UNIVERSITY OF PUERTO RICO
RETIREMENT SYSTEM

Basic Financial Statements and
Required Supplementary Information
June 30, 2021 and 2020

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To: The Retirement System Board of
The University of Puerto Rico Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Puerto Rico Retirement System as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the University of Puerto Rico Retirement System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the University of Puerto Rico Retirement System as of June 30, 2021 and 2020, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The University of Puerto Rico Retirement System's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming the University of Puerto Rico Retirement System will continue as a going concern. As further described in Note 3 to the financial statements, the University of Puerto Rico Retirement System is highly dependent on funding from the University of Puerto Rico which in turn receives its funding from the Commonwealth of Puerto Rico appropriations to finance its operations. The financial difficulties experienced by the Commonwealth of Puerto Rico, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the University of Puerto Rico's ability to continue funding the University of Puerto Rico Retirement System and paying the required contributions. Management's evaluation of the events and conditions and management's plans in regard to these matters are also described in Note 3.

The financial statements do not include any adjustments that may result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 14, the Schedule of Changes in Net Pension Liability on page 39, the Schedule of Net Pension Liability on page 40, the Schedule of Employer Contributions on page 41, and the Schedule of Annual Money-Weighted Rate of Return on Investments on page 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2023, on our consideration of the University of Puerto Rico Retirement 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 solely 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 effectiveness of the University of Puerto Rico Retirement System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Puerto Rico Retirement System's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 14, 2023.

Stamp No. E522954 was affixed to
the original of this report.

RSM Puerto Rico

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM
Management's Discussion and Analysis (Unaudited)
As of June 30, 2021

Introduction

The University of Puerto Rico (the "University") was organized through Law No. 135 of May 7, 1942, known as the Act of the University (superseded by Act Number 1 of January 20, 1966, as amended (the "Act No. 1"), as a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"). On February 16, 1945, the University's Council on Higher Education, with the University's endorsement and consent, enacted a resolution to create, maintain, finance, and manage the University of Puerto Rico Retirement Plan (the "System") effective January 1, 1945, to provide pension benefits to all University employees. The Act No. 1 designated the Governing Board of the University as Trustee with the faculty to govern the System. In addition, the Governing Board of the University appointed the System's Board to oversee the System's administration and an Executive Director to manage its everyday affairs in accordance with the faculties and provisions of Certification No. 27 (1973-74), as amended.

Our discussion and analysis of the System's financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2021 and 2020.

Financial Highlights

- The System has experienced an increase in net position during fiscal year 2021 of 21.47%, an increase of 3.96% during fiscal year 2020, and a decrease of 0.33% during fiscal year 2019. Net position are $1,772,586,869, $1,459,232,314, and $1,403,702,320, for the fiscal years 2021, 2020 and 2019, respectively.

- The components of Additions to the Changes in Fiduciary Net Position in the fiscal years 2021, 2020, and 2019 are comprised of contributions of $189,510,018, $195,662,931 and $108,111,562, respectively, and net investment income of $348,055,620, $81,795,575, and $98,788,346, respectively.

- During fiscal years 2021, 2020 and 2019, the System administered funds amounting to $10,276,386, $11,069,670 and $10,989,776, respectively from the University of Puerto Rico for retirees' medical insurance in a separate bank account created to manage the reference funds outside the operations of the Retirement System Trust.

- Total additions to Fiduciary Net Position amounts to $537,565,638 for the fiscal year ended June 30, 2021 compared to $277,458,506 for the fiscal year ended June 30, 2020 and $206,899,908 for the fiscal year ended June 30, 2019. The increase in additions for fiscal year 2021 when compared to fiscal year 2020 was mainly due to an increase in appreciation of fair value of investments of $269,891,791. In addition, there was a decrease in total contributions of $6,152,911 or 3.14% less than previous year. The increase in additions for fiscal year 2020 when compared to fiscal year 2019, was mainly due to an increase in employer contribution of $86,148,227.

- Deductions to Fiduciary Net Position in fiscal year 2021 were $224,211,083, compared to $221,928,512 in fiscal year 2020, $211,573,544 in fiscal year 2019 and $202,704,395 in fiscal year 2018. The increase was mainly caused by benefits paid to participants of $220,847,024 during fiscal year 2021 compared to $218,289,504 in fiscal year 2020. The increase in deductions to Fiduciary Net position in fiscal year 2020 when compared to 2019, was also due to benefits paid to participants of $218,289,504 during fiscal year 2020 compared to $207,822,961 in fiscal year 2019.

- During fiscal year 2021, the System reflected a return on investments of 22.96%, as compared to the benchmark's return of 22.76%. During fiscal year 2020, the System reflected a return on investments of 6.00%, as compared to the benchmark's return of 4.38%.

- Funding ratio increased from 40.8% in fiscal year 2013, to 43.9% in fiscal year 2014, 46.6% in fiscal year 2015, 47.8% in fiscal year 2016, 48.9% in fiscal year 2017, experienced a reduction to 43.7% in fiscal year 2018, and 42.8%, for the fiscal year 2019, and an increase to 43.7% for the fiscal year 2020 and 47.6% for 2021.

- For fiscal year 2021, fund performance ranked 26th and 38Th during the last 36 and 60 months against the Callan LLC peer comparison nationwide Callan Public Fund Database for Fiscal Year June 30, 2021. For fiscal year 2020, the fund performance ranked 10th and 6th during the last 36 and 60 months against Callan LLC peer comparison nationwide Callan LLC Public Fund Database for fiscal Year June 2020. Database consists of approximately 200+ public funds in the past 24 months, for both years.

- On October 1, 2020, the Puerto Rico Court of Appeals issued a judgment and determined that the University's Governing Board should be removed as Trustee of the University's Retirement System Trust, and consequently, the Retirement System's Board should be the substitute trustee. On October 16, 2020, the University requested a reconsideration of this judgement in the Puerto Rico Court of Appeals, but it was denied by the Court in November 2020. Then, the University requested to the Puerto Rico Supreme Court the revision of the judgement of Puerto Rico Court of Appeals, however, it was denied by the Puerto Rico Supreme Court on February 5, 2021.

- On March 25, 2021, the Governing Board of the University approved by Certification No. 77 of the fiscal year June 30, 2021, that the System will be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees will participate in a defined contribution plan beginning January 1, 2022. Vested employees and retirees of the System are not impacted with this prospective change. The University commits to funding the System following a closed 30-year amortization according to actuarial guidance.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

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 considered regardless of when cash is received or paid. The Statement of Fiduciary Net Position presents plan assets and liabilities, with the difference between the two reported as net position restricted for pensions. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Fiduciary Net Position presents how the System's net position 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 position of the System during the years ended June 30, 2021 and 2020 increased by approximately $313.4 million or 21.47% and increased by approximately $55.5 million or 3.96% over prior year, respectively (see Statements of Changes in Fiduciary Net Position for details). For fiscal year 2021, total assets increased $322.9 million or 20.68% from prior year mainly due to an increase in the fair market value of investments. For fiscal year 2020 total assets increased $42.9 million or 2.83% from prior year mainly due to an increase in employer contributions.

Statements of Fiduciary Net Position

	June 30, 2019	June 30, 2020	June 30, 2021	2019 - 2020 Percentage Change	2020-2021 Percentage Change
Assets					
Cash and cash equivalents	$ 26,081,075	$ 87,225,292	$ 110,833,849	234.44%	27.07%
Receivables	73,248,726	47,971,920	61,406,257	(34.51%)	28.00%
Investments	1,190,292,689	1,175,738,650	1,472,989,037	(1.22%)	25.28%
Alternative investments	111,273,102	115,274,995	138,265,968	3.60%	19.94%
Securities lending cash collateral	118,505	24,791,138	2,888,841	20,819.91%	(88.35%)
Loans to plan members	105,262,129	99,610,165	90,144,115	(5.37%)	(9.50%)
Other receivables net of allowances	8,709,305	6,370,470	4,567,238	(26.85%)	(28.31%)
Other receivables	209,516	1,326,570	226,825	533.16%	(82.90%)
Capital assets-net	3,737,006	3,584,301	3,494,417	(4.09%)	(2.51%)
Total assets	$ 1,518,932,053	$ 1,561,893,501	$ 1,884,816,547	2.83%	20.68%
Liabilities					
Accounts payable and accrued expenses	$ 15,406,699	$ 11,867,048	$ 12,125,130	(22.97%)	2.17%
Obligations under securities lending	1,290,230	25,958,580	4,050,935	1,911.93%	(84.39%)
Escrow deposits on mortgage loans	2,027,558	1,986,114	1,897,266	(2.04%)	(4.47%)
Other deposits and pending distribution funds	774,634	607,675	953,852	(21.55%)	56.97%
Payables for acquisition of investments	95,730,612	62,241,770	93,202,495	(34.98%)	49.74%
Total liabilities	$ 115,229,733	$ 102,661,187	$ 112,229,678	(10.91%)	9.32%
Net position	$ 1,403,702,320	$ 1,459,232,314	$ 1,772,586,869	3.96%	21.47%

Contributions and Net Investment Income

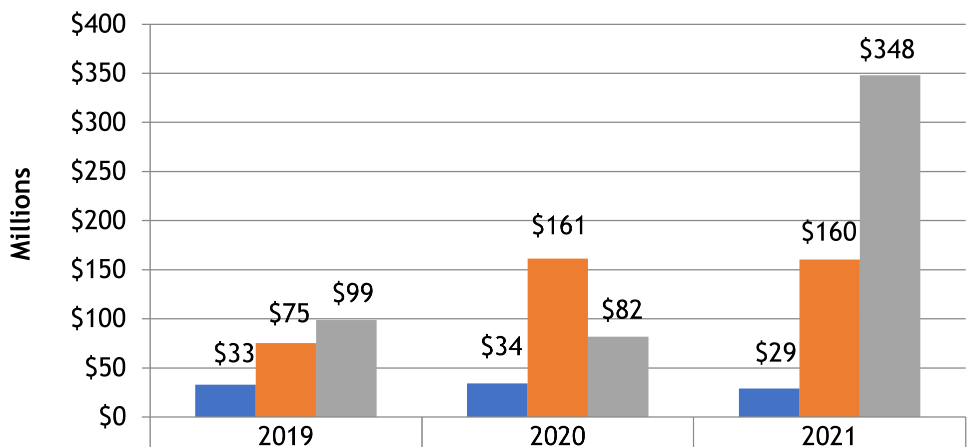
The funds needed to finance retirement benefits are obtained through employer and employee contributions and through net investment income. Contributions and net investment income for fiscal year 2021 amounted to approximately $537.6 million compared to approximately $277.4 million for total additions of fiscal year 2020. The increase was mainly due to an increase in the appreciation in fair value of investments by approximately $269.9 million. For fiscal year 2020 total additions amounted to approximately $277.4 million compared to approximately $206.9 million for fiscal year 2019. The increase was mainly due to additional employer contributions during fiscal year 2020.

Statements of Changes in Fiducuciary Net Position

	June 30, 2019	June 30, 2020	June 30, 2021	2019 - 2020 Percentage Change	2020-2021 Percentage Change
Additions :					
Contributions	$ 108,111,562	$ 195,662,931	$ 189,510,018	80.98%	(3.14%)
Net investment income	98,788,346	81,795,575	348,055,620	(17.20%)	325.52%
Total additions	206,899,908	277,458,506	537,565,638	34.10%	93.75%
Deductions:					
Benefits paid	207,822,961	218,289,504	220,847,024	5.04%	1.17%
General and administrative expenses	3,750,583	3,639,008	3,364,059	(2.97%)	(7.56%)
Total deductions	211,573,544	221,928,512	224,211,083	4.89%	1.03%
Net increase (decrease) in net position restricted for pensions	$ (4,673,636)	$ 55,529,994	$ 313,354,555	(1288.15%)	464.30%

Contributions paid by participants were approximately $29.2 million, $34.3 million and $32.8 million, for the years ended June 30, 2021, 2020 and 2019, respectively. This represented a decrease of approximately of $5.1 million for 2021 or 14.88% in comparison with an increase of approximately $1.4 million or 4.27% for 2020.

Total Additions to Fiduciary Net Position



	2019	2020	2021
Participants Contributions	$32,848,638	$34,251,780	$29,153,522
Employer Contributions	$75,262,924	$161,411,151	$160,356,496
Net Investment Income	$98,788,346	$81,795,575	$348,055,620

General and Administrative Expenses

General expenses for the administration of the System are budgeted and approved as part of the annual budgeting process and are paid from the assets of the System. Expenses for professional services, including outside legal counsel, auditors, investment managers, investment advisor, and actuarial services are paid directly by the System. In addition, the System's Board reviews and approves proposals for one-time, special projects as they arise.

Total general and administrative expenses for the System during fiscal years 2021, 2020 and 2019 amounted to $3,364,059, $3,639,008 and $3,750,583, respectively. The decrease in administrative expenses from fiscal years 2021 to 2020 were mainly due to a decrease in sick leave and vacation leave expenses. The decrease in administrative expenses from fiscal years 2020 to 2019 were mainly due to a decrease in payroll expenses.

Actuarial Standards

Actuarial calculations are based on the current provisions of the System and on actuarial assumptions as of June 30, 2021 and 2020, and internally consistent and reasonably based on the actual experience of the System. In addition, the calculations were completed in compliance with the laws governing the System. The external actuary contracted by the System is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to determine the actuarial amounts contained in this report.

Future actuarial results may differ significantly from the current results presented in this report due to factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the System's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The following table summarizes the membership of the System as of June 30:

Membership	2021	2020	2019
Inactive members or their beneficiaries currently receiving benefits	9,324	9,359	9,096
Inactive members entitled to but not yet receiving benefits	5,980	5,706	8,724
Active members	8,252	8,790	9,140
Total	23,556	23,855	26,960

The long-term expected rate of return of the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of the System's investment expense and inflation), which are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are provided by the System's investment consultant.

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2021, compared to 4.60% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that participants contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2022.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current participants. As of June 30, 2021, the System is not projected to be insolvent. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments and the applicable municipal bond index rate of 2.18%, based on the S&P Municipal Bond 20-year High Grade Index Rate as of June 30, 2021, was applied to all periods of projected benefit payments. The Single Equivalent Interest Rate (SEIR) of 6.75% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2021. The SEIR at the beginning of the measurement period was 4.60%.

Required Supplementary Information includes four unaudited required schedules of historical trend information as follows:

1. The Schedule of Changes in Net Pension Liability (page 39) presents sources of changes in the net pension liability

2. The Schedule of Net Pension Liability (page 40) includes historical information about the components of the net pension liability and related ratios, including fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

3. The Schedule of the Employer Contributions (page 41) includes information about the actuarially determined contribution, contributions to the System, and related ratios. Additionally, significant methods and assumptions used in calculating the actuarially determined contributions are presented in the notes to required supplementary information.

4. The Schedule of Annual Money - Weighted Rate of Return on Investments (page 42) includes the annual money-weighted rate of return on pension plan investments for each year.

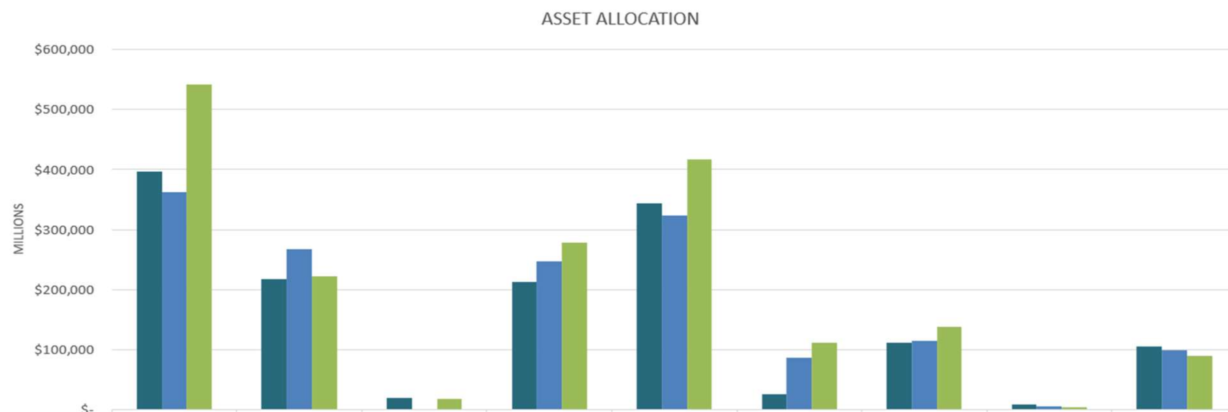
Investments

The System's investment portfolio appreciated in fair value by approximately $328.7 million during fiscal year 2021, as compared to fiscal year 2020, when it appreciated by approximately $58.8 million and approximately $77.6 million in fiscal year 2019. The net investment income for fiscal year 2021 amounted to approximately $348.1 million, which represent an increase in investment income of approximately $266.3 million. On the other side, expenses in 2021 from Investment Managers increased by approximately $485,400 or 13%, and custody expenses decreased by approximately $49,000 or 8.9%. Total investment expenses during fiscal year 2021 were $4,729,098, an increase of $430,432 from previous year due to an increase in custody bank and investment manager's fee charges.

The net investment income for fiscal year 2020 amounted to approximately $81.8 million and $98.8 for fiscal year 2019, which represent a decrease in investment income of approximately $17.0 million when compared to 2019. For fiscal year 2020, the appreciation in fair value of investments was approximately $18.8 million less than fiscal year 2019.

Asset Allocation

Most of the System's assets are invested in marketable securities. The investment fund has 55.88% of its assets in stocks and 24.27% in fixed income investments, 5.20% loans to participants, 1.00% in international fixed income, and 7.60% in private equity investments for the year ended June 30, 2021. 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, 2021, 2020, and 2019.



	Mutual Funds	Fixed Income	International Fixed Income	Equities	International Equities	Cash Equivalents	Private Equity	Other Loans	Member Loans / Mortgages
2019	$397,296	$217,378	$18,966	$212,658	$344,113	$26,081	$111,273	$8,709	$105,262
2020	$361,578	$267,924	$220	$247,294	$322,992	$87,225	$115,275	$6,370	$99,610
2021	$541,638	$222,108	$17,403	$278,244	$416,485	$110,834	$138,266	$4,567	$90,144

Benefits Paid and Liabilities

For the fiscal year 2021, pension benefits paid to retirees and beneficiaries were $220.9 million, which represents an increase of approximately $2.56 million or 1.17% when compared to the prior year. For the previous two years, 2020 and 2019, pension benefits paid to retirees and beneficiaries were $218.3 and $207.82 million respectively, which represented an increase of $10.5 million or 5.04%.

As of June 30, 2021, the Active members and Retired members were 8,252 and 9,324, respectively. As of June 30, 2020, the Active members and Retired members were 8,790 and 9,359, respectively.

During fiscal year 2021, total liabilities were approximately $112.2 million which represents an increase of $9.6 million or 9.32%, when compared to prior year. Approximately, 83.05% of total liabilities consist of unsettled transactions. During fiscal year 2020, total liabilities were approximately $102.7 million, which represents a decrease of approximately $12.6 million or 10.91% when compared to prior year. Approximately, 60.63% of our total liabilities consisted of unsettled investment transactions. Overall, liabilities represent accounts payable to agencies, deposits for distribution to employee's contributions and accounts payables for acquisition of investments.

The System as a Whole

Fiscal year 2021, reported an increase in net position of approximately $313.4 million, the main reason of that result is that the appreciation in fair value of investments increased by approximately $269.9 million when compared to the previous year. Net investment income increased by approximately $266.3 million.

Fiscal year 2020, reported an increase in net position increase of approximately $55.5 million, the main reason of that result is that total contributions, increased for approximately $87.5 million, while benefits paid to participants increased by approximately $10.4 million, when compared to previous year. Net investment decreased by approximately $16.9 million.

Economic Factors

The Puerto Rico economy has been in a recession since 2006. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in retail sales, budget shortfalls and diminished consumer buying power resulting in higher costs of living.

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition (a prolonged economic recession which commenced in 2006), and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth has a significant adverse impact on the University, given its reliance on Commonwealth appropriations.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the Government Development Bank for Puerto Rico (GDB), and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB and increased near-term refinancing risk. These factors, among others, have also resulted in the non-payment by the Commonwealth and its instrumentalities of most of their outstanding debt obligations, including the outstanding GDB lines of credit which caused the discontinuance of GDB to provide liquidity to the Commonwealth and its instrumentalities, such as the University, and have caused the default of GDB's debt obligations.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety, and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

The fiscal year ended June 30, 2021, continued to present significant economic challenges and difficulties for the University. As a result, the System's management has continued to focus its efforts on protecting the System of the University. On June 29, 2016, the University confirmed, restated, and acknowledged in a public deed (the "Trust Deed") all acts, and faculties as applied and lawfully enforced by the Governing Board in relation to the System and its trust fund from its inception to the present-day. Thus, through the execution of the Trust Deed, the University affirmed the public and governmental nature of the System founded in the year 1945 and its organization as a de facto trust. Pursuant to the Trust Deed, the System's assets remain completely autonomous and separate of the assets of the University, the Trustee and its members and continue to be exempt from the individual or collective action of their respective creditors.

As part of their Certified 2021 Fiscal Plan for the University of Puerto Rico, the UPR Retirement System would be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees would participate in a defined contribution plan beginning January 1, 2022. Vested employees in the UPRRS and retirees are not impacted with this prospective change. The current UPR Retirement System defined benefit plan closes for non-vested participants and will no longer accepts new employees. Non-vested and new participants would participate of a new defined contribution plan starting January 1, 2022. Non-vested employee and new employees would contribute 8.5% of their annual salary to a new defined contribution plan. The UPR would contribute a 4.5% annual matching.

Accordingly, to Certification issued in October 2022 by the University of Puerto Rico Governing Board, there were changes in the composition of the Defined Contribution Plan. Certification No. 52 of fiscal year 2022-2023 nullifies Certification No. 106 of fiscal year 2021-2022 and establishes that the new implementation date of the defined contribution plan for new employees will be May 1, 2023. As of May 1, 2023, the System will be closed to new participants and non-vested participants.

On January 18, 2022, the United States District Court for the District of Puerto Rico, confirmed an Adjustment Plan for the Government of Puerto Rico with the purpose of restructuring $33 billion in liabilities against the Commonwealth of Puerto Rico, Public Buildings Authority and Employee Retirement System; and more than $55 billion in pension liabilities to the amount of $7 billion. The Adjustment Plan entered into force on March 15, 2022.

Currently Known Facts

Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses.

On March 12, 2020, the Governor of Puerto Rico issued an executive order (EO 2020-020) declaring a health emergency, ordering residents to "shelter-in place" and requiring the closure of all nonessential businesses. The restrictions were initially set to be in effect until March 30, 2020, but was extended until January 7, 2021, with certain modifications to the original executive order. Measures taken by the Commonwealth have affected the economic activity and the way the System operates. The System has taken a few measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for the employees, social distancing, alternating schedules in-person work and virtual working from home.

The impact on the System has not been significant, since primary services has not been significantly affected, however those matters that would normally be attended by face to face visits are being substituted by alternate methods, such as mail or phone calls, and that fact has caused some processes to slow down. The coronavirus and the actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and the financial markets of many countries, including the geographical area in which the System operates. The economy has changed and inflationary pressures on the economy may have an adverse effect.

Change in Actuarial Assumptions

On November 30, 2021, the Retirement Board of the System approved with the recommendation of its actuaries the reduction of the payroll growth actuarial assumption to 0% ("level dollar") for the amortization of the unfunded actuarial accrued liability effective with the actuarial valuation of the System as of June 30, 2020. The amortization of the unfunded actuarial accrued liability will continue over a closed 30-year period beginning on July 1, 2014 (24-year remaining period as of June 30, 2020). The System's actuaries will provide such tables and actuarial assumptions required for the evaluation of the System and the determination of the contributions payable to the System by the University.

Pension Reform

On December 28, 2021, the Retirement Board approved Certification No.7, in which they determined to: not allow the use of funds, nor transfers of funds from the Trust to finance the conversion plan to a Defined Contribution Plan for employees with less than 10 years of service "non vested", participants in the Retirement System, as proposed by the Governing Board of the University of Puerto Rico on March 25, 2021. The Retirement Board considers this action by the Governing Board an act that detriment the participants in the retirement system.

On February 16, 2022, the Governing Board of the University approved as per Certification No. 106 of the fiscal year June 30, 2022, that the effective date of the closing of the System for new employees and non-vested participants will be October 31, 2022. It is expected that the new defined contribution plan will be implemented on November 1, 2022.

On October 27, 2022, the Governing Board of the University approved by Certification No. 52 of the fiscal year June 30, 2023, that nullifies Certification No. 106 of fiscal year 2022 and establishes that the new implementation date of the defined contribution plan for new employees and non-vested participants will be May 1, 2023.

Contacting System's Financial Management

This financial report is designed to provide the Retirement Board, participants, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the University of Puerto Rico'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 and (787) 751-4550.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS:		
Cash and cash equivalents	$ 110,833,849	$ 87,225,292
Investment at fair value:		
U.S. Government and Agencies' obligations	75,923,900	60,197,222
Foreign bonds	17,402,700	219,771
Corporate bonds	79,673,714	110,239,182
Foreign common stocks	416,485,472	322,992,078
Common stocks	278,243,680	247,294,168
Mortgage-backed securities	62,696,068	64,391,405
Municipal bonds	405,809	3,063,652
Sovereign debt	519,249	5,241,148
Commingled funds equity	541,638,445	362,100,024
Alternative investments	138,265,968	115,274,995
Invested securities lending cash collateral	2,888,841	24,791,138
Loans to participants:		
First mortgage	30,197,267	32,753,118
Personal installments	59,946,848	66,857,047
Other, net of allowance for doubtful accounts of $5,895 and $84,611 in 2021 and 2020, respectively	4,567,238	6,370,470
Other receivables	226,825	1,326,570
Accrued interest receivable on investments	1,591,014	2,020,629
Receivables from sale of investments	53,494,004	39,713,301
Contributions receivable from Puerto Rico Treasury Department	2,322,646	2,322,646
Accounts receivable from University of Puerto Rico	3,998,593	3,915,344
Capital assets, net of accumulated depreciation of $1,727,974 and $1,632,091 in 2021 and 2020, respectively	3,494,417	3,584,301
	1,884,816,547	1,561,893,501
LIABILITIES:		
Accounts payable and accrued expenses	12,125,130	11,867,048
Obligations under securities lending	4,050,935	25,958,580
Escrow deposits on mortgage loans	1,897,266	1,986,114
Other deposits and pending distribution funds	953,852	607,675
Payable for acquisition of investments	93,202,495	62,241,770
	112,229,678	102,661,187
NET POSITION RESTRICTED FOR PENSIONS	$ 1,772,586,869	$ 1,459,232,314

The accompanying notes are an integral part of these statements.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Years Ended June 30, 2021 and 2020

	2021	2020
ADDITIONS:		
Contributions-		
Employer	$ 160,356,496	$ 161,411,151
Participants	29,153,522	34,251,780
	189,510,018	195,662,931
Investment income-		
Net appreciation in fair value of investments	328,727,133	58,835,342
Interest	12,777,485	15,245,363
Dividends	11,280,100	12,013,536
	352,784,718	86,094,241
Investment expense	4,729,098	4,298,666
Net investment income	348,055,620	81,795,575
	537,565,638	277,458,506
DEDUCTIONS:		
Benefits paid	220,847,024	218,289,504
General and administrative expenses	3,364,059	3,639,008
	224,211,083	221,928,512
NET INCREASE IN NET POSITION	313,354,555	55,529,994
NET POSITION RESTRICTED FOR PENSIONS, beginning of year	1,459,232,314	1,403,702,320
NET POSITION RESTRICTED FOR PENSIONS, end of year	$ 1,772,586,869	$ 1,459,232,314

The accompanying notes are an integral part of these statements.

1) Organization and Summary of Significant Accounting Policies:

A) 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 (superseded by Act No. 1 of January 20, 1966, as amended (the "Act No. 1")). The System started operations on January 1, 1945, the date on which contributions by employees and the University of Puerto Rico ("the University") commenced. Assets of the System are legally held in a Trust, separate from the assets of the University of Puerto Rico, and are held solely for the purpose of meeting the System's obligations.

The responsibility for the proper operation and administration of the System is vested in the Executive Director of the System, which in turn will report to the Retirement System Committee of the Governing Board of the University ("the Committee"). The Committee will then notify the Members of the Governing Board of the University of any decisions made related to the System. The Governing Board of the University was the Trustee of the System up to October 1, 2020.

On October 1, 2020, the Puerto Rico Court of Appeals issued a judgement and determined that the Governing Board of the University should be removed as Trustee of the University's Retirement System Trust, and consequently, the Retirement System's Board should be the substitute trustee. On October 16, 2020, the University requested a reconsideration of this judgement in the Puerto Rico Court of Appeals, but it was denied by the Court in November 2020. Then, the University requested to the Puerto Rico Supreme Court the revision of the judgement of Puerto Rico Court of Appeals, however, it was denied by the Puerto Rico Supreme Court on February 5, 2021.

B) Summary of significant accounting policies – The accounting policies followed by the System conform to predominant industry practices and follows accounting principles generally accepted in the United States of America. The following summarizes the most significant accounting policies:

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. 67, Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25.

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 System.

Cash equivalents – Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition.

Investments – Investments are reported at fair value. Investment in securities is valued based on quotations obtained from national security exchanges. Dividend income is recognized when received.

The fair 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 fiduciary net position as net appreciation (depreciation) in fair value of the investments.

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

Fair value measurements – The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan could access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Securities lending – Cash received as collateral on securities lending transactions is used to purchase investments. These investments are reported as assets in the accompanying financial statements and are generally measured at fair value except for repurchase agreements, which are reported at cost. A corresponding liability is also reported for the amount owed to the broker at the termination of the lending agreement. Additional disclosures about the Plan's securities lending transactions are provided in Note 5.

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

The System's Retirement Board granted certain members the option to select a supplemental pension benefit by making a retroactive contribution to the System. Participants who accepted this option had to make a lump-sum payment to cover the related benefits. Participant's could obtain an interest-bearing loan from the System to fund their contributions.

As of June 30, 2021 and 2020, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately $4.57 million and $6.37 million, respectively, net of allowance for uncollectible accounts.

Medical insurance – The System acts as a pass-through of the employer medical insurance contributions to retirees. Contributions received from the University are recorded as a liability until paid to retirees.

Capital assets - Capital assets are 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.

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, 2021 and 2020 amounted to approximately $95,900 and $98,600, respectively.

2) Description of the System:

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

Members consisted of the following as of June 30, 2021 and 2020:

Description	**2021**	2020
Inactive members or their beneficiaries currently receiving benefits	**9,324**	9,359
Inactive members entitled to but not yet receiving benefits	**5,980**	5,706
Active members	**8,252**	8,790
	23,556	23,855

B) Plan Amendments – The following is a summary of the most significant System amendments and certifications, presented for general purposes only. Members and other users should refer to the Trust Agreement and original amendments and certifications for a more complete description of the System's provisions and amendments.

Effective July 1, 1998, the Plan was amended by establishing Certification No. 94 (1997-1998), to offer members an increase from $35,000 to $50,000 in the maximum salary subject to withholding contributions. The members 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 members will contribute 9% of their salary up to $50,000.

Effective July 1, 2002, the Plan was amended by establishing Certification No. 139 (2001-2002), to offer members an increase from $50,000 to $60,000 in the maximum salary subject to withholding contributions. The members 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. Effective July 1, 2002, all new members will have the option to contribute 9% of their salary up to $50,000 or 11% of their salary up to $69,556.

In addition, the maximum annual compensation for those members 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 55 is 1/3% per month for members who had not completed 20 years of service by July 1, 1979, and elected Certification No. 55, and for members hired on or after January 1, 1990.

Effective July 1, 2007, the System was amended by Certification No. 12. This certification was superseded by Certification No. 70 (2013-2014) in which the automatic 3% increase in pension benefits was terminated.

Effective July 1, 2014, the compensation limit for Certification No.139 was frozen at $69,556. Effective January 1, 2015, the formula for Non-Occupational Disability was amended to increase vesting from 10 years to 15 years and the benefit payable will be 90% of the member retirement benefit payable if the member was to retire based on years of service.

Effective July 1, 2015, following recommendations presented by the System's Retirement Board, the System was amended by the Governing Board through Certification No. 140 (2014-2015): active members as of June 30, 2015, are divided into two groups:

1. Those who had 25 or more years of accredited service. These are not affected by the changes in regulation.
2. Those who had less than 25 years of accredited service. To this group, effective June 30, 2015, individual required contribution increased by 1% and the required age for retirement changed from 55 to 58 years.

Certification No. 7:

Member who had earned 20 years of services as of July 1, 1979:

a. Member who selected a complete supplementation with Social Security, contributes 7% of monthly compensation.
b. Member who selected a coordinated plan with Social Security, contributes 4% of the monthly compensation up to $ 350, plus 6 ½% of the excess.
c. No salary CAP.

Certification No. 37:

Member who had not earned 20 years of services as of July 1, 1979, and the ones who had entered on July 1, 1978 through December 1989:

Members with 25 years or more accredited at June 30, 2015	Members with less than 25 years accredited at June 30, 2015
5% up to $35,000 ($2,916)	6% up to $35,000 ($2,916)
9% up to $50,000 ($4,166)	10% up to $50,000 ($4,166)
11% up to $69,556 ($5,796)	12% up to $69,556 ($5,796)

Certification No. 55:

Mandatory applicable to all members who entered beginning January 1, 1990, and those who enter before 1990 and are under the supplemented with social security plan and the ones who between January 1990 and December 1991 elected to fall under the coordinated with social security plan from Certification No. 55 (4/6.5%):

Members with 25 years or more accredited at June 30, 2015	Members with less than 25 years accredited at June 30, 2015
7% or 8% Suppl. or 4/6.5% Coord. Until $35,000 ($2,916)	8% or 9% Suppl. or 4/6.5% Coord. Until $35,000 ($2,916)
9% up to $50,000 ($4,166)	10% up to $50,000 ($4,166)
11% Suppl./ Coord. up to $69,556 ($5,796)	12% Suppl./ Coord. up to $69,556 ($5,796)

Regulation for those who entered between July 1, 1998, to March 15, 2015:

Members with 25 years or more accredited at June 30, 2015	Members with less than 25 years accredited at June 30, 2015
9% up to $50,000 ($4,166)	10% up to $50,000 ($4,166)
11% up to $69,556 ($5,796)	12% up to $69,556 ($5,796)

Regulation for those who entered from April 1, 2015, to June 30, 2015:

Members with 25 years or more accredited at June 30, 2015	Members with less than 25 years accredited at June 30, 2015
11% up to $69,556 ($5,796) until June 30, 2015	12% up to $69,556 ($5,796)

Regulation for those who entered as of July 1, 2015:

Members with less than 25 years accredited at June 30, 2015
12% up to $69,556 ($5,796)

Contributions and Funding Policy:

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

Members who elect Certification No. 139: 11% of monthly compensation up to $5,796

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

- If full supplement is elected: 7% of monthly compensation up to $2,916
- If full supplement is not elected: 5% of monthly compensation up to $2,916
- If Certification No. 94 is elected: 9% of monthly compensation up to $4,166
- If Certification No. 139 is elected: 11% of monthly compensation up to $5,796

Members 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, plus 6.5% of the excess

Members who have not completed 20 years of service by July 1, 1979 and elect Certification No. 55:

- If full supplement is elected: 7% of monthly compensation up to $2,916
- If full supplement is not elected: 4% of monthly compensation up to $350, plus 6.5% of the excess up to $2,916
- If Certification No. 94 is elected: 9% of monthly compensation up to $4,166
- If Certification No. 139 is elected: 11% of monthly compensation up to $5,796

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

- 8% of monthly compensation up to $2,916 or,
- If Certification No. 94 is elected: 9% of monthly compensation up to $4,166
- If Certification No. 139 is elected: 11% of monthly compensation up to $5,796

Members who are hired on or after July 1, 1998 until March 31, 2015:

- 9% of monthly compensation up to $4,166

Members who are hired on or after April 1, 2015:

- 11% of monthly compensation up to $5,796 fully supplemented

Members who are hired after July 1, 2015:

- 12% of monthly compensation up to $5,796

The University contributes at an actuarially determined rate; the rate as of June 30, 2021 and 2020 was 40.14% and 36.77%, respectively, of annual covered payroll. The actuarially determined employer contribution rate considers payment of administrative expenses that are paid out of the trust fund.

The contributions of the University were originally designed to fund, together with the contributions of the members, 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 Certification No. 146 (2014-2015), 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.

C) Retirement Benefits – The System provides retirement, disability and death benefits to members and beneficiaries.

Members 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, members are entitled to annual retirement benefits as follows:

- Certification No. 55 – at age 55 after 30 years of service for those with 25 or more years at June 30, 2015, at age 58 for those with less than 25 years at June 30,2015.
- Certification No. 37 – at age 58

Members 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 members except those who have completed 20 years of service by July 1, 1979:

- Before age 65 – for members with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the member is 55 but under age 58 (Certification No. 37) and 55 (Certification No. 55), at time annuity begins.

- Before age 65 – for members with less than 30 years of service: 1.5% of average compensation per year of service for the members with 20 or fewer years. Percentage increases by .05% for each year in excess of than 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the member is between the age of 55 and 58 at time annuity begins (Certification No. 37) and 1/3% for each month the member is under age 55 with more than 25 years of service and 1/3% for each month the member is under age 58 with less than 25 years of service (Certification No. 55).

- 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 more than Social Security wage base in effect at retirement for each year of service. If the members 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 members 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 members with less than 30 years of service: 1.5% of average compensation per year of service for members with 20 or fewer years. Percentage increases by .05% for each year more than 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the member is under age 58 at the time the annuity begins.

- At age 65 – if members 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 members 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 members who have not completed 20 years of service by July 1, 1979 and elect Certification No. 55, and for those hired on or after January 1, 1990:

- Before age 65 – for members with less than 30 years of service: 1.5% of average compensation per year of service for members with 20 or fewer years. Percentage increases by .05% for each year more than 20 years up to a maximum of 1.95% per year.

- Before age 65 – for members with at least 30 years of service: 75% of average compensation for members with at least 55 years of age at retirement date. Amount reduced by .5% for each month the member is between age 55 and 58 (Certification No. 37); and 1/3% for each month the member is under age 55 with more than 25 years of service and 1/3% for each month the member is 58 with less than 25 years of service (Certification No. 55).

- After Age 65 – if members 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 member 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 member is entitled to receive, in a lump-sum payment, the value of his accumulated contributions.

- If a member terminates after rendering 10 years of service, and does not withdraw his contributions, the member 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.

D) Disability Benefits – Members who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes or after 15 years of service if disability is due to no-occupational causes. If the member 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, services 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.

Effective December 15, 2014, Certification No. 51, (2014-2015) non-occupational disability benefits regulation was amended. A disability due to non-occupational causes will be payable upon 15 years of service, the benefit payable will be 90% of the member's retirement benefit payable if the member was to retire based on years of service. If the member is eligible for a service retirement, benefit payable will be the higher of the two.

E) Death Benefits –

- Pre-retirement death benefit – if the death of an employee is service related, a death benefit equals 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 if they do not exceed retirement payments already made, unless reverse annuity was elected. Minimum payment is $600. In addition, an 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.

F) Christmas Bonus – A $400 annual bonus is given to all retired members.

G) Pension Reform – On March 25, 2021, the Governing Board of the University approved by Certification No. 77 of the fiscal year June 30, 2021, that the System will be closed effectively December 31, 2021, to all non-vested participants and new employees after that date. Non-vested participants and new employees will participate in a defined contribution plan beginning January 1, 2022. Vested employees and retirees of the System are not impacted with this prospective change. The University commits to funding the System following a closed 30-year amortization according to actuarial guidance. Refer to Note 11 for subsequent certifications issued.

3) Going Concern:

The discussion in the following paragraphs regarding the System's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the System's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

The System's sponsor (the University) faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. We note that both the Commonwealth and the University have expressed substantial doubt about their respective ability to continue as going concerns in their most recently issued financial statements. The risks and uncertainties facing the University together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the System to continue as a going concern in accordance with GASB Statement No. 56.

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition (a prolonged economic recession which commenced in 2006), and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth has a significant adverse impact on the University, given its reliance on Commonwealth appropriations.

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act").

The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

The fiscal year ended June 30, 2021, continued to present significant economic challenges and difficulties for the University. As a result, the System's management has continued to focus its efforts on protecting the System of the University. On June 29, 2016, the University confirmed, restated, and acknowledged in a public deed (the "Trust Deed") all acts, and faculties as applied and lawfully enforced by the Governing Board in relation to the System and its trust fund from its inception to the present-day. Thus, through the execution of the Trust Deed, the University affirmed the public and governmental nature of the System founded in the year 1945 and its organization as a de facto trust. Pursuant to the Trust Deed, the System's assets remain completely autonomous and separate of the assets of the University, the Trustee and its members and continue to be exempt from the individual or collective action of their respective creditors.

As part of their Certified 2021 Fiscal Plan for the University of Puerto Rico, the UPR Retirement System would be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees would participate in a defined contribution plan beginning January 1, 2022. Vested employees in the UPRRS and retirees are not impacted with this prospective change. The current UPR Retirement System defined benefit plan closes for non-vested participants and will no longer accepts new employees. Non-vested and new participants would participate of a new defined contribution plan starting January 1, 2022. Non-vested employee and new employees would contribute 8.5% of their annual salary to a new defined contribution plan. The UPR would contribute a 4.5% annual matching.

Accordingly, to Certification issued in October 2022 by the University of Puerto Rico Governing Board, there were changes in the composition of the Defined Contribution Plan. Certification No. 52 of fiscal year 2022-2023 nullifies Certification No. 106 of fiscal year 2021-2022 and establishes that the new implementation date of the defined contribution plan for new employees will be May 1, 2023. As of May 1, 2023, the System will be closed to new participants and non-vested participants.

On January 18, 2022, the United States District Court for the District of Puerto Rico, confirmed an Adjustment Plan for the Government of Puerto Rico with the purpose of restructuring $33 billion in liabilities against the Commonwealth of Puerto Rico, Public Buildings Authority and Employee Retirement System; and more than $55 billion in pension liabilities to the amount of $7 billion. The Adjustment Plan entered into force on March 15, 2022.

The System has evaluated the current market and the University's situation and considered several facts to establish a mitigation action plan, as follows:

- Trust Regulations:

  The System is the administrator of a single employer defined benefit pension plan which 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 Employer commenced.

- Fund administration:

The Retirement System located its assets in a separate Retirement Fund located in JP Morgan Chase New York in 1989. This Retirement Trust account was created to exclusively receive income, hold monies, and make disbursements on behalf of the Trust.

- Investments Return:

As of June 30, 2021, the returns of the Retirement fund continue to present position positive results. During the year ended June 30, 2021, the System's closed with a return of 22.96%.

- Funding Ratio:

The funding ratio increased for the fiscal years from June 30, 2015, to June 30, 2017: from 46.6% in 2015 to 47.8% in 2016, and 48.9% in 2017. However, it has experimented a decrease in fiscal year 2018 from 48.9% to 43.7% and, fiscal year 2019 from 43.7% to 42.8%. During fiscal year 2021 it increased from 43.7% to 47.6%.

- Contributions:

As stated in the plan document, the Retirement fund will not be used for disbursements, withdrawals, and transfer of any assets other than the exclusive use of funds for both pension and administrative expenses. Its securities, notes or other evidence of loans are clearly marked to indicate ownership by the System and are registered in the name of the System. Its administration is separated from the administration of the University as established in Certification No. 53 (1989-1990).

The System is qualified and exempt from Puerto Rico and United States income taxes like other peer governmental plans. There is uncertainty as to what actions the Oversight Board and the Commonwealth will take, if any, and the effects they may have on the Plan. PROMESA requires that any fiscal plan developed by the Commonwealth or any of its affiliates shall "provide for the adequate funding for public pension systems." In addition, pursuant to the Trust Deed, the System's assets remain completely autonomous and separate of the assets of the University, the Trustee and its members and continue to be exempt from the individual or collective action of their respective creditors.

The assets of the System's fund have been well maintained over $1.4 billion since 2014. Given the precarious scenarios in Puerto Rico, the System's funds are likely not sufficient to sustain necessary withdrawals as projected over the life of the System, without further contributions by the University. However, management believe the System's funds can sustain withdrawals for approximately 15 years, assuming a constant rate of return of 6.75% and liabilities as currently projected. This analysis only includes the individual contributions that are part of the University automatic payroll deductions. The employer has stated clearly that payroll is a priority under the current scenario and has asserted a commitment to fund the unfunded liability to the extent it is able.

- System's Regulatory Changes:

As a result of intensive research work made by the System administration and several meetings by the Retirement Board and the Governing Board, retirement system regulatory changes have been approved for the current and next fiscal years. These measures emerged as initiatives implemented towards improving sustainability of the current defined benefit system. The System amendments are described in detail in Note 2.

4) Cash and Cash Equivalents:

Cash and cash equivalents as of June 30, 2021 and 2020, are as follows:

Description	2021	2020
Cash deposited in commercial banks	$ 110,563,819	$ 83,229,414
Cash equivalents	270,030	3,995,878
	$ 110,833,849	$ 87,225,292

5) Investments:

The following is a summary of the fair value hierarchy of the fair value of investments of the System as of June 30, 2021 and 2020:

		June 30, 2021		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs for the Assets
Description	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
U.S. Government and Agencies' obligations	$ 75,923,900	$ -	$ 75,923,900	$ -
Common stocks	278,243,680	278,243,680	-	-
Mortgage-backed securities	62,696,068	-	62,696,068	-
Municipal bonds	405,809	-	405,809	-
Corporate bonds	79,673,714	-	79,673,714	-
Foreign common stock	416,485,472	416,485,472	-	-
Foreign bonds	17,402,700	-	17,402,700	-
Commingled funds equity	541,638,445	-	541,638,445	-
Sovereign debt	519,249	-	519,249	-
Alternative investments	138,265,968	-	-	138,265,968
	$ 1,611,255,005	$ 694,729,152	$ 778,259,885	$ 138,265,968

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		June 30, 2020		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs for the Assets (Level 3)
U.S. Government and Agencies' obligations	$ 60,197,222	$ -	$ 60,197,222	$ -
Common stocks	247,294,168	247,294,168	-	-
Mortgage-backed securities	64,391,405	-	64,391,405	-
Municipal bonds	3,063,652	-	3,063,652	-
Corporate bonds	110,239,182	-	110,239,182	-
Foreign common stock	322,992,078	322,992,078	-	-
Foreign bonds	219,771	-	219,771	-
Commingled funds equity	362,100,024	-	362,100,024	-
Sovereign debt	5,241,148	-	5,241,148	-
Alternative investments	115,274,995	-	-	115,274,995
	$ 1,291,013,645	$ 570,286,246	$ 605,452,404	$ 115,274,995

No more than 5% of any debt issue may be purchased as an investment, except for 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, except for the U.S. government securities or its agencies.

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets.

Investment securities, including U.S. sponsored agencies bonds and notes, U.S. municipal bonds, foreign government bonds, mortgage-backed securities, pooled funds and corporate bonds, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank. Alternative investments are classified in Level 3.

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 an Investment Management Organization.

The System has adopted the following strategic asset allocation:

Asset Class	% Allocated	Range
Domestic Large Cap Equity	25.6%	+/-5%
International Equity	24.0%	+/-3%
Domestic Small/Mid Cap	6.4%	+/-3%
Fixed Income	30.0%	+/-5%
Real Estate	5.0%	+/-3%
Personal Loans and Mortgages	9.0%	+/-3%

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 the assets.

From time to time, when the operating cash flow has excess disbursements, the Executive Director is authorized to sell securities on behalf of the System not exceeding $10,000,000 (Certification No. 68, 2018-2019) per month. This will be executed according to market fluctuations and rebalancing requirements of the portfolio without diverging from the Investment Policy.

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.

Alternative investments include the following as of June 30, 2021 and 2020:

		June 30, 2021		
Description	Total Commitment	Contributions	Distributions	Fair Value
Grupo Guayacán, Inc.:				
Guayacán Fund of Funds II, LP	$ 6,000,000	$ 5,683,539	$ 7,509,742	$ 70,816
Guayacán Fund of Funds III, LP	5,000,000	4,961,098	6,855,423	2,235,995
Guayacán Fund of Funds IV, LP	5,000,000	4,908,146	1,401,423	7,208,390
Advent-Morro Equity Partners Inc.:				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,419,380	2,300,545
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	2,872,718	4,158,161
Guayacán Private Equity Fund III, LP	7,500,000	2,907,043	-	2,191,409
McCoy Investment Fund 2	15,000,000	12,403,897	22,339,823	28,361,424
RREEF America REI T II	65,000,000	65,000,000	-	91,739,228
	$ 111,000,000	$ 103,095,777	$ 45,398,509	$ 138,265,968

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Description	Total Commitment	June 30, 2020 Contributions	Distributions	Fair Value
Grupo Guayacán, Inc.:				
Guayacán Fund of Funds II, LP	$ 6,000,000	$ 5,683,539	$ 7,509,742	$ 85,063
Guayacán Fund of Funds III, LP	5,000,000	4,961,098	5,811,282	2,264,189
Guayacán Fund of Funds IV, LP	5,000,000	4,448,146	853,162	4,379,857
Advent-Morro Equity Partners Inc.:				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,183,385	984,535
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	2,872,718	2,918,015
Guayacán Private Equity Fund III, LP	7,500,000	2,907,043	-	2,450,667
McCoy Investment Fund 2	15,000,000	12,403,897	8,242,455	15,741,530
RREEF America REI T II	65,000,000	65,000,000	-	86,451,139
	$ 111,000,000	$ 102,635,777	$ 29,472,744	$ 115,274,995

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, 2021 and 2020, the System's credit quality distribution for securities was as follows:

Description	2021 Carrying Value	Rating
Foreign bonds	**$ 21,085,955**	**A- to BB**
Corporate bonds and other debentures	**264,983,123**	**AAA to BBB-**
Mortgage backed securities	**165,914,255**	**AAA to AA+**
Municipal bonds	**4,227,648**	**AA to BBB**

Description	2020 Carrying Value	Rating
Foreign bonds	$ 219,771	AAA to BBB
Corporate bonds and other debentures	110,239,182	AAA to BBB
Mortgage backed securities	64,391,405	AAA to BBB
Municipal bonds	3,063,652	AAA to BBB

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 custody of the commingled fund is located at another financial institution. Investments of the System, which are under custody of a depository finance institution, are as follows:

	2021	2020
Description	Carrying Value	Rating
Mortgage-backed securities	$ 62,696,068	$ 64,391,405
Corporate bonds and other debentures	79,673,714	110,239,182
Common stocks	278,243,680	247,294,168
U.S. Government and Agencies obligations	520,429	542,574
Treasury bonds and notes	75,403,471	59,654,648
Foreign common stocks	416,485,472	322,992,078
Foreign corporate bonds	13,364,085	219,771
Foreign government bonds	4,038,615	-
Commingled funds equity	541,638,445	362,100,024
Sovereign debt	519,249	5,241,148
Municipal bonds	405,809	3,063,652
	$ 1,472,989,037	$ 1,175,738,650

Security Lending

The System has a Security Lending Agreement (the Agreement) with its investment custodian (the Custodian). In this Agreement, the System 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 for collateral. Collateral may consist of cash, other approved securities and/or letter of credit from the borrower. The Custodian has the unrestricted right to invest any cash collateral; also, the Custodian 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 loaned by the System upon termination of the loan term.

Under the Agreement as disclosed above, the System has a cash collateral of approximately $2.89 million and approximately $24.8 million as of June 30, 2021 and 2020, respectively. This cash collateral has been reinvested, in accordance with the agreement, in fixed income investments that are exposed to custodial credit risk as disclosed in the executed agreement.

During fiscal year 2008-2009, there was a default in a Lehman Brothers and Sigma floating rate note in which securities lending collateral had been invested. These funds are invested into a collective investment trust fund and are included on the Statement Fiduciary of Net Position. The purpose of the separate account is to provide a reserve account to offset expected losses. As of June 30, 2021 and 2020, the System had an unrealized loss in the Securities Lending Collateral pool of $1,158,852 and $1,163,121, respectively, and had accrued an obligation of $4,050,935 and $25,958,580, respectively, in the separate account.

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 Statement 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 do not allow the System 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, 2021 and 2020, the weighted average maturity by investment type in each fund is as follows:

Investment Type	Weighted Average (Years)	Fair Value 2021	Fair Value 2020
Corporate bonds	5.2679	**$ 79,673,714**	$ 110,239,182
Mortgage backed securities	6.5115	**62,696,068**	64,391,405
Municipal bonds	0.0174	**405,809**	3,063,652
Foreign corporate bonds	1.0386	**17,402,700**	219,771
US Government bonds and other governmental instruments	2.6579	**76,443,149**	65,960,273
		$ 236,621,440	$ 243,874,283

The System's exposure to foreign currency risk derives from its positions in foreign currency denominated equities and fixed income investments. The System's investment policy permits it to invest up to 15% of total investments in foreign currency denominated investments. The following is a listing of foreign assets included in the Statement of Fiduciary Net Position as of June 30, 2021:

Foreign Currency Risk

Foreign Currency Risk represent 23.01% of total assets.

Security Type	Currency	Maturity	Fair Value
Common stocks	Australia	Not Applicable	$ 5,284,903
Common stocks	Bermuda	Not Applicable	5,471,786
Common stocks	Canada	Not Applicable	16,664,258
Common stocks	Cayman Islands	Not Applicable	5,710,894
Common stocks	Channel Islands	Not Applicable	986,340
Common stocks	China	Not Applicable	8,243,388
Common stocks	Denmark	Not Applicable	17,605,863
Common stocks	Finland	Not Applicable	3,226,546
Common stocks	France	Not Applicable	56,946,777
Common stocks	Germany	Not Applicable	30,538,816
Common stocks	Hong Kong	Not Applicable	3,543,703
Common stocks	India	Not Applicable	7,465,237
Common stocks	Ireland	Not Applicable	10,917,353
Common stocks	Israel	Not Applicable	2,269,076
Common stocks	Japan	Not Applicable	63,422,265
Common stocks	Korea	Not Applicable	4,053,895
Common stocks	Luxembourg	Not Applicable	54,722
Common stocks	Netherlands	Not Applicable	22,056,477
Common stocks	New Zealand	Not Applicable	1,377,857
Common stocks	Norway	Not Applicable	1,989,489
Common stocks	Singapore	Not Applicable	2,103,711
Common stocks	Spain	Not Applicable	5,882,114
Common stocks	Sweden	Not Applicable	12,594,252
Common stocks	Switzerland	Not Applicable	55,234,309
Common stocks	Switzerland Warrants	Not Applicable	32,260
Common stocks	Taiwan	Not Applicable	14,107,745
Common stocks	United Kingdom	Not Applicable	58,756,157
Corporate bonds	Canada	09/23/2019-07/15/2077	244,728
Corporate bonds	Channel Islands	09/23/2021-09/23/2026	251,845
Corporate bonds	Denmark	1/12/2024	1,117,849
Corporate bonds	France	10/15/2020-04/10/2029	504,192
Corporate bonds	Germany	08/03/2020-01/13/2026	1,296,068
Corporate bonds	Ireland	04/15/2023-01/01/2025	544,702

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Security Type	Currency	Maturity	Fair Value
Corporate bonds	Japan	09/19/2019-11/26/2028	2,623,651
Corporate bonds	Korea	8/29/2022	446,308
Corporate bonds	Netherlands	01/19/2021-12/31/2064	230,977
Corporate bonds	Spain	6/27/2029	420,907
Corporate bonds	Supranational	05/01/2027-05/11/2031	398,145
Corporate bonds	Switzerland	03/26/2020-12/31/2064	1,152,144
Corporate bonds	United Kingdon	12/15/2020-05/30/2048	4,077,847
Governmental bonds	Chile	2/6/2028	203,507
Governmental bonds	Colombia	01/16/2025-03/15/2029	878,649
Governmental bonds	Indonesia	4/24/2028	275,108
Governmental bonds	Mexico	2/15/2020	1,525,914
Governmental bonds	Panama	9/22/2024	298,479
Governmental bonds	Peru	7/15/2025	116,866
Governmental bonds	Philippines	2/1/2028	406,606
Governmental bonds	Uruguay	10/27/2027-01/23/2031	333,487
			$ 433,888,172

Risk and Uncertainty

The Retirement Fund invests in various marketable securities. These are exposed to various risks; due to the level of risk inherent in securities it is possible that changes in the values of these securities could occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

6) Capital Assets:

Capital Assets 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 30, 2021 and 2020, capital assets activities, consisted of the following:

Description	Balance as of June 30, 2020	Additions	Retirements	**Balance as of June 30,2021**
Building	$ 3,811,940	$ -	$ -	$ **3,811,940**
Equipment	407,288	3,765	-	**411,053**
Foreclosure homes	997,164	2,235	-	**999,399**
	5,216,392	6,000	-	**5,222,392**
Less accumulated depreciation	(1,632,091)	(95,884)	-	**(1,727,975)**
	$ 3,584,301	$ (89,884)	$ -	$ **3,494,417**

Description	Balance as of June 30, 2019	Additions	Retirements	Balance as of June 30,2020
Building	$ 3,811,940	$ -	$ -	$ 3,811,940
Equipment	407,288	-	-	407,288
Foreclosure homes	1,051,253	1,861	(55,950)	997,164
	5,270,481	1,861	(55,950)	5,216,392
Less accumulated depreciation	(1,533,475)	(98,616)	-	(1,632,091)
	$ 3,737,006	$ (96,755)	$ (55,950)	$ 3,584,301

7) Medical Insurance

The System is a pass-through of the employer's medical insurance contributions to retirees and reimbursed each retiree up to a maximum of $125 monthly for medical plan expenses. For the years ended June 30, 2021 and 2020, the medical plan expenses amounted to $11,832,586 and $11,069,670, respectively. Medical expenses are paid by the retirees and reimbursed by the University.

8) Related Party Transactions:

All employer contributions of the System are received from the University. In addition, the University utilizes the System for certain medical insurance expenses, as described in Note 7.

9) Net Pension Liability of the University:

The components of net pension liability of the University as of June 30, 2021 and 2020, are as follows (in thousands):

Description		**2021**		2020
Total pension liability	**$**	**3,303,351**	$	4,182,208
Fiduciary net position		**(1,772,587)**		(1,459,232)
Net pension liability	**$**	**1,530,764**	$	2,722,976
Fiduciary net position as a percentage of the total pension liability		**53.66%**		34.89%

Actuarial Assumptions – The total pension liability as of June 30, 2021, was determined by an actuarial valuation as of June 30, 2021, using the following actuarial assumptions and experience, applied to all periods included in the measurement. The key actuarial assumptions are summarized as follows:

Inflation	2.40%
Salary increases	2.40% and wage growth rate of 0.35%
Discount rate	6.75%, net of investment expenses per annum, compounded annually
Investment rate of return	6.75% net of investment expenses per annum, compounded annually
Administrative expense assumption	Actual prior year expenses
Percent married	80% of employees are assumed to be married, and wives are assumed to be the same age as their husbands.
Actuarial method	Individual Entry Age Normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over a closed 30-year period beginning June 30, 2014. This amortization assumes future payroll increases of 0% per annum.

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Decrements:

Pre-retirement mortality	Pub 2010 Teachers Employees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
Post-retirement healthy mortality	Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
Post-retirement disabled mortality	Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
Survivors and contingent beneficiaries mortality	Pub 2010 Teachers Amount-Weighted Contingent Survivors Mortality Table, projected generationally using Scale MP-2021.

Discount rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that participant's contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2022. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current participants. As of June 30, 2021, the System is not projected to be insolvent. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments. The SEIR at the beginning of the measurement period was 4.60%.

As of June 30, 2020, the discount rate used to measure the total pension liability was 4.60%. The projection of cash flows used to determine the discount rate assumed that participants contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2022. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current participants until the plan year ending June 30, 2044. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments through June 30, 2044 and the applicable municipal bond index rate of 2.66%, based on the S&P Municipal Bond 20-year High Grade Index Rate as of June 30, 2020, was applied to all periods of projected benefit payments after June 30, 2044. The Single Equivalent Interest Rate (SEIR) of 4.60% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2020. The SEIR at the beginning of the measurement period was 3.56%.

The long-term expected rate of return of the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of the System's investment expense and inflation), are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, provided by the System's external investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad U.S. equity	32.00%	5.37%
Global ex U.S. equity	24.00%	6.22%
Domestic fixed	30.00%	1.20%
High Yield	7.50%	2.98%
Real Estate	5.00%	4.87%
Private Equity	1.50%	10.05%
	100.00%	

Sensitivity of the Net Pension Liability of Changes in the Discount Rate – The following presents the net pension liability of the University as of June 30, 2021, calculated using the SEIR discount rate of 6.75%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate (in thousands):

Description	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	$ 1,873,083	$ 1,530,764	$ 1,239,243

As of June 30, 2020, the net pension liability of the University, calculated using the discount rate of 4.60%, as well as the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.60%) or 1-percentage-point higher (5.60%) than the current rate (in thousands):

Description	1% Decrease (3.60%)	Current Discount Rate (4.60%)	1% Increase (5.60%)
Net pension liability	$ 3,240,823	$ 2,722,976	$ 2,289,940

10) Contingency:

Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses.

On March 12, 2020, the Governor of Puerto Rico issued an executive order (EO 2020-020) declaring a health emergency, ordering residents to "shelter-in place" and requiring the closure of all nonessential businesses. The restrictions were initially set to be in effect until March 30, 2020, but was extended until January 7, 2021, with certain modifications to the original executive order. Measures taken by the Commonwealth have affected the economic activity and the way the System operates. The System has taken a few measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for the employees, social distancing, alternating schedules in-person work and virtual working from home.

The impact on the System has not been significant, since primary services has not been significantly affected, however those matters that would normally be attended by face to face visits are being substituted by alternate methods, such as mail or phone calls, and that fact has caused some processes to slow down. The coronavirus and the actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and the financial markets of many countries, including the geographical area in which the System operates. The economy has changed and inflationary pressures on the economy may have an adverse effect.

11) Subsequent Events:

Subsequent events are as follows:

Change in Actuarial Assumptions

On November 30, 2021, the Retirement Board of the System approved with the recommendation of its actuaries the reduction of the payroll growth actuarial assumption to 0% ("level dollar") for the amortization of the unfunded actuarial accrued liability effective with the actuarial valuation of the System as of June 30, 2020. The amortization of the unfunded actuarial accrued liability will continue over a closed 30-year period beginning on July 1, 2014 (24-year remaining period as of June 30, 2020). The System's actuaries will provide such tables and actuarial assumptions required for the evaluation of the System and the determination of the contributions payable to the System by the University.

Pension Reform

On December 28, 2021, the Retirement Board approved Certification No.7, in which they determined to: not allow the use of funds, nor transfers of funds from the Trust to finance the conversion plan to a Defined Contribution Plan for employees with less than 10 years of service "non vested", participants in the Retirement System, as proposed by the Governing Board of the University of Puerto Rico on March 25, 2021. The Retirement Board considers this action by the Governing Board an act that detriment the participants in the retirement system.

On February 16, 2022, the Governing Board of the University approved by Certification No. 106 of the fiscal year June 30, 2022, that the effective date of the closing of the System for new employees and non-vested participants will be October 31, 2022. It was expected that the new defined contribution plan would be implemented on November 1, 2022.

On October 27, 2022, the Governing Board of the University approved by Certification No. 52 of the fiscal year June 30, 2023, that nullifies Certification No. 106 of the fiscal year June 30, 2022, and establishes that the new implementation date of the defined contribution plan for new employees will be May 1, 2023. As of May 1, 2023, the System will be closed to new participants.

Management has evaluated events through March 14, 2023, the date in which the financial statements were available to be issued.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (Unaudited)
June 30, 2021
(In Thousands)

EXHIBIT A

	Year ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:								
Service cost	**$ 54,863**	$ 74,909	$ 72,823	$ 74,827	$ 52,000	$ 46,571	$ 48,107	$ 49,499
Interest	**187,307**	164,223	164,920	167,015	191,144	194,184	177,334	173,630
Changes of benefit terms	**(25,509)**	-	-	-	-	(14,671)	(45,209)	-
Differences between expected and actual experience	**(60,878)**	(24,716)	(11,902)	(2,678)	(24,376)	(4,733)	(323,974)	-
Changes of assumptions	**(814,007)**	(536,078)	271,633	31,859	989,905	160,911	32,269	(24,034)
Benefit payments, or other inputs	**(220,633)**	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Net change in total pension liability	**(878,857)**	(539,952)	289,651	72,776	1,020,362	199,648	(288,345)	29,932
Total pension liability, beginning	**4,182,208**	4,722,160	4,432,509	4,359,733	3,339,371	3,139,723	3,428,068	3,398,136
Total pension liability, ending (a)	**$ 3,303,351**	$ 4,182,208	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371	$ 3,139,723	$ 3,428,068
System fiduciary net position:								
Contributions - employer	**$ 160,356**	$ 161,411	$ 75,263	$ 73,360	$ 79,491	$ 78,004	$ 88,251	$ 91,689
Contributions - members	**29,154**	34,252	32,849	35,864	39,042	38,640	35,594	37,900
Net investment income	**348,056**	81,796	98,788	110,357	132,950	59,009	75,373	206,595
Benefit payments	**(220,633)**	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Administrative expenses	**(3,578)**	(3,639)	(3,751)	(4,458)	(4,340)	(3,363)	(3,378)	(4,566)
Other	**-**	-	-	-	-	(4)	-	-
Net change in plan net position	**313,355**	55,530	(4,674)	16,876	58,832	(10,328)	18,968	162,455
Plan fiduciary net position, beginning	**1,459,232**	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996	1,324,028	1,161,573
Plan fiduciary net position, ending (b)	**$ 1,772,587**	$ 1,459,232	$ 1,403,702	$ 1,408,376	$ 1,391,500	$ 1,332,668	$ 1,342,996	$ 1,324,028
Net Pension Liability - Ending (a) - (b)	**$ 1,530,764**	$ 2,722,976	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703	$ 1,796,727	$ 2,104,040

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF NET PENSION LIABILITY (Unaudited)
June 30, 2021
(In Thousands)

EXHIBIT B

	Year ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability	$ **3,303,351**	$ 4,182,208	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371	$ 3,139,723	$ 3,428,068
System's fiduciary net position	**1,772,587**	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996	1,324,028
Net pension liability	$ **1,530,764**	$ 2,722,976	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703	$ 1,796,727	$ 2,104,040
Ratio of System's fiduciary net position to total pension liability	**53.66%**	34.89%	29.73%	31.77%	31.92%	39.91%	42.77%	38.62%
Covered employee payroll	$ **406,676**	$ 428,086	$ 453,802	$ 478,529	$ 488,775	$ 515,994	$ 516,226	$ 515,856
Net pension liability as a percentage of covered- employee payroll	**376.41%**	636.08%	731.26%	631.96%	607.28%	388.90%	348.05%	407.87%

Factors that Significantly Affect Trends in Amounts Reported

Changes of benefit terms:

2021

- Pursuant to Certification No. 77 adopted on March 25, 2021, the Governing Board of the University of Puerto Rico approved the UPR Fiscal Plan for years 2021 through 2026 which closed the Plan to all non-vested participants and new employees as of December 31, 2021.

Changes in actuarial assumptions:

2017

- Rates of mortality were changed to the RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generatonally using scale MP-2017 for retired healthy pensioners. Rates of mortality for the period after disability retirement are according to the RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected to 2019 using scale MP-2017.
- Rates of withdrawal, retirement, disability and salary increase were adjusted to more closely reflect actual experience.

2018

- Discount rate was changed from 3.92% to 3.81%.
- Mortality projection scale was changed from MP-2017 to MP-2019.

2019

- Discount rate was changed from 3.81% to 3.56%.
- Assumed inflation was reduced from 2.50% to 2.40%.
- Rates of mortality were changed to the Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for retired healthy pensioners. Rates of for the period after disability retirement are according to the Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.

2020

- Discount rate was changed from 3.56% to 4.60%.
- Mortality projection scale was changed from MP-2020 to MP-2021.

2021

- Discount rate was changed from 4.60% to 6.75%.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS (Unaudited)
June 30, 2021
(In Thousands)

EXHIBIT C

Fiscal Year Ended June 30	Actuarial Determined Contribution (ADC)	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll (1)
2021	**$ 163,240**	**$ 160,356**	**$ 2,884**	**$ 406,676**	**39.43%**
2020	138,914	161,411	(22,497)	428,086	37.71%
2019	127,609	75,263	52,346	453,802	16.58%
2018	96,089	73,360	22,729	478,529	15.33%
2017	85,829	79,491	6,338	488,775	16.26%
2016	86,635	78,004	8,631	515,994	15.12%
2015	89,255	88,251	1,004	516,226	17.10%
2014	78,204	91,689	(13,485)	515,856	17.77%
2013	77,772	78,481	(709)	491,291	15.97%
2012	72,186	75,140	(2,954)	491,063	15.30%

(1) ADC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (e.g., the June 30, 2019)

Notes to Schedule of Employer Contributions:

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer's Contributions are calculated as of June 30, for the fiscal year beginning on that date. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Valuation date	June 30, 2021
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increase	2.75% including inflation
Investment rate return	6.75%, net of investment expenses per annum, compounded anually

The actuarially determined contribution rate was determined based on a 30-year closed amortization of the System's unfunded accrued liability beginning on June 30, 2014, as adopted by the System's Retirement Board. However, as discussed in the determination of the discount rate, the University has adopted a policy to make actual contributions based on a 40-year closed amortization of the System's unfunded accrued liability beginning on June 30, 2015.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF ANNUAL MONEY - WEIGHTED RATE OF RETURN ON INVESTMENTS (Unaudited)
June 30, 2021
(In Thousands)

EXHIBIT D

(Unaudited)	Year Ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Annual Money-Weighted rate of Return, net of investment expenses	**22.57%**	5.64%	6.95%	8.11%	10.76%	3.93%	5.61%	17.80%

See accompanying independent auditors' report.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 System as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the University of Puerto Rico Retirement System's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University of Puerto Rico Retirement System's internal control over financial reporting (internal control) 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 University of Puerto Rico Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the University of Puerto Rico Retirement 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be as significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Puerto Rico Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not and 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*.

The University of Puerto Rico Retirement System's Responses to Findings

The University of Puerto Rico Retirement System's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The University of Puerto Rico Retirement System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of 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.

San Juan, Puerto Rico
March 14, 2023.

Stamp No. E522955 was affixed
to the original of this report.

RSM Puerto Rico

Finding No. 2021-001

Criteria:

A sound system of internal controls is essential in enabling the University of Puerto Rico Retirement System to prepare timely and accurate financial statements by helping ensure all financial transactions are properly recorded, supported and subject to supervisory review.

Condition:

Since the year ended June 30, 2020, the accounting for loans transactions was performed with a significant delay. Loans transactions and reconciliations between subsidiary records and general ledger were performed at the same time the audit was being conducted.

Cause:

This delay was caused by (i) the ongoing implementation and integration process of new accounting system and loans module and (ii) delay from the University of Puerto Rico in providing the accounting data needed to update applicable transactions to loans.

Effect:

This situation caused misstatements on the statement of fiduciary net position and the statement of changes in fiduciary net position since the accounting records were incomplete. It also affected the closing procedures and management's ability to monitor accounting and financial reporting activities. There were various post-closing entries recorded by the University of Puerto Rico Retirement System related to this situation.

Recommendation:

Management must ascertain that the loans transactions cycle is being performed without disruptions. The annual closing process must include specific steps for loans transactions. This will provide monitoring controls over the information. General ledger accounts should be supported by reconciliations of rollforwards and other appropriate documentation which should be reviewed on a timely basis.

Management's Response:

The University of Puerto Rico Retirement System's Management agree with the finding. We already notified a preliminary assessment of the new accounting system implementation and the delay from the University of Puerto Rico in providing the accounting data required to record, summarize and report the accounting activities of Loan's Program. Instructions from the University of Puerto Rico's Governing Board are in place and University of Puerto Rico's Officials sent the data file. We already recorded the accounting activities to complete the financial statements as of June 30, 2021. Also, the University of Puerto Rico is sending us the data on a monthly basis.

Finding No. 2021-002

Criteria:

A sound system of internal controls is essential in enabling the University of Puerto Rico Retirement System to prepare timely and accurate financial statements by helping ensure all financial transactions are properly recorded, supported and subject to supervisory review.

Condition:

During the year ended June 30, 2021, several of retired members did not received their benefits on a time basis due to lack of personnel to evaluate their cases. Once the Benefit Department evaluated and approve the benefits, the University of Puerto Rico Retirement System pay a retroactive check to those retired members, but an accounts payable related to these pensions was not recorded.

Cause:

This unrecorded accrual was caused due to lack of personnel to evaluate and approve the benefits of retired members on time as there is a high volume of retired members each year.

Effect:

This situation caused misstatements on the statement of fiduciary net position and the statement of changes in fiduciary net position since the accounting records were incomplete. A material post-closing entry was recorded by the University of Puerto Rico Retirement System related to this situation.

Recommendation:

Management must ascertain timely the evaluation of the monthly pension distribution for retired members without disruptions. The accounting closing process must include specific steps to consider the accrual and subsequent payment of pension distributions. This will provide monitoring controls over the information of retired members. General ledger accounts should be supported through the evaluation and approval of benefits to retired members to be reviewed on a timely basis.

Management's Response:

The University of Puerto Rico Retirement System's Management agree with the finding. We already notified an assessment as to consider the monthly benefits based on the Census Data for retired members as of June 30, 2021 to the actual benefit paid for evaluation and approval to account the monthly pension distribution of retired members. We already recorded the adjusting entry to complete the financial statements as of June 30, 2021.