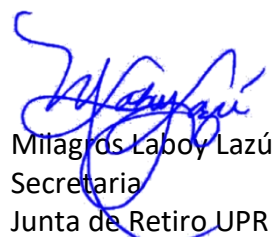


Yo, Milagros Laboy Lazú, secretaria de la Junta de Retiro de la Universidad de Puerto Rico, CERTIFICO:

La Junta de Retiro de la Universidad de Puerto Rico, en reunión extraordinaria celebrada el 13 de marzo de 2024, en virtud de la Ley Núm. 1 de 20 de enero de 1966, según enmendada, en su Artículo 3 inciso H(5) y H(15), y atemperado a lo resuelto por el Tribunal de Apelaciones del Estado Libre Asociado de Puerto Rico mediante Sentencia en los casos KLCE20190366 y KLAN20190304, al nombrar como fiduciario sustituto a la Junta de Retiro-UPR ante el incumplimiento sustancial en dicha gestión por parte de la Junta de Gobierno de la Universidad de Puerto Rico, determinó:

Dar por recibido el Estado financiero del Sistema de Retiro correspondiente al año fiscal 2022, presentado por Norma Vázquez y Eduardo Mattei, auditores de la firma de consultores RSM Puerto Rico y la Sra. Kellymar Bermúdez, directora de Finanzas del Sistema de Retiro.

Y, PARA QUE ASÍ CONSTE, expido la presente Certificación, en San Juan, Puerto Rico, hoy 14 de marzo de 2024.



Milagros Laboy Lazú  
Secretaria  
Junta de Retiro UPR

**UNIVERSITY OF PUERTO RICO  
RETIREMENT SYSTEM**

**Basic Financial Statements and  
Required Supplementary Information  
June 30, 2022 and 2021**

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION June 30, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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 the University of Puerto Rico Retirement System will continue as a going concern. As further described in Note 3 to the financial statements, the University of Puerto Rico Retirement System is highly dependent on funding from the University of Puerto Rico which in turn receives its funding from the Commonwealth of Puerto Rico appropriations to finance its operations. The financial difficulties experienced by the Commonwealth of Puerto Rico, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the University of Puerto Rico's ability to continue funding the University of Puerto Rico Retirement System and paying the required contributions. Management's evaluation of the events and conditions and management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that may result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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RSM Puerto Rico is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any Jurisdiction.

***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 the 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 on pages 4 to 16, the Schedule of Changes in Net Pension Liability on page 39, the Schedule of Net Pension Liability on page 40, the Schedule of Employer Contributions on page 41, and the Schedule of Annual Money-Weighted Rate of Return on Investments on page 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2024, on our consideration of the University of Puerto Rico Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University of Puerto Rico Retirement System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Puerto Rico Retirement System's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
February 16, 2024.

Stamp No. E560169 was affixed to  
the original of this report.





**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
Management's Discussion and Analysis (Unaudited)  
As of June 30, 2022

***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 Committee of the Governing Board of the University (“the Committee”). The Committee will then notify the Participants of the Governing Board of the University of any decisions made related to the System. The Governing Board of the University was the Trustee of the System up to October 1, 2020.

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

Our discussion and analysis of the System’s financial performance provides an overview of the System’s financial activities for the fiscal years ended June 30, 2022 and 2021.

***Financial Highlights***

- The net position for the fiscal years 2022, 2021 and 2020 were \$1,554,402,616, \$1,772,586,869, and \$1,459,232,314, respectively. The System experienced a decrease in net position during fiscal year 2022 of 12.31%, an increase of 21.47% during fiscal year 2021, and an increase of 3.96% during fiscal year 2020.
- The changes in fiduciary net position for the fiscal years 2022, 2021, and 2020 are comprised of contributions of \$192,909,404, \$189,510,018 and \$195,662,931, respectively, and net investment (loss) income of \$(185,058,877), \$348,055,620, and \$81,795,575, respectively.
- Total additions amounts \$7,850,527 for the fiscal year ended June 30, 2022 compared to \$537,565,638 for the fiscal year ended June 30, 2021 and \$277,458,506 for the fiscal year ended June 30, 2020. The decrease in additions for fiscal year 2022 when compared to fiscal year 2021 was mainly due to the depreciation in fair value of investments of \$205,175,172. The increase in additions for fiscal year 2021 when compared to fiscal year 2020, was mainly due to an increase in fair value of investments of \$260,107,132.
- The System administered funds from the University of Puerto Rico for retirees’ medical insurance in a separate bank account created to manage those funds outside the operations of the Retirement System Trust. For the fiscal years 2022, 2021 and 2020 the administered funds were to \$11,031,140, \$10,276,386 and \$11,069,670, respectively.



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
Management's Discussion and Analysis (Unaudited)  
As of June 30, 2022

- Deductions to fiduciary net position in fiscal year 2022 were \$226,034,780, compared to \$224,211,083 in fiscal year 2021, and \$221,928,512 in fiscal year 2020 and \$211,573,544 in fiscal year 2019. The increase was mainly caused by benefits paid to participants of \$222,707,474 during fiscal year 2022 compared to \$220,847,024 in fiscal year 2021. The increase in deductions to Fiduciary Net position in fiscal year 2021 when compared to 2020, was also due to benefits paid to participants of \$220,847,024 during fiscal year 2021 compared to \$218,289,504 in fiscal year 2020.
- During fiscal year 2022, the System reflected a loss on investments of (10.18%), as compared to the benchmark's loss of (10.31%). During fiscal year 2021, the System reflected a positive return on investments of 22.96%, as compared to the benchmark's return of 22.76%. The benchmarks are Bloomberg Aggregate, S&P 500 Index, MSCI ACWI, etc.
- Funding ratio increased from 40.8% in fiscal year 2013, to 43.9% in fiscal year 2014, 46.6% in fiscal year 2015, 47.8% in fiscal year 2016, 48.9% in fiscal year 2017, experienced a reduction to 43.7% in fiscal year 2018, and 42.8%, for the fiscal year 2019, and an increase to 43.7% for the fiscal year 2020, 47.6% for 2021 and 49.9% for 2022.
- For fiscal year 2022, fund performance ranked 58th and 49th during the last 36 and 60 months against the Callan LLC peer comparison nationwide Callan Public Fund Database for Fiscal Year June 30, 2022. For fiscal year 2021, the fund performance ranked 26th and 38th during the last 36 and 60 months against Callan LLC peer comparison nationwide Callan LLC Public Fund Database for fiscal Year June 2021. 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 plan assets and liabilities, with the difference between the two reported as net position restricted for pensions. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Fiduciary Net Position presents how the System's net position changed during the period to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

***Financial Analysis***

The net position of the System during the years ended June 30, 2022 and 2021 decreased by approximately \$218.18 million or -12.31%, different from previous fiscal year when it experimented an increase of approximately \$313.4 million or 21.47% (2020 to 2021) (see Statements of Changes in Fiduciary Net Position for details). For fiscal year 2022, total assets decreased \$276.50 million or -14.67% from prior year mainly due to a decrease in the fair market value of investments. For fiscal year 2021 total assets increased \$322.9 million or 20.68% from prior year mainly due to an increase in employer contributions.





**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**As of June 30, 2022**

**Statements of Fiduciary Net Position**

	June 30, 2020	June 30, 2021	June 30, 2022	2020 - 2021 Percentage Change	2021-2022 Percentage Change
<b>Assets</b>					
Cash and cash equivalents	\$ 87,225,292	\$ 110,833,849	\$ 65,424,146	27.07%	(40.97%)
Receivables	47,971,920	61,406,257	38,688,879	28.00%	(37.00%)
Investments	1,175,738,650	1,472,989,037	1,258,164,906	25.28%	(14.58%)
Alternative investments	115,274,995	138,265,968	160,845,171	19.94%	16.33%
Securities lending cash collateral	24,791,138	2,888,841	486,955	(88.35%)	(83.14%)
Loans to plan members	99,610,165	90,144,115	78,025,490	(9.50%)	(13.44%)
Other receivables net of allowances	6,370,470	4,567,238	3,064,130	(28.31%)	(32.91%)
Other receivables	1,326,570	226,825	268,466	(82.90%)	1835%.8%
Capital assets-net	3,584,301	3,494,417	3,350,810	(2.51%)	(4.11%)
<b>Total assets</b>	<b>\$ 1,561,893,501</b>	<b>\$ 1,884,816,547</b>	<b>\$ 1,608,318,953</b>	<b>20.68%</b>	<b>(14.67%)</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 11,867,048	\$ 12,125,130	\$ 10,680,222	217%.5%	(11.92%)
Obligations under securities lending	25,958,580	4,050,935	1,648,092	(84.39%)	(59.32%)
Escrow deposits on mortgage loans	1,986,114	1,897,266	1,556,190	(4.47%)	(17.98%)
Other deposits and pending distribution funds	607,675	953,852	1,280,694	56.97%	34.27%
Payables for acquisition of investments	62,241,770	93,202,495	38,751,139	49.74%	(58.42%)
<b>Total liabilities</b>	<b>\$ 102,661,187</b>	<b>\$ 112,229,678</b>	<b>\$ 53,916,337</b>	<b>9.32%</b>	<b>(51.96%)</b>
<b>Net position</b>	<b>\$ 1,459,232,314</b>	<b>\$ 1,772,586,869</b>	<b>\$ 1,554,402,616</b>	<b>21.47%</b>	<b>(12.31%)</b>

**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 2022 amounted to approximately \$7.85 million compared to approximately \$537.6 million for total additions of fiscal year 2021. The decrease was mainly due to a decrease in the fair value of investments by approximately \$533.90 million. For fiscal year 2021, total additions amounted to approximately \$537.6 million compared to approximately \$277.4 million for fiscal year 2020. The increase was mainly due to an increase in investment assets fair value during fiscal year 2021.

**Statements of Changes in Fiduciary Net Position**

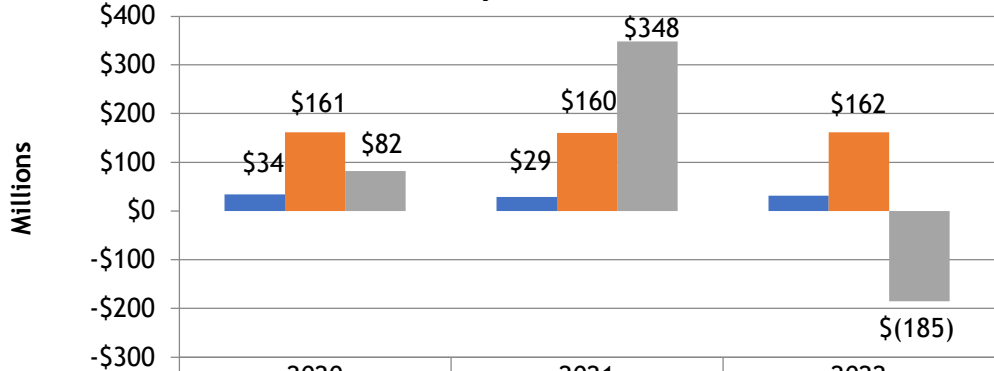
	June 30, 2020	June 30, 2021	June 30, 2022	2020 - 2021 Percentage Change	2021-2022 Percentage Change
<b>Additions :</b>					
Contributions	\$ 195,662,931	\$ 189,510,018	\$ 192,909,404	(3.14%)	179%.4%
Net investment income	81,795,575	348,055,620	(185,058,877)	325.52%	(153.17%)
<b>Total additions</b>	<b>277,458,506</b>	<b>537,565,638</b>	<b>7,850,527</b>	<b>93.75%</b>	<b>(98.54%)</b>
<b>Deductions:</b>					
Benefits paid	218,289,504	220,847,024	222,707,474	1.17%	0.84%
General and administrative expenses	3,639,008	3,364,059	3,327,306	(7.56%)	(1.09%)
<b>Total deductions</b>	<b>221,928,512</b>	<b>224,211,083</b>	<b>226,034,780</b>	<b>1.03%</b>	<b>0.81%</b>
<b>Net increase (decrease ) in net position restricted for pensions</b>	<b>\$ 55,529,994</b>	<b>\$ 313,354,555</b>	<b>\$ (218,184,253)</b>	<b>464.30%</b>	<b>(169.63%)</b>



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
 Management's Discussion and Analysis (Unaudited)  
 As of June 30, 2022

Contributions paid by participants were approximately \$31.2 million, \$29.2 million, and \$34.3 million, for the years ended June 30, 2022, 2021 and 2020, respectively. This represented an increase of approximately of \$2.05 million for 2022 or 7.04% in comparison with a decrease of approximately \$5.1 million or 14.88% for 2021.

**Total Additions to Fiduciary Net Position**



	2020	2021	2022
■ Participants Contributions	\$34,251,780	\$29,153,522	\$31,204,543
■ Employer Contributions	\$161,411,151	\$160,356,496	\$161,704,861
■ Net Investment Income (Loss)	\$81,795,575	\$348,055,620	\$(185,058,877)

**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 and, special projects as they arise.

Total general and administrative expenses for the System during fiscal years 2022, 2021 and 2020 amounted to \$3,327,306, \$3,364,059 and \$3,639,008, respectively. The decrease in administrative expenses from fiscal years 2021 to 2022 were mainly due to a decrease in sick leave expenses. The decrease in administrative expenses from the fiscal years 2020 to 2021 was mainly due to a decrease in sick leave and vacation leave expenses.



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
 Management's Discussion and Analysis (Unaudited)  
 As of June 30, 2022

**Actuarial Standards**

Actuarial calculations as of June 30, 2022 and 2021, 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 this report.

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

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

Description	2022	2021	2020
Inactive participants or their beneficiaries currently receiving benefits	9,390	9,324	9,359
Inactive participants entitled to but not yet receiving benefits	6,336	5,980	5,706
Active participants	8,304	8,252	8,790
	24,030	23,556	23,855

The long-term expected rate of return of the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of the System's investment expense and inflation), which are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are provided by the System's investment consultant (source, Survey of Capital Market Assumptions, 2023 Edition published by Horizon Actuarial Services, LLC).

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

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current participants. As of June 30, 2022, the System is not projected to be insolvent. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments and the applicable municipal bond index rate of 4.09%, based on the S&P Municipal Bond 20-year High Grade Index Rate as of June 30, 2022, was applied to all periods of projected benefit payments. The Single Equivalent Interest Rate (SEIR) of 6.75% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2022. The SEIR at the beginning of the measurement period was 6.75%.



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
Management's Discussion and Analysis (Unaudited)  
As of June 30, 2022

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

1. The Schedule of Changes in Net Pension Liability (page 39) presents sources of changes in the net pension liability.
2. The Schedule of Net Pension Liability (page 40) includes historical information about the components of the net pension liability and related ratios, including fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
3. The Schedule of the Employer Contributions (page 41) includes information about the actuarially determined contribution, contributions to the System, and related ratios. Additionally, significant methods and assumptions used in calculating the actuarially determined contributions are presented in the notes to required supplementary information.
4. The Schedule of Annual Money - Weighted Rate of Return on Investments (page 42) includes the annual money-weighted rate of return on pension plan investments for each year.

***Investments***

The System's investment portfolio depreciated in fair value by approximately \$205.2 million during fiscal year 2022, as compared to fiscal year 2021, when it appreciated by approximately \$328.7 million and, approximately \$77.6 million in fiscal year 2020. The net investment (loss) income for fiscal year 2022 amounted to approximately \$(185.06) million, which represents a decrease in investment income of approximately \$533.11 million. On the other side, expenses in 2022 from Investment Managers increased by approximately \$325,600 or 7.72% and custody expenses decreased by approximately \$85,300 or 17.09%. Total investment expenses during fiscal year 2022 were \$4,964,014, an increase of \$234,916 from the previous year due to an increase in investment manager's fee charges.

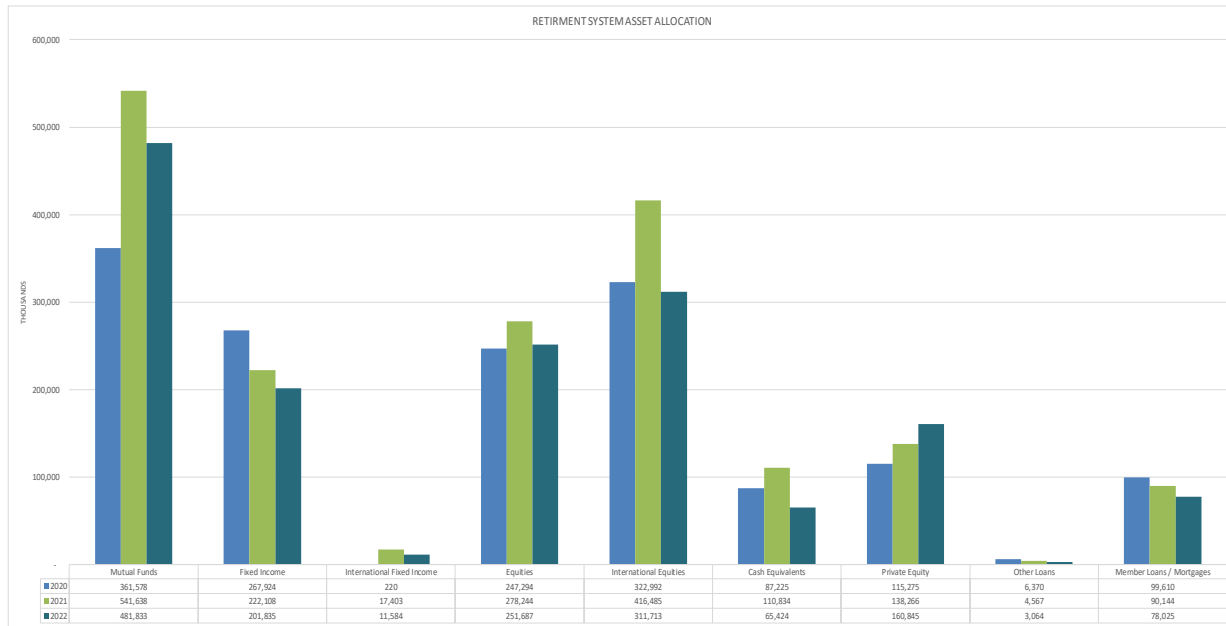
The net investment income for fiscal year 2021 amounted to approximately \$348.1 million and \$81.8 million for fiscal year 2020, which represent an increase in investment income of approximately \$266.3 million when compared to 2020. For fiscal year 2021, the appreciation in fair value of investments was approximately \$269.9 million more than fiscal year 2020.

***Asset Allocation***

Most of the System's assets are invested in marketable securities. The investment fund has 54.36% of its assets in stocks and 25.28% in fixed income investments, 5.18% loans to participants, .74% in international fixed income, and 10.27% in alternative investments for the year ended June 30, 2022. 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, 2022, 2021, and 2020.



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**As of June 30, 2022**



**Benefits Paid and Liabilities**

For the fiscal year 2022, pension benefits paid to retirees and beneficiaries were \$222.7 million, which represents an increase of approximately \$1.86 million or .84% when compared to the prior year. For the previous two years, 2021 and 2020, pension benefits paid to retirees and beneficiaries were \$220.8 and \$218.3 million respectively, which represented an increase of \$2.56 million or 1.16%.

As of June 30, 2022, active participants and retired participants were 8,304 and 9,390, respectively. As of June 30, 2021, active participants and retired participants were 8,252 and 9,324, respectively.

During fiscal year 2022, total liabilities were approximately \$53.92 million, which represents a decrease of \$58.31 million or 51.96%, when compared to the prior year. Approximately 71.87% of total liabilities consist of unsettled investment transactions. During fiscal year 2021, total liabilities were approximately \$112.2 million, which represents an increase of approximately \$9.6 million or 9.32% when compared to the prior year. Approximately 83.05% of the System's total liabilities consisted of unsettled investment transactions. Overall, liabilities represent accounts payable to agencies, deposits for distribution to employee's contributions and accounts payable for acquisition of investments.

**The System as a Whole**

Fiscal year 2022 reported a decrease in net position of approximately \$218.18 million, the main reason of that result is that the appreciation in fair value of investments decreased by approximately \$533.9 million when compared to the previous year. Net investment income decreased by approximately \$533.11 million.

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



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
Management's Discussion and Analysis (Unaudited)  
As of June 30, 2022

***Economic Factors***

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

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

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

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

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



**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
 Management's Discussion and Analysis (Unaudited)  
 As of June 30, 2022

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

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

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

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

**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 is 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.





**UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM**  
Management's Discussion and Analysis (Unaudited)  
As of June 30, 2022

*Actuarial Determined Employer Contribution*

On May 26, 2023, the Retirement Board approved Certification No.38, in which the external actuary's recommendation was accepted as to the determination of the period in which the actuarial determined employer contribution, as calculated in the actuarial valuation report, will be used. The employer contribution calculated in the valuation report will now apply to the fiscal year that begins one year after the actuarial valuation. In the transition to this new method of contribution timing, the University's contribution recommended in the actuarial valuation as of June 30, 2021 will apply to both fiscal years 2022 and 2023.

*Pension Reform*

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

On May 8, 2023, the Governing Board of the University approved the Certification No. 142, that amends Certification No. 52, establishing the implementation date of the defined contribution plan for new employees as of May 31, 2023.

On July 21, 2023, the Governing Board of the University approved by Certification No. 1, that amends Certification No. 142 establishing the new implementation date of the defined contribution plan for new employees as of August 1, 2023.

On May 11, 2023, the Retirement Board filed a lawsuit for a permanent injunction against the University to question the validity of the creation of a defined contribution plan for new employees. There was a removal request to the Federal Court, but on February 8, 2024, the request was denied and the case was moved again to the Puerto Rico Court.

*Litigation*

In August 2023, the Retirement Board filed a lawsuit against the University for debt collection, in reference to actuarial determined contributions, salaries and other services in the amount of approximately \$59 million.

***Contacting System's Financial Management***

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



# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2022 and 2021

	2022	2021
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 65,424,146	\$ 110,833,849
Investments at fair value:		
U.S. Government and Agencies' obligations	62,864,253	75,923,900
Foreign bonds	11,583,939	17,402,700
Corporate bonds	78,616,886	79,673,714
Foreign common stocks	311,712,900	416,485,472
Common stocks	251,687,381	278,243,680
Mortgage-backed securities	58,469,064	62,696,068
Municipal bonds	932,252	405,809
Sovereign debt	465,360	519,249
Commingled funds	481,832,871	541,638,445
Alternative investments	160,845,171	138,265,968
Invested securities lending cash collateral	486,955	2,888,841
Loans to participants:		
First mortgage	23,886,118	30,197,267
Personal installments	54,139,372	59,946,848
Other, net of allowance for doubtful accounts of \$5,895 in 2022 and 2021	3,064,130	4,567,238
Other receivables	268,466	226,825
Accrued interest receivable on investments	2,525,518	1,591,014
Receivables from sale of investments	26,062,011	53,494,004
Contributions receivable from Puerto Rico		
Treasury Department	2,322,646	2,322,646
Accounts receivable from University of Puerto Rico	7,778,704	3,998,593
Capital assets, net of accumulated depreciation of \$1,841,267 and \$1,727,973 in 2022 and 2021, respectively	3,350,810	3,494,417
	<b>1,608,318,953</b>	<b>1,884,816,547</b>
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	10,680,222	12,125,130
Obligations under securities lending	1,648,092	4,050,935
Escrow deposits on mortgage loans	1,556,190	1,897,266
Other deposits and pending distribution funds	1,280,694	953,852
Payable for acquisition of investments	38,751,139	93,202,495
	<b>53,916,337</b>	<b>112,229,678</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 1,554,402,616</b>	<b>\$ 1,772,586,869</b>

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, 2022 and 2021

	2022	2021
<b>ADDITIONS:</b>		
Contributions-		
Employer	\$ 161,704,861	\$ 160,356,496
Participants	31,204,543	29,153,522
	<u>192,909,404</u>	<u>189,510,018</u>
Investment (loss) income-		
Net (depreciation) appreciation in fair value of investments	(205,175,172)	328,727,133
Interest	11,621,886	12,777,485
Dividends	13,458,423	11,280,100
	<u>(180,094,863)</u>	<u>352,784,718</u>
Investment expense	<u>4,964,014</u>	<u>4,729,098</u>
Net investment (loss) income	<u>(185,058,877)</u>	<u>348,055,620</u>
	<u>7,850,527</u>	<u>537,565,638</u>
<b>DEDUCTIONS:</b>		
Benefits paid	222,707,474	220,847,024
General and administrative expenses	3,327,306	3,364,059
	<u>226,034,780</u>	<u>224,211,083</u>
<b>NET (DECREASE) INCREASE IN NET POSITION</b>	<b>(218,184,253)</b>	<b>313,354,555</b>
<b>NET POSITION RESTRICTED FOR PENSIONS,</b> beginning of year	<u><b>1,772,586,869</b></u>	<u><b>1,459,232,314</b></u>
<b>NET POSITION RESTRICTED FOR PENSIONS,</b> end of year	<u><u><b>\$ 1,554,402,616</b></u></u>	<u><u><b>\$ 1,772,586,869</b></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, 2022 and 2021

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### 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 Committee of the Governing Board of the University (“the Committee”). The Committee will then notify the Participants of the Governing Board of the University of any decisions made related to the System. The Governing Board of the University was the Trustee of the System up to October 1, 2020.

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

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

Basis of Presentation - The System’s financial statements and notes to the financial statements are prepared under the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 67, Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25. The accompanying financial statements have been prepared on the accrual basis of accounting.

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 are 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, 2022 and 2021

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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.

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

Loans to System's Participants - 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 participant's contribution to the System and first mortgage liens on the underlying properties. Personal loans are collateralized by the participant's contribution to the System.

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

As of June 30, 2022 and 2021, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately \$3.06 million and \$4.57 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 expenses charged to operations during the years ended June 30, 2022, and 2021 amounted to approximately \$113,300 and \$95,900, respectively.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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.

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

### 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.

Participants consisted of the following as of June 30, 2022 and 2021:

Description	2022	2021
Inactive members or their beneficiaries currently receiving benefits	9,390	9,324
Inactive members entitled to but not yet receiving benefits	6,336	5,980
Active members	8,304	8,252
	<u>24,030</u>	<u>23,556</u>

- B) Plan Amendments - The following is a summary of the most significant System amendments and certifications, presented for general purposes only. Participants 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 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 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 Participants an increase from \$50,000 to \$60,000 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 \$50,000 and up to a maximum of \$60,000, plus 8% interest. Effective July 1, 2002, all new Participants 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 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 55 is 1/3% per month for Participants who had not completed 20 years of service by July 1, 1979, and elected Certification No. 55, and for Participants 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, 2022 and 2021

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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 Participant retirement benefit payable if the Participant 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 Participants 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:*

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

- a. Participant who selected a complete supplementation with Social Security, contributes 7% of monthly compensation.
- b. Participant 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:*

Participant 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:

Participants with 25 years or more accredited at June 30, 2015	Participants 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, 2022 and 2021

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### *Certification No. 55:*

Mandatory applicable to all Participants 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%):

Participants with 25 years or more accredited at June 30, 2015	Participants 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:

Participants with 25 years or more accredited at June 30, 2015	Participants 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:

Participants with 25 years or more accredited at June 30, 2015	Participants 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:

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

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

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

- If full supplement is elected: 7% of monthly compensation up to \$2,916
- 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, 2022 and 2021

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

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

### Participants 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

### Participants 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

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

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

### Participants who are hired on or after April 1, 2015:

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

### Participants 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, 2022 and 2021 was 39.23% and 40.14% 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 Participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the System over a Certification No. 146 (2014-2015), 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

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

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 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



# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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Participants may elect to receive their retirement benefits at age 58 after 10 years of service, or at age 55 after 25 years of service.

The amount of service retirement annuity is as follows:

For all Participants except those who have completed 20 years of service by July 1, 1979:

- Before age 65 - for Participants with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the Participant is 55 but under age 58 (Certification No. 37) and 55 (Certification No. 55), at time annuity begins.
- Before age 65 - for Participants with less than 30 years of service: 1.5% of average compensation per year of service for the Participants with 20 or fewer years. Percentage increases by .05% for each year in excess of than 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the Participant is between the age of 55 and 58 at time annuity begins (Certification No. 37) and 1/3% for each month the Participant is under age 55 with more than 25 years of service and 1/3% for each month the Participant is under age 58 with less than 25 years of service (Certification No. 55).
- After age 65 - if the Participant 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 Participants had less than 30 years of service and was under age 58 at the beginning date, adjustment is made before application of .5% reduction per month under age 58.

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

- Before age 65 - for Participants with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the Participant completed 30 years of service before July 1973, the annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to no more than 85% of average compensation.
- Before age 65 - for Participants with less than 30 years of service: 1.5% of average compensation per year of service for Participants with 20 or fewer years. Percentage increases by .05% for each year more than 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the Participant is under age 58 at the time the annuity begins.
- At age 65 - if Participants elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by .5% of first \$350 of average compensation for each year of service but not by more than primary Social Security benefit. If the Participants had less than 30 years of service and was under age 58 at beginning date, adjustment is made before application of .5% reduction per month under age 58.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022 and 2021

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For all Participants 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 Participants with less than 30 years of service: 1.5% of average compensation per year of service for Participants with 20 or fewer years. Percentage increases by .05% for each year more than 20 years up to a maximum of 1.95% per year.
- Before age 65 - for Participants with at least 30 years of service: 75% of average compensation for Participants with at least 55 years of age at retirement date. Amount reduced by .5% for each month the Participant is between age 55 and 58 (Certification No. 37); and 1/3% for each month the Participant is under age 55 with more than 25 years of service and 1/3% for each month the Participant is 58 with less than 25 years of service (Certification No. 55).
- After Age 65 - if Participants elected full supplement, annuity is the same as before age 65. Otherwise, annuity is reduced by .5% of average compensation at time of retirement multiplied by years of service.
- Minimum Annuity - \$250 per month - if a Participant terminates before rendering 10 years of service, the right to receive the portion of his accumulated plan benefits attributable to the University's contributions is forfeited. However, the Participant is entitled to receive, in a lump-sum payment, the value of his accumulated contributions.
- If a Participant terminates after rendering 10 years of service, and does not withdraw his contributions, the Participant receives a retirement annuity payable beginning at age 60 based on the applicable benefit formula.
- Refund may also be obtained after 10 years of service, but the vested benefit is lost.

D) Disability Benefits - Participants 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 Participant 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 Participant's retirement benefit payable if the Participant was to retire based on years of service. If the Participant is eligible for a service retirement, benefit payable will be the higher of the two.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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### E) Death Benefits -

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

### F) Christmas Bonus - A \$400 annual bonus is given to all retired Participants.

### G) Pension Reform - 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 participants.

On May 8, 2023, the Governing Board of the University approved by 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 participants.

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 participants.

On May 11, 2023, the Retirement Board filed a lawsuit for a permanent injunction against the University to question the validity of the creation of a defined contribution plan for new employees. There was a removal request to the Federal Court, but on February 8, 2024, the request was denied and the case was moved again to the Puerto Rico Court.

### 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.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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

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

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern.

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

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

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

The fiscal year ended June 30, 2022, continued to present significant economic challenges and difficulties for the University. As a result, the System's management has continued to focus its efforts on protecting the System of the University. On June 29, 2016, the University confirmed, restated, and acknowledged in a public deed (the "Trust Deed") all acts, and faculties as applied and lawfully enforced by the Governing Board in relation to the System and its trust fund from its inception to the present-day. Thus, through the execution of the Trust Deed, the University affirmed the public and governmental nature of the System founded in the year 1945 and its organization as a de facto trust. Pursuant to the Trust Deed, the System's assets remain completely autonomous and separate of the assets of the University, the Trustee and its Participants and continue to be exempt from the individual or collective action of their respective creditors.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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

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

- Trust Regulations:

The System is the administrator of a single employer defined benefit pension plan which was created by Act No. 135, approved on May 7, 1942. The System started operations on January 1, 1945, the date on which contributions by employees and the Employer commenced.

- Fund administration:

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

- Investments Return:

As of June 30, 2022, the returns of the Retirement fund present a position negative results. During the year ended June 30, 2022, the System's closed with a return of (10.18)%.

- Funding Ratios:

The funding ratio increased for the fiscal years from June 30, 2015, to June 30, 2017: from 46.6% in 2015 to 47.8% in 2016, and 48.9% in 2017. However, it has experimented a decrease in fiscal year 2018 from 48.9% to 43.7% and, in fiscal year 2019 from 43.7% to 42.8%. During the fiscal years from June 30, 2020 to June 30, 2022, the ratio increased from 42.8% to 43.7% in 2020, 47.6% in 2021 and 49.9% in 2022.

- Contributions:

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

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

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

- 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.

#### 4) Cash and Cash Equivalents:

Cash and cash equivalents as of June 30, 2022 and 2021, are as follows:

Description	2022	2021
Cash deposited in commercial banks	\$ 65,424,146	\$ 110,563,819
Cash equivalents	-	270,030
	<u>\$ 65,424,146</u>	<u>\$ 110,833,849</u>

#### 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, 2022 and 2021:

Description	Total	June 30, 2022		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs for the Assets (Level 3)
U.S. Government and Agencies' obligations	\$ 62,864,253	\$ -	\$ 62,864,253	\$ -
Common stocks	251,687,381	251,687,381	-	-
Mortgage-backed securities	58,469,064	-	58,469,064	-
Municipal bonds	932,252	-	932,252	-
Corporate bonds	78,616,886	-	78,616,886	-
Foreign common stock	311,712,900	311,712,900	-	-
Foreign bonds	11,583,939	-	11,583,939	-
Commingled funds	481,832,871	-	481,832,871	-
Sovereign debt	465,360	-	465,360	-
Alternative investments	160,845,171	-	-	160,845,171
	<u>\$ 1,419,010,077</u>	<u>\$ 563,400,281</u>	<u>\$ 694,764,625</u>	<u>\$ 160,845,171</u>

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

Description	Total	June 30, 2021		
		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 and Agencies' obligations	\$ 75,923,900	\$ -	\$ 75,923,900	\$ -
Common stocks	278,243,680	278,243,680	-	-
Mortgage-backed securities	62,696,068	-	62,696,068	-
Municipal bonds	405,809	-	405,809	-
Corporate bonds	79,673,714	-	79,673,714	-
Foreign common stock	416,485,472	416,485,472	-	-
Foreign bonds	17,402,700	-	17,402,700	-
Commingled funds	541,638,445	-	541,638,445	-
Sovereign debt	519,249	-	519,249	-
Alternative investments	138,265,968	-	-	138,265,968
	<u>\$ 1,611,255,005</u>	<u>\$ 694,729,152</u>	<u>\$ 778,259,885</u>	<u>\$ 138,265,968</u>

No more than 5% of any debt issue may be purchased as an investment, except for the U.S. Government 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 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 stock, mortgage-backed securities, pooled funds and corporate bonds, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank. Alternative investments are classified in Level 3. 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 participants (including first mortgage and personal installments loans)	9.0%	+/- 3%

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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

From time to time, when the operating cash flow has excess disbursements, the Executive Director is authorized to sell securities on behalf of the System not exceeding \$10,000,000 (Certification No. 68, 2018-2019) per month. This 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.

Alternative investments include the following as of June 30, 2022 and 2021:

Description	Total Commitment	June 30, 2022		
		Contributions	Distributions	Fair Value
<b>Grupo Guayacán, Inc.:</b>				
Guayacán Fund of Funds II, LP	\$ 6,000,000	\$ 5,683,539	\$ 7,509,709	\$ 72,468
Guayacán Fund of Funds III, LP	5,000,000	4,961,098	7,880,666	1,598,959
Guayacán Fund of Funds IV, LP	5,000,000	4,958,146	2,902,321	7,920,749
<b>Advent-Morro Equity Partners Inc.:</b>				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,514,732	2,527,802
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	5,408,950	1,870,933
Guayacán Private Equity Fund III, LP	7,500,000	4,231,691	-	2,904,940
McCoy Investment Fund 2	15,000,000	12,403,897	29,818,933	22,890,789
RREEF America REI T II	65,000,000	65,000,000	-	121,058,531
	<u>\$ 111,000,000</u>	<u>\$ 104,470,425</u>	<u>\$ 58,035,311</u>	<u>\$ 160,845,171</u>

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# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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

As of June 30, 2022 and 2021, the System's credit quality distribution for securities was as follows:

Description	2022	
	Carrying Value	Standard & Poor's Rating
Foreign bonds	\$ 16,899,050	AA to BBB-
Corporate bonds	217,628,337	AAA to BBB-
Mortgage backed securities	167,776,357	AAA to AA
Municipal bonds	4,618,063	A+ to A-
Description	2021	
	Carrying Value	Standard & Poor's Rating
Foreign bonds	\$ 21,085,955	A- to BB
Corporate bonds	264,983,123	AAA to BBB-
Mortgage backed securities	165,914,255	AAA to AA+
Municipal bonds	4,227,648	AA to BBB

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.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

### *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:

Description	2022	2021
	Carrying Value	Carrying Value
Mortgage-backed securities	\$ 58,469,064	\$ 62,696,068
Corporate bonds	78,616,886	79,673,714
Common stocks	251,687,381	278,243,680
U.S. Government and Agencies obligations	62,864,253	75,923,900
Foreign common stocks	311,712,900	416,485,472
Foreign corporate bonds	6,609,089	13,364,085
Foreign government bonds	4,974,850	4,038,615
Commingled funds equity	481,832,871	541,638,445
Sovereign debt	465,360	519,249
Municipal bonds	932,252	405,809
	<u>\$ 1,258,164,906</u>	<u>\$ 1,472,989,037</u>

### *Securities Lending*

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

Under the Agreement as disclosed above, the System has a cash collateral of approximately \$487 thousands and approximately \$2.89 million as of June 30, 2022 and 2021, respectively. This cash collateral has been reinvested, in accordance with the agreement, in fixed income investments that are exposed to custodial credit risk as disclosed in the executed agreement.

During fiscal year 2008-2009, there was a default in a Lehman Brothers and Sigma floating rate note in which securities lending collateral had been invested. These funds are invested into a collective investment trust fund and are included on the Statement of Fiduciary Net Position. The purpose of the separate account is to provide a reserve account to offset expected losses. As of June 30, 2022 and 2021, the System had an unrealized loss in the Securities Lending Collateral pool of \$1,159,235 and \$1,158,852, respectively, and had accrued an obligation of \$1,648,092 and \$4,050,935, respectively, in the separate account.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

Refer to Note 9 for subsequent event related to Payment Plan Agreement entered into by the System with JP Morgan Chase Bank, N.A. in order to cover the deficiency in the securities lending cash collateral investment account that remained in the System's records since 2008, with an outstanding balance of \$1,160,902. In addition, on September 6, 2023, JP Morgan Chase Bank, N.A. notified the termination of the Securities Lending Program Agreementy 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 and Agencies' obligations.

### *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, 2022 and 2021, the weighted average maturity by investment type in each fund is as follows:

Investment Type	Weighted Average (Years)	Fair Value	
		2022	2021
Corporate bonds	5.4819	\$ 78,616,886	\$ 79,673,714
Mortgage backed securities	8.2075	58,469,064	62,696,068
Municipal bonds	0.2261	932,252	405,809
Foreign corporate bonds	0.0294	11,583,939	17,402,700
US Government bonds and agencies' obligations and sovereign debt	2.4755	63,329,613	76,443,149
		<u>\$ 212,931,754</u>	<u>\$ 236,621,440</u>

### *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, 2022:

Foreign Currency Risk represent 20.10% of total assets.

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

Security Type	Currency	Maturity	Fair Value
Common stocks	Australia	Not Applicable	\$ 3,861,753
Common stocks	Belgium	Not Applicable	1,954,423
Common stocks	Bermuda	Not Applicable	6,588,106
Common stocks	Canada	Not Applicable	20,118,503
Common stocks	Cayman Islands	Not Applicable	411,045
Common stocks	Channel Islands	Not Applicable	1,083,280
Common stocks	China	Not Applicable	21
Common stocks	Denmark	Not Applicable	14,692,509
Common stocks	Finland	Not Applicable	1,971,294
Common stocks	France	Not Applicable	44,741,773
Common stocks	Germany	Not Applicable	19,782,811
Common stocks	Hong Kong	Not Applicable	2,063,454
Common stocks	India	Not Applicable	9,206,728
Common stocks	Ireland	Not Applicable	14,837,546
Common stocks	Israel	Not Applicable	641,258
Common stocks	Japan	Not Applicable	39,393,988
Common stocks	Korea	Not Applicable	2,987,158
Common stocks	Luxembourg	Not Applicable	2,402,603
Common stocks	Netherlands	Not Applicable	15,158,147
Common stocks	New Zealand	Not Applicable	787,143
Common stocks	Norway	Not Applicable	754,961
Common stocks	Spain	Not Applicable	5,743,070
Common stocks	Sweden	Not Applicable	8,232,085
Common stocks	Switzerland	Not Applicable	39,462,231
Common stocks	Switzerland Warrants	Not Applicable	26,124
Common stocks	Taiwan	Not Applicable	7,604,385
Common stocks	United Kingdom	Not Applicable	47,206,500
Corporate bonds	Canada	10/25/2028	350,189
Corporate bonds	Channel Islands	9/23/2026	222,829
Corporate bonds	Denmark	12/08/2023-09/10/2027	644,309
Corporate bonds	France	01/15/2024-01/20/2028	216,003
Corporate bonds	Germany	09/26/2022-01/13/2026	855,573
Corporate bonds	Ireland	11/15/2031	42,266
Corporate bonds	Japan	10/16/2024-03/31/2030	959,084
Corporate bonds	Korea	8/29/2022-02/10/2023	431,996
Corporate bonds	Luxembourg	3/21/2026	48,605
Corporate bonds	Netherlands	07/15/2023-05/01/2050	41,680
Corporate bonds	Supranational	05/01/2027-11/30/2051	487,438
Corporate bonds	Switzerland	08/01/2024-08/07/2026	320,894
Corporate bonds	Taiwan	4/22/2032	197,215

Continues...

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

Continued...

Security Type	Currency	Maturity	Fair Value
Corporate bonds	United Kingdom	02/29/2024-03/17/2052	1,791,008
Governmental bonds	Canada	08/01/2022 - 03/15/2052	494,637
Governmental bonds	Chile	01/31/2031-01/31/2034	394,756
Governmental bonds	Colombia	05/21/2024-04/22/2032	718,919
Governmental bonds	Indonesia	4/24/2028-07/28/2031	353,242
Governmental bonds	Kazakhstan	10/14/2044	112,088
Governmental bonds	Mexico	03/28/2027-05/24/2031	1,067,673
Governmental bonds	Panama	03/17/2028-04/01/2056	538,053
Governmental bonds	Peru	01/23/2031-11/18/2050	343,471
Governmental bonds	Philippines	2/1/2028-01/06/2032	511,817
Governmental bonds	Uruguay	10/27/2027-1/23/2031	440,195
Total			<u>\$ 323,296,839</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.

### 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, 2022 and 2021, capital assets activities, consisted of the following:

Description	Balance as of June 30, 2021	Additions	Retirements	Balance as of June 30, 2022
Building	\$ 3,811,940	\$ -	\$ -	\$ 3,811,940
Equipment	411,053	49,350	-	460,403
Foreclosure homes	999,399	335	(80,000)	919,734
	<u>5,222,392</u>	<u>49,685</u>	<u>(80,000)</u>	<u>5,192,077</u>
Less accumulated depreciation	(1,727,975)	(113,292)	-	(1,841,267)
	<u>\$ 3,494,417</u>	<u>\$ (63,607)</u>	<u>\$ (80,000)</u>	<u>\$ 3,350,810</u>
Description	Balance as of June 30, 2020	Additions	Retirements	Balance as of June 30, 2021
Building	\$ 3,811,940	\$ -	\$ -	\$ 3,811,940
Equipment	407,288	3,765	-	411,053
Foreclosure homes	997,164	2,235	-	999,399
	<u>5,216,392</u>	<u>6,000</u>	<u>-</u>	<u>5,222,392</u>
Less accumulated depreciation	(1,632,091)	(95,884)	-	(1,727,975)
	<u>\$ 3,584,301</u>	<u>\$ (89,884)</u>	<u>\$ -</u>	<u>\$ 3,494,417</u>

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

### 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, 2022 and 2021, the medical plan expenses amounted to \$11,031,140 and \$11,832,586, respectively. Medical expenses are paid by the retirees and reimbursed by the University.

### 8) Related Party Transactions:

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

### 9) Net Pension Liability of the University:

The components of net pension liability of the University as of June 30, 2022 and 2021, are as follows (in thousands):

Description	2022	2021
Total pension liability	\$ 3,306,633	\$ 3,303,351
Fiduciary net position	(1,554,403)	(1,772,587)
Net pension liability	\$ 1,752,230	\$ 1,530,764
Fiduciary net position as a percentage of the total pension liability	47.01%	53.66%

Actuarial Assumptions - The total pension liability as of June 30, 2022, was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions and experience, applied to all periods included in the measurement. The key actuarial assumptions are summarized as follows:

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

Continues...

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

Continued...

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

Discount rate - As of June 30, 2022, the discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that participant's contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2022. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current participants. 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%.

As of June 30, 2021, the discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that participant's contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2022. The Single Equivalent Interest Rate (SEIR) of 4.60% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2021. The SEIR at the beginning of the measurement period was 4.60%.

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, 2023 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%	6.20%
Global ex U.S. equity	24.00%	6.91%
Domestic fixed	30.00%	2.46%
High Yield	7.50%	4.56%
Real Estate	5.00%	5.01%
Private Equity	1.50%	10.30%
	<u>100.00%</u>	

# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS June 30, 2022 and 2021

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, 2022, calculated using the SEIR discount rate of 6.75%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate (in thousands):

Description	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	\$ 1,464,845	\$ 1,752,230	\$ 2,088,980

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

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

### 10) Subsequent Events:

As of July 1, 2022, subsequent events are as follows:

#### *Securities Lending*

On June 30, 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 is 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.

#### *Actuarial Determined Employer Contribution*

On May 26, 2023, the Retirement Board approved Certification No.38, in which the external actuary's recommendation was accepted as to the determination of the period in which the actuarial determined employer contribution, as calculated in the actuarial valuation report, will be used. The employer contribution calculated in the valuation report will now apply to the fiscal year that begins one year after the actuarial valuation. In the transition to this new method of contribution timing, the University's contribution recommended in the actuarial valuation as of June 30, 2021 will apply to both fiscal years ended June 30, 2022 and 2023.



# UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022 and 2021

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### *Pension Reform*

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

On May 8, 2023, the Governing Board of the University approved the Certification No. 142, that amends Certification No. 52, establishing the implementation date of the defined contribution plan for new employees as of May 31, 2023.

On July 21, 2023, the Governing Board of the University approved by Certification No. 1, that amends Certification No. 142 establishing the new implementation date of the defined contribution plan for new employees as of August 1, 2023.

On May 11, 2023, the Retirement Board filed a lawsuit for a permanent injunction against the University to question the validity of the creation of a defined contribution plan for new employees. There was a removal request to the Federal Court, but on February 8, 2024, the request was denied and the case was moved again to the Puerto Rico Court.

### *Other Litigation*

In August 2023, the Retirement Board filed a lawsuit against the University for debt collection, in reference to actuarial determined contributions, salaries and other services in the amount of approximately \$59 million.

Management has evaluated events through February 16, 2024, 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, 2022

(In Thousands)

EXHIBIT A

	Year ended June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:									
Service cost	\$ 32,693	\$ 54,863	\$ 74,909	\$ 72,823	\$ 74,827	\$ 52,000	\$ 46,571	\$ 48,107	\$ 49,499
Interest	215,473	187,307	164,223	164,920	167,015	191,144	194,184	177,334	173,630
Changes of benefit terms	2,648	(25,509)	-	-	-	-	(14,671)	(45,209)	-
Differences between expected and actual experience	(25,218)	(60,878)	(24,716)	(11,902)	(2,678)	(24,376)	(4,733)	(323,974)	-
Changes of assumptions	-	(814,007)	(536,078)	271,633	31,859	989,905	160,911	32,269	(24,034)
Benefit payments, or other inputs	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
<b>Net change in total pension liability</b>	<b>3,282</b>	<b>(878,857)</b>	<b>(539,952)</b>	<b>289,651</b>	<b>72,776</b>	<b>1,020,362</b>	<b>199,648</b>	<b>(288,345)</b>	<b>29,932</b>
<b>Total pension liability, beginning</b>	<b>3,303,351</b>	<b>4,182,208</b>	<b>4,722,160</b>	<b>4,432,509</b>	<b>4,359,733</b>	<b>3,339,371</b>	<b>3,139,723</b>	<b>3,428,068</b>	<b>3,398,136</b>
<b>Total pension liability, ending (a)</b>	<b>\$ 3,306,633</b>	<b>\$ 3,303,351</b>	<b>\$ 4,182,208</b>	<b>\$ 4,722,160</b>	<b>\$ 4,432,509</b>	<b>\$ 4,359,733</b>	<b>\$ 3,339,371</b>	<b>\$ 3,139,723</b>	<b>\$ 3,428,068</b>
<b>System fiduciary net position:</b>									
Contributions - employer	\$ 161,705	\$ 160,356	\$ 161,411	\$ 75,263	\$ 73,360	\$ 79,491	\$ 78,004	\$ 88,251	\$ 91,689
Contributions - participants	31,205	29,154	34,252	32,849	35,864	39,042	38,640	35,594	37,900
Net investment income (loss)	(185,059)	348,056	81,796	98,788	110,357	132,950	59,009	75,373	206,595
Benefit payments	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Administrative expenses	(3,721)	(3,578)	(3,639)	(3,751)	(4,458)	(4,340)	(3,363)	(3,378)	(4,566)
Other	-	-	-	-	-	-	(4)	-	-
<b>Net change in plan net position</b>	<b>(218,184)</b>	<b>313,355</b>	<b>55,530</b>	<b>(4,674)</b>	<b>16,876</b>	<b>58,832</b>	<b>(10,328)</b>	<b>18,968</b>	<b>162,455</b>
<b>Plan fiduciary net position, beginning</b>	<b>1,772,587</b>	<b>1,459,232</b>	<b>1,403,702</b>	<b>1,408,376</b>	<b>1,391,500</b>	<b>1,332,668</b>	<b>1,342,996</b>	<b>1,324,028</b>	<b>1,161,573</b>
<b>Plan fiduciary net position, ending (b)</b>	<b>\$ 1,554,403</b>	<b>\$ 1,772,587</b>	<b>\$ 1,459,232</b>	<b>\$ 1,403,702</b>	<b>\$ 1,408,376</b>	<b>\$ 1,391,500</b>	<b>\$ 1,332,668</b>	<b>\$ 1,342,996</b>	<b>\$ 1,324,028</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 1,752,230</b>	<b>\$ 1,530,764</b>	<b>\$ 2,722,976</b>	<b>\$ 3,318,458</b>	<b>\$ 3,024,133</b>	<b>\$ 2,968,233</b>	<b>\$ 2,006,703</b>	<b>\$ 1,796,727</b>	<b>\$ 2,104,040</b>

See accompanying independent auditors' report.

## UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

### SCHEDULE OF NET PENSION LIABILITY (Unaudited)

June 30, 2022

(In Thousands)

EXHIBIT B

	Year ended June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability	\$ 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
System's fiduciary net position	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
Net pension liability	\$ 1,752,230	\$ 1,530,764	\$ 2,722,976	\$ 3,318,458	\$ 3,024,133	\$ 2,968,233	\$ 2,006,703	\$ 1,796,727	\$ 2,104,040
Ratio of System's fiduciary net position to total pension liability	47.01%	53.66%	34.89%	29.73%	31.77%	31.92%	39.91%	42.77%	38.62%
Covered employee payroll	\$ 392,499	\$ 406,676	\$ 428,086	\$ 453,802	\$ 478,529	\$ 488,775	\$ 515,994	\$ 516,226	\$ 515,856
Net pension liability as a percentage of covered- employee payroll	446.43%	376.41%	636.08%	731.26%	631.96%	607.28%	388.90%	348.05%	407.87%

#### Factors that Significantly Affect Trends in Amounts Reported

##### Changes of benefit terms:

- 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%.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS (Unaudited)

June 30, 2022

(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)
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%
2014	78,204	91,689	(13,485)	515,856	17.77%
2013	77,772	78,481	(709)	491,291	15.97%

(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, 2022
Actuarial cost method	Individual entry age normal
Amortization method	Level dollar, 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, 2022

EXHIBIT D

(Unaudited)	Year Ended June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return (loss), net of investment expenses	<u>(10.47%)</u>	<u>22.57%</u>	<u>5.64%</u>	<u>6.95%</u>	<u>8.11%</u>	<u>10.76%</u>	<u>3.93%</u>	<u>5.61%</u>	<u>17.80%</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, 2022 and 2021, 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 February 16, 2024.

**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  
February 16, 2024.

Stamp No. E560170 was affixed  
to the original of this report.

*RSM Puerto Rico*