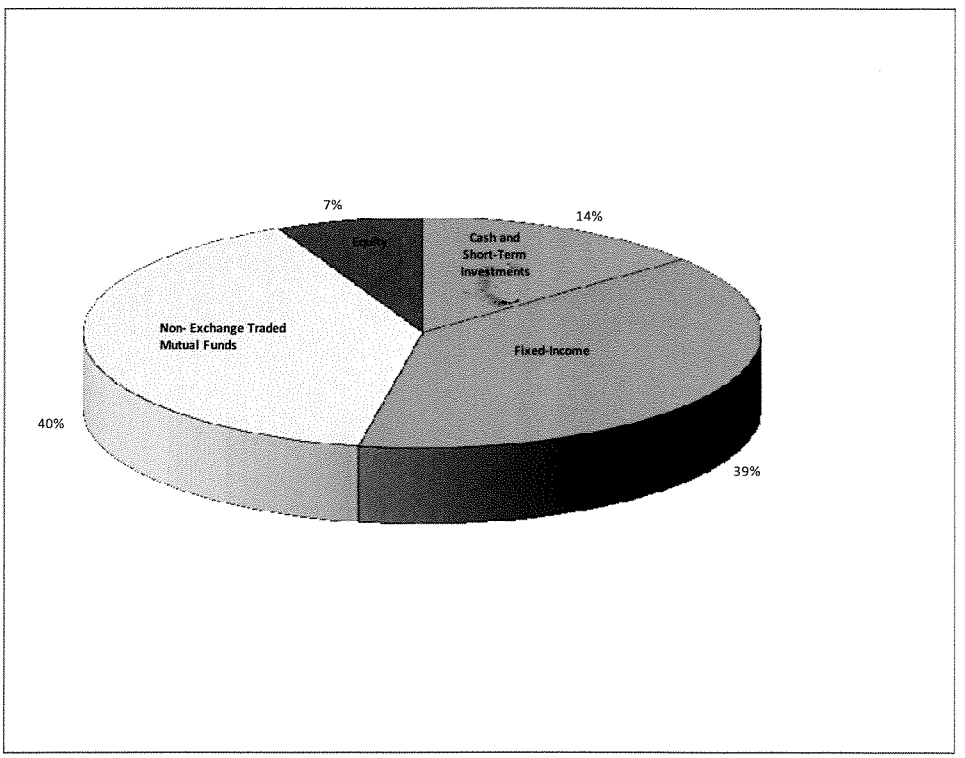
The basic financial statements of the System for the fiscal year ended June 30, 2011, present a net increase in net assets held in trust for pension benefits of approximately $8.6 million as compared to the fiscal year ended June 30, 2010. This was mainly the result of an increase in cash and short-term investments of $4.1 million, offset by a decrease in investments, at fair value, of $14.2 million, an increase in loans to plan members of $77,000 and a net decrease of $18.6 million in total liabilities. The decrease in total liabilities consisted of a decrease of $18.3 million in amounts due to the Commonwealth, a decrease of $281,000 in cash overdraft owed to the Department of Treasury and a decrease of $863,000 in insurance reserve, which were partially offset by an increase of approximately $744,000 in payables for securities lending and 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 fiscal year 2011, employer and plan member contributions decreased by approximately $370,000, from $13.1 million during fiscal year 2010 to $12.8 million during fiscal year 2011. The System recognized a net appreciation in the fair value of investments of $12.9 million during 2011, which represents an increase of $5.5 million from the net appreciation of $7.4 million recognized in 2010.

Investment and Other Transactions

As of June 30, 2011 and 2010, the System held approximately $845,000 and $768,000, respectively, in loans and interest receivable from plan members. As of June 30, 2011, these loans consist of $17,000 in mortgage loans, $737,000 in personal loans, $73,000 in cultural trip loans, and $18,000 of accrued interest receivable applicable to the pool of loans. 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.

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, 2011, the asset allocation of the System's investment portfolio is 39% in fixed-income investments, including loans, 7% in equity securities, 14% in cash and short-term investments, and 40% in non- exchange traded mutual funds as shown in the following chart:



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, 2011, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. During fiscal years 2011 and 2010, income from the custodian securities lending activity amounted to approximately $5,802 and $25,278, 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"). The Administration allocated 1.5317% of its general and administrative expenses to the System. This percent is 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.

Funding Status

According to the actuarial valuation as of June 30, 2011, the System's unfunded liability amounted to $318.8 million with a funded ratio of 16.7%. 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.

Management has come up with recommendations to improve the System's financial health by revising the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 from $15,000 and $10,000

Requests for Information

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

* * * * * *

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

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2011
(In thousands)

ASSETS:	
Cash and short-term investments:	
Deposits at commercial banks	$ 6,409
Deposits with Government Development Bank for Puerto Rico	1,011
Collateral for securities lending	3,218
Total cash and short-term investments	10,638
Investments — at fair value:	
Bonds and notes	28,097
Stocks	4,858
Non-exchange traded mutual funds	29,135
Total investments	62,090
Loans and interest receivable from plan members	845
Accounts receivable:	
Accrued interest	263
Other	27
Total accounts receivable	290
Total assets	73,863
LIABILITIES:	
Due to the Treasury Department of the Commonwealth of Puerto Rico	5,560
Payables for securities lending	3,218
Investment purchases	2
Due to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico	881
Escrow funds to plan members and guarantee insurance reserve for loans to plan members	66
Other liabilities	161
Total liabilities	9,888
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 26)	$ 63,975

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, 2011
(In thousands)

ADDITIONS:	
Contributions:	
Employer	$ 9,966
Participating employees	2,789
Special laws	629
Total contributions	13,384
Investment income:	
Net appreciation of investments	12,928
Dividend income	176
Interest income	1,352
Total investment income	14,456
Less investment expense	162
Net investment income	14,294
Other income	10
Total additions	27,688
DEDUCTIONS:	
Annuities	18,627
General and administrative expenses	496
Total deductions	19,123
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	8,565
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	55,410
End of year	$ 63,975

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, 2011, the System has an unfunded actuarial accrued liability of approximately $319 million, representing a 16.7% 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's assets will be exhausted by the fiscal year 2019. 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 address these issues, the System and the Office of the Administration of Court Facilities ("the Employer") entered into an agreement to increase the employer 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 deficiencies between the employer's and employee contributions and the System's pension benefit obligation and administrative costs.

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

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 during the year ended June 30, 2011. The methodology used to determine the allocation of the Administration's expenses was is 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.

During the year ended June 30, 2011, the System liquidated investments of approximately $19 million to pay for administrative expenses charged by the Administration, covering several previous fiscal years.

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. 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 Administration allocated 1.5317% of its general and administrative expenses to the System, which amounted to approximately $496,000 for the year ended June 30, 2011, and are included as part of general and administrative expenses in the accompanying statement of changes in plan net assets.

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2011:

a. 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.

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

c. *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.

d. 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 Dec*ember 15, 2011.*

e. GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which is effective for financial statements for periods beginning after December 15, 2011.

f. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision-an amendment of GASB Statement No. 53*, which is effective for financial statements for periods beginning after June 15, 2011.

g. GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012.

h. GASB Statement No. 66, *Technical Corrections—2012*, which is effective for financial statements for periods beginning after December 15, 2012.

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, 2011, the System membership consists of the following:

Retirees and beneficiaries currently receiving benefits	391
Current participating employees and vested members	410
Total membership	801

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 dependents. 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. Required contributions consist of 30.34% of applicable payroll for the employer and 8% for the participating employees. 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, 2011, 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 6.6%, (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.

During the year ended June 30, 2011, the System decreased the assumed rate of return from 7.5% in 2010 to 6.6% in 2011, which resulted in an increase of approximately $30 million in the actuarial accrued liability.

The actuarial accrued liability and the unfunded actuarial accrued liability as of June 30, 2011, were $382.8 million and $ 318.8 million, respectively.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2011, 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, 2011	$ 63,975	$ 382,776	$ 318,801	16.7 %	$ 31,811	1002.2 %

The schedule of funding progress (see page 26), 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, 2011
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	15 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.6%
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	0.99% 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, 2011, the depository bank balance of approximately $10.6 million was uninsured and uncollateralized. The bank balance of deposits with GDB, which amounted to approximately $1.0 million are uninsured and uncollateralized since GDB is exempt from the collateral requirement established by the Commonwealth. Uninsured and uncollateralized cash and short-term investments amounting to approximately $6.4 million and $3.2 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, 2011 (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 9,907
U.S. corporate bonds and notes	18,190
Total bonds and notes	28,097
U.S. corporate stocks	4,858
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	5,189
Non-U.S.	12,089
Fixed income funds:	
U.S.	7,773
Non-U.S.	4,084
Total non-exchange traded mutual funds	29,135
Total investments	$ 62,090

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, 2011:

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, 2011, 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 ("S&P") or Moody's Investors Service, Inc. ("Moody's") credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $1,566,000 of U.S. Treasury notes and bonds, and approximately $2,939,000 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 and notes as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 9,634
Aaa	U.S. corporate bonds	906
Aa2	U.S. corporate bonds	690
Aa3	U.S. corporate bonds	1,723
A1	U.S. corporate bonds	2,998
A2	U.S. corporate bonds	2,429
A3	U.S. government and sponsored agencies securities	273
A3	U.S. corporate bonds	1,805
Baa1	U.S. corporate bonds	1,556
Baa2	U.S. corporate bonds	3,861
Baa3	U.S. corporate bonds	1,957
Ba1	U.S. corporate bonds	265
Total		$ 28,097

In addition, the System invests in shares of the State Street Global Advisor Intermediate U.S. Credit Index Non Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The System's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 1,418
Aa1/Aa2	Government sponsored	312
A2/A3	Government sponsored	224
A3/Baa1	Government sponsored	480
Aa3/A1	Corporate bonds	363
Aa2/Aa3	Corporate bonds	31
A1/A2	Corporate bonds	3,162
A2/A3	Corporate bonds	2,706
A3	Corporate bonds	6
A3/Baa1	Corporate bonds	2,163
Baa1/Baa2	Corporate bonds	697
Baa2/Baa3	Corporate bonds	295
Total		$ 11,857

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, 2011, the System owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley Fund") and the SSGA Intermediate Fund, as follow (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	18,778	$ 5,189
Morgan Stanley Fund	688,133	12,089
SSGA Intermediate Fund	471,645	11,857
Total		$ 29,135

The investment objectives of the S&P 500 Fund is to match the return of the Standard & Poor's 500 Index. The objective of the Morgan Staley Fund is to achieve capital appreciation through exposure to non U.S. markets. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The System's investment in these funds is included as part of non-exchange traded mutual funds

As of June 30, 2011, the investments underlying the S&P 500 Fund, the Morgan Stanley Fund and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Morgan Stanley Fund	SSgA Intermediate Fund
Information technology	18 %	7 %	4 %
Health care	11 %	7 %	
Financials	15 %	20 %	33 %
Energy	13 %	9 %	5 %
Consumer staples	11 %	9 %	10 %
Industrials	11 %	15 %	6 %
Consumer discretionary	11 %	11 %	4 %
Utilities	3 %	3 %	7 %
Telecommunication services	3 %	5 %	7 %
Materials	4 %	14 %	4 %
Government sponsored			20 %
Total	100 %	100 %	100 %

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, 2011 (in thousands):

	Maturity Between	Fair Value	Less Than 1	Between 1–5	Between 5–10	More Than 10
U.S. government and sponsored agencies' securities	(2014–2041)	$ 9,907	$ -	$ 8	$ 1,867	$ 8,032
U.S. corporate bonds and notes	(2011–2041)	18,190	1,501	6,278	5,567	4,844
Total bonds and notes		$ 28,097	$ 1,501	$ 6,286	$ 7,434	$ 12,876

As of June 30, 2011, investment maturities as a percentage of total bonds and notes are as follows:

Maturity	Maximum Maturity
Less than one year	5 %
One to five years	22 %
More than five to ten years	27 %
More than ten years	46 %
Total	100 %

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, 2011, the System's investment in the Morgan Stanley Fund amounting to approximately $12 million represented 4.301% of the total commingled fund. As of June 30, 2011, this pooled trust has an asset mix and country allocation, as follows:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	2.26
Future contracts	7.21
Equity securities	90.53
Total	100.00

Country Allocation		**Currency**	**Currency Code**	**Portfolio Percent**
Australia		Dollars	AUD	4.79
Hong Kong		Dollars	HKD	1.50
Singapore		Dollars	SGD	2.20
Japan		Yen	JPY	13.93
Japan Global Survivor		Yen	JPY	4.69
	Asia/Pacific			27.11
Austria		Euro	EUR	0.64
Belgium		Euro	EUR	0.58
EMU		Euro	EUR	5.20
European Union Growth		Euro	EUR	3.64
Finland		Euro	EUR	1.23
France		Euro	EUR	6.06
Germany		Euro	EUR	11.19
Italy		Euro	EUR	0.02
Netherlands		Euro	EUR	2.63
Spain		Euro	EUR	1.14
	Euro Europe			32.33
Denmark		Kroner	DKK	1.11
Norway		Kroner	NOK	1.98
Sweden		Krona	SEK	3.56
Switzerland		Francs	CHF	7.22
United Kingdom		Pounds	GBP	16.38
	Non-Euro Europe			30.25
China		Yuan Renmimbi	CNY	0.55
Indonesia		Rupiahs	IDR	0.41
Philipines		Peso	PHP	0.88
South Korea		Won	KRW	1.37
Thailand		New Dollars	TWD	0.82
	Asia Emerging			4.03
Poland		Zlotych	PLN	0.57
Russia		Ruble	RUB	0.94
	Europe Emerging			1.51
Brazil		Real	BRL	0.76
Mexico		Peso	MXN	0.85
	Latin America			1.61
	Emerging			7.15
Agriculture				0.90
	Thematic			0.90
Cash				2.26
Total				100.00

In addition, the composition of the underlying investments in the SSgA Intermediate Fund by country as of June 30, 2011, was as follows:

	Currency	Portfolio Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	2 %
United Kingdom	Sterling Pound	4 %
Total Europe		10 %
Pacific Basin:		
Australia	Australian Dollar	1 %
Japan	Japanese Yen	1 %
Total Asia Pacific		2 %
Americas:		
Canada	Canada Dollar	5 %
Mexico	Mexican Peso	1 %
Brazil	Brazilian Real	1 %
U.S.	U.S. Dollar	66 %
Total Americas		73 %
Supranational	Various	7 %
Other	Various	8 %
Total		100 %

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, 2011, the collateral received represented 102.00% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2011, consisted of the following (in thousands):

Securities Lent	Fair Value
U.S. government and sponsored agencies' securities	$ 2,025
U.S. corporate stocks	1,121
Total	$ 3,146

The underlying collateral for these securities had a fair value of approximately $3,218 as of June 30, 2011. 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 statement of plan net assets. As of June 30, 2011, the distribution of the short-term investment fund by investment type is as follows:

Investment type	Percentage
Securities bought under agreements to resell	13 %
Commercial paper	21 %
Certificates of deposit	18 %
Floating rate notes	31 %
Time deposits	17 %
Total	100 %

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, 2011, is summarized as follows (in thousands):

Loans receivable from plan members:	
Personal	$ 737
Cultural trips	73
Mortgage	17
Total loans receivable from plan members	827
Accrued interest receivable	18
Total loans and interest receivable from plan members	$ 845

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.

7. SUBSEQUENT EVENT

As the liquidity of the System's assets has been impaired by the growth of its loan portfolio, on August 8, 2011, the System's Board of Trustees issued Resolution No. 8054, limiting the personal and cultural loan maximum amounts to $5,000. Such limitations on loan amounts are expected to improve the liquidity of the System's assets. In addition, Resolution No. 8054 provides for certain limitations on the renewal of personal and cultural loans.

Furthermore, on September 18, 2011, the Commonwealth enacted Act No. 196, which allows the System to pledge employee contributions to guarantee personal loans issued by a financial institution. Act No. 196 also allows the System to sell personal, cultural and mortgage loans.

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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, 2011
(In thousands)

Years Ended June 30	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed	Annual Pension Cost	Percentage Contributed
2011	$ 10,955	$ 29,683	36.91%	$ 29,112	37.63%
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%

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

See notes to schedules

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, 2011
(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, 2011	$63,975	$382,776	$318,801	16.7 %	$31,811	1002.2 %
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

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

N/D = Not Determined

See notes to schedules

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, 2011.

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, 2011.

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