



AUDITED FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTARY  
INFORMATION

University of Puerto Rico Retirement System  
Years Ended June 30, 2012 and 2011  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

# University of Puerto Rico Retirement System

## Audited Financial Statements and Required Supplementary Information

Years Ended June 30, 2012 and 2011

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## Report of Independent Auditors

### The Board of Trustees of the University of Puerto Rico Retirement System

We have audited the accompanying statements of plan net assets of the University of Puerto Rico Retirement System (the System), as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System at June 30, 2012 and 2011, and the changes in its net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 10 and the schedule of funding progress and schedule of employer contribution on pages 33 and 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Ernst + Young LLP*

June 12, 2013

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the original  
of this report.

University of Puerto Rico Retirement System  
Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2012

Our discussion and analysis of the University of Puerto Rico Retirement System's (the System) financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2012, 2011 and 2010.

***Financial Highlights***

- System's assets exceeded liabilities by **\$1,055,908,704**, **\$1,052,466,561** and **\$902,866,599** at the close of fiscal years 2012, 2011 and 2010, respectively (reported as net assets). Net assets are held in a trust to meet future benefit payments.
- The component of Additions to Plan Net Assets in the year 2012 is comprised of contributions of **\$114,404,938**, net investment gains of **\$46,445,998** and **\$9,932,018** in reimbursement from the University of Puerto Rico for medical insurance.
- Additions to Plan Net Assets in fiscal year 2012 were **\$170,782,054**, compared to **\$305,640,729** in fiscal year 2011. The decrease in additions in fiscal year 2012 was mainly caused by the net appreciation in fair value of investments **\$23,854,981**, in fiscal year 2012, compared to net appreciation of **\$165,030,923** in fiscal year 2011.
- Additions to Plan Net Assets in fiscal year 2011 were **\$305,640,729**, compared to **\$225,797,051** in fiscal year 2010. The increase in additions in fiscal year 2011 was mainly caused by the net appreciation in fair value of investments **\$165,030,923**, compared to net appreciation of **\$84,156,599** in fiscal year 2010.
- Deductions to Plan Net Assets in fiscal year 2012 were **\$167,339,911**, compared to **\$156,040,767** in fiscal year 2011. The difference was caused by benefits paid to participants of **\$153,890,144** in fiscal year 2012, compared to **\$143,197,776** in fiscal year 2011. The increase in benefits paid to participants was mainly caused by the increase in retirees receiving benefits as the number of retirees receiving benefits increased to **7,697** at the end of fiscal year 2012 compared to **7,467** at the end of fiscal year 2011.
- Deductions to Plan Net Assets in fiscal year 2011 were **\$156,040,767**, compared to **\$144,797,766** in fiscal year 2010. The difference was caused by benefits paid to participants of **\$143,197,776** in fiscal year 2011, compared to **\$133,112,591** in fiscal year 2010. The increase in benefits paid to participants was mainly caused by the increase in retirees receiving benefits as the number of retirees receiving benefits increased to **7,467** at the end of fiscal year 2011 compared to **7,150** at the end of fiscal year 2010.

## University of Puerto Rico Retirement System

### Management's Discussion and Analysis (Unaudited) (continued)

#### *The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets*

These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Plan Net Assets presents plan assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The statement of Changes in Plan Net Assets presents how the System's net assets changed during the period to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

#### *Financial Analysis*

The net assets during the year ended June 30, 2012 increased by approximately \$3.4 million or less than 1% from the prior year (see Statements of Change in Plan Net Assets for details). For fiscal year 2012 total assets decreased \$14.3 million or 1.23% from prior year. The net assets during the year ended June 30, 2011 increased by approximately \$149.6 million or 16.57% from the prior year (see Statements of Change in Plan Net Assets for details). For fiscal year 2011 total assets increased \$192.6 million or 19.96% from prior year. The net assets during the year ended June 30, 2010 increased by approximately \$81.0 million or 9.86% from the prior year (see Statements of Change in Plan Net Assets for details). For fiscal year 2010 total assets increased \$85.5 million or 9.73% from prior year.

# University of Puerto Rico Retirement System

## Management's Discussion and Analysis (Unaudited) (continued)

### Statements of Plan in Net Assets

	Year Ended			2010-2011	2011-2012
	June 30, 2010	June 30, 2011	June 30, 2012	Percentage Change	Percentage Change
<b>Assets</b>					
Cash	\$ 28,908,806	\$ 30,607,754	\$ 13,389,546	5.88%	(56.25)%
Receivables	32,105,588	58,340,510	47,810,187	81.71%	(18.05)%
Marketable securities	751,040,932	910,834,768	916,498,911	21.28%	0.62%
Private equity funds	8,915,817	10,050,955	14,970,100	12.73%	48.94%
Loans to plan members	123,848,238	126,801,957	128,622,420	2.38%	1.44%
Property and equipment, net	2,691,662	3,629,824	3,746,902	34.85%	(3.23)%
Other net of allowances	17,325,919	17,198,021	18,172,483	(0.74)%	5.67%
<b>Total Assets</b>	964,836,962	1,157,463,789	1,143,210,549	19.96%	(1.23)%
<b>Liabilities</b>					
Accounts payable and accrued expenses	5,072,261	5,070,636	4,837,067	(.03)%	(4.60)%
Escrow deposits on mortgage loans	152,329	126,518	103,476	(16.94)%	(18.21)%
Other deposits	5,146,533	5,172,739	2,524,360	0.51%	(51.20)%
Payables for acquisition of investments	51,599,240	94,627,335	79,836,942	83.39%	(15.63)%
<b>Total Liabilities</b>	61,970,363	104,997,228	87,301,845	69.43%	(16.85)%
<b>Net Assets</b>	<b>\$902,866,599</b>	<b>\$1,052,466,561</b>	<b>\$1,055,908,704</b>	16.57%	0.33%

# University of Puerto Rico Retirement System

## Management's Discussion and Analysis (Unaudited) (continued)

### Statements of Changes in Plan Net Assets

	Year Ended			2010-2011	2011-2012
	June 30, 2010	June 30, 2011	June 30, 2012	Percentage Change	Percentage Change
<b>Additions:</b>					
Contributions	\$112,914,777	\$110,823,624	\$114,404,938	(1.85)%	3.23%
Investment (loss) income	104,906,153	185,044,414	46,445,098	76.39%	(74.90)%
Medical insurance reimbursements from the University of Puerto Rico	7,976,121	9,772,691	9,932,018	22.52%	1.63%
<b>Total additions</b>	<b>225,797,051</b>	<b>305,640,729</b>	<b>170,782,054</b>	<b>35.36%</b>	<b>(44.12)%</b>
<b>Deductions:</b>					
Benefits paid to participants	133,112,591	143,197,776	153,890,144	7.58%	7.47%
General and administrative expenses	3,709,054	3,070,300	3,517,749	(17.22)%	14.57%
Medical insurance expenses paid to retirees	7,976,121	9,772,691	9,932,018	22.52%	1.63%
<b>Total deductions</b>	<b>144,797,766</b>	<b>156,040,767</b>	<b>167,339,911</b>	<b>7.76%</b>	<b>7.24%</b>
<b>Net increase (decrease) in net assets held in trust for pension benefits</b>	<b>\$ 80,999,285</b>	<b>\$149,599,962</b>	<b>\$ 3,442,143</b>	<b>84.67%</b>	<b>97.70%</b>

### **Contributions**

The funds needed to finance retirement benefits are obtained through employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2012 amounted to approximately \$160.8 million compared to \$295.8 million for fiscal year 2011. The decrease was mainly caused by the decline in the net appreciation of investments during fiscal year 2012.

Contributions and net investment income for fiscal year 2011 amounted to approximately \$295.8 million compared to \$217.8 million for fiscal year 2010. The increase was mainly caused by the net appreciation of investments during fiscal year 2011.

Contributions and net investment income for fiscal year 2010 amounted to approximately \$217.8 million compared to \$(4.1) million for fiscal year 2009. The increase was mainly caused by the net appreciation of investments during fiscal year 2010.



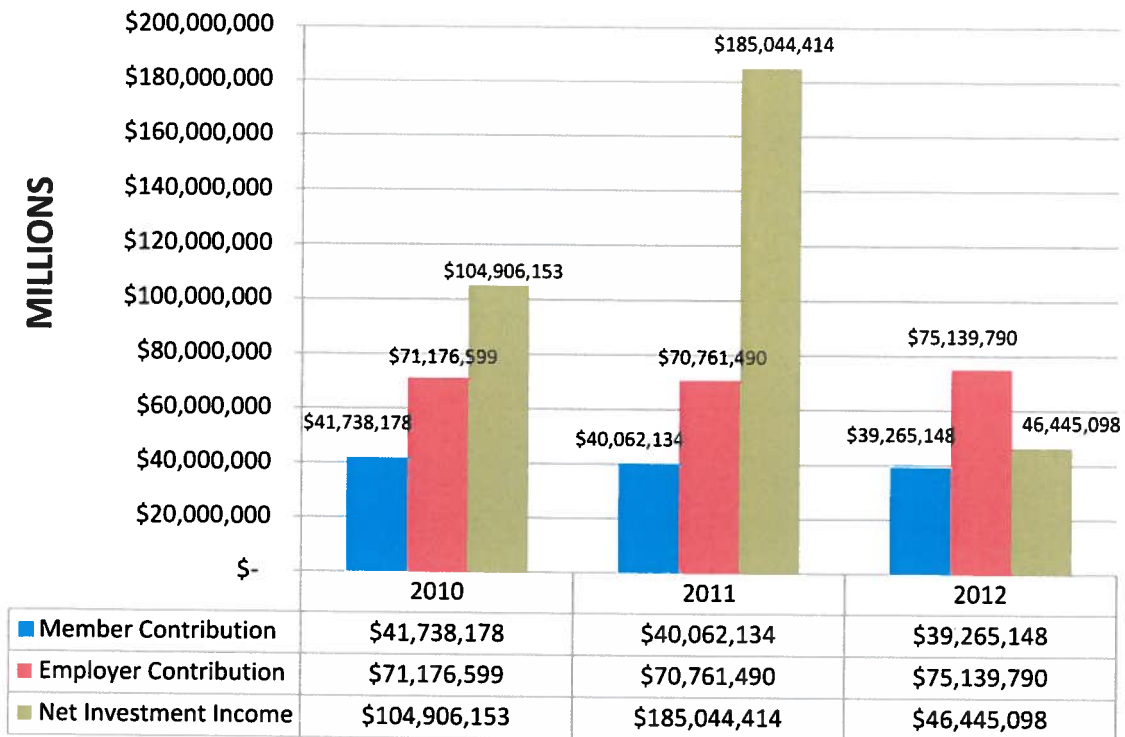
## University of Puerto Rico Retirement System

### Management's Discussion and Analysis (Unaudited) (continued)

Contributions paid by employees approximated **\$39.2 million** and \$40.0 million for the years ended June 30, 2012 and 2011, respectively. This represented decrease of approximately **\$0.8 million** or **-2.00%**.

Contributions paid by employees approximated \$40.0 million and \$41.7 million for the years ended June 30, 2011 and 2010, respectively. This represented decrease of approximately \$1.7 million or 4.07%.

#### Total Additions to Plan Net Assets



## University of Puerto Rico Retirement System

### Management's Discussion and Analysis (Unaudited) (continued)

#### *General and Administrative Expenses*

Total general and administrative expenses for the System during fiscal year 2012 amounted to **\$3,517,749** an increase of **\$447,449** or **14.57%** from the amount in fiscal year 2011. Total general and administrative expenses for the System during fiscal year 2011 amounted to **\$3,070,300** a decrease of **\$638,754** or **17.22%** from the amount in fiscal year 2010. Total general and administrative expenses for the System during fiscal year 2010 amounted to **\$3,709,054** a decrease of **\$226,329** or **5.75%** from the amount in fiscal year 2009.

#### *Investments*

The System's investment portfolio appreciated in fair value by approximately **\$23.9** million during fiscal year 2012, as compared to fiscal year 2011, when it appreciated by **\$165** million. The net investment income for fiscal year 2012 amounted to **\$46.4** million, a decrease of **\$138.6** million or **74.9%** compared to a net investment income of **\$185.0** million in fiscal year 2011. The decrease was caused by the depreciation in the fair value of investments. Total investment expenses during fiscal year 2012 of **\$2,400,651** decreased by **\$278,315** or **10.39%** as compared to fiscal year 2011.

The System's investment portfolio appreciated in fair value by approximately **\$165.0** million during fiscal year 2011, as compared to fiscal year 2010, when it appreciated by **\$84.1** million. The net investment income for fiscal year 2011 amounted to **\$185.0** million, an increase of **\$80.1** million or **76.39%** compared to a net investment income of **\$104.9** million in fiscal year 2010. The gain was caused by the appreciation in the fair value of investments. Total investment expenses during fiscal year 2011 of **\$2,678,966** increased by **\$316,664** or **13.41%** as compared to fiscal year 2010.

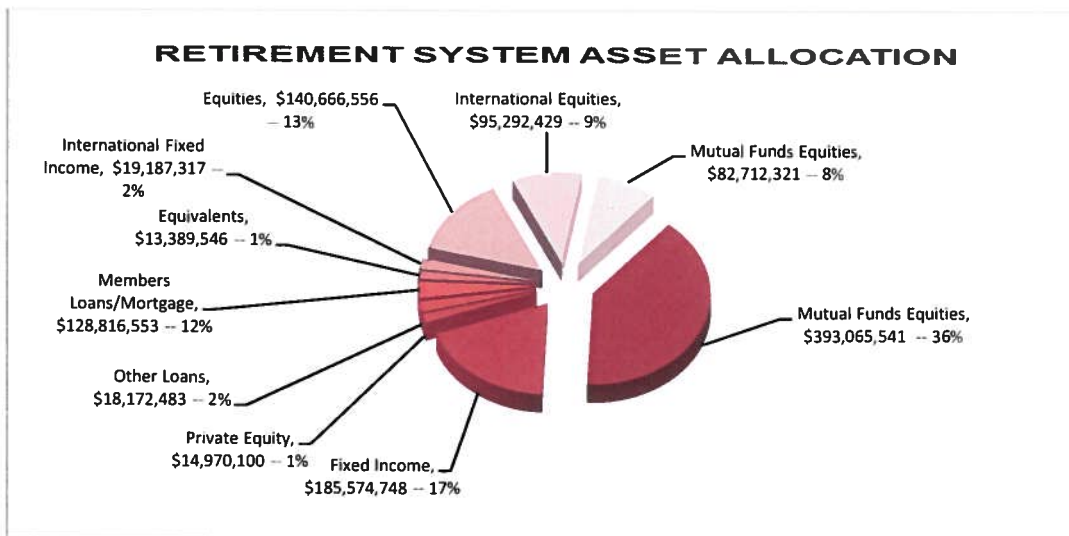
The System's investment portfolio appreciated in fair value by approximately **\$84.1** million during fiscal year 2010, as compared to fiscal year 2009, when it depreciated by **\$150.6** million. The net investment income for fiscal year 2010 amounted to **\$104.9** million, an increase of **\$225.5** million or **187%** compared to a net investment loss of **\$(120.5)** million in fiscal year 2009. The gain was caused by the appreciation in the fair value of investments. Total investment expenses during fiscal year 2010 of **\$2,362,272** increased by **\$122,392** or **5.46%** as compared to fiscal year 2009.

# University of Puerto Rico Retirement System

## Management's Discussion and Analysis (Unaudited) (continued)

### *Retirement System of Puerto Rico Asset Allocation*

The System's investments comprise approximately 100% of the total plan assets. Most of the assets are invested in long-term investments. The investment fund has 65% of its assets in stocks and 17% in fixed income investments, 1% in cash equivalents, 14% loans to participants, 2% in international fixed income, and 1% in private equity investments. Equity investments are diversified between domestic and foreign markets and among companies with small, medium and large capitalization. The table below shows the asset allocation as of June 30, 2012:



### *Benefits Paid and Liabilities*

For the fiscal year 2012, pension benefits paid to retirees and beneficiaries were approximately **\$153.8 million**, which represents an increase of approximately **\$10.7 million** or **7.46%** when compared to the prior year. For the fiscal year 2011, pension benefits paid to retirees and beneficiaries were approximately \$143.2 million, which represents an increase of approximately \$10.1 million or 7.59% when compared to the prior year. For the fiscal year 2010, pension benefits paid to retirees and beneficiaries were approximately \$133.1 million, which represents an increase of approximately \$8.8 million or 7.04% when compared to the prior year. This increase is related to additional benefits due to Certification No. 12 (2007-2008) which increases by 3% in benefits paid to retirees effective on July 1, 2007.

## University of Puerto Rico Retirement System

### Management's Discussion and Analysis (Unaudited) (continued)

As of June 30, 2012, the Active members and Retired members were **11,148** and **7,697**, respectively. As of June 30, 2011, the Active members and Retired members were 11,398 and 7,467, respectively, as compared to 12,075 and 7,150 as of June 30, 2010.

During fiscal year 2012, total liabilities were **\$87.3** million, which represents a decrease of **\$(17.6)** million or **16.8%** when compared to prior year. During fiscal year 2011, total liabilities were \$105 million, which represents an increase of \$43.0 million or 69.4% when compared to prior year. During fiscal year 2010, total liabilities were \$62.0 million, which represents an increase of \$4.6 million or 7.90% when compared to prior year. The amount represents accounts payable to agencies, deposits for distribution to employee's contributions and accounts payables for acquisition of investments.

#### *Retirement System as a Whole*

Fiscal year 2011, the UPR Retirement System reported an increase in net assets due to the improvement on the return of investments held by the Plan as these investments presented positive returns that amounted to approximately \$165.0 million. Fiscal year 2012, reported an increase in net assets of \$3.4 million due to the return of investments held by the Plan as these investments presented negative returns that amounted to approximately **\$(13.6)** million.

#### *Contacting System Financial Management*

This financial report is designed to provide the Retirement Board and Trustees Board, participants, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769, (787) 751-4550 or (787) 764-5438 Direct.

# University of Puerto Rico Retirement System

## Statements of Plan Net Assets

	June 30	
	2012	2011
<b>Assets</b>		
Cash and investments:		
Cash, cash equivalents and short-term investments	\$ 13,389,546	\$ 30,607,754
Marketable securities	916,498,911	910,834,768
Private equity funds	14,970,100	10,050,955
Loans to plan members:		
First mortgages	43,316,276	42,930,838
Personal installments	85,306,144	83,871,119
Other, net of allowance for doubtful accounts of \$123,404 in 2012 and \$117,623 in 2011	18,172,483	17,198,021
	146,794,903	143,999,978
Total cash and investments	1,091,653,460	1,095,493,455
Receivables:		
Accrued interest receivable on investments	1,399,253	1,373,749
Receivables from sale of investments	43,144,561	55,516,258
Contributions receivable from Puerto Rico Treasury Department	389,173	389,173
Accounts receivable from University of Puerto Rico Central Administration	2,666,554	840,457
Other receivables	210,646	220,873
Total receivables	47,810,187	58,340,510
Capital assets, net of accumulated depreciation \$844,187 in 2012 and \$876,618 in 2011	3,746,902	3,629,824
Total assets	1,143,210,549	1,157,463,789
<b>Liabilities</b>		
Accounts payable and accrued expenses	4,837,067	5,070,636
Escrow deposits on mortgage loans	103,476	126,518
Other deposits	2,524,360	5,172,739
Payable for acquisition of investments	79,836,942	94,627,335
Total liabilities	87,301,845	104,997,228
Net assets held in trust for pension benefits	\$ 1,055,908,704	\$ 1,052,466,561

*See accompanying notes.*

University of Puerto Rico Retirement System

Statements of Changes in Plan Net Assets

	Year Ended June 30	
	2012	2011
<b>Additions:</b>		
Contributions:		
Employer	\$ 75,139,790	\$ 70,761,490
Participants	39,265,148	40,062,134
	114,404,938	110,823,624
Investment income:		
Net appreciation in fair value of investments	23,854,981	165,030,923
Interest	20,774,886	18,667,230
Dividends	4,215,882	4,025,227
	48,845,749	187,723,380
Less investment expenses	2,400,651	2,678,966
	46,445,098	185,044,414
Medical insurance reimbursements from University of Puerto Rico	9,932,018	9,772,691
<b>Total additions</b>	<b>170,782,054</b>	<b>305,640,729</b>
<b>Deductions:</b>		
Benefits paid to participants	153,890,144	143,197,776
General and administrative expenses	3,517,749	3,070,300
Medical insurance expenses paid to retirees	9,932,018	9,772,691
<b>Total deductions</b>	<b>167,339,911</b>	<b>156,040,767</b>
<b>Net increase in net assets held in trust for pension benefits</b>	<b>3,442,143</b>	<b>149,599,962</b>
<b>Net assets held in trust for pensions benefits:</b>		
Beginning of year	1,052,466,561	902,866,599
End of year	<b>\$ 1,055,908,704</b>	<b>\$ 1,052,466,561</b>

*See accompanying notes.*

# University of Puerto Rico Retirement System

## Notes to Financial Statements

June 30, 2012

### **1. Organization and Summary of Significant Accounting Policies**

#### **Organization**

The University of Puerto Rico Retirement System (the System) is the administrator of a single-employer defined benefit pension plan that was created by Act No. 135, approved on May 7, 1942. The System started operations on January 1, 1945, the date on which contributions by employees and the University of Puerto Rico (the University) (a related party) commenced.

The responsibility for the proper operation and administration of the System is vested in a Board of Trustees, composed of certain members of the University's Board of Trustees. The following are the significant accounting policies followed by the System in the preparation of its financial statements.

#### **Basis of Presentation**

The System's financial statements and notes to the financial statements are prepared under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25 (GASB 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 Nos. 25 and 27*.

The accompanying financial statements have been prepared on the accrual basis of accounting. Participants and employer contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

#### **Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from those estimates.

#### **Cash Equivalents**

The Plan considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 1. Organization and Summary of Significant Accounting Policies (continued)

#### Investments

Investments are reported at fair value. Short-term investments, mainly certificates of deposit, are reported at cost, which approximates fair value. Marketable securities are valued based on quotations obtained from national security exchanges. Dividend income is recognized when received.

The market value of investments held in foreign currencies are translated to U.S. dollars generally using current rates of exchange and the related translation adjustments are included as an addition to the unrealized change in fair value of investments which is recorded in the statement of changes in plan net assets as net appreciation in fair value of the investments.

The fair value of private equity fund investments is determined by the applicable fund manager.

#### Loans to Plan Members

Loans to participants are carried at their unpaid principal balance, which approximates their fair value. Mortgage loans are collateralized by the participant's contribution to the pension plan and first mortgage liens on the underlying properties. These mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments.

The System's Board of Trustees granted certain participants the option to select a supplemental pension benefit by making a retroactive contribution to the System. The participants who accept this option have to make a lump-sum payment to cover the related benefits. The participants could obtain an interest-bearing loan from the System to fund their contributions. As of June 30, 2012 and 2011, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately \$18.1 million and \$17.2 million, respectively, net of allowance for uncollectible accounts.

#### Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the depreciable property. Amounts exceeding \$1,000 and with a useful life of three years or more are capitalized.



# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 1. Organization and Summary of Significant Accounting Policies (continued)

#### Property and Equipment (continued)

Expenditures for maintenance and repairs are charged to operations, while those for renewals and betterments are capitalized. Depreciation expense charged to operations during the years ended June 30, 2012 and 2011 amounted to approximately **\$32,100** and \$78,000, respectively.

#### Accounting Developments

On June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires a defined benefit plan to record a liability for the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of paragraphs 22–32 (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position should be determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

The statement is effective for fiscal years beginning after June 15, 2014, but earlier application is encouraged. The System is currently assessing the impact the statement would have on its financial statements.

### 2. Description of the System

#### General

The System is a single-employer defined benefit pension plan that covers all employees of the University with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

**2. Description of the System (continued)**

**General (continued)**

Participants consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Retirees and beneficiaries receiving benefits	7,697	7,467
Terminated plan participants entitled to but not yet receiving benefits	465	435
Terminated non-vested plan participants entitled to return of their contributions	7,881	7,815
Active plan participants	<u>11,148</u>	<u>11,398</u>
Total	<u>27,191</u>	<u>27,115</u>

Effective July 1, 2007, the Plan was amended by certification 12. This certification increased by 3% the pension benefits of employees who retired before July 1, 2004.

Effective July 1, 2004, the Plan was amended by establishing Certification 130, to increase by 3% the pension benefits to those employees who retired due to age or disability and who have been retired for at least three years as of January 1, 2001, with a monthly minimum of \$10.

Effective July 1, 2002, the Plan was amended, by establishing Certification 139, to offer participants an increase from \$50,000 to \$60,000 in the maximum salary subject to withholding contribution. The participants who elect this benefit may pay retroactively to their first day of employment the differences in withholding contributions for prior year salaries exceeding \$50,000 and up to a maximum of \$60,000 plus 8% interest. Also, effective July 1, 2002, maximum salary basis will increase automatically 3% every two years.

Effective July 1, 2001, the Plan was amended by establishing Certification 140, to increase by 3% the pension benefits to those employees who retired due to age or disability and who have been retired for at least three years as of January 1, 1998, with a monthly minimum of \$10.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Plan Amendments

Effective July 1, 1999, the Plan was amended by establishing Certification 128, to increase by 3% the pension benefits to those employees who retired due to age or disability and who have been retired for at least three years as of January 1, 1995, with a monthly minimum of \$10.

Effective July 1, 1998, the Plan was amended by establishing Certification 94, to offer participants an increase from \$35,000 to \$50,000 in the maximum salary subject to withholding contributions. The participants who elect this benefit may pay retroactively to their first day of employment the differences in withholding contributions for prior year salaries exceeding \$35,000 and up to a maximum of \$50,000 plus 8% interest. Effective July 1, 1998, all new participants contribute 9% of their salary up to \$50,000.

Effective July 1, 1995, the Plan was amended by establishing Certification 194, to increase by 3% the pension benefits to those employees who retired due to age or disability and who have been retired for at least three years as of January 1, 1992, with a monthly minimum of \$10.

In addition, the maximum annual compensation for those participants who had not completed 20 years of service by July 1, 1979 is \$35,000. Also, the minimum pension is \$250 a month. Finally, the reduction for commencement of pension benefits prior to age 65 is 1/3% per month for participants who had not completed 20 years of service by July 1, 1979, and elected Certification 55, and for participants hired on or after January 1, 1990.

#### Contributions and Funding Policy

The contribution requirements of participants and the University are established and may be amended by the Board of Trustees. Participants are required to contribute as follows:

Participants who elect Certification No. 139: 11% of monthly compensation up to \$5,463.64

Participants who have not completed 20 years of service by July 1, 1979:

- If full supplement is elected: 7% of monthly compensation up to \$2,625.00
- If full supplement is not elected: 5% of monthly compensation up to \$2,625.00
- If Certification 94 is elected: 9% of monthly compensation up to \$4,166.67

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Contributions and Funding Policy (continued)

##### Participants who have completed 20 years of service by July 1, 1979:

- If full supplement is elected: 7% of monthly compensation
- If full supplement is not elected: 4% of monthly compensation up to \$350.00, plus 6.5% of the excess

##### Participants who have not completed 20 years of service by July 1, 1979 and elect Certification 55:

- If full supplement is elected: 7% of monthly compensation up to \$2,916.00
- If full supplement is not elected: 4% of monthly compensation up to \$350.00, plus 6.5% of the excess up to \$2,916.67
- If certification 94 is elected: 9% of monthly compensation up to \$4,167.00
- If certification 139 is elected: 11% of monthly compensation up to \$5,463.64

##### Participants who are hired between January 1, 1990 and June 30, 1998:

- 8% of monthly compensation up to \$2,625.00 or,
- If Certification 94 is elected: 9% of monthly compensation up to \$4,167.00
- If certification 139 is elected: 11% of monthly compensation up to \$5,463.64

##### Participants who are hired on or after July 1, 1998:

- 9% of monthly compensation up to \$4,167.00
- 11% of monthly compensation up to \$5,463.64

The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2012 and 2011 was 14.7% and 11.1%, respectively, of annual covered payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses.

Therefore, administrative expenses are paid out of the trust fund. The University contributed 14.7% and 13% of participants' payroll in 2012 and 2011, respectively.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Contributions and Funding Policy (continued)

The contributions of the University were originally designed to fund, together with the contributions of the participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the System over a 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

#### Retirement Benefits

The System provides retirement, disability and death benefits to participants and beneficiaries. Cost-of-living adjustments are provided to participants and beneficiaries at the discretion of the Board of Trustees of the University, formerly known as the Council on Higher Education of the University of Puerto Rico. Article XIII of the Rules and Regulations of the System, as amended, effective July 1, 1973, assigns the authority to establish and amend benefit provisions to the Board of Trustees.

Participants who have completed 20 years of service by July 1, 1979 are entitled to annual retirement benefits at any age after 30 years of service. Otherwise, participants are entitled to annual retirement benefits at age 55 after 30 years of service. Participants may elect to receive their retirement benefits at age 58 after 10 years of service, or at age 55 after 25 years of service.

The amount of service retirement annuity is as follows:

- For all participants except those who have completed 20 years of service by July 1, 1979:
  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the member is under age 58 (Certification 37) and 55 (Certification 55), at time annuity begins.
  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for the participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 58 at time annuity begins.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Retirement Benefits (continued)

- After age 65 – if the member elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by .5% of average compensation not in excess of Social Security wage base in effect at retirement for each year of service. If the participants had less than 30 years of service and was under age 58 at the beginning date, adjustment is made before application of .5% reduction per month under age 58.
- For those members who have completed 20 years of service by July 1, 1979:
  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the member completed 30 years of service before July 1973, the annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to no more than 85% of average compensation.
  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 58 at the time the annuity begins.
  - At age 65 – if participants elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by .5% of first \$350 of average compensation for each year of service but not by more than primary Social Security benefit. If the participants had less than 30 years of service and was under age 58 at beginning date, adjustment is made before application of .5% reduction per month under age 58.
- For all participants who have not completed 20 years of service by July 1, 1979 and elect Certification 55, and for those hired on or after January 1, 1990:
  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Retirement Benefits (continued)

- Before age 65 – for participants with at least 30 years of service: 75% of average compensation for participants with at least 55 years of age at retirement date. Amount reduced by .5% for each month the participant is under age 55 at time annuity begins.
- Age 65 – if participants elected full supplement, annuity is the same as before age 65. Otherwise, annuity is reduced by .5% of average compensation at time of retirement multiplied by years of service.
- Minimum Annuity – \$250 per month - if a participant terminates before rendering 10 years of service, the right to receive the portion of his accumulated plan benefits attributable to the University's contributions is forfeited. However, the employee is entitled to receive, in a lump-sum payment, the value of his accumulated contributions.
- If a participant terminates after rendering 10 years of service, and does not withdraw his contributions, the participant receives a retirement annuity payable beginning at age 60 based on the applicable benefit formula.
- Refund may also be obtained after 10 years of service, but the vested benefit is lost.

#### Disability Benefits

- Employees who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes or after 10 years of service if disability is due to non-occupational causes. If the employee is also eligible for a retirement annuity, the benefit payable is the higher of the two. Disability benefits are paid as follows:
  - Before age 65 – if service related 50% of final salary. If not service related, 30% of average compensation plus additional 1% for each year of service over 10.
  - After age 65 – reduced to amount payable as retirement annuity, if that amount is less than disability retirement annuity, but reduced annuity plus primary Social Security benefit may not be less than original disability annuity.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 2. Description of the System (continued)

#### Death Benefits

- Pre-retirement death benefit – if the death of an employee is service related, a death benefit equal to 50% of the final annual salary plus \$120 (\$240 if widow not receiving benefit) per year for each child under age 18 (21 if at school) is paid to the employee’s beneficiaries. Maximum family benefit is 75% of the employee’s final annual salary. If death is non-service related, a lump-sum is paid equal to the employee’s contributions plus one year’s final salary, but not less than \$6,000.
- Post retirement death benefits – employee’s contributions are refunded to the extent that they exceed retirement payments already made, unless reversionary annuity was elected. Minimum payment is \$600. In addition, 50% of retirement annuity is payable to surviving spouse until death or remarriage or until they become eligible for Social Security benefits. Minimum annuity, \$75 per month, maximum annuity, \$150 per month.

#### Christmas Bonus

- A \$400 annual bonus is given to all retired participants.

### 3. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Liability - Entry Age (AAL) (b)	AAL (not <0) (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	Percentage of Covered Payroll [(b) - (a)]/(c)
6/30/2012	\$ 1,039,441,000	\$ 2,617,989,147	\$ 1,578,548,147	39.7%	\$ 499,027,788	316.3%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.



# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 3. Funded Status and Funding Progress (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal – Traditional
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 years constant (open basis)
Asset Valuation Method	Market Value adjusted to reflect investment gain and losses over a five (5) year period. The actuarial value of assets at June 30, 2012 is \$1,039,441,000.
 Actuarial Assumptions:	
Investment rate of return*	8%
Projected salary increases*	5%
Post-retirement benefit increases	Other than the automatic increase of 3% every two (2) years applicable to salary cap or Certification 139, NO postretirement benefit increases are assumed.
Mortality table	RP 2000 with projection.

*\*Includes inflation at 3.50%*

### 4. Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments as of June 30, 2012 and 2011 are as follows:

	2012	2011
Cash and cash equivalents	\$13,389,546	\$30,607,754

Pursuant to present statutes, deposits of financial institutions, other than with Government Development Bank of Puerto Rico (GDB), shall be in banks designated by the Puerto Rico Secretary of the Treasury as depository institutions of public funds. Such deposits are guaranteed by sufficient collateral under the name and custody of the Puerto Rico Secretary of the Treasury.

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments

The following table presents the fair value of investments of marketable securities as of June 30, 2012 and 2011:

	2012	2011
Marketable securities:		
U.S. Government obligations	\$ 4,922,898	\$ 14,317,748
U.S. Government agencies' obligations	45,300,440	26,499,981
Foreign bonds	19,187,317	18,237,258
Corporate bonds and other debentures	66,623,769	62,059,393
Foreign common stock	95,292,429	105,393,119
Common stock	140,666,556	152,814,161
Mortgage-backed securities	65,729,721	63,976,218
Municipal bonds	1,297,715	65,414
Commingled Lynch Aggregate	475,777,861	467,471,476
Sovereign debt	1,700,205	-
<b>Total</b>	<b>\$916,498,911</b>	<b>\$910,834,768</b>

No more than 5% of any debt issue may be purchased as an investment, with the exception of the U.S. government securities or its agencies. No more than 10% of the assets at cost may be invested in the securities of a single issuer, with the exception of the U.S. government securities or its agencies.

The custody of these investments is held by the trust department of a commercial bank in the name of the System and the portfolio is managed by nine brokerage firms.

The UPR's Board of Trustees has adopted the following strategic asset allocation:

Asset Class	% Allocated	Range
Domestic Large Cap Equity	40%	+-5%
Domestic Small/Mid Cap	10%	+-3%
International Equity	10%	+-3%
Fixed Income	28%	+-3%
Loans and Mortgages	12%	+-3%

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments (continued)

The overall investment fund does not have a strategic asset allocation to cash but individual managers will hold varying amounts of cash within their respective portfolios as part of the normal course of managing their portion of the fund.

The investments in bonds must be classified, at the time of purchase (-BBB or above) for standard and Poor's) or Baa3 or above (Moody's) or of comparable quality. In determining the quality type of an issue, the higher of the major agencies or comparable rating will apply.

Investments in commercial paper or bank certificates of deposit must be of institutions rated among one of the top 3 rating categories by bank watch (A, A/B or B-)

The investments in bonds collateralized by mortgages must be a first mortgage on properties within the United States.

The overall investment fund does not have a strategic allocation to private equity. However, the overall investment fund may, from time to time, examine private equity investments that it deems acceptable. If an allocation to private equity is made it will be funded from the domestic equity asset class. At no time, will the allocation exceed 5% of total fund assets

Private equity funds include the following at June 30, 2012 and 2011:

	Total Commitment	Contributions at June 30, 2012	Fair Value
<b>Grupo Guayacán, Inc.:</b>			
Guayacán Fund of Funds I, LP	\$ 5,000,000	\$ 4,764,049	\$ 336,392
Guayacán Fund of Funds II, LP	6,000,000	5,683,539	1,723,503
Guayacán Fund of Funds III, LP	5,000,000	2,504,888	2,477,064
<b>Advent-Morro Equity Partners Inc.:</b>			
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	1,487,629
Guayacán Private Equity Fund II, LP	5,000,000	3,805,901	3,847,914
<b>DCC Growth Fund, LP</b>	<b>2,000,000</b>	<b>2,000,000</b>	-
<b>McCoy Investment Fund 2</b>	<b>15,000,000</b>	<b>5,850,000</b>	<b>5,097,598</b>
<b>Total</b>	<b>\$40,500,000</b>	<b>\$26,930,959</b>	<b>\$14,970,100</b>

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments (continued)

	Total Commitment	Contributions at June 30, 2011	Fair Value
<b>Grupo Guayacán, Inc.:</b>			
Guayacán Fund of Funds I, LP	\$ 5,000,000	\$ 4,764,049	\$ 848,858
Guayacán Fund of Funds II, LP	6,000,000	5,683,539	2,296,434
Guayacán Fund of Funds III, LP	5,000,000	1,465,895	1,327,013
<b>Advent-Morro Equity Partners Inc.:</b>			
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	1,724,944
Guayacán Private Equity Fund II, LP	5,000,000	3,448,758	3,469,665
<b>DCC Growth Fund, LP</b>	2,000,000	2,000,000	384,041
Total	\$25,500,000	\$19,684,823	\$10,050,955

### Credit Risk

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments issued or explicitly guaranteed by the United States government are excluded. The System's policy requires and limits investments in debt securities to only those in the top investment grade ratings issued by a nationally recognized statistical rating organization. As of June 30, 2012, the System's credit quality distribution for securities was as follows:

	Carrying Value	Rating
Foreign bonds	\$19,187,316	Aaa to BBB-
Corporate bonds and other debentures	\$66,623,769	Aaa to BBB-

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments (continued)

#### Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's cash, cash equivalents and short-term investments are not exposed to custodial credit since cash balances of the System are insured by the Federal Deposit Insurance Corporation or collateralized with securities held on behalf of the System by the Puerto Rico Secretary of Treasury or the Secretary's agent in the name of the Secretary. Pursuant to present statutes, deposits of financial institutions, other than with GDB, shall be in banks designated by the Puerto Rico Secretary of the Treasury as depository institutions of public funds. Such deposits are guaranteed by sufficient collateral under the name and custody of the Puerto Rico Secretary of the Treasury. Investments of the System, which are under custody of a depository institution, are as follows:

Security Type	Carrying Value
Mortgage backed securities	\$ 65,729,721
Corporate bonds and other debentures	66,623,769
Common stocks	140,666,556
U.S. Government obligation	4,922,898
Treasury bonds and notes	45,300,440
Foreign common stocks	95,292,429
Foreign corporate bonds	15,704,944
Foreign government bonds	3,482,372
Sovereign debt	1,700,205
Municipal bonds	1,297,715
Commingled Lynch Aggregate	475,777,862

The System has a Security Lending Agreement (the Agreement) with its investment custodian (the Custodian). In this Agreement, the University agrees to lend certain securities upon request of a borrower. The Custodian is the managing agent in this agreement where upon request of a borrower, the Custodian lends, as mentioned before, securities in exchange of collateral. Collateral may consist of cash, other approved securities and/or letter of credit from the borrower. The Custodian has unrestricted right to invest any cash collateral; also, the Custodian

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments (continued)

#### Custodial Risk (continued)

may commingle any approved securities held as collateral with any other securities held under custody on behalf of the University. Under the Agreement, the borrower is compelled to return the securities lend by the University upon termination of the loan term.

Under the Agreement as disclosed above, the System received in cash collateral \$71,087,059. This cash collateral has been reinvested, in accordance with the Agreement, in fixed income investments that are exposed to custodial credit risk as disclosed above.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. Information regarding investment in any one issuer that represents five percent or more of the System's total investments must be disclosed under GASB No. 40, excluding investments issued or explicitly guaranteed by the United States government. The System's portfolio is not exposed to concentration of credit risk since the investment policies does not allow to invest in any single issuer more than 5% of the total portfolio, except for Government securities.

#### Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As of June 30, 2012, the weighted average maturity by investment type in each fund follows:

<u>Investment Type</u>	<u>Weighted Average Maturity</u> <i>(Years)</i>	<u>Fair Value</u>
Corporate Bonds	13.15	\$ 66,623,769
FHLMC	18.77	11,569,250
FNMA	24.92	45,441,886
GNMA	10.02	8,718,586
Municipal Bonds	45.79	1,297,715
Other Government Bonds	9.55	51,923,542
		<u>\$185,574,748</u>

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 5. Investments (continued)

#### Foreign Currency Risk

A System's exposure to foreign currency risk derives from its positions in foreign currency denominated equities and fix income investments. The System's investment policy permits it to invest up to 15% of total investments in foreign currency denominated investments. The System's investments in foreign currency denominated corporate bonds were rated AAA by Standard & Poor's Investors Service. The system's exposure to foreign currency risk is as follows:

Security Type	Currency	Maturity	Carrying Value
Common Stocks	Australia Dollar	Not Applicable	\$ 2,965,177
Common Stocks	Belgium	Not Applicable	911,264
Common Stocks	Bermuda Dollar	Not Applicable	2,374,221
Common Stocks	Brazil Real	Not Applicable	695,429
Common Stocks	Cayman Islands Dollar	Not Applicable	3,263,067
Common Stocks	Canada Dollar	Not Applicable	3,601,038
Common Stocks	Channel Island	Not Applicable	564,612
Common Stocks	Chile	Not Applicable	508,879
Common Stocks	China Yuan	Not Applicable	2,596,117
Common Stocks	Danish Krone	Not Applicable	1,086,761
Common Stocks	France Francs	Not Applicable	4,799,363
Common Stocks	Germany Marks	Not Applicable	6,078,653
Common Stocks	Hong Kong	Not Applicable	1,300,157
Common Stocks	Indian Rupee	Not Applicable	724,568
Common Stocks	Ireland Euro	Not Applicable	479,289
Common Stocks	Israeli New Shekel	Not Applicable	1,176,577
Common Stocks	Italy Lire	Not Applicable	2,843,931

*(Continued)*

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

**5. Investments (continued)**

**Foreign Currency Risk (continued)**

Security Type	Currency	Maturity	Carrying Value
Common Stocks	Japan Yen	Not Applicable	\$18,347,665
Common Stocks	Korean Won	Not Applicable	1,205,974
Common Stocks	Luxembourg Franc	Not Applicable	622,291
Common Stocks	Netherlands Euro	Not Applicable	2,206,442
Common Stocks	Norway	Not Applicable	1,261,645
Common Stocks	Panama	Not Applicable	385,444
Common Stocks	Singapore	Not Applicable	1,181,915
Common Stocks	Spain Euro	Not Applicable	1,334,347
Common Stocks	Sweden	Not Applicable	795,478
Common Stocks	Switzerland	Not Applicable	8,585,235
Common Stocks	Taiwan	Not Applicable	1,204,157
Common Stocks	United Kingdom Pounds	Not Applicable	22,192,734
Corporate Bonds	Australia Dollar		272,835
Corporate Bonds	Cayman Islands Dollar	01/27/2016 - 01/20/2020	969,831
Corporate Bonds	Canada Dollar	09/17/2015 - 07/30/2039	5,219,172
Corporate Bonds	Chile	11/4/2020	135,479

*(Continued)*



University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

5. Investments (continued)

Foreign Currency Risk (continued)

Security Type	Currency	Maturity	Carrying Value
Corporate Bonds	Luxembourg Franc		\$ 251,446
Corporate Bonds	Mexico Peso	2/15/2020	491,180
Corporate Bonds	Netherlands	11/3/2014	1,133,753
Corporate Bonds	Netherlands Antilles		315,534
Corporate Bonds	Norway	02/14/2012 - 06/26/2017	2,211,743
Corporate Bonds	Spain Euro	02/04/2013 - 04/26/2013	1,186,637
Corporate Bonds	Sweden	3/28/2016	1,320,733
Corporate Bonds	United Kingdom Pounds	06/10/2014 - 07/15/2021	2,196,506
Governmental Bonds	Brazil Real		346,950
Governmental Bonds	Canada Dollar	6/16/2014	964,272
Governmental Bonds	Mexico Peso	1/15/2020	385,381
Governmental Bonds	Netherlands		834,360
Governmental Bonds	Norway		951,409
Total			<u>\$ 114,479,746</u>

# University of Puerto Rico Retirement System

## Notes to Financial Statements (continued)

### 6. Capital Assets

Property and equipment additions are recorded at cost. Depreciation is provided using the straight-line method over the useful life of the asset. For the years ended June 2012 and 2011, changes in property and equipment, consisted of the following:

	Beginning Balance at June 30, 2011	Additions	Retirements	Ending Balance at June 30, 2012
Building	\$3,751,340	\$ 60,600	\$ —	\$3,811,940
Equipment	755,102	—	(289,324)	465,778
Foreclosure Homes	—	313,371	—	313,371
	4,506,442	373,971	(289,324)	4,591,089
Less accumulated depreciation	(876,618)	(156,909)	189,340	(844,187)
	<u>\$3,629,824</u>	<u>\$ 217,062</u>	<u>\$ (99,984)</u>	<u>\$3,746,902</u>

	Beginning Balance at June 30, 2010	Additions	Retirements	Ending Balance at June 30, 2011
Building	\$2,914,667	\$ 836,673	\$ —	\$3,751,340
Equipment	474,944	280,158	—	755,102
	3,389,611	1,116,831	—	4,506,442
Less accumulated depreciation	(697,949)	(178,669)	—	(876,618)
	<u>\$2,691,662</u>	<u>\$ 938,162</u>	<u>\$ —</u>	<u>\$3,629,824</u>

### 7. Medical Insurance

The System pays to each retiree up to a maximum of \$125 monthly for medical plan expenses. For the years ended June 30, 2012 and 2011, medical plan expenses amounted to \$9,932,018 and \$9,772,691, respectively. Medical expenses are paid by the System and reimbursed by the System sponsor, the University of Puerto Rico.

### 8. Related Party Transactions

All employer contributions of the System are received from the University. In addition, the University reimburses the System for certain medical insurance expenses.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

**9. Subsequent Events**

In connection with the preparation of the financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of the Systems for subsequent events that would impact the financial statements for the year ended December 31, 2012 through the date of the audit opinion of June 17, 2013, which was the date the financial statements were available to be issued.

DRAFT

Required Supplementary Information  
*(Unaudited)*

# University of Puerto Rico Retirement System

## Schedule of Funding Progress

June 30, 2012

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability - Entry Age (AAL) (b)	Unfunded AAL (not <0) (UAAL) (b) - (a)	Funded Ratio (a) - (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)]/(c)
6/30/2012	\$ 1,039,441,000	\$ 2,617,989,147	\$ 1,578,548,147	39.7%	\$ 499,027,788	316.3%
6/30/2011	1,041,628,000	2,542,444,021	1,500,816,021	41.0%	510,706,620	293.9%
6/30/2010	1,028,918,000	2,436,913,244	1,407,995,244	42.2%	540,867,018	260.3%
6/30/2009	1,034,645,000	2,331,619,466	1,296,974,466	44.4%	570,122,184	227.5%
6/30/2008	1,024,987,000	2,223,219,684	1,198,232,684	46.1%	542,603,556	220.8%
6/30/2007	953,197,000	2,068,102,695	1,114,905,695	46.1%	513,486,180	217.1%
6/30/2006	869,211,000	1,930,131,983	1,060,920,983	45.0%	484,886,628	218.8%
6/30/2005	820,501,000	1,848,175,710	1,027,674,710	44.4%	460,956,060	222.9%
6/30/2004	803,498,000	1,748,529,453	945,031,453	46.0%	431,942,112	218.8%
6/30/2003	778,265,000	1,594,436,193	816,171,193	48.8%	405,855,271	201.1%
6/30/2002	640,406,669	1,546,249,360	905,842,691	41.4%	390,192,418	232.2%
6/30/2001	686,067,220	1,311,021,235	624,954,015	52.3%	363,995,029	171.7%
6/30/2000	753,863,676	1,212,559,037	458,695,361	62.2%	341,871,667	134.2%
6/30/1999	650,294,843	1,161,100,932	510,806,089	56.0%	333,153,432	153.3%
6/30/1998	586,095,318	1,037,281,510	451,186,192	56.5%	322,232,048	140.0%
6/30/1997	505,466,931	957,716,124	452,249,193	52.8%	305,498,420	148.0%
6/30/1996	427,435,099	912,242,254	484,807,155	46.9%	283,798,140	170.8%
6/30/1995	382,934,691	856,494,515	473,559,824	44.7%	261,466,451	181.1%
6/30/1994	N/A	N/A	N/A	N/A	N/A	N/A
6/30/1993	343,302,357	748,243,399	404,941,042	45.9%	221,986,837	182.4%
6/30/1992	N/A	N/A	N/A	N/A	N/A	N/A
6/30/1991	280,341,508	646,980,619	366,639,111	43.3%	209,377,144	175.1%

*See notes to schedules of trend information.*

# University of Puerto Rico Retirement System

## Schedule of Employer Contributions

June 30, 2012

Year Ended June 30	Required Contribution as a Percentage of Payroll for Year Ended (1)	Actual Payroll	Annual Required Contribution (ARC)	Employer Contribution Made	Percentage Contributed	(Excess) / Deficiency
2012	14.7%	\$ 491,062,740	\$ 72,186,223	\$ 75,139,790	104.1%	\$ (2,953,567)
2011	13.0%	526,819,627	64,486,552	70,761,490	103.3%	(2,274,938)
2010	11.4%	558,960,726	63,721,523	71,176,599	111.7%	(7,455,076)
2009	11.1%	577,227,102	64,072,208	72,605,262	113.3%	(8,533,054)
2008	10.9%	543,538,453	59,245,691	81,553,088	137.7%	(22,307,397)
2007	11.1%	518,236,607	57,524,263	78,310,774	136.1%	(20,786,511)
2006	11.3%	490,262,657	55,399,680	73,658,083	133.0%	(18,258,403)
2005	18.4%	460,174,370	84,672,084	69,291,395	81.8%	15,380,689
2004	16.2%	433,607,194	70,244,365	61,376,007	87.4%	8,868,358
2003	16.1%	407,357,391	65,584,540	57,551,270	87.8%	8,033,270
2002	14.0%	387,508,328	54,251,166	52,326,004	96.5%	1,925,162
2001	11.0%	376,992,691	41,469,196	54,040,933	130.3%	(12,571,737)
2000	12.6%	348,397,129	43,898,038	49,651,679	113.1%	(5,753,641)
1999	11.7%	330,179,269	38,630,974	53,041,795	137.3%	(14,410,821)
1998	12.3%	327,884,351	40,329,775	48,856,041	121.1%	(8,526,266)
1997	14.0%	311,025,104	43,543,515	46,600,524	107.0%	(3,057,009)
1996	14.6%	280,144,023	40,901,027	41,516,818	101.5%	(615,791)
1995	14.8%	261,613,882	38,718,855	36,479,385	94.2%	2,239,470
1994	14.8%	245,096,878	55,399,680	34,145,484	94.1%	2,128,854
1993	14.3%	232,505,968	55,399,680	32,399,088	97.4%	849,265
1992	14.3%	231,818,990	55,399,680	29,581,402	89.2%	3,568,714
1991	14.3%	213,752,919	55,399,680	25,828,085	84.5%	4,738,582

(1) ARC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (e.g., the June 30, 2012, Required Contribution was established in the June 30, 2011 actuarial valuation).

*See notes to schedules of trend information.*

# University of Puerto Rico Retirement System

## Notes to Required Supplementary Information

June 30, 2012

### 1. Schedule of Funding Progress

The Schedule of Funding Progress provides information about the funded status of the System and the progress being made in accumulating sufficient assets to pay benefits when due.

### 2. Schedule of Employer Contributions

The Schedule of Employer 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.

### 3. Actuarial Data

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal -- Traditional
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 years constant (open basis)
Asset Valuation Method	Market Value adjusted to reflect investment gain and losses over a five (5) year period. The actuarial value of assets at June 30, 2012 is \$1,039,441,000.

# University of Puerto Rico Retirement System

## Notes to Required Supplementary Information (continued)

### 3. Actuarial Data (continued)

Actuarial Assumptions:

Investment rate of return*	8%
Projected salary increases*	5%
Post-retirement benefit increases	Other than the automatic increase of 3% every two (2) years applicable to salary cap or Certification 139, No postretirement benefit increases are assumed.
Mortality table	RP 2000 with projection. Last year 1994 GAM was employed.

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\*Includes inflation at 3.50%



Report on Independent Auditors on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards*

The Board of Trustees of  
the University of Puerto Rico Retirement Systems

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of Puerto Rico Retirement Systems (the System), which comprise the statements of plan net assets, as of June 30, 2012, and the statements of changes in plan net assets for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2013.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

June 12, 2013

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affixed to  
the original  
of this report.

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