

AUDITED FINANCIAL STATEMENTS

University of Puerto Rico Retirement System
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

University of Puerto Rico Retirement System

Audited Financial Statements

Years Ended June 30, 2009 and 2008

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Report of Independent Auditors

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

We have audited the accompanying statements of plan net assets of the University of Puerto Rico Retirement System (the System) as of June 30, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System at June 30, 2009 and 2008, and the changes in its net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2010, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's discussion and analysis and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

April 5, 2010

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affixed to
the original
of this report.

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

Year Ended June 30, 2009

Our discussion and analysis of the University of Puerto Rico Retirement System's (the System) financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2009 and 2008.

Financial Highlights

- System's assets exceeded liabilities by **\$821.8 million, \$954.3 million and \$1,002.1 million** at the close of fiscal years 2009, 2008 and 2007, respectively (reported as net assets). Net assets are held in a trust to meet future benefit payments.
- The component of Additions to Plan Net Assets in the year 2009 is comprised of contributions of **\$116,436,403**, a net investment loss of **\$(120,588,452)**, and **\$8,560,602** in reimbursement from the University of Puerto Rico for medical insurance.
- Additions to Plan Net Assets decreased from fiscal year 2008 to 2009 from **\$82,983,448** to **\$4,408,553** respectively, representing a decrease of **\$78,574,895** or **95%**. The main reason for the reduction was an increase in the net depreciation of investments of **\$69,083,843** or 85% from FY 2009 to FY 2008. In addition employee contributions increased from **\$42,964,779** to **\$43,831,141** from fiscal year 2008 to 2009.
- Additions to Plan Net Assets decreased from fiscal year 2007 to 2008 from **\$255,239,564** to **\$82,983,448**, representing a reduction of **\$172,256,116** or **67%**. The main reason for the reduction was decrease in net appreciation of investments of **\$186,097,434** or **178 %** from fiscal year 2007 to 2008. In addition employee contributions increased from **\$40,029,937** to **\$42,964,779** from fiscal year 2007 to 2008.
- Deductions to plan net assets increased from fiscal year 2008 to 2009 from **\$130,793,531** to **\$136,848,646** or 5%. The increase corresponded to an increase in the amount of retirees of 322, an 11% increase when compared to the prior year. From fiscal year 2007 to 2008, deductions to plan net assets increased from **\$122,471,336** to **\$130,793,531** or 7%. The increase corresponded to an increase in the amount of retirees of 289.

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

These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Plan Net Assets presents plan assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the

University of Puerto Rico Retirement System

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

System's financial position is improving or deteriorating. The statement of Changes in Plan Net Assets presents how the System's net assets changed during the period to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Financial Analysis

The net assets during the year ended June 30, 2009 decreased by approximately **\$132.4** million or **13.87%** from the prior year (see Statements of Change in Plan Net Assets for details). For the fiscal year 2009 total assets decreased **\$172.3** million or **16.38%** from the prior year. The net assets during the year ended June 30, 2008 decreased by approximately **\$47.8** million or **4.77%** from the prior year (see Statements of Change in Plan Net Assets for details). For fiscal year 2008 total assets increased **\$10.2** million or **0.99%** from the prior year. The net assets during the year ended June 30, 2007 increased by approximately **\$132.7** million or **15.27%** from the prior year (See Statements of Change in Plan Net Assets for details). For the fiscal year 2007 total assets increased **\$158.7** million or **17.98%** from the prior year.

	Year Ended			2007-2008	2008-2009
	June 30, 2007	June 30, 2008	June 30, 2009	Percentage Change	Percentage Change
Assets					
Cash	\$ 35,614,758	\$ 41,228,150	\$ 49,227,601	15.76%	19.40%
Receivables	15,601,067	71,507,525	23,111,460	363.44%	(67.67)%
Marketable securities	856,030,253	798,827,523	661,832,039	(6.77)%	(17.15)%
Private equity funds	10,972,151	9,745,715	7,164,114	(11.18)%	(26.49)%
Loans to plan members	121,714,064	129,043,590	136,691,543	6.01%	5.92%
Property and equipment, net	1,324,991	1,280,805	1,262,975	(3.33)%	(1.39)%
Other assets	80,100	-	-	(100.00)%	0.00%
Total Assets	1,041,337,384	1,051,633,308	879,289,732	0.99%	(16.38)%
Liabilities					
Accounts payable and accrued expenses	3,833,286	3,431,159	3,889,295	(44.83)%	13.35%
Escrow deposits on mortgage loans	76,643	103,439	123,936	34.96%	19.82%
Other deposits	3,680,355	4,518,045	5,057,358	22.76%	11.93%
Payables for acquisition of investments	31,629,610	89,273,258	48,351,829	182.25%	(45.84)%
Total Liabilities	39,219,894	97,325,901	57,422,418	148.15%	(41.00)%
Net Assets	\$1,002,117,490	\$ 954,307,407	\$ 821,867,314	(4.77)%	(13.87)%

University of Puerto Rico Retirement System

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

	<u>Year Ended</u>			2007-2008	2008-2009
	June 30, 2007	June 30, 2008	June 30, 2009	Percentage Change	Percentage Change
Additions:					
Contributions	\$118,340,711	\$ 124,517,867	\$ 116,436,403	5.20%	(6.00)%
Investment income (loss)	128,702,010	(49,908,353)	(120,588,452)	(137.78)%	(142.00)%
Medical insurance reimbursements from the University of Puerto Rico	8,196,843	8,373,934	8,560,602	2.16%	2.00%
Total additions	255,239,564	82,983,448	4,408,553	(66.98)%	(95.00)%
Deductions:					
Benefits paid to participants	110,831,424	118,779,217	124,352,661	7.12%	5.00%
General and Administrative expenses	3,443,069	3,640,380	3,935,383	4.00%	8.00%
Medical insurance expenses paid to retirees	8,196,843	8,373,934	8,560,602	2.00%	2.00%
Total deductions	122,471,336	130,793,531	136,848,646	6.00%	5.00%
Net increase (decrease) in net assets held in trust for pension benefits	\$132,768,228	\$ (47,810,083)	\$ (132,440,093)	(64.00)%	(152.00)%

Contributions

The funds needed to finance retirement benefits are obtained through employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal year 2009 amounted to approximately **\$(4.1)** million compared to **\$74.6** million for fiscal year 2008. A decrease of 106% over the prior fiscal year.

The major reasons for the decrease is the reduction in the employer contributions from 15% in fiscal year 2008 to 12.6% in fiscal year 2009 and the increase in investment losses during fiscal year 2009 due to continuing adverse market conditions.

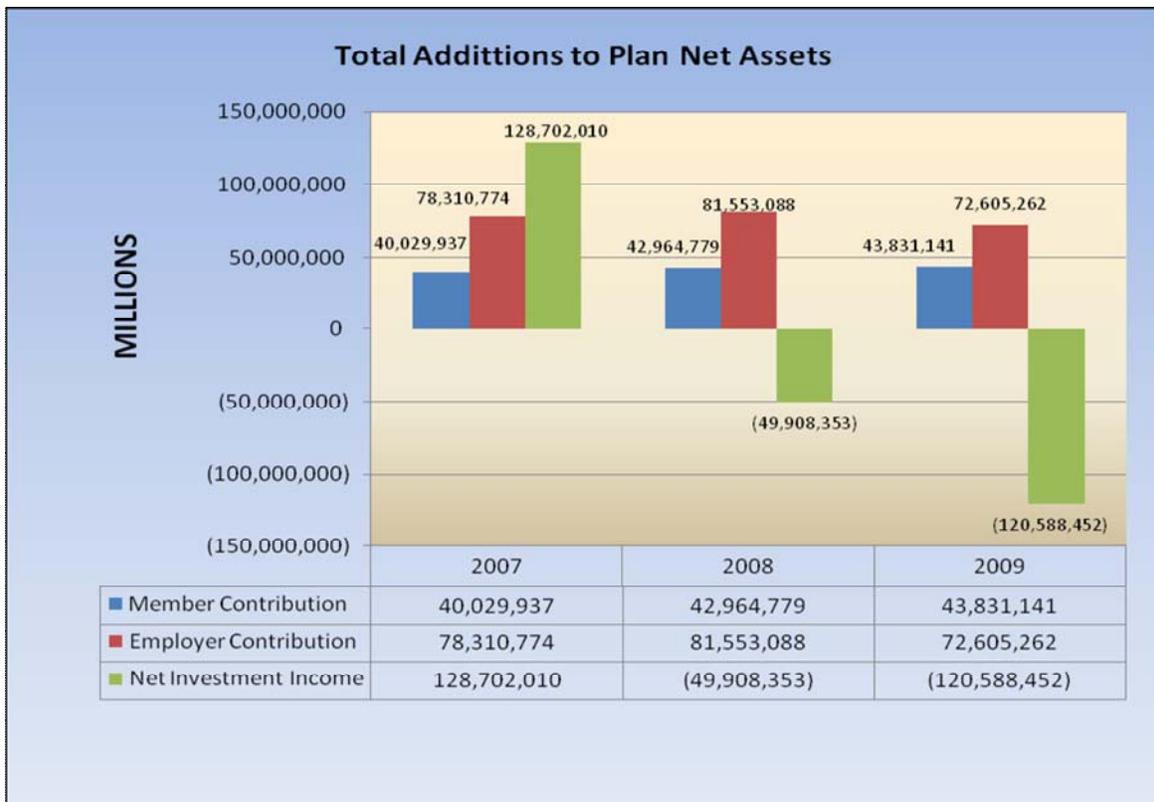
Contributions and net investment income for fiscal year 2008 amounted to approximately **\$74.6** million, which represents a decrease of approximately **\$172.4** million or **69%** over the prior year. The major reason is due to the decrease in the net appreciation in fair value of investments.

Contributions and net investment income for fiscal year 2007 amounted to approximately **\$247.0** million, which represents an increase of approximately **\$75.5** million or **44.0%** over the prior year. The major reason is due to the increase in the required contributions and the increase on gain on net investment income and, interest and dividends due to market conditions.

University of Puerto Rico Retirement System

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

Contributions paid by employees approximated **\$43.8 million** and **\$42.9 million** for the years ended June 30, 2009 and 2008, respectively. This represented an increase of approximately **\$866.3 thousand** or **2.01%**. The increase was the result of the recognition of **\$866.3 thousand** in participant contributions related to certifications No. 139 and No. 94. Contributions paid by employees approximated **\$42.9 million** and **\$40.0 million** for the years ended June 30, 2008 and 2007, respectively. This represented an increase of approximately **\$2.9 million** or **6.8%**. The increase was the result of the recognition of **\$2.9 million** in the participants' contributions related to certifications No. 139 and No. 94.



Operating Expenses

Total operating expenses for the System during fiscal year 2009 amounted to **\$3,935,383** an increase of **\$295,003** or **7.4%** from the amount in fiscal year 2008. Total operating expenses for the System during fiscal year 2008 amounted to **\$3,640,380**, an increase of **\$197,311** or **5.7%** from the amount in fiscal year 2007. This difference resulted from increase of **\$197,311** in the rent expenses, legal expenses, and advisory medical expenses. Total operating expenses for the System during fiscal year 2007 amounted to **\$3,443,069**, an increase of **\$180,418** or **5.53%** from the amount in fiscal year 2006. This difference resulted from increase of **\$180,418** in the rent expenses, legal expenses and advisory medical expenses.

University of Puerto Rico Retirement System

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

Investments

The System's investment portfolio depreciated in fair value by approximately **\$150.6** million during fiscal year 2009, as compared to fiscal year 2008, when it depreciated by **\$81.5** million. This amount includes a realized gain on sales of investments of **\$13.3** million, a realized loss on sales of **\$80.9** million, and a decrease in net appreciation in fair value of investments of **\$69.1** million. Total investment expenses during fiscal year 2009 of **\$2,239,880** decreased by **\$665,394** or **23%** as compared to fiscal year 2008.

The System's investment portfolio depreciated in fair value by approximately **\$81.5** million during fiscal year 2008, as compared to fiscal year 2007 when it appreciated by **\$104.6** million. This amount includes a realized gain on sales of investments amounting to approximately **\$82.9** million during fiscal year 2008. Total investment expenses during fiscal year 2008 of **\$2,905,274** increased by **\$358,706** or **12%** as compared to fiscal year 2007.

The System's investment portfolio appreciated in fair value by approximately **\$104.6** million during fiscal year 2007, as compared to fiscal year 2006, when it appreciated approximately by **\$36.0** million. This amount includes a realized gain on sales of investments amounting to approximately **\$39.9** million during fiscal year 2007. Total investment expenses during fiscal year 2007 of **\$2,546,568** increased by **\$525,139** or **26%** as compared to fiscal year 2006.

The net investment loss for fiscal year 2009 amounted to **\$(120.5)** million, a increase of **\$70.6** million or **142%** compared to a net investment loss of **\$(49.9)** million in fiscal year 2008 due to a decrease in net appreciation in fair value of investments.

The net investment loss for fiscal year 2008 amounted to **\$(49.9)** million, a decrease of **\$178.6** million or **138%** compared to a net investment income of **\$128.7** million in fiscal year 2007 due to a decrease in net appreciation in fair value of investments.

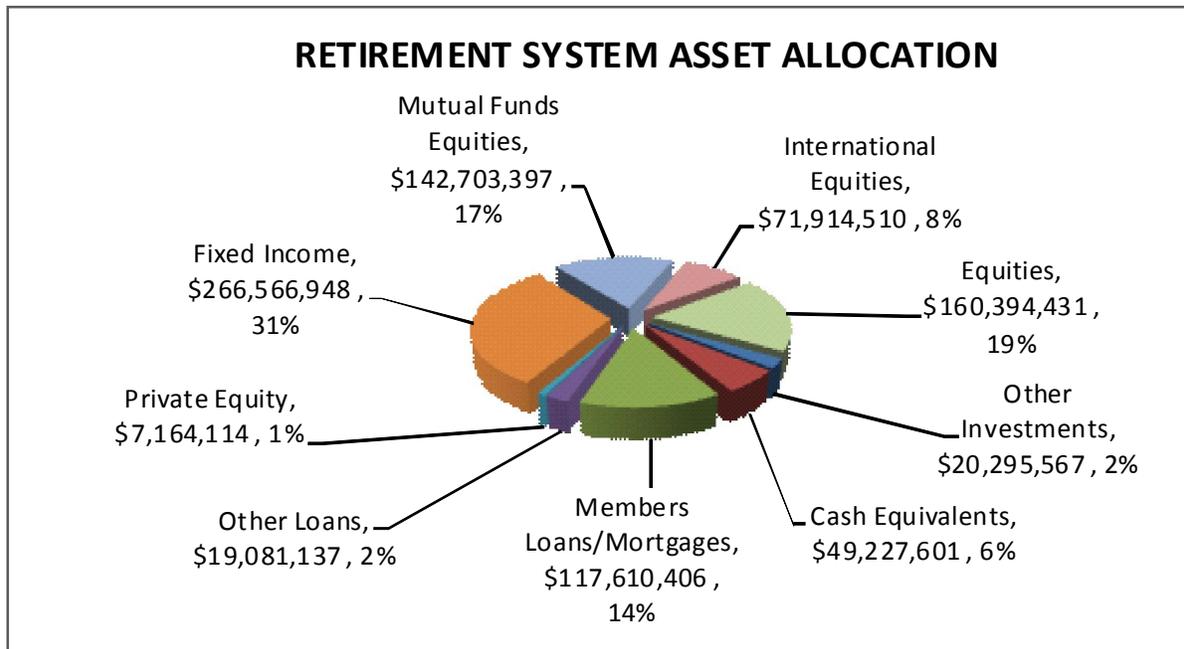
The net investment income for fiscal year 2007 amounted to **\$128.7** million, an increase of **\$69,597,082** or **118%** compared to a net investment income of **\$59.1** million in fiscal year 2006 due to an increase in net appreciation in fair value of investments and a decrease on investments expenses.

University of Puerto Rico Retirement System

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

Retirement System of Puerto Rico Asset Allocation

The System's investments comprise approximately **100%** of the total plan assets. Most of the assets are invested in long-term investments. The investment fund has **45%** of its assets in stocks and **31%** in fixed income investments, **6%** in cash equivalents, **16%** loans to members and **2%** in other investments. Equity investments are diversified between domestic and foreign markets and among companies with small, medium and large capitalization. The table below shows the asset allocation as of June 30, 2009:



Benefits Paid and Liabilities

For the fiscal year 2009, pension benefits paid to retirees and beneficiaries were approximately **\$124.3** million, which represents an increase of approximately **\$5.6** million or **4.48%** when compared to the prior year. For the fiscal year 2008, pension benefits paid to retirees and beneficiaries were approximately **\$118.7** million, which represents an increase of approximately **\$8.0** million or **6.69%** when compared to the prior year. The increase is related to additional benefits due to Certification No. 12 (2007-2008) which increase of **3%** in benefits paid to retirees effective on July 1, 2007 and increase in the number of retirees. For the fiscal year 2007, pension benefits paid to retirees and beneficiaries were approximately **\$110.8** million, which represents an increase of approximately **\$5.7** million or **5.4%** when compared to the prior year.

University of Puerto Rico Retirement System

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

As of June 30, 2009, the **Active members** and **Retired members** were **12,624** and **6,892**, respectively. As of June 30, 2008, the **Active members** and **Retired members** were **12,588** and **6,761**, respectively, as compared to **12,588** and **6,656** as of June 30, 2007.

During fiscal year 2009, total liabilities were **\$57.4** million, which represents a decrease of **\$39.9** million or **41%** when compared to prior year. During fiscal year 2008, total liabilities were **\$97.3** million, which represents an increase of **\$58.1** million or **148%** when compared to prior year. During fiscal year 2007, total liabilities were **\$39.2** million, which represents an increase of **\$25.9** million or **195%** when compared to prior year. The amount represents accounts payables to agencies, deposits for distribution to employee's contributions and accounts payables for acquisition of investments.

Retirement System as a Whole

The net assets of the UPR Retirement System increased consistently from fiscal year 2004 to fiscal year 2007. Fiscal years 2008 and 2009 reported a decrease in net assets as a result of the global recession and the deteriorated condition of the financial markets, which impacted net earnings (losses) on investments.

Contacting System Financial Management

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

University of Puerto Rico Retirement System

Statements of Plan Net Assets

	June 30	
	2009	2008
Assets		
Cash and investments:		
Cash, cash equivalents and short-term investments	\$ 49,227,601	\$ 41,228,150
Marketable securities	661,832,039	798,827,523
Private equity funds	7,164,114	9,745,715
Loans to plan members:		
First mortgages	41,278,192	38,380,697
Personal installments	76,332,214	71,228,975
Other, net of allowance for doubtful account of \$127,043 in 2009 and \$122,766 in 2008	19,081,137	19,433,918
	136,691,543	129,043,590
Total cash and investments	854,915,297	978,844,978
Receivables:		
Accrued interest receivable on investments	2,447,017	2,556,626
Receivables from sale of investments	19,893,329	68,306,200
Contributions receivable from Puerto Rico Treasury Department	389,173	389,173
Accounts receivable from University of Puerto Rico Central Administration	159,814	99,173
Other receivables	222,127	156,353
Total receivables	23,111,460	71,507,525
Capital assets, net of accumulated depreciation of \$632,237 in 2009 and \$570,472 in 2008	1,262,975	1,280,805
Total assets	879,289,732	1,051,633,308
Liabilities		
Accounts payable and accrued expenses	3,889,295	3,431,159
Escrow deposits on mortgage loans	123,936	103,439
Other deposits	5,057,358	4,518,045
Payable for acquisition of investments	48,351,829	89,273,258
Total liabilities	57,422,418	97,325,901
Net assets held in trust for pension benefits	\$ 821,867,314	\$ 954,307,407

See accompanying notes.

University of Puerto Rico Retirement System

Statements of Changes in Plan Net Assets

	Year Ended June 30	
	2009	2008
Additions:		
Contributions:		
Employer	\$ 72,605,262	\$ 81,553,088
Participants	43,831,141	42,964,779
	<u>116,436,403</u>	<u>124,517,867</u>
Investment loss:		
Net depreciation in fair value of investments	(150,611,599)	(81,527,756)
Interest	27,108,532	28,253,251
Dividends	5,154,495	6,271,426
	<u>(118,348,572)</u>	<u>(47,003,079)</u>
Less investments expenses	2,239,880	2,905,274
	<u>(120,588,452)</u>	<u>(49,908,353)</u>
Medical insurance reimbursements from University of Puerto Rico	8,560,602	8,373,934
Total additions	<u>4,408,553</u>	<u>82,983,448</u>
Deductions:		
Benefits paid to participants	124,352,661	118,779,217
General and administrative expenses	3,935,383	3,640,380
Medical insurance expenses paid to retirees	8,560,602	8,373,934
	<u>136,848,646</u>	<u>130,793,531</u>
Total deductions	<u>136,848,646</u>	<u>130,793,531</u>
Net decrease in net assets held in trust for pension benefits	<u>(132,440,093)</u>	<u>(47,810,083)</u>
Net assets held in trust for pensions benefits:		
Beginning of year	954,307,407	1,002,117,490
End of year	<u>\$ 821,867,314</u>	<u>\$ 954,307,407</u>

See accompanying notes.

University of Puerto Rico Retirement System

Notes to Financial Statements

June 30, 2009

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

The System's financial statements and notes to the financial statements are prepared under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25 (GASB No. 25), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

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

Use of Estimates

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

Cash Equivalents

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

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

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

Investments

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

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

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

Loans to Plan Members

Loans to participants are carried at their unpaid principal balance, which approximates their fair value. Mortgage loans are collateralized by the participant's contribution to the pension plan and first mortgage liens on the underlying properties.

The System's Board of Trustees granted certain participants the option to select a supplemental pension benefit by making a retroactive contribution to the System. The participants who accept this option have to make a lump-sum payment to cover the related benefits. The participants could obtain an interest-bearing loan from the System to fund their contributions. As of June 30, 2009 and 2008, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately \$19,081,137 and \$19,433,918, respectively.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the depreciable property.

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, 2009 and 2008 amounted to approximately \$62,000 and \$53,000, respectively.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System

General

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

Membership consisted of the following as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Retirees and beneficiaries receiving benefits	6,892	6,761
Terminated plan members entitled to but not yet receiving benefits	381	349
Terminated non-vested plan members entitled to return of their contributions	7,386	7,271
Active plan members	12,624	12,588
Total	<u>27,283</u>	<u>26,969</u>

Plan Amendments

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

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

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

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Plan Amendments (continued)

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

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

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

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

Contributions and Funding Policy

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

Members who elect Certification No. 139: 11% of monthly compensation up to \$5,000

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

- If full supplement is elected: 7% of monthly compensation up to \$2,625
- If full supplement is not elected: 5% of monthly compensation up to \$2,625
- If Certification 94 is elected: 9% of monthly compensation up to \$4,500

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Contributions and Funding Policy (continued)

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 55:

- If full supplement is elected: 7% of monthly compensation up to \$2,625
- If full supplement is not elected: 4% of monthly compensation up to \$350, plus 6.5% of the excess up to \$2,625
- If Certification 94 is elected: 9% of monthly compensation up to \$4,167

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

- 8% of monthly compensation up to \$2,625 or,
- If Certification 94 is elected: 9% of monthly compensation up to \$4,167

Members who are hired on or after July 1, 1998:

- 9% of monthly compensation up to \$4,167

The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2009 and 2008 was 11.1% and 10.9%, respectively, of annual covered payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses.

Therefore, administrative expenses are paid out of the trust fund. The University contributed 12.6% and 12.6% of participants' payroll in 2009 and 2008, respectively.

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 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.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Retirement Benefits

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

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

The amount of service retirement annuity is as follows:

- For all members except those who have completed 20 years of service by July 1, 1979:
 - Before age 65 - for members with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the member is under age 58 (Certification 37) and 55 (Certification 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 member with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the member is under age 58 at time annuity begins.
 - After age 65 - if the member elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by .5% of average compensation not in excess of Social Security wage base in effect at retirement for each year of service. If the member had less than 30 years of service and was under age 58 at the beginning date, adjustment is made before application of .5% reduction per month under age 58.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Retirement Benefits (continued)

- 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 not 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 in excess of 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the member is under age 58 at the time the annuity begins.
 - At age 65 - if member 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 member had less than 30 years of service and was under age 58 at beginning date, adjustment is made before application of .5% reduction per month under age 58.
- For all members who have not completed 20 years of service by July 1, 1979 and elect Certification 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 in excess of 20 years up to a maximum of 1.95% per year.
 - Before age 65 - for members with at least 30 years of service: 75% of average compensation for participants with at least 55 years of age at retirement date. Amount reduced by .5% for each month the member is under age 55 at time annuity begins.
 - Age 65 - if member 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.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Retirement Benefits (continued)

- 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 employee 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.

Disability Benefits

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

Death Benefits

- Pre-retirement death benefit - if the death of an employee is service related, a death benefit equal to 50% of the final annual salary plus \$120 (\$240 if widow not receiving benefit) per year for each child under age 18 (21 if at school) is paid to the employee's beneficiaries. Maximum family benefit is 75% of the employee's final annual salary. If death is non-service related, a lump-sum is paid equal to the employee's contributions plus one year's final salary, but not less than \$6,000.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

2. Description of the System (continued)

Death Benefits (continued)

- Post retirement death benefits - employee's contributions are refunded to the extent that they exceed retirement payments already made, unless reversionary annuity was elected. Minimum payment is \$600. In addition, 50% of retirement annuity is payable to surviving spouse until death or remarriage or until they become eligible for Social Security benefits. Minimum annuity, \$75 per month, maximum annuity, \$150 per month.

Christmas Bonus

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

3. Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$33,534,735	\$21,305,185
Short-term investments	15,692,866	19,922,965
	<u>\$49,227,601</u>	<u>\$41,228,150</u>

The cash balance of \$33.5 million and \$21.3 million as of June 30, 2009 and 2008, respectively, is insured by the Federal Deposit Insurance Corporation or collateralized with securities held on behalf of the System by the Secretary of the Treasury of the Commonwealth of Puerto Rico, or the Secretary's agent in the name of the Secretary.

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

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments

The following table presents the fair value of investments of marketable securities as of June 30, 2009 and 2008:

	2009	2008
Marketable securities:		
U.S. Government obligations	\$ 43,141,041	\$ 41,362,928
U.S. Government agencies' obligations	22,643,021	12,743,157
Foreign bonds	20,252,752	9,700,815
Corporate bonds and other debentures	101,644,799	114,641,925
Foreign common stock	71,914,510	101,997,611
Common stock	160,394,431	220,299,862
Mortgage-backed securities	97,995,069	101,199,061
Municipal bonds	1,143,019	498,474
Foreign securities certificates	-	2,697,133
Mutual funds	142,703,397	193,414,036
Other investments	-	272,521
Total	\$661,832,039	\$798,827,523

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

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

The System's Regulations authorize the System to invest a percentage of total assets, with certain limitations, in the following types of investments; not less than 23% and no more than 33% in Fixed Income Securities, not less than 7% and no more than 13% in equity securities. On international equity and private equity no more than 7% and 13%, respectively, and on non-U.S. fixed income securities up to 15%.

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

The investments in bonds must be classified, at the time of purchase, within the highest three classifications designated by one of the principal agencies that classifies securities and the bond portfolio average due date must be seven years.

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

Common stock must only be purchased when they are classified within the first four categories of Standard and Poor's and the first three of Value Line. The System's cash reserve should be invested in high quality short-term investments including negotiable instruments, U.S. Treasury obligations, certificates of deposit, bank acceptances and repurchase agreements. Cash under the custody of the Secretary of the Treasury amounting to \$68,613 as of June 30, 2009 and 2008 is deposited with the GDB and is uncollateralized.

In addition, the System invests in limited partnerships (Private Equity Funds). These limited partnerships invest in United States and international private equity investment partnerships, which in turn, invest in equity and equity related investments.

Private equity funds include the following at June 30, 2009 and 2008:

	Total Commitment	Contributions at June 30, 2009	Fair Value
Grupo Guayacán, Inc.:			
Guayacán Fund of Funds I, LP	\$ 5,000,000	\$ 4,746,049	\$ 635,603
Guayacán Fund of Funds II, LP	6,000,000	5,683,539	2,145,332
Guayacán Fund of Funds III, LP	5,000,000	555,249	396,460
Advent-Morro Equity Partners Inc.:			
Guayacán Private Equity Fund I, LP	2,500,000	2,332,582	1,912,126
Guayacán Private Equity Fund II, LP	5,000,000	1,720,186	1,437,409
DCC Growth Fund, LP	2,000,000	2,000,000	637,185
Total	\$25,500,000	\$17,037,605	\$7,146,114

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

	Total Commitment	Contributions at June 30, 2008	Fair Value
Grupo Guayacán, Inc.:			
Guayacán Fund of Funds I, LP	\$ 5,000,000	\$ 4,714,149	\$ 1,160,169
Guayacán Fund of Funds II, LP	6,000,000	5,649,397	3,211,580
Guayacán Fund of Funds III, LP	5,000,000	331,979	285,921
Advent-Morro Equity Partners Inc.:			
Guayacán Private Equity Fund I, LP	2,500,000	2,203,393	2,216,122
Guayacán Private Equity Fund II, LP	5,000,000	1,113,043	950,457
DCC Growth Fund, LP	2,000,000	1,875,560	1,921,466
Total	\$25,500,000	\$15,887,521	\$ 9,745,715

Credit Risk

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments issued or explicitly guaranteed by the United States government are excluded. The System's policy requires and limits investments in debt securities to only those in the top investment grade ratings issued by a nationally recognized statistical rating organization. As of June 30, 2009, the System's credit quality distribution for securities was as follows:

	Carrying Value	Rating
Foreign bonds	\$ 20,252,752	A+ to A
Corporate bonds and other debentures	\$101,644,799	AAA to BBB-

Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's cash, cash equivalents and short-term investments are not exposed to custodial credit since cash balances of the System are insured by the Federal Deposit Insurance Corporation or collateralized with securities held on behalf of the System by the Puerto Rico Secretary of Treasury or the Secretary's agent in the name of the Secretary. Pursuant to present statutes, deposits of financial

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

Custodial Risk (continued)

institutions, other than with GDB, shall be in banks designated by the Puerto Rico Secretary of the Treasury as depository institutions of public funds. Such deposits are guaranteed by sufficient collateral under the name and custody of the Puerto Rico Secretary of the Treasury. Investments of the System, which are under custody of a depository institution, are as follows:

Security Type	Carrying Value
Mortgage backed securities	\$ 97,995,069
Corporate bonds and other debentures	101,644,799
Common stocks	160,394,431
U.S. Government bonds	22,643,021
U.S. Treasury bills	43,141,040
Foreign equities	71,914,510
Foreign corporate bonds	14,465,567
Foreign government bonds	5,787,185
Municipal bonds	1,143,019
Mutual funds and other investments	142,703,397

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

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

Custodial Risk (continued)

Under the securities lending agreement (the Agreement) as disclosed above, the System received in cash collateral approximately \$55 million. This cash collateral has been reinvested, in accordance with the Agreement, in fixed income investments that are exposed to custodial credit risk as disclosed above.

Concentration of Credit Risk

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

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As of June 30, 2009, the weighted average maturity by investment type in each fund follows:

Investment Type	Weighted Average Maturity (Years)	Fair Value
Corporate Bonds	8.92	\$ 65,784,061
FHLMC	18.73	24,627,151
FNMA	20.09	63,582,245
GNMA	18.08	9,785,673
Municipal Bonds	4.97	1,143,019
Corporate Bonds	16.29	101,644,799
		<u>\$266,566,948</u>

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

Foreign Currency Risk

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

Security Type	Currency	Maturity	Carrying Value
Common Stocks	Australian Dollar	Not Applicable	\$ 3,297,551
Corporate Bonds	Australian Dollar	5/1/2019	138,938
Common Stocks	Belgian Franc	Not Applicable	805,686
Common Stocks	Bermuda Dollar	Not Applicable	2,392,235
Corporate Bonds	Bermuda Dollar	6/10/2014	315,087
Common Stocks	Brazil Real	Not Applicable	1,414,458
Common Stocks	Cayman Island Dollar	Not Applicable	1,348,044
Corporate Bonds	Cayman Island Dollar	4/15/2031	49,860
Common Stocks	Canadian Dollar	Not Applicable	5,584,408
Corporate Bonds	Canadian Dollar	5/15/2012-2/1/2039	912,242
Governmental Bonds	Canadian Dollar	6/6/2014	1,555,210
Common Stocks	China Yuan	Not Applicable	1,861,660
Common Stocks	Czech Koruna	Not Applicable	116,855
Common Stocks	Danish Krone	Not Applicable	770,145
Common Stocks	Finland Markkaa	Not Applicable	1,182,915
Common Stocks	Finland Markkaa	5/15/2019	126,466
Common Stocks	France Francs	Not Applicable	5,852,105
Common Stocks	France Francs	6/11/2012	1,392,720
Common Stocks	France Francs	5/5/2014	1,192,963
Common Stocks	Germany Marks	Not Applicable	6,722,360

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

Foreign Currency Risk (continued)

Security Type	Currency	Maturity	Carrying Value
Corporate Bonds	Germany Marks	2/14/2011-7/21/2015	2,198,944
Common Stocks	Hong Kong Dollar	Not Applicable	1,013,516
Common Stocks	Indian Rupee	Not Applicable	1,011,413
Common Stocks	Ireland-Euro	Not Applicable	129,168
Common Stocks	Israeli New Shekel	Not Applicable	1,004,163
Common Stocks	Italy Lire	Not Applicable	1,545,718
Common Stocks	Japan Yen	Not Applicable	8,807,693
Common Stocks	Japan Yen	6/24/2011	661,195
Common Stocks	Korean Won	Not Applicable	808,121
Governmental Bonds	Korean Won	7/20/2009	265,178
Common Stocks	Luxembourg Franc	Not Applicable	861,186
Corporate Bonds	Luxembourg Franc	11/15/2013	416,751
Common Stocks	Mexico Peso	Not Applicable	356,778
Common Stocks	NL Antillian Guilders	Not Applicable	649,320
Common Stocks	Netherlands-Euro	Not Applicable	1,347,674
Corporate Bonds	Netherlands-Euro	3/21/2014-8/20/2018	1,360,985
Common Stocks	New Zealand Dollar	Not Applicable	265,417
Common Stocks	Norwegian Kroner	Not Applicable	694,185
Common Stocks	Norwegian Kroner	2/14/2012	1,316,114
Common Stocks	Panama Balboa	Not Applicable	896,796
Governmental Bonds	Polish Sloty	10/19/2015	57,768
Governmental Bonds	Qatari Real	4/9/2019	220,106
Common Stocks	Russian Rouble	Not Applicable	794,076
Common Stocks	South African Rand	Not Applicable	429,985
Common Stocks	Spain-Euro	Not Applicable	2,284,077
Corporate Bonds	Spain-Euro	11/3/2009	1,178,075
Governmental Bonds	US Dollar	2/8/2010-10/15/2025	2,495,960
Common Stocks	Swedish Kronan	Not Applicable	942,365

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

4. Investments (continued)

Foreign Currency Risk (continued)

Security Type	Currency	Maturity	Carrying Value
Common Stocks	Swiss Francs	Not Applicable	4,663,584
Corporate Bonds	Swiss Francs	12/20/2017	651,884
Common Stocks	Tai Baht	Not Applicable	144,232
Common Stocks	United Arab Emirates Dirhams	4/8/2019	795,379
Common Stocks	United Kingdom Pounds	Not Applicable	11,916,618
Corporate Bonds	United Kingdom Pounds	10/26/2029	2,950,930
Total			<u>\$ 92,167,262</u>

5. Capital Assets

Property and equipment additions are recorded at cost. Depreciation is provided using the straight-line method over the useful life of the asset. For the years ended June 2009 and 2008, changes in property and equipment, consisted of the following:

	Beginning Balance at June 30, 2008	Additions	Retirements	Ending Balance at June 30, 2009
Building	\$1,440,000	\$ –	\$ –	\$1,440,000
Equipment	411,277	43,935	–	455,212
	<u>1,851,277</u>	<u>43,935</u>	<u>–</u>	<u>1,895,212</u>
Less accumulated depreciation	(570,472)	(61,765)	–	(632,237)
	<u>\$1,280,805</u>	<u>\$(61,765)</u>	<u>\$ –</u>	<u>\$1,262,975</u>

University of Puerto Rico Retirement System

Notes to Financial Statements (continued)

5. Capital Assets (continued)

	Beginning Balance at June 30, 2007	Additions	Retirements	Ending Balance at June 30, 2008
Building	\$1,440,000	\$ –	\$ –	\$1,440,000
Equipment	402,484	8,793	–	411,277
	<u>1,842,484</u>	<u>8,793</u>	<u>–</u>	<u>1,851,277</u>
Less accumulated depreciation	(517,493)	(52,979)	–	(570,472)
	<u>\$1,324,991</u>	<u>\$(52,979)</u>	<u>\$ –</u>	<u>\$1,280,805</u>

6. Medical Insurance

The System pays to each retiree up to a maximum of \$125 monthly for medical plan expenses. For the years ended June 30, 2009 and 2008, medical plan expenses amounted to \$8,560,602 and \$8,373,934, respectively. Medical expenses are paid by the System and reimbursed by the System sponsor, the University of Puerto Rico.

7. Related Party Transactions

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

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

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

We have audited the financial statements of the University of Puerto Rico Retirement System as of and for the year ended June 30, 2009, and have issued our report thereon dated April 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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

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

Compliance and other matters

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

This report is intended solely for the information and use of management and the System's trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

April 5, 2010

Stamp No. 2464802
Affixed to
the original
of this report.

Required Supplementary Information
(Unaudited)

University of Puerto Rico Retirement System

Schedule of Employer Contributions

June 30, 2009

Year Ended June 30	Required Contribution as a Percentage of Payroll for Year Ended (1)	Actual Payroll	Annual Required Contribution (ARC)	Employer Contribution Made	Percentage Contributed	(Excess) / Deficiency
2009	11.1%	\$ 577,227,102	\$ 64,072,208	\$ 72,605,262	113.3%	\$ (8,533,054)
2008	10.9%	543,538,453	59,245,691	81,553,088	137.7%	(22,307,397)
2007	11.1%	518,236,607	57,524,263	78,310,774	136.1%	(20,786,511)
2006	11.3%	490,262,657	55,399,680	73,658,083	133.0%	(18,258,403)
2005	18.4%	460,174,370	84,672,084	69,291,395	81.8%	15,380,689
2004	16.2%	433,607,194	70,244,365	61,376,007	87.4%	8,868,358
2003	16.1%	407,357,391	65,584,540	57,551,270	87.8%	8,033,270
2002	14.0%	387,508,328	54,251,166	52,326,004	96.5%	1,925,162
2001	11.0%	376,992,691	41,469,196	54,040,933	130.3%	(12,571,737)
2000	12.6%	348,397,129	43,898,038	49,651,679	113.1%	(5,753,641)
1999	11.7%	330,179,269	38,630,974	53,041,795	137.3%	(14,410,821)
1998	12.3%	327,884,351	40,329,775	48,856,041	121.1%	(8,526,266)
1997	14.0%	311,025,104	43,543,515	46,600,524	107.0%	(3,057,009)
1996	14.6%	280,144,023	40,901,027	41,516,818	101.5%	(615,791)
1995	14.8%	261,613,882	38,718,855	36,479,385	94.2%	2,239,470

(1) ARC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (e.g., the June 30, 2009, Required Contribution was established in the June 30, 2008 actuarial valuation).

See notes to schedules of trend information.

University of Puerto Rico Retirement System

Schedule of Funding Progress

June 30, 2009

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

See notes to schedules of trend information.

University of Puerto Rico Retirement System

Notes to Schedules of Trend Information

June 30, 2009

1. Schedule of Funding Progress

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

2. Schedule of Employer Contributions

The Schedule of Employer Contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

3. Actuarial Data

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

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal – Traditional
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	30 years constant (open basis)
Asset Valuation Method	Market Value adjusted to reflect investment gain and losses over a five (5) year period. The actuarial value of assets at June 30, 2009 is \$1,034,645,000.

University of Puerto Rico Retirement System

Notes to Schedules of Trend Information (continued)

3. Actuarial Data (continued)

Actuarial Assumptions:

Investment rate of return* 8%

Projected salary increases* 5%

Post-retirement benefit increases Other than the automatic increase of 3% every two (2) years applicable to salary cap or Certification 139, NO postretirement benefit increases are assumed.

Mortality table 1994 Group Annuity Mortality

*Includes inflation at 3.50%

University of Puerto Rico Retirement System

Three-Year Pension Cost Trend Information

June 30, 2009

Fiscal Year Ending	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
6/30/2009	\$ 62,929,059	\$ 72,605,262	115.4%	\$ (46,187,467)
6/30/2008	58,814,476	81,553,088	138.7%	(36,511,264)
6/30/2007	57,737,197	78,310,774	135.6%	(13,772,652)

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