

**UNIVERSITY OF PUERTO RICO
RETIREMENT SYSTEM**

**Basic Financial Statements and
Required Supplementary Information
June 30, 2024 and 2023**

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION June 30, 2024 and 2023

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of Puerto Rico Retirement System as of and for the years ended June 30, 2024 and 2023, 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.

In our opinion, the accompanying 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, 2024 and 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University of Puerto Rico Retirement System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt about the University of Puerto Rico Retirement System's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that 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. The University of Puerto Rico has recurring losses from operations, net capital deficiency, is negotiating its debt and has stated that substantial doubt exists about its ability to continue as a going concern in its most recent audited financial statements as of and for the year ended June 30, 2024. This situation affects its financial condition and liquidity and 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 regarding 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.

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Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Puerto Rico Retirement System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Puerto Rico Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Puerto Rico Retirement System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis the Schedule of Changes in Net Pension Liability, the Schedule of Net Pension Liability, the Schedule of Employer Contributions, and the Schedule of Annual Money-Weighted Rate of Return on Investments, be presented to supplement the basic financial statements. Such information is the responsibility of management and 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 GAAS, 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 September 30, 2025, 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 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
September 30, 2025.



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The University of Puerto Rico Retirement
System

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM
Management's Discussion and Analysis (Unaudited)
As of June 30, 2024

Introduction

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. The 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's Board, that is the Trustee of the University's Retirement System Trust.

Our discussion and analysis of the System's financial performance provide an overview of the System's financial activities for the fiscal years ended June 30, 2024, and 2023.

Financial Highlights

- The net position for the fiscal years 2024, 2023 and 2022 were \$1,676,548,438, \$1,609,705,072, \$1,554,402,616, respectively. The System experienced an increase in net position during fiscal year 2024 of 4.15%, increase in net position during fiscal year 2023 of 3.56%, and an increase of 12.31% during fiscal year 2022.
- The changes in fiduciary net position for the fiscal years 2024, 2023 and 2022 are comprised of contributions of \$154,867,242, \$174,514,928, and \$192,909,404, respectively, and net investment income (loss) of \$142,995,885, \$111,236,589, and \$(185,963,966), respectively.
- Total additions amounted to \$297,863,127 for the fiscal year 2024, compared to \$285,751,517 for the fiscal year June 30, 2023, and \$6,945,438 for the fiscal year ended 2022. The increase in additions for fiscal year 2024, compared to fiscal year 2023, was primarily driven by an appreciation in the fair value of investments of \$118,160,209. The increase in additions for fiscal year 2023, compared to fiscal year 2022, was primarily driven by an appreciation in fair value of investments of \$84,225,082.
- Operational expense ratio, which is the administrative expenses to total additions, for the fiscal year 2024 was 1.57%, compared to 1.91 % for the fiscal year 2023 and 35.16% for the fiscal year 2022. On the other side, the cost to income ratio or the efficiency ratio which is total deductions to total additions during fiscal year 2024 was 77.56% compared to 80.65% during 2023 and 3,673.34% for fiscal year 2022.
- The System administered funds from the University of Puerto Rico for retirees' medical insurance in a separate operating bank account established specifically to handle these funds outside the operations of the Retirement System Trust. For the fiscal years 2024, 2023, and 2022, the administered funds amounted to \$10,315,814, 11,342,519 and \$11,031,140, respectively.
- Deductions from fiduciary net position in fiscal year 2024 totaled \$231,019,761, compared to \$230,449,061 in fiscal year 2023, and \$225,129,691 in fiscal year 2022. The increase was primarily driven by benefits paid to members, which amounted to \$226,332,475 in fiscal year 2024, in comparison to \$224,977,854 in fiscal year 2023.
- During fiscal year 2024, the System reported investments return of 9.20%, as compared to the benchmark's return of 9.82%. In fiscal year 2023, the System reported investments return of 7.86%, as compared to the benchmark's return of 8.68%. The benchmarks are Bloomberg Aggregate, S&P 500 Index, MSCI ACWI, etc.



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As of June 30, 2024

- Funding ratios for the last ten fiscal years (FY) were the following:
 - FY 2015, 46.6%
 - FY 2016, 47.8%
 - FY 2017, 48.9%
 - FY 2018, 43.7%
 - FY 2019, 42.8%
 - FY 2020, 43.7%
 - FY 2021, 47.6%
 - FY 2022, 49.9%
 - FY 2023, 51.2%
 - FY 2024, 52.3%
- For fiscal year 2024, fund performance ranked 81th and 78th during the last 36 and 60 months against the Callan LLC peer comparison nationwide Callan Public Fund Database for fiscal year June 30, 2024. For fiscal year 2023, the fund performance ranked 86th and 61th during the last 36 and 60 months against Callan LLC peer comparison nationwide Callan LLC Public Fund Database for fiscal year 2022. Database consists of approximately 200+ public funds in the past 24 months for both years.

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 the System's 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.

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM
Management's Discussion and Analysis (Unaudited)
As of June 30, 2024

Financial Analysis

The net position of the System during the years ended June 30, 2024, increased by approximately \$66.84 million or 4.15%, compared with 2023 when it experimented an increase of \$55.30 million or 3.56%. In fiscal year 2022, there was a decrease in net position of \$218.18 million or 494.53%.

For fiscal year 2024, total assets increased \$49.59 million or 2.98% from prior year mainly due to an increase in the fair market value of investments. During fiscal year 2023, total assets increased \$56.88 million or 3.54% from the prior year also related to an increase in the fair market value of investments.

Statements of Fiduciary Net Position

	June 30, 2022	June 30, 2023	June 30, 2024	2022-2023 Percentage Change	2023-2024 Percentage Change
Assets					
Cash and cash equivalents	\$ 65,424,146	\$ 33,506,082	\$ 15,626,115	(48.79%)	(53.36%)
Receivables	38,688,879	38,689,796	29,477,596	0.00%	(23.81%)
Investments	1,258,164,906	1,376,854,144	1,475,445,825	9.43%	7.16%
Alternative investments	160,845,171	139,172,450	127,100,615	(13.47%)	(8.67%)
Securities lending cash collateral	486,955	1,227,724	-	152.12%	(100.00%)
Loans to plan members	78,025,490	69,853,549	61,799,955	(10.47%)	(11.53%)
Other receivables net of allowances	3,064,130	2,247,406	1,952,044	(26.65%)	(13.14%)
Other receivables	268,466	212,066	212,071	(21.01%)	0.00%
Capital assets-net	3,350,810	3,440,483	3,179,546	2.68%	(7.58%)
Total assets	\$ 1,608,318,953	\$ 1,665,203,700	\$ 1,714,793,768	3.54%	2.98%
Liabilities					
Accounts payable and accrued expenses	\$ 10,680,222	\$ 9,627,069	\$ 9,294,434	(9.86%)	(3.46%)
Obligations under securities lending	1,648,092	1,558,058	-	(5.46%)	(100.00%)
Escrow deposits on mortgage loans	1,556,190	1,522,258	1,814,926	(2.18%)	19.23%
Other deposits and pending distribution funds	1,280,694	1,159,540	1,115,008	(9.46%)	(3.84%)
Payables for acquisition of investments	38,751,139	41,631,703	26,020,962	7.43%	(37.50%)
Total liabilities	\$ 53,916,337	\$ 55,498,628	\$ 38,245,330	2.93%	(31.09%)
Net position	\$ 1,554,402,616	\$ 1,609,705,072	\$ 1,676,548,438	3.56%	4.15%

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM
Management's Discussion and Analysis (Unaudited)
As of June 30, 2024

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 2024 amounted to approximately \$297.86 million compared to approximately \$285.75 million for total additions of fiscal year 2023. The increase was mainly due to an increase in net investment income of approximately \$31.76 million. For fiscal year 2023, total additions amounted to approximately \$285.75 million compared to approximately \$6.95 million for fiscal year 2022. The increase was mainly due to an increase in net investment income of approximately \$297.20 million.

Statements of Changes in Fiduciary Net Position					
	June 30, 2022	June 30, 2023	June 30, 2024	2022 - 2023 Percentage Change	2023-2024 Percentage Change
Additions :					
Contributions	\$ 192,909,404	\$ 174,514,928	\$ 154,867,242	(9.54%)	(11.26%)
Net investment income	(185,963,966)	111,236,589	142,995,885	(159.82%)	28.55%
Total additions	6,945,438	285,751,517	297,863,127	4014.23%	4.24%
Deductions:					
Benefits paid	222,707,474	224,977,854	226,332,475	1.02%	0.60%
General and administrative expenses	2,422,217	5,471,207	4,687,286	125.88%	(14.33%)
Total deductions	225,129,691	230,449,061	231,019,761	2.36%	0.25%
Net increase (decrease) in net position restricted for pensions	<u>\$ (218,184,253)</u>	<u>\$ 55,302,456</u>	<u>\$ 66,843,366</u>	<u>(125.35%)</u>	<u>20.87%</u>

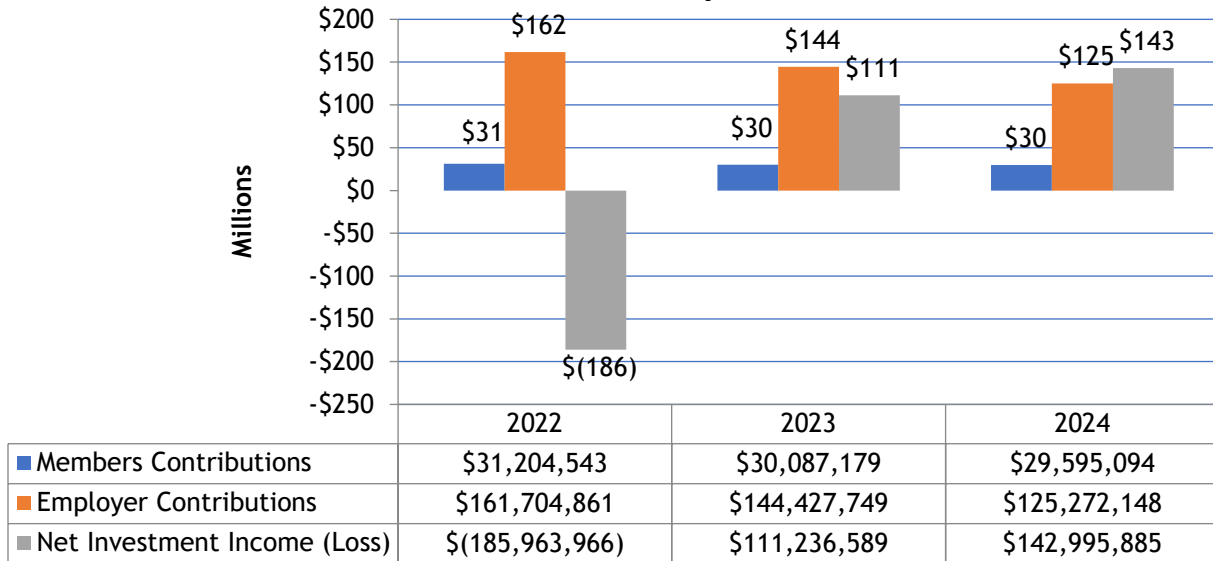
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Contributions paid by members were approximately \$29.60 million, \$30.09 million, and \$31.20 million, for the fiscal years 2024, 2023 and 2022, respectively. This represented a decrease of approximately \$492 thousand for fiscal year 2024 or 1.64% in comparison with a decrease of approximately \$1.1 million or 3.58% for fiscal year 2023.

Total Additions to Fiduciary Net Position



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 2024, 2023 and 2022 amounted to \$4,687,286, \$5,471,207, and \$2,422,217, respectively. It represents a decrease of 16.72% when compared to expenses from fiscal year 2023 to 2024, and an increase of 55.36% when compared to expenses from fiscal year 2022 to 2023.

Actuarial Standards

Actuarial calculations as of June 30, 2024, and 2023, were based on assumptions that consider the current provisions and prior 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 Participant of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to determine the actuarial amounts contained in the reports issued to the System.



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As of June 30, 2024

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 laws. 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 members of the System as of June 30:

Membership	2024	2023	2022
Inactive members or their beneficiaries currently receiving benefits	9,318	9,379	9,390
Inactive members entitled to but not yet receiving benefits	6,366	6,542	6,336
Active members	7,887	8,029	8,304
Total	<u>23,571</u>	<u>23,950</u>	<u>24,030</u>

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 weighing 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 (source Survey of Capital Market Assumptions, 2025 Edition published by Horizon Actuarial Services, LLC).

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2024, the same discount rate used as of June 30, 2023, and 2022. The projection of cash flows used to determine the discount rate assumed that members' 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, 2024.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current members. As of June 30, 2024, the System is not projected to be depleted. 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 3.94%, based on the S&P Municipal Bond 20-year High Grade Index Rate as of June 30, 2024, 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 were used to determine the total pension liability as of June 30, 2024. The SEIR at the beginning of the measurement period was 6.75%.



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Management's Discussion and Analysis (Unaudited)
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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 require 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 had an appreciation in fair value of approximately \$118.16 million during fiscal year 2024, as compared to the fiscal year 2023, when it was appreciated in fair value by approximately \$85.39 million. The net investment income for fiscal year 2024 amounted to approximately \$143 million, which represents an increase in investment income of approximately \$31.76 million when compared with previous year. During fiscal year 2024 investment managers expenses increased less than 1% when compared with 2023, for the same period the custody expenses increased by approximately 30.57%. The reference increases were mainly due to the appreciation in investments during 2024.

The net investment income for fiscal year 2023 amounted to approximately \$111.24 million and a loss of (\$185.96) for fiscal year 2022, which represented an increase in investment income of approximately \$297.2 million when compared to 2022.

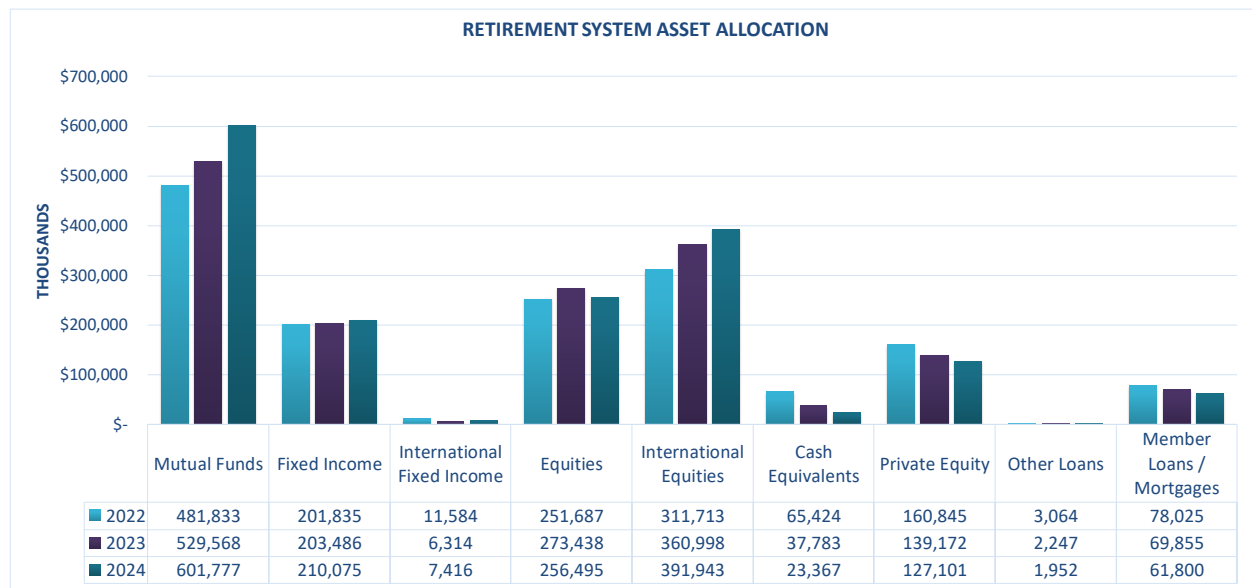
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Asset Allocation

Most of the System's assets are invested in marketable securities. The System's asset allocation consists of cash and short-term investments of 1.39%, 38.55% of stocks, 12.49% in fixed income investments, 3.79% loans to members, 0.44% in international fixed income, 7.56% in alternative investments, and 35.78% in mutual funds for the year ended June 30, 2024. 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, 2024, 2023, and 2022:



Benefits Paid and Liabilities

For the fiscal year 2024, pension benefits paid to retirees and beneficiaries were \$226.33 million, which represents an increase of approximately \$1.35 million or 0.60% when compared to the prior year. For the previous two fiscal years, 2023 and 2022, pension benefits paid to retirees and beneficiaries were \$224.98 million and \$222.71 million respectively, which represented an increase of \$2.27 million or 1.02%.

As of June 30, 2024, there were 7,887 active members and 9,318 retired members. In comparison, as of June 30, 2023, the numbers were 8,029 active members and 9,379 retired members.

During fiscal year 2024, total liabilities were approximately \$38.25 million which represents a decrease of \$17.25 million or 31.09%, when compared to the prior year. Approximately 68.04% of total liabilities consist of unsettled transactions. During fiscal year 2023, total liabilities were approximately \$55.50 million, which represents an increase of approximately \$1.58 million or 2.93% when compared to the prior year. Approximately, 75.01% of our total liabilities consisted of unsettled investment transactions. Overall, liabilities represent accounts payable to agencies, deposits for distribution to employees' contributions and accounts payable for acquisition of investments.



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The System as a Whole

Fiscal year 2024 reported an increase in net position of approximately \$66.84 million. The main reason for that result is that the appreciation in fair value of investments increased by approximately \$32.77 million when compared to the previous year. Net investment income increased by approximately \$31.76 million.

Fiscal year 2023 reported an increase in net position of approximately \$55.30 million, the main reason for that result is that the appreciation in fair value of investments increased by approximately \$291.47 million when compared to the previous year. Net investment income increased by approximately \$297.20 million.

Economic Factors

The University has a high dependency on the Commonwealth appropriations, and it lacks available financial sources at reasonable interest rates. This situation affects its financial condition and liquidity. The University has expressed substantial doubt about its ability to continue as a going concern in its 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.

For many years the Commonwealth experienced a fiscal, economic and liquidity crisis which resulted in recurring deficits, negative financial position and a prolonged recession which commenced in 2006. Pursuant to PROMESA and the establishment of the Oversight Board on June 30, 2016, the United States Congress provided a mechanism to allow for fiscal and economic discipline that resulted in the orderly restructuring of the Commonwealth's obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End Bankruptcy of Puerto Rico (Act.53) to implement the restructuring transaction contemplated in the Commonwealth's plan of action adjustment. The Title III Court confirmed the Commonwealth Plan of Adjustment on January 18, 2022, and it became effective on March 15, 2022.

The University is dependent upon Commonwealth's appropriations to finance its operations. However, the University believes that Commonwealth appropriations are secured through 2027, in accordance with Act 53. The University is evaluating strategies to obtain additional revenue sources for future operations and the System's management has continued to focus its efforts on protecting the System.

Currently Known Facts

Securities Lending

On July 1, 2022, the System entered into a Payment Plan Agreement with JP Morgan Chase Bank, N.A. to cover the deficiency in the securities lending cash collateral investment account of the System. The payment schedule was as follows:

<u>Payment Due Date</u>	<u>Amount</u>
July 5, 2022	\$ 500,000
July 15, 2022	\$ 330,568
July 15, 2023	\$ 330,334

On September 6, 2023, JP Morgan Chase Bank, N. A. notified the termination of the Securities Lending Program Agreement effective October 6, 2023.



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Pension Reforms

On October 27, 2022, the Governing Board of the University approved by Certification No. 52, 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 members.

On May 5, 2023, the Governing Board of the University approved Certification No. 142, amend Certification No. 52 establishing that the new implementation date of the Defined Contribution Plan for new employees will be May 31, 2023. As of May 31, 2023, the System will be closed to new members.

On July 21, 2023, the Governing Board of the University approved by Certification No. 1, amend Certification No. 142 establishing that the new implementation date of the Defined Contribution Plan for new employees was August 1, 2023. Vested employees and retirees of the System are not impacted with this reorganization.

Litigations

On May 11, 2023, the Retirement Board filed a lawsuit against the University of Puerto Rico and the Governing Board for the creation and implementation of a parallel retirement system in contravention of applicable laws and regulations. The lawsuit seeks a Declaratory Judgment and a permanent injunction.

In August 2023, the Retirement Board filed a lawsuit against the University seeking to recover \$58,770,622 in unpaid actuarially determined contributions, salaries, and other related services. In fiscal year 2025, the claim was amended to include additional employer contributions owed to the Retirement System for fiscal years 2023 and 2024, in the amounts of \$10,039,122 and \$38,749,588, respectively. As a result, the total amount sought in the lawsuit increased to \$107,732,197.

Contacting System's Financial Management

This financial report is designed to provide the Retirement Board, members, 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, 2024 and 2023

	2024	2023
ASSETS:		
Cash	\$ 15,626,115	\$ 33,506,082
Investment at fair value:		
U.S. Government and Agencies' obligations	66,280,873	60,421,348
Foreign bonds	7,416,193	6,314,294
Corporate bonds	77,815,929	72,897,826
Foreign common stocks	391,942,547	360,997,895
Common stocks	256,494,548	273,438,471
Mortgage-backed securities	64,781,065	67,317,116
Municipal bonds	729,230	1,166,792
Sovereign debt	467,632	455,574
Commingled funds	601,777,260	529,567,627
Short term investments	7,740,548	4,277,202
Alternative investments	127,100,615	139,172,450
Invested securities lending cash collateral	-	1,227,724
Loans to members:		
First mortgage	18,582,898	20,277,836
Personal installments	43,217,057	49,575,712
Other, net of allowance for doubtful accounts of \$5,895 in 2024 and 2023	1,952,049	2,247,406
Other receivables	212,066	212,066
Accrued interest receivable on investments	3,315,734	3,480,022
Receivables from sale of investments	14,818,525	30,559,415
Contributions receivable from the Commonwealth of Puerto Rico	2,202,436	2,202,436
Due from University of Puerto Rico	9,140,902	2,447,923
Capital assets, net of accumulated depreciation of \$2,126,722 and \$1,970,182 in 2024 and 2023, respectively	3,179,546	3,440,483
	<u>1,714,793,768</u>	<u>1,665,203,700</u>
LIABILITIES:		
Accounts payable and accrued expenses	9,294,434	9,627,069
Obligations under securities lending	-	1,558,058
Escrow deposits on mortgage loans	1,814,926	1,522,258
Other deposits and pending distribution funds	1,115,008	1,159,540
Payable for acquisition of investments	26,020,962	41,631,703
	<u>38,245,330</u>	<u>55,498,628</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 1,676,548,438</u>	<u>\$ 1,609,705,072</u>

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, 2024 and 2023

	2024	2023
ADDITIONS:		
Contributions-		
Employer	\$ 125,272,148	\$ 144,427,749
Members	29,595,094	30,087,179
	<u>154,867,242</u>	<u>174,514,928</u>
Investment income -		
Net appreciation in fair value of investments	118,160,209	85,386,734
Interest	9,813,200	12,148,193
Dividends	19,984,044	18,497,717
	<u>147,957,453</u>	<u>116,032,644</u>
Investment expense	<u>4,961,568</u>	<u>4,796,055</u>
Net investment income	<u>142,995,885</u>	<u>111,236,589</u>
	<u>297,863,127</u>	<u>285,751,517</u>
DEDUCTIONS:		
Benefits paid	226,332,475	224,977,854
General and administrative expenses	4,687,286	5,471,207
	<u>231,019,761</u>	<u>230,449,061</u>
NET INCREASE IN FIDUCIARY NET POSITION	66,843,366	55,302,456
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS,		
beginning of year	<u>1,609,705,072</u>	<u>1,554,402,616</u>
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS,		
end of year	<u><u>\$ 1,676,548,438</u></u>	<u><u>\$ 1,609,705,072</u></u>

The accompanying notes are an integral part of these statements.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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. The 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's Board, that is the Trustee of the University's Retirement System Trust.

Members consisted of the following as of June 30, 2024 and 2023:

Description	2024	2023
Inactive members or their beneficiaries currently receiving benefits	9,318	9,379
Inactive members entitled to but not yet receiving benefits	6,366	6,542
Active members	7,887	8,029
	<u>23,571</u>	<u>23,950</u>

- 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.

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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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 System 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.

Loans to System's Members - Are carried at either (i) unpaid principal balance for personal loans, which approximates their fair value, or (ii) discounted future principal and interest payments for mortgage loans, using prevailing interest ratios for similar instruments. Mortgage loans are collateralized by the member's contribution to the System and first mortgage liens on the underlying properties. Personal loans are collateralized by the member's contribution to the System.

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

As of June 30, 2024 and 2023, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately \$1.95 million and \$2.25 million, respectively, net of allowance for uncollectible accounts.

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, 2024, and 2023 amounted to approximately \$157,000 and \$129,000, respectively.

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.

Members and Employer Contributions - Members 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 - Benefits are recognized when due and payable in accordance with the terms of the System.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 ("ERISA"). The System provides retirement, disability and death benefit to members and beneficiaries.
- B) System's Board and Composition - The Retirement Board of the System's Trust is composed of elected members representing the following university sectors: Aguadilla, Arecibo, Bayamón, Carolina, Cayey, Medical Sciences, Humacao, Mayagüez, Ponce, Río Piedras, Utuado, Central Administration, and Retirees of the Retirement System. Each sector has the right to one representative if it has less than 1,500 members and two if it has 1,500 members or more. The President of the University or designated representative is an Ex-Officio Member.
- C) 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 System 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 (2007-2008). This certification was superseded by Certification No. 70 (2013-2014), in which the automatic 3% increase in pension benefits was terminated.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

Effective July 1, 2014, the compensation limit for Certification No.139 (2014-2015) 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)

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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 Retirement System's Board. 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

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023 was 39.03% and 39.23%, 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.

- D) 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 after 10 years of service, or at age 55 after 25 years of service.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

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. The 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. The 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 were 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. The 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 were 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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

- 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.

E) 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 non-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.

F) Death Benefits -

- Pre-retirement death benefit - if the death of a member 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 member's beneficiaries. Maximum family benefit is 75% of the member's final annual salary. If death is non-service related, a lump-sum is paid equal to the member's contributions plus one year's final salary, but not less than \$6,000.
- Post-retirement death benefits - member'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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

G) Christmas Bonus - A \$400 annual bonus is given to all retired members.

H) Pension Reform - On July 21, 2023, the Governing Board of the University approved by Certification No. 1, amend Certification No. 142 establishing that the new implementation date of the Defined Contribution Plan for new employees will be August 1, 2023. As of July 31, 2023, the System will be closed to new members.

3) Substantial Doubt about the System's Ability to Continue as a 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 is highly dependent on funding from the University of Puerto Rico. The University of Puerto Rico has recurring losses from operations, net capital deficiency, is negotiating its debt and has stated that substantial doubt exists about its ability to continue as a going concern in its most recent audited financial statements as of and for the year ended June 30, 2024. This situation affects its financial condition and liquidity and 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. 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.

For many years the Commonwealth experienced a fiscal, economic and liquidity crisis which resulted in recurring deficits, negative financial position and a prolonged recession which commenced in 2006. Pursuant to PROMESA and the establishment of the Oversight Board on June 30, 2016, the United States Congress provided a mechanism to allow for fiscal and economic discipline that resulted in the orderly restructuring of the Commonwealth's obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End Bankruptcy of Puerto Rico (Act 53) to implement the restructuring transaction contemplated in the Commonwealth's plan of action adjustment. The Title III Court confirmed the Commonwealth Plan of Adjustment on January 18, 2022 and it became effective on March 15, 2022.

The University is evaluating strategies to obtain additional revenue sources for future operations and the System's management has continued to focus its efforts on protecting the System, 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 University commenced.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

- 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:

During the year ended June 30, 2024, the System's fund continues to demonstrate positive performance, closing the fiscal year with a return of 9.20%.

- Funding Ratios:

The funding ratio rose from June 30, 2015 to June 30, 2017: 46.6% in 2015, 47.8% in 2016, and 48.9% in 2017. It then declined in 2018 to 43.7% and further to 42.8% in 2019. From fiscal year 2020 to 2024, the ratio, increased from 42.8% to 43.7% in 2020, to 47.6% in 2021, to 49.9% in 2022, to 51.2% in 2023, and 52.3% in 2024.

- Contributions:

As stated in the plan document, the System's 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 University believes that Commonwealth appropriations are secured through 2027, in accordance with Act 53.

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.

- Assets Level:

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 University 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's 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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

4) Cash:

The University of Puerto Rico Retirement System Cash and Cash equivalents as of June 30, 2024 were the following:

Description	2024	2023
Cash:		
Deposit accounts with commercial banks	\$ 3,133,648	\$ 7,987,957
Domestic and Global accounts Custody banks (Investments)	12,492,467	25,518,125
	15,626,115	33,506,082
Cash equivalents:		
Short term investments	7,740,548	4,277,202
	\$ 23,366,663	\$ 37,783,284

The System is authorized to deposit funds in the custody of financial institutions approved by the Commonwealth. The Commonwealth's regulations require domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount in excess of federal insurance coverage.

Deposits, either insured or collateralized, are not considered to be subject to custodial credit risk. Custodial credit risk is the risk that, in the event of a financial institution's failure, the System's deposits may not be returned to it.

The cash deposits, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC) of \$250,000 per financial institution. As of June 30, 2024 and 2023, cash deposits exceeded FDIC insured limits by approximately \$4 million and \$9 million, respectively.

As of June 30, 2024 the Retirement System bank balances for operational purposes were \$3.13 million. The cash balances for investment purposes were \$12.49 million. Short term investments for the corresponding period were \$7.7 million.

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023:

		June 30, 2024		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs for the Assets
		(Level 1)	(Level 2)	(Level 3)
U.S. Government bonds and Agencies' obligations	\$ 66,280,873	\$ -	\$ 66,280,873	\$ -
Common stocks	256,494,548	256,494,548	-	-
Mortgage-backed securities	64,781,065	-	64,781,065	-
Municipal bonds	729,230	-	729,230	-
Corporate bonds	77,815,929	-	77,815,929	-
Foreign common stocks	391,942,547	391,942,547	-	-
Foreign bonds	7,416,193	-	7,416,193	-
Commingled funds equity	601,777,260	-	601,777,260	-
Sovereign debt	467,632	-	467,632	-
Short-term investments	7,740,548	-	7,740,548	-
Alternative investments	127,100,615	-	-	127,100,615
	<u>\$ 1,602,546,440</u>	<u>\$ 648,437,095</u>	<u>\$ 827,008,730</u>	<u>\$ 127,100,615</u>

		June 30, 2023		
Description	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs for the Assets
		(Level 1)	(Level 2)	(Level 3)
U.S. Government bonds and Agencies' obligations	\$ 60,421,348	\$ -	\$ 60,421,348	\$ -
Common stocks	273,438,471	273,438,471	-	-
Mortgage-backed securities	67,317,116	-	67,317,116	-
Municipal bonds	1,166,792	-	1,166,792	-
Corporate bonds	72,897,826	-	72,897,826	-
Foreign common stocks	360,997,895	360,997,895	-	-
Foreign bonds	6,314,294	-	6,314,294	-
Commingled funds equity	529,567,627	-	529,567,627	-
Sovereign debt	455,574	-	455,574	-
Short-term investments	4,277,202	-	4,277,202	-
Alternative investments	139,172,450	-	-	139,172,450
	<u>\$ 1,516,026,595</u>	<u>\$ 634,436,366</u>	<u>\$ 742,417,779</u>	<u>\$ 139,172,450</u>

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

No more than 5% of any debt issue may be purchased as an investment, except for the U.S. Government bonds and Agencies' obligations. 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 bonds and Agencies' obligations.

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, foreign bonds, foreign common stocks, 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 as Level 3. Fair value for private and real estate equity funds are derived from each fund's Net Asset Value (NAV) as provided by fund management, or broker dealer as of the valuation date.

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 Above (+) Below (-)
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%
Loans to members (including first mortgage and personal installments loans)	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. 24, 2023-2024) per month. This is 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 equities. 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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

Alternative investments include the following as of June 30, 2024 and 2023:

Description	Total Commitment	June 30, 2024		
		Contributions	Distributions	Fair value
Grupo Guayacán, Inc.				
Guayacán Fund of Funds II, LP	\$ 6,000,000	\$ 5,683,539	\$ 7,598,310	\$ -
Guayacán Fund of Funds III, LP	5,000,000	4,961,098	8,355,666	879,073
Guayacán Fund of Funds IV, LP	5,000,000	4,958,146	4,676,096	6,212,348
Advent-Morro Equity Partners Inc:				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,514,732	2,496,662
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	6,962,263	1,433,645
Guayacán Private Equity Fund III, LP	7,500,000	6,238,733	-	4,418,857
McCoy Investment Fund 2	15,000,000	12,403,897	31,841,855	14,524,634
RREEF America REIT II	65,000,000	65,000,000	-	97,135,396
	<u>\$ 111,000,000</u>	<u>\$ 106,477,467</u>	<u>\$ 63,948,922</u>	<u>\$ 127,100,615</u>
Description	Total Commitment	June 30, 2023		
		Contributions	Distributions	Fair value
Grupo Guayacán, Inc.				
Guayacán Fund of Funds II, LP	\$ 6,000,000	\$ 5,683,539	\$ 7,598,310	\$ -
Guayacán Fund of Funds III, LP	5,000,000	4,961,098	7,880,760	1,381,628
Guayacán Fund of Funds IV, LP	5,000,000	4,958,146	3,578,924	7,160,585
Advent-Morro Equity Partners Inc:				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,514,732	2,484,316
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	6,640,834	1,360,252
Guayacán Private Equity Fund III, LP	7,500,000	5,134,860	-	3,755,139
McCoy Investment Fund 2	15,000,000	12,403,897	31,670,903	16,383,938
RREEF America REIT II	65,000,000	65,000,000	-	106,646,592
	<u>\$ 111,000,000</u>	<u>\$ 105,373,594</u>	<u>\$ 61,884,463</u>	<u>\$ 139,172,450</u>

Credit Risk

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.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

As of June 30, 2024 and 2023, the System's credit quality distribution for securities was as follows:

Description	2024	
	Carrying value	Standard & Poor's Rating
Foreign bonds	\$ 10,511,110	AA- to BB+
Corporate bonds	250,007,524	AAA to BB+
Mortgage backed securities	155,936,903	AA+
Municipal bonds	3,134,206	AAA to A-

Description	2023	
	Carrying value	Standard & Poor's Rating
Foreign bonds	\$ 7,951,912	AA to BBB
Corporate bonds	216,326,543	AAA to BBB-
Mortgage backed securities	173,843,582	AA+ to AA+
Municipal bonds	4,228,477	AAA to A-

Commingled funds include investment in foreign bonds, corporate bonds, mortgage-backed securities and municipal bonds that have been rated by Standard & Poor's and were considered within the above categories.

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

Investment Type	2024	2023
	Carrying Value	Carrying Value
Mortgage backed securities	\$ 64,781,065	\$ 67,317,116
Corporate bonds	77,815,929	72,897,826
Common stocks	256,494,548	273,438,471
U.S. Government bonds and agencies' obligations	66,280,873	60,421,348
Foreign common stocks	391,942,547	360,997,895
Foreign bonds	7,416,193	6,314,294
Commingled funds equity	601,777,260	529,567,627
Sovereign debt	467,632	455,574
Municipal bonds	729,230	1,166,792
Short-term investments	7,740,548	4,277,202
	<u>\$ 1,475,445,825</u>	<u>\$ 1,376,854,145</u>

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

Securities Lending

Until Fiscal Year 2024, the System had a Security Lending Agreement (“the Agreement”) with its investment custodian (“the Custodian”). In this Agreement, the System agreed to lend certain securities upon request of a borrower. The Custodian was the managing agent in this agreement where upon request of a borrower, the Custodian lends securities in exchange for collateral. Collateral consisted of cash, other approved securities and/or letter of credit from the borrower. The Custodian had the unrestricted right to invest any cash collateral; also, the Custodian could commingle any approved securities held as collateral with any other securities held under custody on behalf of the University. Under the Agreement, the borrower was compelled to return the securities loaned by the System upon termination of the loan term.

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 were invested into a collective investment trust fund and were included on the Statement of Fiduciary Net Position. The purpose of the separate account was to provide a reserve account to offset expected losses.

In reference to this program, on July 2022, the Retirement Board authorized a Payment Plan to cover the unrecognized loss of the Securities Lending Program. The payment schedule was paid as follows:

Payment Due Date	Amount
July 5, 2022	\$ 500,000
July 15, 2022	\$ 330,568
July 15, 2023	\$ 330,334

On September 6, 2023, JP Morgan Chase Bank, N. A. notified the termination of the Securities Lending Program Agreement effective October 6, 2023.

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 U.S. Government bonds and Agencies’ obligations.

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

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, 2024 and 2023, the weighted average maturity by investment type in each fund is as follows:

Investment Type	Weighted Average (Years)	Fair Value	
		2024	2023
Corporate bonds	2.2248	\$ 77,815,929	\$ 72,897,826
Mortgage-backed securities	2.6533	64,781,065	67,317,116
Municipal bonds	0.0280	729,230	1,166,792
Foreign bonds	0.3164	7,416,193	6,314,294
U.S. Government and Agencies' obligations and Sovereign debt	1.5780	66,748,505	60,876,922
		<u>\$ 217,490,922</u>	<u>\$ 208,572,950</u>

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

Foreign Currency Risk

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, 2024:

Foreign Currency Risk represents 23.29% of total assets.

Security Type	Currency	Maturity	Fair Value
Common stocks	Australia	Not Applicable	\$ 3,691,934
Common stocks	Bermuda	Not Applicable	2,799,016
Common stocks	Brazil	Not Applicable	2,717,390
Common stocks	Canada	Not Applicable	24,677,998
Common stocks	Cayman Islands	Not Applicable	188,059
Common stocks	Channel Islands	Not Applicable	6,500,363
Common stocks	China	Not Applicable	1,533,046
Common stocks	Denmark	Not Applicable	12,068,088
Common stocks	France	Not Applicable	56,200,710
Common stocks	Germany	Not Applicable	26,316,149
Common stocks	Hong Kong	Not Applicable	1,600,137
Common stocks	India	Not Applicable	8,981,432
Common stocks	Ireland	Not Applicable	24,672,811
Common stocks	Israel	Not Applicable	2,061,559
Common stocks	Italy	Not Applicable	1,666,081
Common stocks	Japan	Not Applicable	63,343,798
Common stocks	Korea	Not Applicable	7,630,880
Common stocks	Netherlands	Not Applicable	23,249,714
Common stocks	Norway	Not Applicable	2,296,374
Common stocks	Portugal	Not Applicable	1,474,646
Common stocks	Spain	Not Applicable	15,976,190
Common stocks	Sweden	Not Applicable	10,503,056
Common stocks	Switzerland	Not Applicable	25,303,720
Common stocks	Taiwan	Not Applicable	16,325,452
Common stocks	United Kingdom	Not Applicable	50,163,944

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

Continued...

Security Type	Currency	Maturity	Fair Value
Corporate bonds	Canada	11/15/2030 - 7/15/2053	306,038
Corporate bonds	Channel Islands	9/23/2026	243,592
Corporate bonds	Japan	12/31/2164	198,692
Corporate bonds	Luxembourg	3/21/2026	17,424
Corporate bonds	Supranational	5/11/2031	69,522
Corporate bonds	Switzerland	3/26/2025 - 2/15/2028	3,422,023
Corporate bonds	Taiwan	4/22/2032	193,141
Corporate bonds	United Kingdom	3/16/2028 - 2/8/2061	266,137
Governmental bonds	Canada	06/12/2034	273,540
Governmental bonds	Chile	1/31/2031 - 1/27/2032	215,398
Governmental bonds	Colombia	4/25/2027 - 4/22/2032	446,126
Governmental bonds	Indonesia	4/24/2028 - 7/28/2031	349,897
Governmental bonds	Kazakhstan	10/14/2044	131,058
Governmental bonds	Mexico	3/28/2027 - 1/11/2028	370,258
Governmental bonds	Peru	12/1/2032 - 1/15/2034	130,888
Governmental bonds	Philippines	2/1/2028 - 1/6/2032	504,236
Governmental bonds	Saudi Arabia	1/16/2050	278,223
			<u>\$ 399,358,740</u>

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.

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UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

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, 2024 and 2023, capital assets activities consisted of the following:

Description	Balance as of June 30, 2023	Additions	Retirements	Balance as of June 30, 2024
Building	\$ 3,811,940	\$ -	\$ -	\$ 3,811,940
Equipment	678,248	35,154	-	713,402
Foreclosure homes	920,477	3,299	(142,850)	780,926
	5,410,665	38,453	(142,850)	5,306,268
Less: accumulated depreciation	(1,970,182)	(156,540)	-	(2,126,722)
	<u>\$ 3,440,483</u>	<u>\$ (118,087)</u>	<u>\$ (142,850)</u>	<u>\$ 3,179,546</u>

Description	Balance as of June 30, 2022	Additions	Retirements	Balance as of June 30, 2023
Building	\$ 3,811,940	\$ -	\$ -	\$ 3,811,940
Equipment	460,403	217,845	-	678,248
Foreclosure homes	919,734	743	-	920,477
	5,192,077	218,588	-	5,410,665
Less: accumulated depreciation	(1,841,267)	(128,915)	-	(1,970,182)
	<u>\$ 3,350,810</u>	<u>\$ 89,673</u>	<u>\$ -</u>	<u>\$ 3,440,483</u>

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, 2024 and 2023, the medical plan expenses amounted to \$10,315,814 and \$11,342,519, respectively. Medical expenses are paid by the retirees and reimbursed by the University.

8) Related Party Transactions:

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

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

9) Net Pension Liability of the University:

The components of net pension liability of the University as of June 30, 2024 and 2023, are as follows (in thousands):

Description	2024	2023
Total pension liability	\$ 3,276,440	\$ 3,300,628
Fiduciary net position	(1,676,548)	(1,609,705)
Net pension liability	<u>\$ 1,599,892</u>	<u>\$ 1,690,923</u>
Fiduciary net position as a percentage of the total pension liability	<u>51.17%</u>	<u>48.77%</u>

Actuarial Assumptions - The total pension liability as of June 30, 2024, was determined by an actuarial valuation as of June 30, 2024, using the following actuarial assumptions and experience, applied to all periods included in the measurement. The key actuarial assumptions are summarized as follows:

Description	
Inflation	2.50% per year
Salary increases	2.50% per year and wage growth rate of 1.00%
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 (net of investment expenses)
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.
Decrements:	
Pre-retirement mortality	Pub 2010 Teachers Employees Below Median Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
Post-retirement health mortality	Pub 2010 Teachers Retirees Below Median Amount-Weighted Mortality Table projected, generationally using scale MP-2021.
Post-retirement disabled mortality	Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table.
Beneficiary mortality	Pub 2010 Teachers Below Median Amount-Weighted Contingent Survivors Mortality Table, projected generationally using Scale MP-2021.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

Discount rate - As of June 30, 2024, 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 member'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, 2024. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. 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 6.75%.

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 (source, Survey of Capital Market Assumptions, 2025 Edition published by Horizon Actuarial Services, LLC), are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad U.S. Equity	32.00%	5.88%
Global ex U.S. Equity	24.00%	6.55%
Domestic fixed	30.00%	2.87%
High Yield	7.50%	4.41%
Real Estate	5.00%	5.18%
Private Equity	1.50%	9.73%
	<u>100.00%</u>	

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, 2024, 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	<u>\$ 1,928,622</u>	<u>\$ 1,599,892</u>	<u>\$ 1,318,822</u>

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, 2023, 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	<u>\$ 2,024,628</u>	<u>\$ 1,690,923</u>	<u>\$ 1,405,806</u>

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2024 and 2023

10) Commitments and Contingencies:

Litigations

On May 11, 2023, the Retirement Board filed a lawsuit against the University of Puerto Rico and the Governing Board for the creation and implementation of a parallel retirement system in contravention of applicable laws and regulations. The lawsuit seeks a Declaratory Judgment and a permanent injunction.

In August 2023, the Retirement Board filed a lawsuit against the University seeking to recover \$58,770,622 in unpaid actuarially determined contributions, salaries, and other related services. In fiscal year 2025, the claim was amended to include additional employer contributions owed to the Retirement System for fiscal years 2023 and 2024, in the amounts of \$10,039,122 and \$38,749,588, respectively. As a result, the total amount sought in the lawsuit increased to \$107,732,197.

11) Subsequent Events:

Plan Amendments

The Retirement Board, in a regular meeting held on July 19, 2024, issued Certification Number 1, 2024-2025, which determines: authorize the payment of a pension to any member who requests a pension and who meets the requirement of 30 years of contributed service and 58 years of age. Any deficiency in employer contributions must be collected from the institution from which the member comes and referred to the Trust's Finance Office, but never to the detriment of the payment of the member's pension.

On July 11, 2025, based on the investment advisor's recommendation, the Retirement Board authorized a transfer of gains on sales of investments totaling \$24 million to the System's operating bank account to be maintained as a reserve.

Management has evaluated events through September 30, 2025, 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, 2024

(In Thousands)

EXHIBIT A

	Year ended June 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability:										
Service cost	\$ 32,390	\$ 26,427	\$ 32,693	\$ 54,863	\$ 74,909	\$ 72,823	\$ 74,827	\$ 52,000	\$ 46,571	\$ 48,107
Interest	215,189	215,619	215,473	187,307	164,223	164,920	167,015	191,144	194,184	177,334
Changes of benefit terms	-	1,401	2,648	(25,509)	-	-	-	-	(14,671)	(45,209)
Differences between expected and actual experience	(46,477)	(3,507)	(25,218)	(60,878)	(24,716)	(11,902)	(2,678)	(24,376)	(4,733)	(323,974)
Changes of assumptions	-	(21,386)	-	(814,007)	(536,078)	271,633	31,859	989,905	160,911	32,269
Benefit payments, or other inputs	(225,290)	(224,559)	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)
Net change in total pension liability	(24,188)	(6,005)	3,282	(878,857)	(539,952)	289,651	72,776	1,020,362	199,648	(288,345)
Total pension liability, beginning	3,300,628	3,306,633	3,303,351	4,182,208	4,722,160	4,432,509	4,359,733	3,339,371	3,139,723	3,428,068
Total pension liability, ending (a)	\$ 3,276,440	\$ 3,300,628	\$ 3,306,633	\$ 3,303,351	\$ 4,182,208	\$ 4,722,160	\$ 4,432,509	\$ 4,359,733	\$ 3,339,371	\$ 3,139,723
System fiduciary net position:										
Contributions - employer	\$ 125,272	\$ 144,428	\$ 161,705	\$ 160,356	\$ 161,411	\$ 75,263	\$ 73,360	\$ 79,491	\$ 78,004	\$ 88,251
Contributions - participants	29,595	30,087	31,205	29,154	34,252	32,849	35,864	39,042	38,640	35,594
Net investment income	143,457	110,075	(185,059)	348,056	81,796	98,788	110,357	132,950	59,009	75,373
Benefit payments	(225,290)	(224,559)	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)
Administrative expenses	(6,191)	(4,729)	(3,721)	(3,578)	(3,639)	(3,751)	(4,458)	(4,340)	(3,363)	(3,378)
Other	-	-	-	-	-	-	-	-	(4)	-
Net change in plan net position	66,843	55,302	(218,184)	313,355	55,530	(4,674)	16,876	58,832	(10,328)	18,968
Plan fiduciary net position, beginning	1,609,705	1,554,403	1,772,587	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996	1,324,028
Plan fiduciary net position, ending (b)	\$ 1,676,548	\$ 1,609,705	\$ 1,554,403	\$ 1,772,587	\$ 1,459,232	\$ 1,403,702	\$ 1,408,376	\$ 1,391,500	\$ 1,332,668	\$ 1,342,996
Net Pension Liability - Ending (a) - (b)	\$ 1,599,892	\$ 1,690,923	\$ 1,752,230	\$ 1,530,764	\$ 2,722,976	\$ 3,318,458	\$ 3,024,133	\$ 2,968,233	\$ 2,006,703	\$ 1,796,727

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF NET PENSION LIABILITY (Unaudited)

June 30, 2024

(In Thousands)

EXHIBIT B

	Year ended June 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability	\$ 3,276,440	\$ 3,300,628	\$ 3,306,633	\$ 3,303,351	\$ 4,182,208	\$ 4,722,160	\$ 4,432,509	\$ 4,359,733	\$ 3,339,371	\$ 3,139,723
System's fiduciary net position	1,676,548	1,609,705	1,554,403	1,772,587	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996
Net pension liability	\$ 1,599,892	\$ 1,690,923	\$ 1,752,230	\$ 1,530,764	\$ 2,722,976	\$ 3,318,458	\$ 3,024,133	\$ 2,968,233	\$ 2,006,703	\$ 1,796,727
Ratio of System's fiduciary net position to total pension liability	51.17%	48.77%	47.01%	53.66%	34.89%	29.73%	31.77%	31.92%	39.91%	42.77%
Covered employee payroll	\$ 389,396	\$ 396,438	\$ 392,499	\$ 406,676	\$ 428,086	\$ 453,802	\$ 478,529	\$ 488,775	\$ 515,994	\$ 516,226
Net pension liability as a percentage of covered - employee payroll	410.87%	426.53%	446.43%	376.41%	636.08%	731.26%	631.96%	607.28%	388.90%	348.05%

Factors that Significantly Affect Trends in Amounts Reported

Changes of benefit terms:

- Certification #106, adopted February 16, 2022, deferred the implementation date of the Plan closing of certification #77 to November 1, 2022.

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 generationally 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 mortality 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. Rates of mortality for survivors and contingent beneficiaries are according to the Pub 2010 Teachers Amount-Weighted Contingent Survivors 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%.

2023

- Assumed inflation was changed from 2.40% to 2.50%.
- Rates of mortality were changed to the Pub 2010 Teachers Below Median Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021 for retired healthy pensioners. Rates of mortality for the period after disability retirement are according to the Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table. Rates of mortality for survivors and contingent beneficiaries are according to the Pub 2010 Teachers Below Median Amount-Weighted Contingent Survivors Mortality Table, projected generationally using scale MP-2021.
- Rates of retirement and salary increase were adjusted to more closely reflect experience.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS (Unaudited)

June 30, 2024

(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)
2024	\$ 154,730	\$ 125,272	\$ 29,458	\$ 389,396	32.17%
2023	155,523	144,428	11,095	396,438	36.43%
2022	153,977	161,705	(7,728)	392,499	41.20%
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%

(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 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, 2024
Actuarial cost method	Individual entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	5-year smoothed market
Inflation	2.40%
Salary increase	2.75% including inflation
Investment rate return	6.75%, net of investment expenses per annum, compounded annually

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.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF ANNUAL MONEY - WEIGHTED RATE OF RETURN ON INVESTMENTS (Unaudited)

June 30, 2024

EXHIBIT D

Description	Year Ended June 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expenses	<u><u>8.90%</u></u>	<u><u>7.53%</u></u>	<u><u>(10.47%)</u></u>	<u><u>22.57%</u></u>	<u><u>5.64%</u></u>	<u><u>6.95%</u></u>	<u><u>8.11%</u></u>	<u><u>10.76%</u></u>	<u><u>3.93%</u></u>	<u><u>5.61%</u></u>

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 (*Government Auditing Standards*), the financial statements of University of Puerto Rico Retirement System as of and for the years ended June 30, 2024 and 2023, 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 September 30, 2025.

Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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, contracts, 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 an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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
September 30, 2025.



D0P91-972

The University of Puerto Rico Retirement
System

RSM Puerto Rico