UNIVERSITY OF PUERTO RICO
RETIREMENT SYSTEM

Basic Financial Statements and
Required Supplementary Information
June 30, 2025 and 2024

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the University of Puerto Rico Retirement System is highly dependent on the funding from the University of Puerto Rico, which in turn receives its funding from the Commonwealth of Puerto Rico to finance its operations. For many years the Commonwealth of Puerto Rico had experienced a fiscal, economic and liquidity crisis that affected the University of Puerto Rico's ability to continue funding the University of Puerto Rico Retirement System and paying the required contributions. However, those conditions were successfully mitigated. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Puerto Rico Retirement System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Puerto Rico Retirement System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2026, on our consideration of the University of Puerto Rico Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University of Puerto Rico Retirement System's internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Puerto Rico Retirement System's internal control over financial reporting and compliance.

San Juan, Puerto Rico
June 29, 2026.

D0P91-2001
The University of Puerto Rico Retirement System

RSM Puerto Rico

Introduction

The University of Puerto Rico Retirement System ("the System") is the administrator of a single-employer defined benefit pension plan that was created by Act No. 135, approved on May 7, 1942 (superseded by Act No. 1 of January 20, 1966, as amended (the "Act No. 1")). The System started operations on January 1, 1945, the date on which contributions by employees and the University of Puerto Rico ("the University") commenced. The assets of the System are legally held in a Trust, separate from the assets of the University of Puerto Rico, and are held solely for the purpose of meeting the System's obligations.

The responsibility for the proper operation and administration of the System is vested in the Executive Director of the System, which in turn will report to the Retirement System's Board, that is the Trustee of the University's Retirement System Trust.

Our discussion and analysis of the System's financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2025 and 2024.

Financial Highlights

- The net position for the fiscal years 2025, 2024 and 2023 were $1,765,544,613, $1,676,548,438, $1,609,705,072, respectively. The System experienced an increase in net position during fiscal year 2025 of 5.31%, an increase in net position during fiscal year 2024 of 4.15% and increase of 3.56% during fiscal year 2023.

- The changes in fiduciary net position for the fiscal years 2025, 2024 and 2023 are comprised of contributions of $156,897,336, $154,867,242, and $174,514,928, respectively, and net investment income of $164,607,791, $142,995,885 and $111,236,589, respectively.

- Total additions amounted to $321,505,127 for fiscal year 2025 compared to $297,863,127 for the fiscal year 2024, and $285,751,517 for the fiscal year 2023. The increase in additions for fiscal year 2025, compared to fiscal year 2024, was primarily driven by an increase in the fair value of investments, interest and dividends that totalized $168,993,220. The increase in additions for fiscal year 2024 compared to fiscal year 2023, was primarily driven by an increase in the fair value of investments interest and dividends that totalized $147,957,453.

- Operational expense ratio, which is the administrative expenses to total additions, for the fiscal year 2025 was 1.92%, compared to 1.57% for the fiscal year 2024 and 1.91% for the fiscal year 2023. On the other side, the cost to income ratio or the efficiency ratio which is the total deductions to total additions during fiscal year 2025 was 72.32%, compared to 77.56% during 2024, and 80.65% for the fiscal year 2023.

- The System administered funds from the University of Puerto Rico for retirees' medical insurance in a separate operating bank account established specifically to handle these funds outside the operations of the Retirement System Trust. For the fiscal years 2025, 2024, and 2023, the administered funds amounted to $10,462,306, $10,315,814 and $11,342,519, respectively.

- Deductions from fiduciary net position in fiscal year 2025 totaled $232,508,952 compared to $231,019,761 in fiscal year 2024 and $230,449,061 in fiscal year 2023. The increase was primarily driven by increase in general and administrative expenses of $6,179,785 in fiscal year 2025 in comparison to $4,687,286 in fiscal year 2024.

- During fiscal year 2025, the System reported investments return of 10.09%, as compared to the benchmark's return of 10.01%. In fiscal year 2024, the System reported investments return of 9.20%, as compared to the benchmark's return of 9.82%. In fiscal year 2023, the System reported investment return of 7.86% as compared to the benchmark's of 8.68%. The benchmarks are Bloomberg Aggregate, S&P 500 Index, MSCI ACWI, etc.

- During fiscal year 2025, the Fund implemented the investment portfolio restructuring previously approved by the Retirement Board during its September 15, 2023 meeting through Certification No. 10 (2023-2024). The restructuring revised the Fund's strategic asset allocation to 28% Broad U.S. Equity, 20% Global ex-U.S. Equity, 38% Core U.S. Fixed Income, 9% Loans, and 5% Core Real Estate. The transition and implementation of the revised allocation strategy were coordinated and executed during July 2024.

- Funding ratios for the last ten fiscal years (FY) were the following:

  - FY 2016, 47.8%
  - FY 2017, 48.9%
  - FY 2018, 43.7%
  - FY 2019, 42.8%
  - FY 2020, 43.7%
  - FY 2021, 47.6%
  - FY 2022, 49.9%
  - FY 2023, 51.2%
  - FY 2024, 52.3%
  - FY 2025, 53.5%

- For fiscal year 2025, fund performance ranked 72th and 88th during the last 36 and 60 months against the Callan LLC peer comparison nationwide Callan Public Fund Database for fiscal year June 30, 2025. For fiscal year 2024, the fund performance ranked 81th and 78th during the last 36 and 60 months against Callan LLC peer comparison nationwide Callan LLC Public Fund Database. 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 are prepared following the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are considered regardless of when cash is received or paid. The Statement of Fiduciary Net Position presents the System's assets and liabilities, with the difference between the two reported as net position restricted for pensions. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statement of Changes in Fiduciary Net Position presents how the System's net position changed during the period to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

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Financial Analysis

The net position of the System during the fiscal years ended June 30, 2025 and 2024 increased by approximately $89.00 million or 5.31%, compared with previous fiscal year when it experimented an increase of $66.84 million or 4.15% (2023 to 2024) (see Statements of Changes in Fiduciary Net Position for details). For fiscal year 2025, total assets increased $94.38 million or 5.50% from prior year mainly due to an increase in the fair market value of investments. During fiscal year 2024, total assets increased $49.59 million or 2.98% from the prior year also related to an increase in the fair market value of investments.

Statements of Fiduciary Net Position

	June 30, 2023	June 30, 2024	June 30, 2025	2023-2024 Percentage Change	2024-2025 Percentage Change
Assets					
Cash and cash equivalents	$ 33,506,082	$ 15,626,115	$ 15,527,400	(53.36%)	(0.63%)
Receivables	38,689,796	29,477,597	26,369,765	(23.81%)	(10.54%)
Investments	1,376,854,144	1,475,445,825	1,578,107,952	7.16%	6.96%
Alternative investments	139,172,450	127,100,615	123,892,206	(8.67%)	(2.52%)
Securities lending cash collateral	1,227,724	-	-	(100.00%)	0.00%
Loans to plan members	69,853,549	61,799,955	60,472,392	(11.53%)	(2.15%)
Other receivables net of allowances	2,247,406	1,952,044	1,487,534	(13.14%)	(23.80%)
Other receivables	212,066	212,071	221,330	0.00%	4.37%
Capital assets-net	3,440,483	3,179,546	3,092,026	(7.58%)	(2.75%)
Total assets	$ 1,665,203,700	$ 1,714,793,768	$ 1,809,170,605	2.98%	5.50%
Liabilities					
Accounts payable and accrued expenses	$ 9,627,069	$ 9,294,434	$ 9,415,716	(3.46%)	1.30%
Obligations under securities lending	1,558,058	-	-	(100.00%)	0.00%
Escrow deposits on mortgage loans	1,522,258	1,814,926	1,918,284	19.23%	5.69%
Other deposits and pending distribution funds	1,159,540	1,115,008	56,020	(3.84%)	(94.98%)
Payables for acquisition of investments	41,631,703	26,020,962	32,235,972	(37.50%)	23.88%
Total liabilities	$ 55,498,628	$ 38,245,330	$ 43,625,992	(31.09%)	14.07%
Net position	$ 1,609,705,072	$ 1,676,548,438	$ 1,765,544,613	4.15%	5.31%

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 2025 amounted to approximately $321.51 million compared to approximately $297.86 million for total additions of fiscal year 2024. The increase was mainly due to an increase in net investment income of approximately $21.61 million. For fiscal year 2024, total additions amounted to approximately $297.86 million compared to approximately $285.75 million for fiscal year 2023. The increase was mainly due to an increase in net investment income of approximately $31.8 million.

Statements of Changes in Fiduciary Net Position

	June 30, 2023	June 30, 2024	June 30, 2025	2023-2024 Percentage Change	2024-2025 Percentage Change
Additions :					
Contributions	$ 174,514,928	$ 154,867,242	$ 156,897,336	(11.26%)	1.31%
Net investment income	111,236,589	142,995,885	164,607,791	28.55%	15.11%
Total additions	285,751,517	297,863,127	321,505,127	4.24%	7.94%
Deductions:					
Benefits paid	224,977,854	226,332,475	226,329,167	0.60%	0.00%
General and administrative expenses	5,471,207	4,687,286	6,179,785	(14.33%)	31.84%
Total deductions	230,449,061	231,019,761	232,508,952	0.25%	0.64%
Net increase in net position restricted for pensions	$ 55,302,456	$ 66,843,366	$ 88,996,175	20.87%	33.14%

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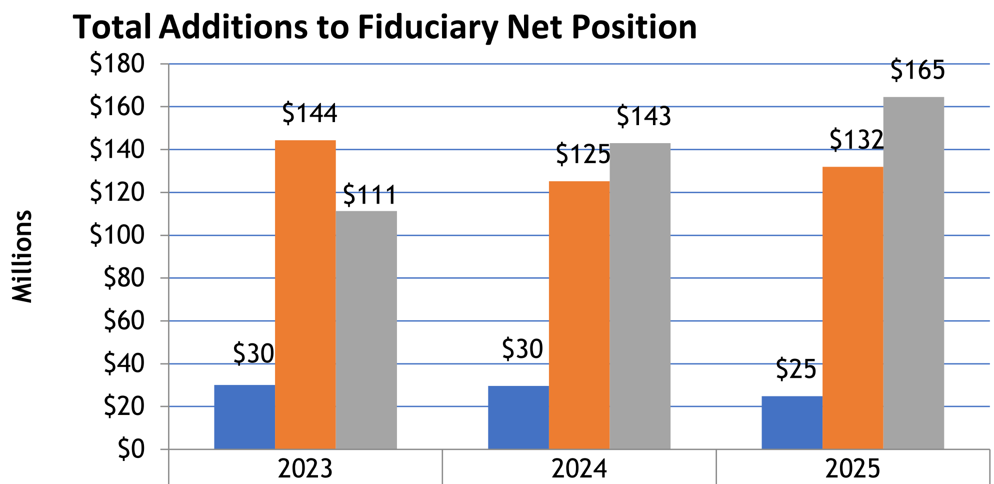
Contributions paid by members were approximately $24.91 million, $29.60 million, and $30.09 million, for the fiscal years 2025, 2024 and 2023, respectively. This represented a decrease of approximately $4.68 million for fiscal year 2025 or 15.83% in comparison with an decrease of approximately $492.09 thousand or 1.64% for fiscal year 2024.



	2023	2024	2025
Members Contributions	$30,087,179	$29,595,094	$24,911,623
Employer Contributions	$144,427,749	$125,272,148	$131,985,713
Net Investment Income	$111,236,589	$142,995,885	$164,607,791

General and Administrative Expenses

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

Total general and administrative expenses for the System during fiscal years 2025, 2024 and 2023 amounted to $6,179,785, $4,687,286, and $5,471,207, respectively. It represents an increase of 31.84% when we compare expenses from fiscal year 2024 to 2025 and a decrease of 16.72% when compared to expenses from fiscal year 2023 to 2024.

Actuarial Standards

Actuarial calculations as of June 30, 2025 and 2024, were based on assumptions that consider the current provisions and prior experience of the System. In addition, the calculations were completed in compliance with the laws governing the System. The external actuary contracted by the System is a Participant of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to determine the actuarial amounts contained in the reports issued to the System.

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

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

Membership	2025	2024	2023
Inactive members or their beneficiaries currently receiving benefits	9,331	9,318	9,379
Inactive members entitled to but not yet receiving benefits	6,417	6,366	6,542
Active members	7,295	7,887	8,029
Total	23,043	23,571	23,950

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, 2025 Edition published by Horizon Actuarial Services, LLC).

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2025, the same discount rate used as of June 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that members' contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2025.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current members. As of June 30, 2025, the System is not 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 5.25%, based on the S&P Municipal Bond 20-year High Grade Index Rate as of June 30, 2025, 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, 2025. The SEIR at the beginning of the measurement period was 6.75%.

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

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

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

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

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

Investments

The System's investment portfolio had an appreciation in fair value by approximately $122.52 million during fiscal year 2025, as compared to the fiscal year 2024, when it appreciated in fair value by approximately $118.16 million. The net investment income for fiscal years 2025 and 2024 amounted to approximately $164.61 million and $142.30 million, respectively, which represents an increase in investment income of approximately $21.61 million when compared with previous year. During fiscal year 2025 investment managers' expenses decreased 9.73% when compared with 2024, for the same period the custody expenses decreased by approximately 28.72%. The reference increases were mainly due to the appreciation in the investments during 2025.

The net investment income for fiscal year 2024 amounted to approximately $143 million and $111.24 million for fiscal year 2023, which represented an increase in investment income of approximately $31.76 million when compared to 2023.

The System's investment portfolio had an appreciation in fair value of approximately $118.16 million during fiscal year 2024, as compared to fiscal year 2023, when it appreciated in fair value by approximately $85.39 million.

During fiscal year 2024 investment manager s expenses increased less than 1% when compared with 2023, for the same period the custody expenses increased by approximately 30.357.

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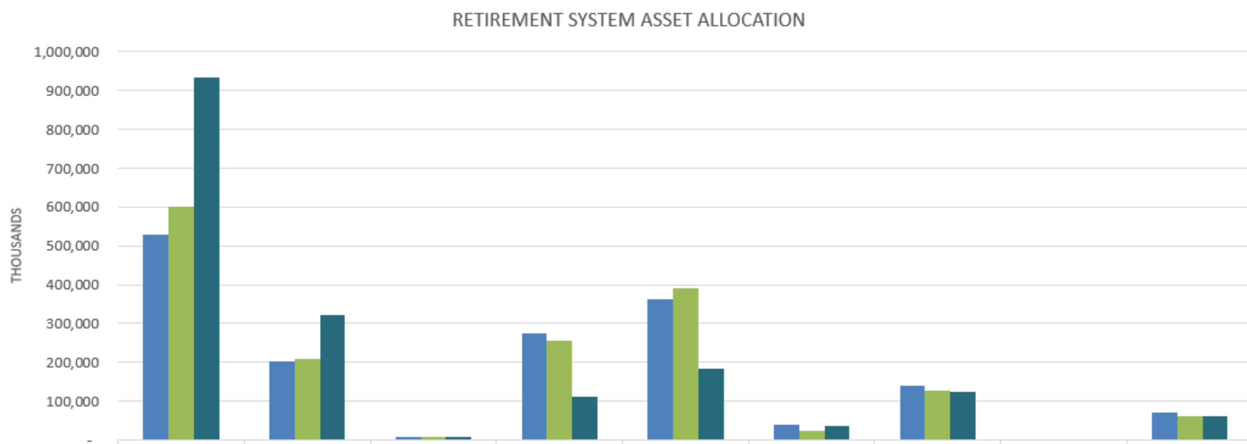
Asset Allocation

Most of the System's assets are invested in marketable securities. The System's asset allocation consists of cash and short-term investments of 2.05%, 16.49% of stocks,18.12% in fixed income investments, 3.48% loans to members, 0.52% in international fixed income, 6.96% in alternative investments, and 52.38% in mutual funds for the year ended June 30, 2025. 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, 2025, 2024, and 2023.



	Mutual Funds	Fixed Income	International Fixed Income	Equities	International Equities	Cash and Short Term Investments	Private Equity	Other Loans	Member Loans / Mortgages
2023	529,568	203,486	6,314	273,438	360,998	37,783	139,172	2,247	69,855
2024	601,777	210,075	7,416	256,495	391,943	23,367	127,101	1,951	61,800
2025	932,085	322,383	9,251	111,229	182,257	36,431	123,892	1,487	60,472

Benefits Paid and Liabilities

For the fiscal years 2025 and 2024, pension benefits paid to retirees and beneficiaries were approximately $226.33 million. For fiscal year 2023, pension benefits paid to retirees and beneficiaries was approximately $224.98 million.

As of June 30, 2025, there were 7,295 active members and 9,331 retired members receiving benefits. In comparison, as of June 30, 2024, the numbers were 7,887 active members and 9,318 retired members receiving benefits.

During fiscal year 2025, total liabilities were approximately $43.63 million which represents an increase of $5.38 million or 14.07%, when compared to the prior year. Approximately, 73.89% of total liabilities consist of unsettled transactions related to investments. During fiscal year 2024, total liabilities were approximately $38.25 million, which represents a decrease of approximately $17.25 million or 31.09% when compared to the prior year.

The System as a Whole

Fiscal year 2025 reported an increase in net position of approximately $89 million, the main reason of that result is that the appreciation in fair value of investments and interest and dividends increased by approximately $21.61 million when compared to the previous year.

Fiscal year 2024 reported an increase in net position of approximately $66.84 million, the main reason of that result is that the appreciation in fair value of investments increased by approximately $32.77 million and net investment income increased by approximately $31.76 million, when compared to fiscal year 2023.

Economic Factors

The System is highly dependent on funding from the University, which in turn receives its funding from the Commonwealth of Puerto Rico to finance its operations. For many years the Commonwealth experienced a fiscal, economic and liquidity crisis that affected the University's ability to continue funding the System and paying the required contributions. The most recent issued financial statements of the University as of June 30, 2025, states that significant actions and improvements were performed and the conditions that previously raised substantial doubt about the University's ability to continue as a going concern were successfully mitigated. As of June 30, 2025, no substantial doubt exists about the University's ability to continue operations for the foreseeable future, which is at least twelve months from the date that the financial statements of the University were issued.

Some of the measures adopted by the University include among others:

- Ability to increase operating revenues, which was previously constrained by a decline in student enrollment, has been significantly augmented by the following initiatives: expansion of new academic offerings and scheduling flexibility, digital marketing and social media campaigns, enhanced student support services, and modernization of admissions criteria.
- Successful debt management and credit risk mitigation
- Operational efficiencies
- Mitigation of deficit position and operating losses

Litigations

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

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

On October 30, 2024, the Retirement Board filed a lawsuit against the University of Puerto Rico, the Governing Board, and its members alleging the unlawful withholding of employer contributions to the Retirement System. The complaint seeks compensatory and punitive damages estimated at approximately $11 million. As of June 30, 2025, the case remains in the discovery phase.

Currently Known Facts

Liquidity Management

The Office of Finance, in coordination with the System's investment advisor, developed a liquidity management strategy to address recurring operational liquidity needs of the System. The strategy was approved by the Board through Certification No. 2 dated July 2, 2025.

The strategy is intended to maintain sufficient liquidity for operational requirements without materially altering the Board-approved asset allocation structure. In consideration of investment managers' redemption restrictions and timing limitations, the strategy established a target liquidity reserve of approximately $24 million in the operational account, representing an estimated average of three months of operating expenditures. The reserve is intended to provide flexibility to meet obligations on a timely basis while allowing investment transactions to occur under more favorable market conditions.

Change in Custodian Bank

On December 18, 2025, the Retirement Board approved the replacement of the System's custodial bank pursuant to Certification No. 21 (2025-2026). Following an evaluation process conducted with the assistance of the Trust's investment consultant, the Board authorized the transition from JP Morgan to State Street as the Trust's new custodial bank.

The initiative included the execution of the related custodial agreement and the transfer of investment assets to the corresponding accounts. Management believes this transition supports the Trust's long-term operational and investment administration objectives, including enhanced custodial services, operational efficiency, and ongoing support for the Trust's investment structure.

Contacting System's Financial Management

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

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION
June 30, 2025 and 2024

	2025	2024
ASSETS:		
Cash	$ 15,527,400	$ 15,626,115
Investment at fair value:		
U.S. Government and Agencies' obligations	110,283,683	66,280,873
Foreign bonds	9,250,576	7,416,193
Corporate bonds	123,397,653	77,815,929
Foreign common stocks	182,256,612	391,942,547
Common stocks	111,229,215	256,494,548
Mortgage-backed securities	87,302,209	64,781,065
Municipal bonds	1,275,576	729,230
Sovereign debt	123,686	467,632
Commingled funds	932,085,355	601,777,260
Short-term investments	20,903,387	7,740,548
Alternative investments	123,892,206	127,100,615
Loans to members:		
First mortgage	17,644,992	18,582,898
Personal installments	42,827,400	43,217,057
Other, net of allowance for doubtful accounts of $5,895 in 2025 and 2024	1,487,534	1,952,049
Other receivables	221,330	212,066
Accrued interest receivable on investments	2,869,646	3,315,734
Receivables from sale of investments	7,813,486	14,818,525
Contributions receivable from the Commonwealth of Puerto Rico, net of allowance for doubtful account of $1,115,852 and $0 in 2025 and 2024, respectively	1,086,584	2,202,436
Accounts receivable from University of Puerto Rico	14,600,049	9,140,902
Capital assets, net of accumulated depreciation of $2,261,205 and $2,126,722 in 2025 and 2024, respectively	3,092,026	3,179,546
	1,809,170,605	1,714,793,768
LIABILITIES:		
Accounts payable and accrued expenses	9,415,716	9,294,434
Escrow deposits on mortgage loans	1,918,284	1,814,926
Other deposits and pending distribution funds	56,020	1,115,008
Payable for acquisition of investments	32,235,972	26,020,962
	43,625,992	38,245,330
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS	$ 1,765,544,613	$ 1,676,548,438

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, 2025 and 2024

	2025	2024
ADDITIONS:		
Contributions-		
Employer	$ 131,985,713	$ 125,272,148
Members	24,911,623	29,595,094
	156,897,336	154,867,242
Investment income-		
Net appreciation in fair value of investments	122,522,542	118,160,209
Interest	21,205,076	9,813,200
Dividends	25,265,602	19,984,044
	168,993,220	147,957,453
Investment expense	4,385,429	4,961,568
Net investment income	164,607,791	142,995,885
	321,505,127	297,863,127
DEDUCTIONS:		
Benefits paid	226,329,167	226,332,475
General and administrative expenses	6,179,785	4,687,286
	232,508,952	231,019,761
NET INCREASE IN FIDUCIARY NET POSITION	88,996,175	66,843,366
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS, beginning of year	1,676,548,438	1,609,705,072
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS, end of year	$ 1,765,544,613	$ 1,676,548,438

The accompanying notes are an integral part of these statements.

1) Organization and Summary of Significant Accounting Policies:

A) Organization – The University of Puerto Rico Retirement System ("the System") is the administrator of a single-employer defined benefit pension plan that was created by Act No. 135, approved on May 7, 1942 (superseded by Act No. 1 of January 20, 1966, as amended (the "Act No. 1")). The System started operations on January 1, 1945, the date on which contributions by employees and the University of Puerto Rico ("the University") commenced. The assets of the System are legally held in a Trust, separate from the assets of the University of Puerto Rico, and are held solely for the purpose of meeting the System's obligations.

The responsibility for the proper operation and administration of the System is vested in the Executive Director of the System, which in turn will report to the Retirement System's Board, that is the Trustee of the University's Retirement System Trust.

Members consisted of the following as of June 30, 2025 and 2024:

Description	2025	2024
Inactive members or their beneficiaries currently receiving benefits	**9,331**	9,318
Inactive members entitled to but not yet receiving benefits	**6,417**	6,366
Active members	**7,295**	7,887
	23,043	23,571

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.

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

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

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

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

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

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

As of June 30, 2025 and 2024, the balance of other loans consisted of the principal balance of such contributions, which amounted to approximately $1.49 million and $1.95 million, respectively, net of allowance for uncollectible accounts of $5,895.

Capital Assets – Capital assets are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the depreciable property. Amounts exceeding $1,000 and with a useful life of three years or more are capitalized.

Expenditures for maintenance and repairs are charged to operations, while those for renewals and betterments are capitalized. Depreciation expense charged to operations during the years ended June 30, 2025, and 2024 amounted to approximately $219,000 and $157,000, respectively.

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

Members and Employer Contributions - Members and employer contributions are recognized in the period in which the contributions are due, and the employer has made a formal commitment to provide the contributions.

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

2) Description of the System:

A) General – The System is a single-employer defined benefit pension plan that covers all employees of the University except for hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 ("ERISA"). The System provides retirement, disability and death benefit to members and beneficiaries.

B) System's board and Composition - The Retirement System Board is composed of elected members representing the following university sectors: Aguadilla, Arecibo, Bayamón, Carolina, Cayey, Medical Sciences, Humacao, Mayagüez, Ponce, Río Piedras, Utuado, Central Administration, and Retirees of the Retirement System. Each sector has the right to one representative if it has less than 1,500 members and two if it has 1,500 members or more. The President of the University or designated representative is an Ex-Officio Member.

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

Effective July 1, 1998, the System was amended by establishing Certification No. 94 (1997-1998) to offer Members an increase from $35,000 to $50,000 in the maximum salary subject to withholding contributions. The members who elect this benefit may pay retroactively to their first day of employment the differences in withholding contributions for prior year salaries exceeding $35,000 and up to a maximum of $50,000 plus 8% interest. Effective July 1, 1998, all new members will contribute 9% of their salary up to $50,000.

Effective July 1, 2002, the Plan was amended by establishing Certification No. 139 (2001-2002) to offer members an increase from $50,000 to $60,000 in the maximum salary subject to withholding contributions. The members who elect this benefit may pay retroactively to their first day of employment the differences in withholding contributions for prior year salaries exceeding $50,000 and up to a maximum of $60,000, plus 8% interest. Effective July 1, 2002, all new members will have the option to contribute 9% of their salary up to $50,000 or 11% of their salary up to $69,556. In addition, the maximum annual compensation for those members who had not completed 20 years of service by July 1, 1979, is $35,000. Also, the minimum pension is $250 a month. Finally, the reduction for commencement of pension benefits prior to age 55 is 1/3% per month for members who had not completed 20 years of service by July 1, 1979, and elected Certification No. 55, and for members hired on or after January 1, 1990.

Effective July 1, 2007, the System was amended by Certification No. 12 (2007-2008). This certification was superseded by Certification No. 70 (2013-2014), in which the automatic 3% increase in pension benefits was terminated.

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

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

1. Those who had 25 or more years of accredited service. These are not affected by the changes in regulation.

2. Those who had less than 25 years of accredited service. To this group, effective June 30, 2015, individual required contribution increased by 1% and the required age for retirement changed from 55 to 58 years.

Certification No. 7:

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

a. Member who selected a complete supplementation with Social Security, contributes 7% of monthly compensation.

b. Member who selected a coordinated plan with Social Security, contributes 4% of the monthly compensation up to $350, plus 6 ½% of the excess.

c. No salary CAP.

Certification No. 37:

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

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

Certification No. 55:

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

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

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

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

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

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

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

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

Contributions and Funding Policy:

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

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

<u>Members who have not completed 20 years of service by July 1, 1979</u>:

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

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

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

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

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

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

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

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

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

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

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

Members who are hired after July 1, 2015:

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

The University contributes at an actuarially determined rate; the rate as of June 30, 2025 and 2024 was 40.02% and 39.03% respectively, of annual covered payroll. The actuarially determined employer contribution rate considers payment of administrative expenses that are paid out of the trust fund.

The contributions of the University were originally designed to fund, together with the contributions of the members, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the System over a Certification No. 146 (2014-2015), 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

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

Members who have completed 20 years of service by July 1, 1979, are entitled to annual retirement benefits at any age after 30 years of service. Otherwise, members are entitled to annual retirement benefits as follows:

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

- Certification No. 37 – at age 58

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

The amount of service retirement annuity is as follows:

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

- Before age 65 – for members with at least 30 years of service: 75% of average compensation. The amount is reduced by .5% for each month the member is 55 but under age 58 (Certification No. 37) and 55 (Certification No. 55), at time annuity begins.
- Before age 65 – for members with less than 30 years of service: 1.5% of average compensation per year of service for the members with 20 or fewer years. The percentage increases by .05% for each year in excess of than 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the member is between the age of 55 and 58 at time annuity begins (Certification No. 37) and 1/3% for each month the member is under age 55 with more than 25 years of service and 1/3% for each month the member is under age 58 with less than 25 years of service (Certification No. 55).
- After age 65 – if the member elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by .5% of average compensation not more than Social Security wage base in effect at retirement for each year of service. If the members had less than 30 years of service and were under age 58 at the beginning date, adjustment is made before application of .5% reduction per month under age 58.

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

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

For all members who have not completed 20 years of service by July 1, 1979, and elect Certification No. 55, and for those hired on or after January 1, 1990:

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

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

- After Age 65 – if members elected full supplement, annuity is the same as before age 65. Otherwise, annuity is reduced by .5% of average compensation at time of retirement multiplied by years of service.

- Minimum Annuity – $250 per month - if a member terminates before rendering 10 years of service, the right to receive the portion of his accumulated plan benefits attributable to the University's contributions is forfeited. However, the member is entitled to receive, in a lump-sum payment, the value of his accumulated contributions.

- If a member terminates after rendering 10 years of service, and does not withdraw his contributions, the member receives a retirement annuity payable beginning at age 60 based on the applicable benefit formula.

- Refund may also be obtained after 10 years of service, but the vested benefit is lost.

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

F) <u>Disability Benefits</u> – Members who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes or after 15 years of service if disability is due to no-occupational causes. If the member is also eligible for a retirement annuity, the benefit payable is the higher of the two. Disability benefits are paid as follows:

- Before age 65 – if service related 50% of final salary. If not, services related, 30% of average compensation plus additional 1% for each year of service over 10.

- After age 65 – reduced to amount payable as retirement annuity, if that amount is less than disability retirement annuity, but reduced annuity plus primary Social Security benefit may not be less than original disability annuity.

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

G) <u>Death Benefits</u> –

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

- Post-retirement death benefits – member's contributions are refunded if they do not exceed retirement payments already made, unless reverse annuity was elected. Minimum payment is $600. In addition, an annuity is payable to surviving spouse until death or remarriage or until they become eligible for Social Security benefits. Minimum annuity, $75 per month, maximum annuity, $150 per month.

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

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

J) Future Adoption of Accounting Pronouncements -The following new accounting standards have been issued by GASB but are not yet effective as of June 30, 2025:

- GASB Statement No. 103, *Financial Reporting Model Improvements* - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

- GASB Statement No. 104, *Disclosure of Certain Capital Assets* – This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases,* and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

- GASB Statement No. 105, *Subsequent Events* – This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement also clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the System's basic financial statements.

3) System's dependency on contributions from the University:

The System is highly dependent on funding from the University, which in turn receives its funding from the Commonwealth of Puerto Rico to finance its operations. For many years the Commonwealth experienced a fiscal, economic and liquidity crisis that affected the University's ability to continue funding the System and paying the required contributions. The most recent issued financial statements of the University as of June 30, 2025, states that significant actions and improvements were performed and the conditions that previously raised substantial doubt about the University's ability to continue as a going concern were successfully mitigated. No substantial doubt exists about its ability to continue operations for the foreseeable future, which is at least twelve months from the date that the financial statements of the University were issued.

Some of the measures adopted by the University include among others:

- Ability to increase operating revenues, which was previously constrained by a decline in student enrollment, has been significantly augmented by the following initiatives: expansion of new academic offerings and scheduling flexibility, digital marketing and social media campaigns, enhanced student support services, and modernization of admissions criteria.
- Successful debt management and credit risk mitigation
- Operational efficiencies
- Mitigation of deficit position and operating losses

The System will continue to monitor the financial condition of the University given the direct relationship between the University's financial capacity and the funding of employer contributions to the System. In response to liquidity and long-term funding considerations, management continues to evaluate strategies intended to preserve the System's operational stability, liquidity position, and long-term sustainability.

During the year ended June 30, 2025, the Trust continued to demonstrate positive investment performance, generating an approximate annual return of 10.09%, while also implementing investment portfolio and liquidity management strategies designed to strengthen operational liquidity and maintain long-term asset allocation objectives. Management believes these measures provide additional support to the System's ongoing operations and benefit payment obligations.

Other initiatives adopted by the System are as follows:

- Trust Regulations:

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

- Fund administration:

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

- Investments Return:

  During the year ended June 30, 2025, the Retirement fund continues to demonstrate positive performance, closing the fiscal year with a return of 10.09%.

- Funding Ratios:

  The funding ratio rose from June 30, 2016 to June 30, 2017: 47.8% in 2016 and 48.9% in 2017. It then declined in 2018 to 43.7% and further to 42.8% in 2019. From fiscal year 2020 to 2025, the ratio increased from 42.8% to 43.7% in 2020, to 47.6% in 2021, to 49.9% in 2022, to 51.2% in 2023, to 52.3% in 2024 and 53.5% in 2025.

- Contributions:

  As established in the Trust Agreement and related governing certifications, the assets of the Retirement System are held exclusively for the payment of pension benefits and administrative expenses of the System. Accordingly, trust assets may not be used for purposes other than those authorized under the Plan documents. Securities, notes, and other investment instruments are registered in the name of the System and remain legally segregated from the assets of the University. The administration and operations of the System are maintained separately from those of the University pursuant to 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 System. PROMESA requires that any fiscal plan developed by the Commonwealth or any of its affiliates shall “provide for the adequate funding for public pension systems”. In addition, pursuant to the Trust Deed, the System’s assets remain completely autonomous and separate of the assets of the University, the Trustee and its members and continue to be exempt from the individual or collective action of their respective creditors.

- 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.

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4) Cash:

As of June 30, 2025 and 2024, the System's cash is composed of the following:

Description	2025	2024
Deposit accounts with commercial banks	**$ 5,636,794**	$ 3,133,648
Domestic and global accounts custody (investments)	**9,889,684**	12,492,467
Cash on hand	**922**	-
	$ 15,527,400	$ 15,626,115

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

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

The cash deposits, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC) of $250,000 per financial institution. As of June 30, 2025 and 2024, cash deposits exceeded FDIC insured limits by approximately $6.70 million and $4.14 million, respectively.

As of June 30, 2025 the Retirement System bank balances for operational purposes were $5.64 million. The cash balances for investment purposes were $9.89 million.

As of June 30, 2024 The Retirement System bank balances for operational purposes were $3.13 million. The cash balances for investment purposes were $12.49 million.

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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, 2025 and 2024:

		June 30, 2025		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs for the Assets
Description	**Total**	**(Level 1)**	**(Level 2)**	**(Level 3)**
U.S. Government and Agencies' obligations	**$ 110,283,683**	**$ -**	**$ 110,283,683**	**$ -**
Common stocks	**111,229,215**	**111,229,215**	**-**	**-**
Mortgage-backed securities	**87,302,209**	**-**	**87,302,209**	**-**
Municipal bonds	**1,275,576**	**-**	**1,275,576**	**-**
Corporate bonds	**123,397,653**	**-**	**123,397,653**	**-**
Foreign common stocks	**182,256,612**	**182,256,612**	**-**	**-**
Foreign bonds	**9,250,576**	**-**	**9,250,576**	**-**
Commingled funds equity	**932,085,355**	**-**	**932,085,355**	**-**
Sovereign debt	**123,686**	**-**	**123,686**	**-**
Short-term investments	**20,903,387**	**-**	**20,903,387**	**-**
Alternative investments	**123,892,206**	**-**	**-**	**123,892,206**
	$ 1,702,000,158	**$ 293,485,827**	**$ 1,284,622,125**	**$ 123,892,206**

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

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 as Level 3. Fair value for private and real estate equity funds are derived from each fund's Net Asset Value (NAV) as provided by fund management or broker dealer and used as a practical expedient, 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.

During the Retirement Board meeting held on September 15, 2023, pursuant to Certification No. 10 (2023-2024), the Board approved a revised strategic asset allocation following the evaluation of several alternatives presented by the System's investment consultant, Callan. The approved allocation structure ("Mix #2") established the following long-term target allocations and permissible ranges:

Asset Class	Target Allocation	Permissible Range
Broad Domestic Equity (Large, Mid, and Small Capitalization)	28.0%	±5%
Global ex-U.S. Equity	20.0%	±5%
Fixed Income	38.0%	±5%
Real Estate	5.0%	±3%
Loans and Mortgages	9.0%	N/A

The revised strategic allocation eliminated alternative investments as an authorized asset class within the System's investment portfolio. Accordingly, existing alternative investments will continue to be held through their respective liquidation, maturity, or redemption periods; however, the System does not intend to make additional investments in alternative investment vehicles under the current investment strategy.

During the year ended June 30, 2025, the System substantially completed the restructuring and transition of investment assets to align the portfolio with the revised strategic asset allocation approved by the Retirement Board.

The overall investment portfolio does not maintain a specific strategic allocation to cash; however, individual investment managers may hold varying levels of cash and cash equivalents within their respective portfolios as part of normal investment management activities and liquidity needs.

On January 19, 2024, pursuant to Certification No. 24 (2023-2024), the Retirement Board authorized the Executive Director to liquidate and transfer investment assets of up to $10 million per month, if necessary, to provide liquidity for the System's operational needs. Such transactions are executed in accordance with market conditions and portfolio management requirements while maintaining compliance with the Investment Policy.

As of June 30, 2025 and 2024, alternative investments are as follows:

		June 30, 2025		
Description	**Total Commitment**	**Contributions**	**Distributions**	**Fair Value**
Grupo Guayacán, Inc.:				
Guayacán Fund of Funds III, LP	**$ 5,000,000**	**$ 4,961,098**	**$ 8,433,964**	**$ 941,709**
Guayacán Fund of Funds IV, LP	**5,000,000**	**4,958,146**	**5,585,411**	**5,655,443**
Advent-Morro Equity Partners Inc.:				
Guayacán Private Equity Fund I, LP	**2,500,000**	**2,322,582**	**4,514,732**	**2,482,951**
Guayacán Private Equity Fund II, LP	**5,000,000**	**4,909,472**	**7,222,977**	**1,193,378**
Guayacán Private Equity Fund III, LP	**7,500,000**	**6,840,846**	**-**	**4,116,330**
McCoy Investment Fund 2	**15,000,000**	**12,403,897**	**33,245,080**	**10,787,076**
RREEF America REIT II	**65,000,000**	**65,000,000**	**-**	**98,715,319**
	$ 105,000,000	**$ 101,396,041**	**$ 59,002,164**	**$ 123,892,206**

		June 30, 2024		
Description	Total Commitment	Contributions	Distributions	Fair Value
Grupo Guayacán, Inc.:				
Guayacán Fund of Funds III, LP	$ 5,000,000	$ 4,961,098	$ 8,355,666	$ 879,073
Guayacán Fund of Funds IV, LP	5,000,000	4,958,146	4,676,096	6,212,348
Advent-Morro Equity Partners Inc.:				
Guayacán Private Equity Fund I, LP	2,500,000	2,322,582	4,514,732	2,496,662
Guayacán Private Equity Fund II, LP	5,000,000	4,909,472	6,962,263	1,433,645
Guayacán Private Equity Fund III, LP	7,500,000	6,238,733	-	4,418,857
McCoy Investment Fund 2	15,000,000	12,403,897	31,841,855	14,524,634
RREEF America REIT II	65,000,000	65,000,000	-	97,135,396
	$ 105,000,000	$ 100,793,928	$ 56,350,612	$ 127,100,615

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, 2025 and 2024, the System's credit quality distribution for securities was as follows:

Description	2025 Carrying Value	2025 Standard & Poor's Rating
Foreign bonds	$ **13,610,027**	**AA- to BBB-**
Corporate bonds	**412,900,040**	**AAA to BB**
Mortgage-backed securities	**242,624,171**	**AAA to BBB-**
Municipal bonds	**1,360,291**	**AAA to A-**

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

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

Custodial Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custody of the commingled funds is located at another financial institution. Investments of the System, which are under custody of a depository finance institution, are as follows:

Investment Type	2025 Carrying Value	2024 Carrying Value
Mortgage-backed securities	$ **87,302,209**	$ 64,781,065
Corporates bonds	**123,397,653**	77,815,929
Common stocks	**111,229,215**	256,494,548
US Government bonds and agencies' obligations	**110,283,683**	66,280,873
Foreign common stocks	**182,256,612**	391,942,547
Foreign bonds	**9,250,576**	7,416,193
Commingled funds equity	**932,085,355**	601,777,260
Sovereign debt	**123,686**	467,632
Municipal bonds	**1,275,576**	729,230
Short-term investments	**20,903,387**	7,740,548
	$ **1,578,107,952**	$ 1,475,445,825

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, 2025 and 2024, the weighted average maturity by investment type in each fund is as follows:

Investment Type	Weighted Average (Years)	Fair Value	
		2025	2024
Corporates bonds	2.1354	**$ 123,397,653**	$ 77,815,929
Mortgage-backed securities	2.4087	**87,302,209**	64,781,065
Municipal bonds	0.0316	**1,275,576**	729,230
Foreign corporate bonds	0.2652	**9,250,576**	7,416,193
US Government bonds and agencies' obligations and sovereign debt	3.0745	**110,407,369**	66,748,505
		$ 331,633,383	$ 217,490,922

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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, 2025:

Foreign Currency Risk represents 10.59% of total assets.

Security Type	Currency	Maturity	Fair Value
Common Stocks	Australia	Not Applicable	$ **2,424,169**
Common Stocks	Bahamas	Not Applicable	**206,959**
Common Stocks	Belgium	Not Applicable	**2,434,196**
Common Stocks	Bermuda	Not Applicable	**60,970**
Common Stocks	Brazil	Not Applicable	**1,786,890**
Common Stocks	Canada	Not Applicable	**17,026,617**
Common Stocks	China	Not Applicable	**10,305,868**
Common Stocks	France	Not Applicable	**16,631,832**
Common Stocks	Germany	Not Applicable	**18,583,019**
Common Stocks	Hong Kong	Not Applicable	**9,157,294**
Common Stocks	India	Not Applicable	**2,645,450**
Common Stocks	Ireland	Not Applicable	**8,208,711**
Common Stocks	Israel	Not Applicable	**459,133**
Common Stocks	Italy	Not Applicable	**10,850,957**
Common Stocks	Japan	Not Applicable	**15,123,077**
Common Stocks	Marshall Islands	Not Applicable	**65,664**
Common Stocks	Netherlands	Not Applicable	**8,579,057**
Common Stocks	New Zealand	Not Applicable	**1,078,516**
Common Stocks	Singapore	Not Applicable	**3,967,312**
Common Stocks	Spain	Not Applicable	**5,748,229**
Common Stocks	Sweden	Not Applicable	**3,463,005**
Common Stocks	Switzerland	Not Applicable	**9,877,862**
Common Stocks	Taiwan	Not Applicable	**6,927,197**
Common Stocks	United Kingdom	Not Applicable	**26,644,627**
Corporate Bonds	Brazil	1/15/2031	**37,446**
Corporate Bonds	Channel Islands	9/30/2040	**144,701**
Corporate Bonds	Chile	01/29/2030-01/22/2050	**520,372**
Corporate Bonds	Indonesia	4/14/2027	**199,488**
Corporate Bonds	Kazakhastan	4/14/2033	**173,336**
Corporate Bonds	Kuwait	11/3/2026	**198,001**
Corporate Bonds	Latvia	7/30/2034	**200,116**
Corporate Bonds	Luxembourg	11/30/2046	**155,268**
Corporate Bonds	Mexico	9/6/2049	**147,392**
Corporate Bonds	Peru	4/30/2029-01/15/2034	**342,775**

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Security Type	Currency	Maturity	Fair Value
Corporate Bonds	Poland	1/30/2025	**205,071**
Corporate Bonds	Saudi Arabia	10/10/2028	**199,396**
Corporate Bonds	Supranational	05/01/2030-05/11/2031	**112,912**
Corporate Bonds	Taiwan	4/22/2032	**197,077**
Corporate Bonds	United ARAB Emirates	3/20/2028	**191,997**
Corporate Bonds	United Kingdom	03/16/2028-02/08/2061	**519,750**
Governmental Bonds	Canada	11/15/2030-07/15/2053	**922,006**
Governmental Bonds	Chile	08/01/2027-05/10/2033	**869,725**
Governmental Bonds	Hungary	3/29/2041	**67,610**
Governmental Bonds	Indonesia	1/21/2030	**186,107**
Governmental Bonds	Kazakhstan	7/21/2045	**213,206**
Governmental Bonds	Mexico	05/13/2037-03/08/2044	**1,296,128**
Governmental Bonds	Panama	9/14/2025	**198,646**
Governmental Bonds	Peru	08/16/2027-04/16/2034	**420,151**
Governmental Bonds	Philippines	6/10/2031	**169,814**
Governmental Bonds	Poland	10/31/2028-04/04/2053	**351,856**
Governmental Bonds	Qatar	04/16/2030-07/12/2031	**371,034**
Governmental Bonds	Saudi Arabia	01/16/2050-11/24/2050	**429,535**
Governmental Bonds	United ARAB Emirates	4/16/2050	**155,372**
Governmental Bonds	Uruguay	9/10/2060	**54,289**
Total			$ **191,507,188**

Risk and Uncertainty

The System 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 statements of fiduciary net position.

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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, 2025 and 2024, capital assets activities, consisted of the following:

Description	Balance as of June 30, 2024	Additions	Retirements	**Balance as of June 30, 2025**
Building	$ 3,811,940	$ -	$ -	**$ 3,811,940**
Equipment	713,402	121,547	(88,373)	**746,576**
Foreclosure homes	780,926	11,039	-	**791,965**
	5,306,268	132,586	(88,373)	**5,350,481**
Less: accumulated depreciation	(2,126,722)	(213,506)	81,773	**(2,258,455)**
	$ 3,179,546	$ (80,920)	$ (6,600)	**$ 3,092,026**

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

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, 2025 and 2024, the medical plan expenses amounted to $10,462,306 and $10,315,814, respectively. Medical expenses are paid by the retirees and reimbursed by the University.

8) Related Party Transactions:

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

9) Net Pension Liability of the University:

The components of net pension liability of the University as of June 30, 2025 and 2024, are as follows (in thousands):

Description	2025	2024
Total pension liability	**$ 3,282,197**	$ 3,276,440
Fiduciary net position	**(1,765,545)**	(1,676,548)
Net pension liability	**$ 1,516,652**	$ 1,599,892
Fiduciary net position as percentage of the total pension liability	**53.79%**	51.17%

Actuarial Assumptions – The total pension liability as of June 30, 2025, was determined by an actuarial valuation as of June 30, 2025, using the following actuarial assumptions and experience, applied to all periods included in the measurement. The key actuarial assumptions are summarized as follows:

Description	
Inflation	2.50% per year
Salary increases	2.50% per year and wage growth rate of 1.00%
Discount rate	6.75%, net of investment expenses per annum, compounded annually
Investment rate of return	6.75% net of investment expenses per annum, compounded annually (net of investment expenses)
Administrative expense assumption	Actual prior year expenses
Percent married	80% of employees are assumed to be married, and wives are assumed to be the same age as their husbands.
Actuarial method	Individual Entry Age Normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is amortized over a closed 30-year period beginning June 30, 2014.
Decrements:	
Pre-retirement mortality	Pub 2010 Teachers Employees Below Median Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
Post-retirement health mortality	Pub 2010 Teachers Retirees Below Median Amount-Weighted Mortality Table projected, generationally using scale MP-2021.
Post-retirement disabled mortality	Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table.
Beneficiary mortality	Pub 2010 Teachers Below Median Amount-Weighted Contingent Survivors Mortality Table, projected generationally using Scale MP-2021.

Discount rate – As of June 30, 2025, the discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member's contributions will be made at the current contribution rates and that employer contributions will be made according to the five-year average of actual contributions as of June 30, 2025. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments. The SEIR at the beginning of the measurement period was 6.75%.

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, provided by the System's external investment consultant (source, Survey of Capital Market Assumptions, 2025 Edition published by Horizon Actuarial Services, LLC), are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad U.S. equity	28.0%	5.88%
Global ex-U.S. equity	20.0%	6.55%
Domestic fixed	38.0%	2.87%
High yield	9.0%	4.41%
Real estate	5.0%	5.18%
	100%	

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, 2025, 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 Assumption (6.75%)	1% Increase (7.75%)
Net pension liability	$ 1,840,460	$ 1,516,652	$ 1,239,373

Sensitivity of the Net Pension Liability of Changes in the Discount Rate – The following presents the net pension liability of the University as of June 30, 2024, calculated using the SEIR discount rate of 6.75%, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate (in thousands):

Description	1% Decrease (5.75%)	Current Assumption (6.75%)	1% Increase (7.75%)
Net pension liability	$ 1,928,622	$ 1,599,892	$ 1,318,822

10) Commitments and Contingencies:

Litigations

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

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

On October 30, 2024, the Retirement Board filed a lawsuit against the University of Puerto Rico, the Governing Board, and its members alleging the unlawful withholding of employer contributions to the Retirement System. The complaint seeks compensatory and punitive damages estimated at approximately $11 million. As of June 30, 2025. The case remains in the discovery phase.

11) Subsequent Events:

Liquidity Management

The Office of Finance, in coordination with the Trust's investment advisor, developed a liquidity management strategy to address recurring operational liquidity needs of the Trust. The strategy was approved by the Board through Certification No. 2 dated July 2, 2025.

The strategy is intended to maintain sufficient liquidity for operational requirements without materially altering the Board-approved asset allocation structure. In consideration of investment managers' redemption restrictions and timing limitations, the strategy established a target liquidity reserve of approximately $24 million in the operational account, representing an estimated average of three months of operating expenditures. The reserve is intended to provide flexibility to meet obligations on a timely basis while allowing investment transactions to occur under more favorable market conditions.

Change in Custodian Bank

On December 18, 2025, the Retirement Board approved the replacement of the Trust's custodial bank pursuant to Certification No. 21 (2025-2026). Following an evaluation process conducted with the assistance of the Trust's investment consultant, the Board authorized the transition from JP Morgan to State Street as the Trust's new custodial bank.

The initiative included the execution of the related custodial agreement and the transfer of investment assets to the corresponding accounts. Management believes this transition supports the Trust's long-term operational and investment administration objectives, including enhanced custodial services, operational efficiency, and ongoing support for the Trust's investment structure.

Management has evaluated events through June 29, 2026, the date in which the financial statements were available to be issued.

12) Reclassifications:

Certain reclassifications were made to basic financial statements for the year ended June 30, 2024 to conform to June 30, 2025 presentation.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (Unaudited)
June 30, 2025
(In Thousands)

EXHIBIT A

	Year ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability:										
Service cost	**$ 32,437**	$ 32,390	$ 26,427	$ 32,693	$ 54,863	$ 74,909	$ 72,823	$ 74,827	$ 52,000	$ 46,571
Interest	**213,521**	215,189	215,619	215,473	187,307	164,223	164,920	167,015	191,144	194,184
Benefit changes	**-**	-	1,401	2,648	(25,509)	-	-	-	-	(14,671)
Differences between expected and actual experience	**(13,872)**	(46,477)	(3,507)	(25,218)	(60,878)	(24,716)	(11,902)	(2,678)	(24,376)	(4,733)
Changes of assumptions or other inputs	**-**	-	(21,386)	-	(814,007)	(536,078)	271,633	31,859	989,905	160,911
Benefit payments	**(226,329)**	(225,290)	(224,559)	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)
Net change in total pension liability	**5,757**	(24,188)	(6,005)	3,282	(878,857)	(539,952)	289,651	72,776	1,020,362	199,648
Total pension liability, beginning	**3,276,440**	3,300,628	3,306,633	3,303,351	4,182,208	4,722,160	4,432,509	4,359,733	3,339,371	3,139,723
Total pension liability, ending (a)	**$ 3,282,197**	$ 3,276,440	$ 3,300,628	$ 3,306,633	$ 3,303,351	$ 4,182,208	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371
System's fiduciary net position:										
Contributions - employer	**$ 131,986**	$ 125,272	$ 144,428	$ 161,705	$ 160,356	$ 161,411	$ 75,263	$ 73,360	$ 79,491	$ 78,004
Contributions - members	**24,912**	29,595	30,087	31,205	29,154	34,252	32,849	35,864	39,042	38,640
Net investment income	**164,608**	143,457	110,075	(185,059)	348,056	81,796	98,788	110,357	132,950	59,009
Benefit payments	**(226,329)**	(225,290)	(224,559)	(222,314)	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)
Administrative expenses	**(6,180)**	(6,191)	(4,729)	(3,721)	(3,578)	(3,639)	(3,751)	(4,458)	(4,340)	(3,363)
Other	**-**	-	-	-	-	-	-	-	-	(4)
Net change in plan net position	**88,997**	66,843	55,302	(218,184)	313,355	55,530	(4,674)	16,876	58,832	(10,328)
Plan fiduciary net position, beginning	**1,676,548**	1,609,705	1,554,403	1,772,587	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996
Plan fiduciary net position, ending (b)	**$ 1,765,545**	$ 1,676,548	$ 1,609,705	$ 1,554,403	$ 1,772,587	$ 1,459,232	$ 1,403,702	$ 1,408,376	$ 1,391,500	$ 1,332,668
Net Pension Liability - Ending (a) - (b)	**$ 1,516,652**	$ 1,599,892	$ 1,690,923	$ 1,752,230	$ 1,530,764	$ 2,722,976	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF NET PENSION LIABILITY (Unaudited)
June 30, 2025
(In Thousands)

EXHIBIT B

	Year ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability	$ **3,282,197**	$ 3,276,440	$ 3,300,628	$ 3,306,633	$ 3,303,351	$ 4,182,208	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371
System's fiduciary net position	**1,765,545**	1,676,548	1,609,705	1,554,403	1,772,587	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668
Net pension liability	$ **1,516,652**	$ 1,599,892	$ 1,690,923	$ 1,752,230	$ 1,530,764	$ 2,722,976	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703
Ratio of System's fiduciary net position to total pension liability	**53.79%**	51.17%	48.77%	47.01%	53.66%	34.89%	29.73%	31.77%	31.92%	39.91%
Covered-employee payroll	$ **386,960**	$ 389,396	$ 396,438	$ 392,499	$ 406,676	$ 428,086	$ 453,802	$ 478,529	$ 488,775	$ 515,994
Net pension liability as a percentage of covered- employee payroll	**391.94%**	410.87%	426.53%	446.43%	376.41%	636.08%	731.26%	631.96%	607.28%	388.90%

Factors that Significantly Affect Trends in Amounts Reported

Changes of benefit terms:

- None.

Changes in actuarial assumptions:

2017

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

2018

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

2019

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

2020

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

2021

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

2023

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

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER CONTRIBUTIONS (Unaudited)
June 30, 2025 **EXHIBIT C**
(In Thousands)

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)
2025	**$ 155,860**	**$ 131,986**	**$ 23,874**	**$ 386,960**	**34.11%**
2024	154,730	125,272	29,458	389,396	32.17%
2023	155,523	144,428	11,095	396,438	36.43%
2022	153,977	161,705	(7,728)	392,499	41.20%
2021	163,240	160,356	2,884	406,676	39.43%
2020	138,914	161,411	(22,497)	428,086	37.71%
2019	127,609	75,263	52,346	453,802	16.58%
2018	96,089	73,360	22,729	478,529	15.33%
2017	85,829	79,491	6,338	488,775	16.26%
2016	86,635	78,004	8,631	515,994	15.12%

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

Notes to Schedule of Employer Contributions:

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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

Valuation date	June 30, 2025
Actuarial cost method	Entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	21 years
Asset valuation method	5-year smoothed market
Inflation	2.40%
Salary increase	2.75%
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. However, as discussed in the determination of the discount rate, the University has adopted a policy to make actual contributions based on a 40-year closed amortization of the System's unfunded accrued liability beginning on June 30, 2015.

See accompanying independent auditors' report.

UNIVERSITY OF PUERTO RICO RETIREMENT SYSTEM

SCHEDULE OF ANNUAL MONEY - WEIGHTED RATE OF RETURN ON INVESTMENTS (Unaudited)
June 30, 2025 **EXHIBIT D**
(In Thousands)

(Unaudited)			Year Ended June 30,							
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Annual Money-Weighted rate of return (loss), net of investment expenses	9.84%	8.90%	7.53%	(10.47%)	22.57%	5.64%	6.95%	8.11%	10.76%	3.93%

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, 2025 and 2024, 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 June 29, 2026.

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 or significant deficiencies may exist that were not 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*.

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
June 29, 2026.

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The University of Puerto Rico Retirement System

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