Deloitte.

Puerto Rico System of Annuities and Pensions for Teachers

(A Pension Trust Fund of the Commonwealth of Puerto Rico)

Basic Financial Statements as of and for the Year Ended June 30, 2012, Required Supplementary Information as of and for the Year Ended June 30, 2012, and Independent Auditors' Report

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Ave., Ste. 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171

www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Puerto Rico System of Annuities and Pensions for Teachers:

We have audited the accompanying statement of plan net assets of the Puerto Rico System of Annuities and Pensions for Teachers (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2012, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2012, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and supplemental schedules of employer contributions and funding progress on pages 2–11 and 33–34 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.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial liability and funded ratio as of June 30, 2012, were approximately $10 billion and 17%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's assets will be exhausted by the fiscal year 2021, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System.

Deloitte & Touche LLP

August 27, 2013

Stamp No. E85050
affixed to original.

The Puerto Rico System of Annuities and Pensions for Teachers (the "System") presents management's overview of the administrative and operational activities that had an impact on the System's net assets for the fiscal year ended June 30, 2012. The System administers retirement and other participant benefits, such as personal, cultural and mortgage loans, occupational and non-occupational disability annuities, and death benefits.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements, which are comprised of the following: 1) Statement of Plan Net Assets, 2) Statement of Changes in Plan Net Assets, and 3) Notes to Basic Financial Statements. Required supplementary information is also presented to supplement the basic financial statements.

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

Both of these statements provide information about the overall financial status of the System. The Statement of Plan Net Assets includes all of the System's assets and liabilities, with the difference reported as net assets held in trust for pension benefits. The Statement of Changes in Plan Net Assets discloses changes in the System's net assets during the fiscal year.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential for an understanding of the data provided in the Statements of Plan Net Assets and Changes in Plan Net Assets.

Required Supplementary Information

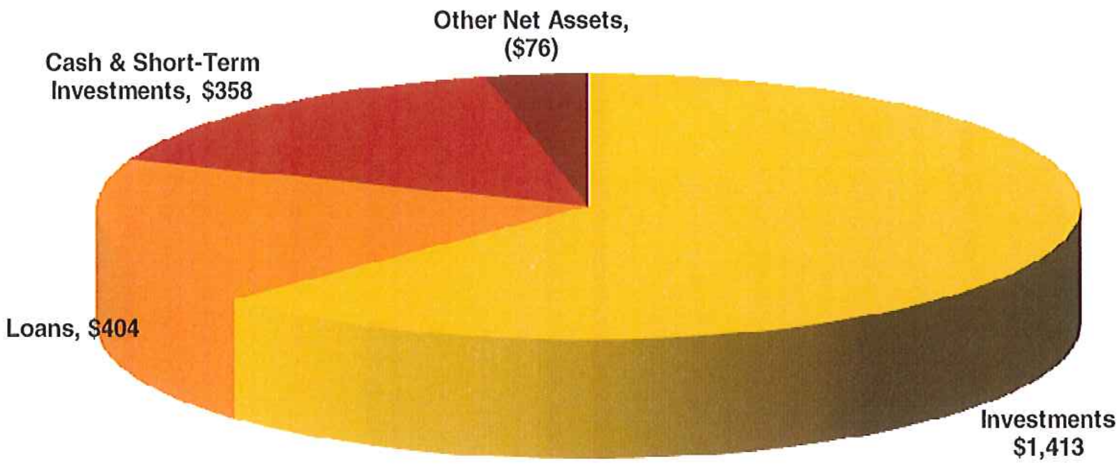
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System's net assets decreased from approximately $2,386 million as of June 30, 2011 to $2,099 million as of June 30, 2012. The decrease was primarily due to the net depreciation in the fair value of the System's investment portfolio. The amount of $2,099 million in total net assets consists of the following:

- $1,413 million in investments
- $404 million in loans to plan members
- $358 million in cash and short-term investments
- ($76) million in other net liabilities

The total plan net assets are presented in the following chart (in millions):



Following is a comparison of certain items within the financial statements:

- The System's assets exceeded liabilities by $2,099 million (net assets) for the fiscal year ended June 30, 2012, when compared to the prior year which assets exceeded liabilities by $2,386 million.

- The fair value of the System's investments (excluding loans to participants) at June 30, 2012, amounted to $1,413 million, compared to $1,828 million at June 30, 2011.

- The System's funded ratio of the actuarial accrued liability at June 30, 2012, was 17%.

The following schedules present comparative summary financial statements of the System's net assets and changes in net assets for fiscal years 2012 and 2011:

Summary Comparative Statements of Plan Net Assets

	2012	2011	Amount of Change	Percentage Change
	(In thousands)			
Assets:				
Cash and short term investments	$ 358,383	$ 171,608	$ 186,775	109 %
Investments — at fair value and loans	1,835,728	2,235,147	(399,419)	(18)
Accounts receivable	80,750	51,185	29,565	58
Capital assets	20,885	22,204	(1,319)	(6)
Other assets	832	472	360	76
Total assets	2,296,578	2,480,616	(184,038)	(7)
Liabilities:				
Accounts payable and accrued liabilities	16,236	14,851	1,385	9
Insurance reserve for loans to plan members and transition investments settlements	159,487	8,023	151,464	1,888
Other liabilities	21,639	71,879	(50,240)	(70)
Total liabilities	197,362	94,753	102,609	108
Net assets held in trust for pension benefits	$2,099,216	$2,385,863	$ (286,647)	(12)

Summary Comparable of Plan Net Assets Analysis

The increase in cash and short-term investments is due to the typical fluctuations in short-term investments, which represents the amount of short-term investments held by investment managers at a point in time. The increase in accounts receivable is mainly attributable to an increase in receivables for investments sold due to market conditions and investment managers' decisions as of fiscal year end.

The decrease in fair value of investments is primarily attributable to the market conditions experienced during fiscal year 2012 and the timing of cash flows. The System's total investments return experienced a reduction from 21.5% in 2011 to 2% in 2012. Detailed information regarding the investment portfolio is included in the Investment Portfolio and Capital Markets Overview section.

The increase in accounts payable and accrued liabilities is primarily due to the implementation of a voluntary termination benefits program for the employees of the System, which resulted in an increase in liabilities of approximately $1.7 million. The increase in insurance reserve for loans to plan members and investment settlements corresponds to an increase in investments purchased due to market conditions and investment managers' decisions as of fiscal year end. The decrease in other liabilities is mainly due to payables to independent brokers under the securities lending program.

Summary Comparative Statements of Changes in Plan Net Assets

	Years Ended June 30, 2012	Years Ended June 30, 2011	Amount of Change	Percentage Change
	(In thousands)			
Additions:				
Contributions	$ 300,268	$ 283,949	$ 16,319	6 %
Investment income	37,153	481,164	(444,011)	92
Other income	1,374	968	406	42
Total additions	338,795	766,081	(427,286)	56
Deductions:				
Benefits paid to participants	601,667	570,625	31,042	5
Administrative expenses	23,775	31,570	(7,795)	(25)
Total deductions	625,442	602,195	23,247	4
Net increase (decrease) in net assets held in trust for pension benefits	(286,647)	163,886	(450,533)	275
Net assets held in trust for pension benefits:				
Beginning of year	2,385,863	2,221,977	163,886	7
End of year	$2,099,216	$2,385,863	$ (286,647)	(12)

Summary Comparable Statements of Changes in Plan Net Assets Analysis

During the fiscal year 2012, employers 'contributions increased due to Act. No. 114 of July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021. The Special Laws benefits increased by approximately $5.6 million with respect to the prior fiscal year. The investment income that resulted in fiscal year 2012 is attributable to market conditions.

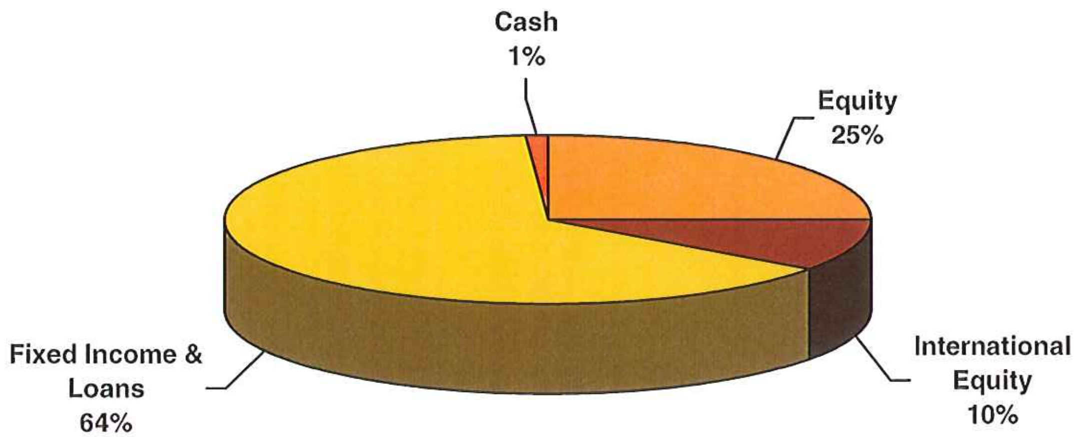
Financial Analysis of the System

The System provides retirement benefits to teachers mainly within the public education system of the Commonwealth of Puerto Rico. The System's net assets held in trust for benefits at June 30, 2012, amounted to approximately $2,099 million, a decrease of approximately $287 million from approximately $2,386 million at June 30, 2011. Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. For fiscal year 2012, employer contributions increased by approximately $12 million, from approximately $112 million during fiscal year 2011 to approximately $124 million during fiscal year 2012. However, member contributions decreased by approximately $1 million, from approximately $124 million during fiscal year 2011 to approximately $123 million during fiscal year 2012.The System recognized a net depreciation in the fair value of investments of approximately ($20) million for fiscal year 2012.

The System's administrative expenses decreased by approximately $7.8 million during fiscal year 2012 mainly due to the implementation of the voluntary termination benefits program.

System's Investment Portfolio and Capital Markets Overview

The System's asset allocation generated a gross return of 1.6% for the fiscal year ended June 30, 2012. The target asset allocation is as follows:



Economy and Capital Markets Overview

Following two consecutive fiscal years of double digit gains, major capital markets produced mixed results for the fiscal year ended June 30, 2012. Broad US equity markets posted modest positive returns, while non-US equity markets experienced double digit losses. Concerns over the European debt crisis continued to plague the markets and volatility remained high during this period. Macro factors dominated fundamentals during the first quarter of the 2012 fiscal year as investor sentiment remained negative amid a weak market recovery and global market slowdown. Markets experienced a strong rally in the second and third quarter of the fiscal year on favorable US economic news and positive headlines from Europe. However, the fiscal year ended on a negative note with disappointing economic data including job creation numbers, unemployment claims, housing sales, and GDP.

Uncertainty over the European debt crisis continued to be a significant driver of performance throughout the fiscal year. Investors were highly concerned of a possible Greece default. In efforts to ensure financial stability, Greece received a second bailout from the International Monetary Fund (IMF) and European Union (EU) in July 2011. This included approximately €109 billion of new official financing and a €37 billion contribution from the private sector. While these efforts helped restore investor confidence, the lack of support for austerity measures in Greece leading up to the Greek election caused investors to remain concerned.

Spain and Italy also continued to struggle as credit ratings for Spain and Italy were downgraded by Standard & Poor's to BBB+ and A, respectively. The European Central Bank (ECB) purchased Italian and Spanish government bonds in attempts to decrease the countries' borrowing costs. Additional policies and austerity budgets were put in place to further stabilize these countries. Further, at the end of the fiscal year, European leaders agreed to the use bailout funds to recapitalize the banking sector.

The US government was also focused on avoiding a double dip recession and implemented certain programs during the fiscal year. In September 2011, the U.S. Federal Reserve (the Fed) announced Operation Twist, a program that purchased $400 billion in long-term Treasury bonds and sold the same amount of short term securities. The intent was to stimulate the economy by reducing long-term interest rates. Markets reacted favorably to this program in the short term, but growth in the US economy continued to be weak. Consequently, the Fed extended Operation Twist in June 2012 purchasing an additional $267 billion in long-term Treasury bonds. To further ensure stable growth in the US economy and increase employment, the Fed announced the US government's third segment of the quantitative easing program (QE3) in September 2012. QE3 is the Fed's plan is to purchase $40 billion of mortgage backed securities (MBS) per month and maintain its low rates policy until at least mid-2015. The program is open-ended and will be offered until determined by the Fed.

The table below shows the fiscal year and quarter returns of major indexes.

Industry Indexes Performance Overview

Indices	FY 2011 12	First Quarter FY 2012	Second Quarter FY 2012	Third Quarter FY 2012	Fourth Quarter FY 2012
Dow Jones U.S. Total Stock Market	3.97%	-15.23%	12.12%	12.90%	-3.10%
S&P 500	5.45%	-13.87%	11.82%	12.59%	-2.75%
S&P 500 Citi Growth	7.76%	-11.56%	10.81%	12.27%	-2.05%
S&P 500 Citi Value	3.00%	-16.30%	12.98%	12.97%	3.58%
Russell 3000	3.84%	-15.28%	12.12%	12.87%	-3.15%
Russell 2000	-2.08%	-21.87%	15.47%	12.44%	-3.47%
Russell 2000 Growth	-2.71%	-22.25%	14.99%	13.28%	-3.94%
Russell 2000 Value	-1.44%	-21.47%	15.97%	11.59%	-3.01%
MSCI EAFE	-13.83%	-19.01%	3.33%	10.86%	-7.13%
MSCI Emerging Markets	-15.94%	-22.56%	4.42%	14.08%	-8.89%
Barclays Aggregate	7.47%	3.82%	1.12%	0.30%	2.06%

U.S. Equity Overview for the Fiscal Year 2012

U.S. stocks as measured by the Dow Jones U.S. Total Stock Market Index gained 4.0% during the fiscal year. All sectors with the exception of materials, industrials, and oil & gas, produced positive returns during the fiscal year, as utilities and consumer services were the top performing sectors. From a style perspective, growth stocks outpaced value stocks in large cap stocks, while value outperformed growth in small cap stocks. On a size basis, large cap stocks outperformed their small cap counterparts. Markets rallied during the second and third quarter of the fiscal year, but the majority of the gains were offset by declines experienced in the first and last quarter.

The System's domestic equity component returned 1.0% during the fiscal year, underperforming the Russell 3000 Index by (2.8) percentage points. Underperformance was primarily a result of the timing of cash flows. Significant withdrawals were made from the Index Fund in order to reduce equity exposure and bring the portfolio in-line with policy targets just before when markets began to rally. Also contributing to underperformance was the System's equity exposure to Fisher (small cap value) and NorthPointe (small cap growth) prior to terminating the funds. The benchmarks of these funds considerably underperformed the Russell 3000 Index during this period. Approximately $536 million was transferred out of the domestic equity component as part of the portfolio rebalancing transition. Additional information on the transactions can be found under the Other Investments and Transactions section. As of June 30, 2012, the System's domestic equity assets totaled $399.4 million and represented approximately 20% of the System's total assets.

U.S. Fixed Income Overview for the Fiscal Year 2012

The U.S. fixed income market produced positive returns benefiting from investors' risk off trade during part of the fiscal year, resulting in a 7.5% return. All underlying sectors generated positive returns during this period, with Government and corporate bonds being the top performers. Long-term government bonds continued to outperform shorter duration bonds. The Federal Open Market Committee (FOMC) met several times during the fiscal year and kept the Federal Funds Rate target at 0.00% - 0.25% and anticipated the rate to stay at this low level through mid-2015.

The System's fixed income component gained 6.2% during the year ended June 30, 2012, underperforming the Barclays Capital Aggregate Bond Index by (1.3) percentage points. Both Taplin, Canida, & Habacht and Popular contributed to underperformance.

In expanding the portfolio's active intermediate credit mandate, Chicago Equity Partners and Barrow Hanley were added to the portfolio during July 2012, in order to diversify the active intermediate credit exposure. Prior to this, the portfolio only had one other active intermediate credit manager, Taplin, with the majority of intermediate credit exposure obtained through the State Street Global Advisor (SSga) Intermediate Credit Index Fund.

International Equity Overview for the Fiscal Year 2012

In contrast to U.S. equity, international equity produced negative results during the 2012 fiscal year. The MSCI EAFE Index declined 13.8% and was mostly weighed down by continued concerns over the European debt crisis, particularly investors' worries over Spain's dire economic and banking situation and the future of Greece in the Euro Zone.

Over the fiscal year, the System's international equity component declined 15.1%, underperforming the component's benchmark by 1.8 percentage points. Underperformance was due to below benchmark results from Invesco, which was terminated at the end of the fiscal year as part of the portfolio rebalance. Approximately $120 million was redeemed from the component during 2Q2012 in line with the Fund's new targeted policy allocations. The SSga ACW ex-US Index Fund was added in July as part of the portfolio's shift to passive equity exposure. Additional details are provided below in the Other Investments and Transactions section. Baillie Gifford remains the portfolio's only active international equity and has produced above-benchmark results during the fiscal year. At the end of the fiscal year, the component had $102.1 million in assets, representing 5% of the System's total assets.

Total System Performance

The System returned 2% during the 2011-2012 fiscal year and underperformed its policy benchmark by 2.7 percentage points. Underperformance was primarily a result of actual allocations deviating from long-term policy target allocations during a period in which the portfolio was being rebalanced to its long-term target weights. The portfolio was overweight equities and underweight fixed income relative to the long-term target weights for these asset classes during a period when fixed income significantly outperformed equities. Additional information on the rebalancing to policy targets can be found in the Other Investments and Transactions section below.

Other Investments and Transactions

As of June 30, 2012, the System held $404 million in loans to participants, which represented 20% of the total portfolio's assets. Loans were lower than the $406 million held one year ago.

At the end of the 2012 fiscal year, the System had some exposure to limited partnerships of private equity investments, which were valued at approximately $19 million and represented 1% of the System's total assets.

In December 2010, the Investment Committee accepted Hewitt Ennis Knupp's (HEK) recommendation to de-risk the System's portfolio based on the System's financial circumstances. This resulted in new policy target allocations that reduced equity exposure in favor of fixed income. Additionally, as part of the de-risking process, recommendations were made to transition equity portfolios from active to passive and shift the fixed income portfolio to an intermediate credit orientation. The table below illustrates the change in policy allocations.

The System's Policy Benchmark was changed to reflect the new target allocations, as follows:

Asset Class	New Target Allocation	Previous Policy Allocation
Domestic Equities	25%	35%
International Equities	10%	25%
Total Equities	35%	60%
Fixed Income Managed Externally	64%	30%
Total Cash and Fixed Income	65%	
Mortgages and Loans	Excluded from Policy Benchmark Computations	

Since 2011, the portfolio has been gradually transitioning to the new policy targets. During the 2012 fiscal year, the portfolio reached the final stages of this transition. Given the complexity and size of the last transactions needed, the System reviewed several transition managers and hired StateStreet Global to assist with the transition. Below is a summary of transactions initiated since 2011 to achieve the Portfolio's targeted policy allocation including a summary of the transactions StateStreet Global assisted with.

Fiscal year 2011

- $170 million was transferred from the SSgA S&P 500 Index Fund to fund the SSgA Intermediate Credit Index Fund in February 2011.
- $200 million and $100 million were withdrawn from each Invesco and Baillie Gifford, respectively, in June 2011. $50 million was transferred to the SSgA Intermediate Credit Index Fund and $90 million was used for operational transactions. The remaining proceeds were in the Fund's transition account as of June 30, 2011 and were transferred to the SSgA Intermediate Credit Fund and the Mesirow Intermediate Credit Portfolio in July 2011.
- The System fully redeemed from Fisher SCG and NorthPointe SCG at the end of 3Q 2011. Proceeds were used to increase allocation to the SSgA Intermediate Credit Fund and for operational transactions.

Transactions through State Street Global
(The following transactions were finalized in July 2012)

- Approximately $195 million was redeemed from SSgA Russell 3000 Index Fund and the SSgA S&P 500 Index Fund was terminated ($67 million). Funds were used to partially fund Chicago Equity Partners and Barrow Hanley.
- Invesco was terminated ($116 million) with a part of the proceeds used to fund the SSgA non-US equity Index Fund ($72 million) and the remainder used to partially fund Chicago Equity Partners and Barrow Hanley.
- Approximately $192 million was redeemed from the SSgA Intermediate Credit Index Fund. $124 million was transferred to the Mesirow Intermediate credit portfolio. The additional funds were used to complete the funding of Chicago Equity Partners and Barrow Hanley. Each active intermediate credit manager was funded with $188 million.

The table below illustrates the portfolio allocations as of June 30, 2012 and July 31, 2012, when the transition process was finalized.

Asset Class	Allocation as of June 30, 2012	Allocation as of July 31,/2012	Policy Targets
Domestic Equities	40.49%	24.01%	25.00%
International Equities	6.21%	10.70%	10.00%
Total Equities	46.70%	34.71%	35.00%
Fixed Income Managed Externally	52.02%	64.04%	64.00%
Total Cash and Fixed Income	52.13%	64.13%	65.00%
Private Equity	1.17%	1.16%	0.00%

Funding Status

The System performs an actuarial valuation of its assets and obligations at least every other year. The most recent actuarial valuation was performed as of June 30, 2012. According to such valuation, the System's unfunded liability amounted to approximately $10 billion, with a funding level of 17%.

As a means to protect the System's financial health, an actuarial study identifying the System's funding status is performed prior to granting new benefits in accordance with Act No. 91 of March 29, 2004.

Request for Information

The financial report is designed to provide a general overview of the System's financial status, comply with related laws and regulations, and demonstrate commitment to public accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Teachers Retirement System, Capital Center Building, #235 Arterial Hostos Ave., North Tower, 8th floor, Hato Rey, P.R. 00919-1879.

* * * * * *

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2012
(In thousands)

ASSETS:	
CASH AND SHORT-TERM INVESTMENTS:	
Cash	$ 321,635
Cash with fiscal agent	12,925
Collateral for securities lending	20,528
Cash deposited with Government Development Bank for Puerto Rico	3,295
Total cash	358,383
INVESTMENTS — At fair value:	
Bonds and notes	682,728
Stocks	213,053
Non-exchange traded mutual funds	516,914
Total investments — at fair value	1,412,695
OTHER INVESTMENTS — Private equity investments	19,221
Total investments	1,431,916
LOANS TO PLAN MEMBERS:	
Mortgage	135,698
Personal	266,303
Cultural trips	1,811
Total loans to plan members	403,812
Total investments and loans	1,835,728
ACCOUNTS RECEIVABLE:	
Receivable for investments sold	38,743
Accrued interest and dividends receivable	7,603
Other	34,404
Total accounts receivable	80,750
CAPITAL ASSETS — Net	20,885
OTHER ASSETS	832
Total assets	2,296,578
LIABILITIES:	
Investments purchased	153,714
Payables for securities lending	20,528
Accounts payable	2,150
Accrued expenses	14,087
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	5,773
Other liabilities	1,110
Total liabilities	197,362
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of funding progress is presented on page 34)	$ 2,099,216

See notes to basic financial statements.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

ADDITIONS:	
Contributions:	
Participating employees	$ 121,773
Employer	123,614
Contributions transferred from other systems	1,476
Special	53,405
Total contributions	300,268
Investment income:	
Interest income	56,306
Dividend income	4,342
Net depreciation in fair value of investments	(20,134)
Total investment income	40,514
Less investment expense	3,361
Net investment income	37,153
Other income — net	1,374
Total additions	338,795
DEDUCTIONS:	
Benefits paid to participants:	
Annuities and death benefits	547,955
Special benefits	48,492
Refunds of contributions	5,220
Administrative expenses	23,775
Total deductions	625,442
NET DECREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(286,647)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	2,385,863
End of year	$ 2,099,216

See notes to basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Puerto Rico System of Annuities and Pensions for Teachers (the "System") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The System is considered an integral part of the Commonwealth of Puerto Rico's (the "Commonwealth") financial reporting and is included in the Commonwealth's basic financial statements as a pension trust fund. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the System is vested in a Board of Trustees (the "Board"). The Board is composed of nine members, as follows:

- Three ex-officio members, which are the Secretary of the Treasury, the Secretary of Education, and the President of the Government Development Bank for Puerto Rico (GDB), or their respective representatives.

- One member who is a representative of a teacher's organization designated by the Governor of the Commonwealth (the "Governor").

- Three teachers of the System, one of which is a currently certified teacher in active service, and two who represent retired teachers. These three teachers are appointed by the Governor of the Commonwealth.

- One member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended.

- One additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2012, the System has an unfunded actuarial accrued liability of approximately $10 billion, resulting in a funding ratio of 17%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the System's assets will be exhausted by the fiscal year 2021. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund the System.

To attend to these issues, the System and the Commonwealth, with the assistance of the System's external consulting actuaries, concluded that annual increases in the employers' contribution rate were required to fully fund pensions, without having to liquidate the System's investment portfolio. As a result of such determination, the Commonwealth approved Act. No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The following are significant accounting policies followed by the System in the preparation of its basic financial statements:

Basis of Presentation — The accompanying basic financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. Participating employee and employer contributions are recognized as revenues in the period in which the employee services are rendered. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of additions and deductions to net assets held in trust for pension benefits during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments and Cash With Fiscal Agent — Cash and short-term investments consist of "overnight deposits" with the custodian bank, a commercial bank, and money market funds. Cash with fiscal agent represents a fund account the System has at the Department of Treasury for the payment of payroll expenses.

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $19,221,000 or <1% of total assets as of June 30, 2012, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments consist of private equity investments.

Securities transactions are accounted for on the trade date. Realized gains and losses on securities are determined by the average cost method and are included in the basic statement of changes in plan net assets.

Loans to Plan Members — Mortgages, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. No allowance for uncollectible amounts has been established since loans to plan members are collected through payroll withholdings and secured by mortgage deeds, plan members' contributions, and any unrestricted amount remaining in the escrow funds. Maximum amounts that may be loaned to plan members for mortgage and cultural trip loans are $160,000 ($190,000 if the spouse is also a plan member) and $10,000, respectively. The maximum amount of personal loans to be granted to current participating employees is up to 90% of their accumulated contributions but not in excess of $20,000; and in the case of retirees currently receiving benefits is $7,000.

Capital Assets — Capital assets include building, building improvements, furniture and equipment, and projects in progress. The System defines capital assets as assets, which have an initial individual cost of $500 or more at the date of acquisition and have a useful life of four or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value at the time of donation.

Capital assets are depreciated on the straight-line method over the assets estimated useful lives. There is no depreciation recorded for projects in progress. The estimated useful lives of capital assets are as follows:

	Years
Buildings	40
Building improvements	10
Equipments, furniture, fixtures, and vehicles	4–10

Long-Lived Assets — The System reviews the carrying amount of its long-lived assets and identifies assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived asset held for disposal is reported at the lower of its carrying amount or fair value, less cost to sell.

Guarantee Insurance Reserve for Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions of the guarantee insurance reserve for life insurance on loans to plan members, respectively.

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2012:

a. GASB Statemen*t No. 60, Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for financial statements for periods beginning after December 15, 2011.

b. *GASB Statement No. 61, The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, which is effective for financial statements for periods beginning after June 15, 2012.

c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for financial statements for periods beginning after Dece*mber 15, 2011.*

d. GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which is effective for financial statements for periods beginning after December 15, 2011.

e. GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statements for periods beginning after December 15, 2012.

f. GASB Statement No. 66, Technical *Corrections—2012*, which is effective for financial statements for periods beginning after December 15, 2012.

g. GASB Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.

h. GASB Statement No. 68, *Accounting and Financial Reporting for Pension — an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.

i. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which is effective for financial statements for period beginning after December 15, 2013.

j. GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which is effective for financial statements for periods beginning after June 15, 2013.

The impact of these pronouncements in the System's financial statements has not yet been determined.

2. PLAN DESCRIPTION

The System is a defined benefit plan sponsored by the Commonwealth. Substantially all active teachers of the Commonwealth's Department of Education are covered by the System under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the System at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the System at their own choice as long as the required employer and employee contributions are satisfied.

As of June 30, 2012, the membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	36,505
Terminated vested participants	738
Current participating employees	42,707
Total membership	79,950

The plan members of the System are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	Thirty or more	75% of average compensation
Under 50	Thirty or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven, but less than 50	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of 10 years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his or her contributions to the System are left within the System until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his or her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the System, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his or her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the System, times years of service; but not less than $400 per month.

Death Benefits:

- Preretirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the System), plus an amount equal to the annual compensation of the member at the time of death.

- Postretirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his or her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the System, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The System pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

- Other Pension Increase Acts — Act No. 128 of June 10, 1967, and Act No. 124 of June 8, 1973, provided a pension increase (from 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.

- Cultural Loans — Act No. 22 of June 14, 1965, provides a 50% repayment of the interest that would be paid by the actives teachers and retirees. This benefit is funded by the Commonwealth.

- Death Benefit — Act No. 272 of March 29, 2004, increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

3. FUNDING POLICY

Participating employees are required to contribute 9% of their compensation to the System, while the employer was required to contribute 9.5% of the applicable payroll for the year ended June 30, 2012. However, as discussed in Note 1, Act. No. 114 provides for additional annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs.

The special contributions of approximately $53,405,000 in 2012 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2012, using the entry age normal actuarial cost method. Significant assumptions underlying the actuarial computations include (a) assumed rate of return on investments of 5.95%, net of investment expense; (b) assumed compound rate of wage increases of 3.5% per year; and (c) assumed mortality rate based on the Group Annuity Table for 2000.

During the year ended June 30, 2012, the System decreased the assumed rate of return from 6.4% in 2011 to 5.95% in 2012, which resulted in an increase of approximately $0.08 billion in the actuarial accrued liability (AAL).

The AAL as of June 30, 2012, was approximately $12,351 million. As of June 30, 2012, the unfunded actuarial accrued liability (UAAL) was approximately $10,252 million.

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Value of Plan Assets	AAL	UAAL	Funded Ratio	Annual Covered Payroll	UAAL Percentage of Annual Covered Payroll
$ 2,099,000	$ 12,351,000	$ 10,252,000	17 %	$ 1,292,975	793 %

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

Additional information as of the latest actuarial valuation is as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization	30 years closed, level percent of payroll
Remaining amortization period	25 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	5.95%
Projected salary increases	3.5% general wage inflation, plus a service-based merit increase
Inflation	2.5%
Cost-of-living adjustment	None

5. DEPOSITS AND INVESTMENTS

Pursuant to the provisions of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951, as amended, the System may invest in different types of securities, including domestic, international, and fixed-income securities, among others.

Deposits — Custodial credit risk for deposits is the risk that in the event of bank failure, the System may not be able to recover deposits that are in the possession of an outside party. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Funds deposited with GDB are not covered by this Commonwealth requirement.

As of June 30, 2012, approximately $343 million of the depository bank balance of approximately $359 million was uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash	$ 2,715	$ 3,821	$ 1
Cash equivalents	318,920	318,920	318,920
Cash with fiscal agent	12,925	12,925	12,925
Collateral for securities lending	20,528	20,528	20,528
Cash deposited with GDB	3,295	3,295	3,295
Total	$ 358,383	$ 359,489	$ 355,669

As of June 30, 2012, uninsured and uncollateralized cash and cash equivalents amounting to $1,000 and $319 million, respectively, represent cash and highly liquid short-term investments held by the System's custodian bank. Collateral received from securities lending transactions amounting to approximately $20.5 million were invested in a short-term investment fund sponsored by the System's custodian bank. These deposits are exempt from the collateral requirement established by the Commonwealth.

Investments — The market value of the investments in marketable securities held by the System as of June 30, 2012, is as follows (in thousands):

Bonds and notes:		
U.S. government and sponsored agencies' securities	$	133,031
U.S. corporate bonds		502,712
Non-U.S. government and sponsored securities		12,351
Non-U.S. corporate bonds		34,634
Total bonds		682,728
Stocks:		
U.S. corporate stock		16,270
Non-U.S. corporate stock		196,783
Total stocks		213,053
Non-exchange traded mutual funds:		
Equity and other funds:		
U.S.		399,405
Fixed income funds:		
U.S.		76,381
Non-U.S.		41,128
Total non-exchange traded mutual funds		516,914
Private equity investments		19,221
Total	$	1,431,916

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Following is a description of these risks as of June 30, 2012:

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012, securities investments were registered in the name of the System and were held in the possession of the custodian bank, except for securities lent.

Credit Risk — The System's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. All fixed-income securities at the time of purchase must be of investment-grade quality. Positions that drift below investment grade should be reported to a management representative of the System and monitored carefully. The portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. All issues shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Moody's or Standard & Poor's credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $18,921,000 of U.S. Treasury notes and bonds, and approximately $15,747,000 of mortgage-backed securities (MBS) guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government.

Moody's credit ratings of bonds as of June 30, 2012, excluding U.S. Treasury notes and bonds, and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. sponsored agencies MBS	$ 60,546
Aaa	U.S. sponsored agencies	35,266
Aaa	Asset-backed securities	3,611
Aaa	Commercial Mortgage	3,379
Aaa	U.S. Corporate Bonds	6,798
Aaa	Non-U.S. Corporate Bonds	11,221
Aaa	Municipal Bonds	988
		121,809
Aa1	U.S. Corporate Bonds	1,823
Aa1	Non-U.S. Government Bonds	234
Aa1	Non-U.S. Corporate Bonds	402
Aa1	Municipal Bonds	79
		2,538
Aa2	U.S. sponsored agencies	151
Aa2	U.S. Corporate Bonds	11,419
Aa2	Non-U.S. Government Bonds	1,337
Aa2	Non-U.S. Corporate Bonds	606
		13,513
Aa3	U.S. Corporate Bonds	21,664
Aa3	Non-U.S. Corporate Bonds	439
Aa3	Municipal Bonds	182
		22,285
A1	U.S. Corporate Bonds	40,757
A1	Non-U.S. Government Bonds	1,054
A1	Non-U.S. Corporate Bonds	829
A1	Municipal Bonds	359
		42,999
A2	U.S. Corporate Bonds	74,272
A2	Non-U.S. Government Bonds	2,433
A2	Non-U.S. Corporate Bonds	6,718
A2	Municipal Bonds	734
		84,157
A3	U.S. Corporate Bonds	79,974
A3	Non-U.S. Government Bonds	2,277
A3	Non-U.S. Corporate Bonds	2,614
A3	Municipal Bonds	57
		$ 84,922

(Continued)

Moody's Rating	Investment Type	Fair Value
Baa1	U.S. Corporate Bonds	$ 70,350
Baa1	Non-U.S. Government Bonds	1,472
Baa1	Non-U.S. Corporate Bonds	5,422
		77,244
Baa2	U.S. Corporate Bonds	111,445
Baa2	Non-U.S. Government Bonds	399
Baa2	Non-U.S. Corporate Bonds	2,452
		114,296
Baa3	U.S. Corporate Bonds	59,114
Baa3	Non-U.S. Government Bonds	82
Baa3	Non-U.S. Corporate Bonds	2,055
		61,251
Ba1	U.S. Corporate Bonds	6,042
Ba2	U.S. Corporate Bonds	2,097
Ba3	U.S. Corporate Bonds	240
B1	Commercial Mortgage	29
B2	U.S. Corporate Bonds	717
B3	Commercial Mortgage	70
B3	Asset-backed securities	39
		109
Caa1	Commercial Mortgage	101
Caa2	Commercial Mortgage	214
Caa3	Commercial Mortgage	28
NR	Commercial Mortgage	2,635
NR	U.S. Corporate Bonds	1,388
NR	Non-U.S. Government Bonds	3,064
NR	Non-U.S. Corporate Bonds	1,276
		8,363
WR	U.S. Corporate Bonds	4,506
WR	Non-U.S. Corporate Bonds	600
		5,106
	Sub-Total	648,060
	U.S. Treasury notes and bonds	18,921
	Government National Mortgage Association (GNMA)	15,747
	U.S. fixed income fund	117,509
Total bonds and Non-US fixed income funds		$ 800,237

(Concluded)

The U.S. fixed income fund consists of shares of the State Street Global Advisor Intermediate Credit Index Non Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The System's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2012, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 14,136
Aa2/Aa3	Government sponsored	3,185
A1/A2	Government sponsored	2,926
A3/Baa1	Government sponsored	4,136
Aa3/A1	Corporate bonds	364
A2/A3	Corporate bonds	55,688
A3/Baa1	Corporate bonds	26,545
Baa1/Baa2	Corporate bonds	10,529
Total		$ 117,509

Concentration of Credit Risk — There are no investments in any one issuer that represent 5% or more of total investments as of June 30, 2012. The System's investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

As of June 30, 2012, the System owned shares in the SSgA Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund") and the SSgA Intermediate Fund as follows (in thousands):

Fund Name	Shares	Value
Russell 3000 Fund	30,290	$ 399,405
SSgA Intermediate Fund	4,402	117,509
Total non-exchange traded mutual funds		$ 516,914

The investment objectives of the Russell 3000 Fund are to match the return of the Russell 3000 Index. Shares can be redeemed on a daily basis at NAV and have no redemption restrictions. The System's investment in this fund is included as part of non-exchange traded mutual funds.

As of June 30, 2012, the investments underlying the Russell 3000 Fund and the SSgA Intermediate Fund had the following sector allocations:

Sector	Russell 3000 Fund	SSgA Intermediate Fund
Information technology	19%	4%
Health care	12%	-
Financials	16%	30%
Energy	9%	5%
Consumer staples	10%	11%
Industrials	11%	6%
Consumer discretionary	12%	5%
Utilities	4%	7%
Telecommunication services	3%	7%
Materials	4%	4%
Government sponsored	-	21%
Totals	100%	100%

Interest Rate Risk — The System is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. The System's investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

The contractual maturity of investments in debt securities of the System as of June 30, 2012, is summarized as follows (in thousands):

			Investment Maturities (in Years)			
	Maturity From	Fair Value	Less Than 1	1 to 5	More Than 5 to 10	More Than 10
U.S. government and sponsored agencies securities	2013–2040	$ 133,031	$ 16,023	$ 15,808	$ 17,920	$ 83,280
Corporate bonds	2013–2052	502,712	18,951	161,061	221,864	100,836
Non-U.S. government bonds	2014–2042	12,351	-	5,529	4,025	2,797
Non-U.S. corporate bonds	2013–2067	34,634	506	20,496	11,970	1,662
Total bonds		$ 682,728	$ 35,480	$ 202,894	$ 255,779	$ 188,575

As of June 30, 2012, the percentages of investment maturities by category are as follows:

Maturity	Portfolio Percentage
Less than one year	5 %
One to five years	30 %
More than five to ten years	37 %
More than ten years	28 %
Total	100 %

Foreign Currency Risk — The international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

Investments and deposits exposed to foreign currency risk as of June 30, 2012, are as follows:

Investment Type	Local Currency	Fair Value (in thousands)
Foreign currency	Australian Dollar	$ 3
Foreign currency	Euro Currency	326
Foreign currency	Japanese Yen	53
Foreign currency	Singapore Dollar	15
Total cash exposed to foreign currency risk		$ 397
Common stock	Australian Dollar	$ 17,536
Common stock	Canadian Dollar	4,629
Common stock	British Sterling Pound	36,039
Common stock	Danish Krone	7,159
Common stock	Euro Currency	36,469
Common stock	Hong Kong Dollar	7,023
Common stock	Japanese Yen	48,402
Common stock	Norwegian Krone	5,706
Common stock	South Africa Rand	1,174
Common stock	Singapore Dollar	1,766
Common stock	South Korean Won	1,189
Common stock	Swedish Krona	7,142
Common stock	Swiss Franc	19,135
Common stock	Turkish Lira	815
Total common stock		194,184
Preferred stock	Euro Currency	2,599
Total securities exposed to foreign currency risk		196,783
Common stock	US Dollar	15,810
Preferred stock	US Dollar	460
Shares of the Russell 3000 Fund	US Dollar	399,405
Total stocks and non-exchange equity and other funds not exposed to foreign currency risk		415,675
Total stocks and non-exchange equity and other funds		$ 612,458

As of June 30, 2012, the composition of the underlying investments in the SSgA Intermediate Fund by country was as follows:

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	1
United Kingdom	Sterling Pound	4
Total Europe		9 %
Pacific Basin:		
Australia	Australian Dollar	1
Japan	Japanese Yen	1
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5
Mexico	Mexican Peso	2
Brazil	Brazilian Real	2
U.S.	U.S. Dollar	65
Total Americas		74 %
Supranational	Various	8 %
Other	Various	7 %
Total investment		100 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships at June 30, 2012, amounted to approximately $19 million, and are presented within other investments in the basic statement of plan net assets. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

As of June 30, 2012, the System had capital commitments and contributions as follows (in thousands):

	Total Commitments	Fiscal Year Contributions	Cumulative Contributions	Fair Value
Guayacán Fund of Funds, L.P.	$ 20,000	$ -	$ 19,056	$ 1,346
Guayacán Fund of Funds II, L.P.	25,000		23,681	7,181
Guayacán Private Equity Fund, L.P.	5,000		4,645	2,975
Invesco Venture Partnership, Fund III, L.P.	5,498		4,731	2,268
Invesco Non-U.S. Partnership Fund III, L.P.	4,500		4,034	587
Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P.	3,716	25	3,211	1,795
Chase Capital Partners Private Equity Fund of Funds II, LTD	15,000		14,477	3,069
Total	$ 78,714	$ 25	$ 73,835	$ 19,221

Securities Lending Transactions — The System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2012, the collateral received represented 102% of the fair value of the domestic securities lent and 105% of the fair value of the international securities lent.

The securities on loan for which collateral was received as of June 30, 2012, consisted of the following:

Securities Lent	Fair Value
U.S. corporate stock	$ 1,447,727
U.S. government and sponsored agencies' securities	14,085,797
U.S. corporate bonds	1,394,878
Non-U.S. corporate stock	3,091,065
Total	$20,019,467

The underlying collateral for these securities had a fair value of approximately $20.5 million as of June 30, 2012. The collateral received was invested in a money market fund sponsored by the custodian bank and is included as part of cash and cash equivalents in the accompanying 2012 basic statement of plan net assets. As of June 30, 2012, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	100 %

Under the terms of the securities lending agreement, the System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the System for income distributions by the securities' issuers while the securities are on loan. In addition, the System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

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 year ended June 30, 2012, changes in capital assets consisted of the following (in thousands):

	Estimated Useful Life (in Years)	Balance — June 30, 2011	Additions	Retirements	Balance — June 30, 2012
Depreciable capital assets:					
Building	40	$ 26,008	$ -	$ -	$ 26,008
Furniture and equipment	4–10	2,011	38	(231)	1,818
Computers and software	5	9,662	174	(178)	9,658
Capital leases	5	106		(106)	-
Building improvements	10	765			765
Branches improvements	10		274		274
Vehicles	5	42			42
Total depreciable capital assets		38,594	486	(515)	38,565
Accumulated depreciation and amortization		(17,595)	(1,781)		(19,376)
Not depreciable — project in progress		1,205	491		1,696
Capital assets — net		$ 22,204	$ (804)	$ (515)	$ 20,885

On August 1, 1996, the System acquired the North Tower of Capital Center (the "Building") located in Hato Rey to serve as the System's main office facilities and to lease the additional space to third parties. Approximately one-half of the Building is being used for its operations and the other half for leasing to tenants. The Building was financed with Industrial Revenue Bonds. The bonds were called during fiscal year 2007.

7. OTHER ASSETS

As of June 30, 2012, other assets consisted of repossessed and in-substance foreclosed properties amounting to approximately $832,000. Repossessed and in-substance foreclosed properties consist mainly of properties acquired or to be acquired upon foreclosure proceedings as collateral from delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance.

8. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal, and cultural trip loans in case of death of a plan member. This coverage is paid in its entirety by the plan members who obtain these loans from the System.

9. SPECIAL BENEFITS AND HEALTHCARE BENEFITS

The Commonwealth provides through the System certain special benefits (see Note 2) to retirees that are funded on a pay-as-you-go basis. As a result, these special benefits are 100% unfunded. During the year ended June 30, 2012, the System received contributions for special benefits amounting to approximately $88 million and paid special benefits of approximately $83 million.

The Commonwealth provides postemployment healthcare benefits (the "Healthcare Benefits") to the members of the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution ("TRS MIPC"). The Healthcare Benefits are provided through the System and consist of a payment of up to $100 per month to the eligible medical insurance plan selected by the members of the TRS MIPC. The Healthcare Benefits are funded by the Commonwealth on a pay-as-you-go basis.

The funding of the special benefits and the Healthcare Benefits is provided to the System through legislative appropriations each January 1 and July 1. The legislative appropriations are considered estimates of the payments to be made by the System for the special benefits and the Healthcare Benefits throughout the year. Deficiencies in legislative appropriations are covered by the System's own funds until recovered through future legislative appropriations.

For the period from 2004 to 2012, there has been a surplus of legislative appropriations collected over special benefits and Healthcare Benefits paid of approximately $1 million. The accumulated balance of special benefits and Healthcare Benefits paid and legislative appropriations made by the Commonwealth from 2004 through 2012 are as follows (in thousands):

Fiscal Year	Legislative Appropriations	Healthcare	Special Benefits Paid	Total	Balance	Cumulative Balance
2004	$ 40,409	$ 17,314	$ 26,343	$ 43,657	$ (3,248)	$ (3,248)
2005	60,853	23,626	29,325	52,951	7,902	4,654
2006	61,066	25,217	31,553	56,770	4,296	8,950
2007	57,960	26,247	37,319	63,566	(5,606)	3,344
2008	68,085	28,266	43,648	71,914	(3,829)	(485)
2009	75,548	29,333	47,660	76,993	(1,445)	(1,930)
2010	76,733	30,161	47,972	78,133	(1,400)	(3,330)
2011	81,164	33,432	48,289	81,721	(557)	(3,887)
2012	87,876	34,471	48,492	82,963	4,913	1,026

10. COMMITMENTS

The System leases office facilities for the operation of its regional offices (Ponce, Mayagüez, Arecibo, Humacao, and Caguas) under operating lease agreements, which expire at different dates through fiscal year 2017. Rent expense for the year ended June 30, 2012, amounted to approximately $354,000.

The minimum future payments under the existing operating leases as of June 30, 2012, are as follows (in thousands):

Year Ending June 30	Amount
2013	$ 184
2014	142
2015	142
2016	77
2017	39
Total	$ 584

11. CONTINGENCIES

The System is a defendant or codefendant in various lawsuits resulting from the ordinary conduct of its operations. Management and legal counsel believe that there are no contingent matters that would have a material adverse effect on the System's financial status.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage of Contribution
2012	$ 659,334	$ 174,571	26.48 %
2011	528,170	161,628	30.60
2010	477,213	166,384	34.87
2009	393,871	172,841	43.88
2008	341,495	159,101	46.59
2007	341,160	147,597	43.26

The above liabilities are for basic System benefits and selected System administered benefits.

See notes to schedules.

PUERTO RICO SYSTEM OF ANNUITIES AND PENSIONS FOR TEACHERS
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2012
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL Percentage of Annual Covered Payroll
Pension Plan						
June 30, 2012	$2,099,000	$ 12,350,836	$ 10,251,836	17 %	$ 1,292,975	793 %
June 30, 2011	2,386,000	11,448,609	9,062,746	21 %	1,320,400	686 %
June 30, 2010	2,222,000	9,280,000	7,058,000	24 %	1,370,000	515 %
June 30, 2009	2,158,000	8,722,000	6,564,000	25 %	1,418,000	463 %
June 30, 2008	N/D	N/D	N/D	N/D	N/D	N/D
June 30, 2007	3,163,000	7,756,000	4,593,000	41 %	1,370,000	335 %

The above liabilities are for basic System benefits and selected System administered benefits.

N/D = Not Determined

See notes to schedules.

1. SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

2. SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress provides information about the funded status of the System and the progress being made in accumulating assets to pay benefits when due.

* * * * * *