Deloitte.

Puerto Rico System of Annuities and Pensions for Teachers

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

Basic Financial Statements as of and for the Year Ended June 30, 2010, Required Supplementary Information as of and for the Year Ended June 30, 2010, and Independent Auditors' Report

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

TABLE OF CONTENTS

Deloitte.

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

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Puerto Rico System of Annuities and Pensions for Teachers (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2010, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the supplemental schedules listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System held investments valued at approximately $1,013,055,000 (44% of total assets) as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial liability and funded ratio as of June 30, 2010, were approximately $7 billion and 24%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System will not be able to fully fund pensions in fiscal years beginning after June 30, 2020, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System.

Deloitte & Touche LLP

March 11, 2011

Stamp No. 2574830
affixed to original.

The Puerto Rico System of Annuities and Pensions for Teachers (the "System") presents management's overview of the administrative and operational activities that had an impact on the System's net assets for the fiscal year ended June 30, 2010. The System administers retirement and other participant benefits, such as personal, cultural and mortgage loans, occupational and non-occupational disability annuities, and death benefits.

Overview of the Financial Statements

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

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

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

Notes to Basic Financial Statements

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

Required Supplementary Information

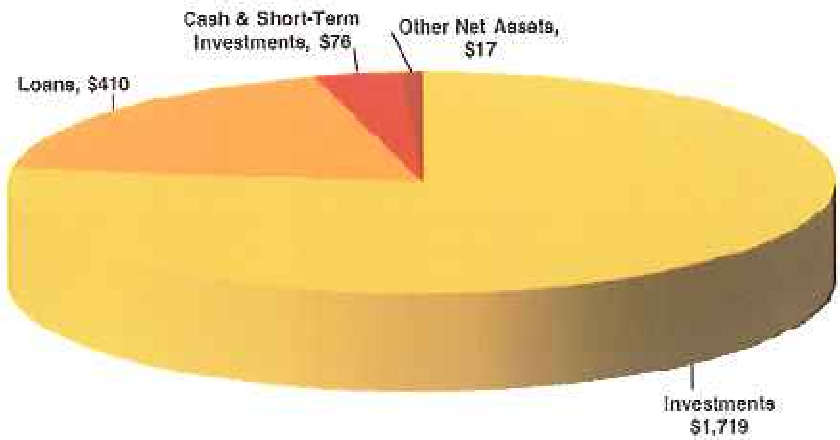
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System's net assets increased from approximately $2,158 million as of June 30, 2009 to $2,222 million as of June 30, 2010. The increase was primarily due to the net appreciation in the fair value of the System's investment portfolio and the resolution of the 2004 claim with the Office of Management and Budget ("OMB") (see note 12). The amount of $2,222 million in total net assets consists of the following:

- $1,719 million in investments
- $410 million in loans to plan members
- $76 million in cash and short-term investments
- $17 million in other net assets

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



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

- The System's assets exceeded liabilities by \$2,222 million (net assets) for the fiscal year ended June 30, 2010, when compared to the prior year which assets exceeded liabilities by \$2,158 million.
- The fair value of the System's investments (excluding loans to participants) at June 30, 2010, amounted to \$1,719 million, compared to \$1,711 million at June 30, 2009.
- The System's funded ratio of the actuarial accrued liability at June 30, 2010, was 24%.

The following schedules present comparative summary financial statements of the System's net assets and changes in net assets for fiscal years 2010 and 2009:

Summary Comparative Statements of Plan Net Assets

	2010	2009	Amount of Change	Percentage Change
	(In thousands)			
Assets:				
Cash and short term investments	$ 75,980	$ 69,611	$ 6,369	9 %
Investments — at fair value and loans	2,128,905	2,110,599	18,306	1
Accounts receivable	61,001	31,606	29,395	93
Capital assets	22,970	26,167	(3,197)	(12)
Other assets	832	876	(44)	(5)
Total assets	2,289,688	2,238,859	50,829	2
Liabilities:				
Accounts payable and accrued liabilities	7,660	10,113	(2,453)	(24)
Insurance reserve for loans to plan members and investments settlements	8,485	23,561	(15,076)	(64)
Other liabilities	51,566	47,592	3,974	8
Total liabilities	67,711	81,266	(13,555)	(17)
Net assets held in trust for pension benefits	$2,221,977	$2,157,593	$ 64,384	3

Summary Comparable of Plan Net Assets Analysis

The increase in cash and short-term investments is due to an increase of collateral held on securities lending and normal fluctuations in short-term investments since it represents the amount of short-term investments held by investment managers at a point in time. The increase in accounts receivable is mainly attributable to the resolution of the 2004 claim with the OMB (see note 12).

The increase in fair value of investments is primarily attributable to the market conditions experienced during fiscal year 2010. The System's total investments return improved from a negative 15.98% in 2009 to a positive 12.5% in 2010. Detailed information regarding the investment portfolio is included in the Investment Portfolio and Capital Markets Overview section.

The decrease in accounts payable and accrued liabilities is primarily due to a decrease in investments purchased as a result of market conditions and investment managers' decisions as of fiscal year end. The increase in other liabilities is mainly due to payables to independent brokers under the securities lending program and a cash overdraft with the fiscal agent.

Summary Comparative Statements of Changes in Plan Net Assets

	Years Ended June 30, 2010	2009	Amount of Change	Percentage Change
	(In thousands)			
Additions:				
Contributions	$ 295,852	$ 309,163	$ (13,311)	(4)%
Investment income (loss)	269,944	(443,401)	713,345	161
Other income	53,771	2,444	51,327	2,100
Total additions	619,567	(131,794)	751,361	570
Deductions:				
Benefits paid to participants	526,400	470,474	55,926	12
Administrative expenses	28,783	25,485	3,298	13
Total deductions	555,183	495,959	59,224	12
Net increase (decrease) in net assets held in trust for pension benefits	64,384	(627,753)	692,137	110
Net assets held in trust for pension benefits:				
Beginning of year	2,157,593	2,785,346	(627,753)	(23)
End of year	$2,221,977	$2,157,593	$ 64,384	3

Summary Comparable Statements of Changes in Plan Net Assets Analysis

During the fiscal year 2010, employers and employees' contributions decreased due to teachers' shrinkage by the Department of Education. During the period, the Special Laws benefits do not reflect a significant change with respect to the prior fiscal year.

The investment income that resulted in fiscal year 2010 is attributable to generally favorable market conditions that benefited the fair market value of the System's assets. The System recognized a net appreciation in the fair value of investments of approximately $203 million for fiscal year 2010.

The increase other income is mainly due to the settlement of the claim with the OMB during 2010.

Benefit payments increased due to an incentive retirement program to qualified teachers granted by the Department of Education at the end of fiscal year 2009. To be eligible for the incentive program, the teachers must have accrued the minimum retirement requirements of age and years of services.

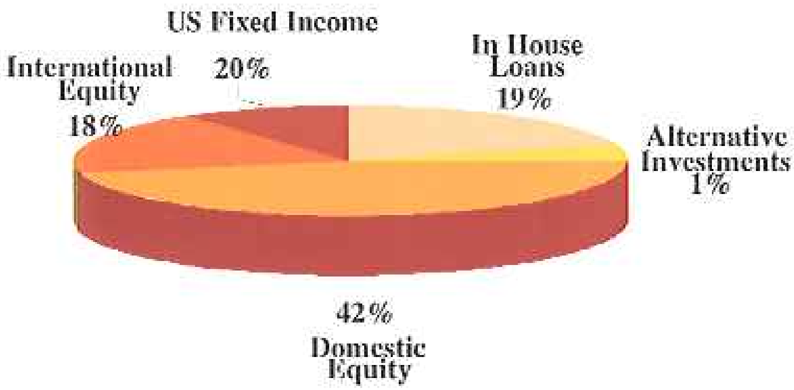
Financial Analysis of the System

The System provides retirement benefits to teachers mainly within the public education system of the Commonwealth of Puerto Rico. The System's net assets held in trust for benefits at June 30, 2010, amounted to approximately $2,222 million, an increase of approximately $64 million from approximately $2,158 million at June 30, 2009. Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. For fiscal year 2010, employer and member contributions decreased by approximately $13 million, from approximately $262 million during fiscal year 2009 to approximately $249 million during fiscal 2010. The System recognized a net appreciation in the fair value of investments of approximately $203 million for fiscal year 2010.

Since fiscal year 2004, the System has been involved in a re-engineering and technological projects. During fiscal year 2010, various technical projects were put in place and some were discontinued. The System administrative expenses increased approximately $1 million due to the depreciation of technological tools deployed. The discontinuance of some projects with an accumulated cost of approximately $1.3 million also increased administrative expenses. Additional details are provided in the Capital Assets section of the Notes to the Basic Financial Statements (Note 6).

System's Investment Portfolio and Capital Markets Overview

During the fiscal year ended June 30, 2010, the System considered changes to the target asset allocation and manager structure. The fund's asset allocation generated a gross return of 12.5% for the fiscal year ended June 30, 2010. The target asset allocation is as follows:



Economy and Capital Markets Overview

Major capital markets worldwide posted gains during the 2009-2010 fiscal year, partially offsetting significant losses experienced during the previous fiscal year. The 2009-2010 fiscal year started on a positive note as markets continued to rally from their lows in early March 2009.

Government stimulus programs, higher than expected company earnings, and investor optimism and appetite for risk supported the recovery and resulted in a positive performance across the broad markets for the first three quarters of the fiscal year. The fiscal year, however, ended unfavorably, as the European debt crisis, continued high unemployment rate, and talks of a possible double dip recession plagued the markets, resulting in losses for the majority of capital markets during the last quarter of the fiscal year.

During the first quarter of the fiscal year, broad indexes continued to post strong gains, as September marked the seventh consecutive monthly advance for U.S. equities. Better than expected earnings, particularly in the financial sector helped increase investor confidence despite the rise in the unemployment rate, reaching 9.8% in September 2009.

Other favorable news was an increase in merger and acquisition activity which showed executives' confidence and willingness to take on financial risks. The Federal Open Market Committee (FOMC) met twice during the quarter and kept the federal funds rate within a range of 0.00% - 0.25%. Additionally, in attempts to assure a full market recovery, the Federal Reserve Board extended its program to buy mortgage-backed securities through March 2010, having already purchased close to $850 billion of these securities.

Equities posted double digit returns during the first quarter of the fiscal year. The MSCI Emerging Markets Index topped equity indices returning 20.9% during the quarter, compared to a 19.5% and 15.6% return generated by the MSCI EAFE Index and S&P 500 Index, respectively. From a capitalization standpoint within the U.S. stock market, small cap stocks outperformed large cap stocks, while from a style perspective, value outperformed growth. The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, returned 3.7% during the quarter. Treasuries were the worst-performing sector of the Index as the previous year's flight to quality continued to reverse. Credit spreads declined further boosting performance in the credit and asset backed sectors of the market.

Following seven consecutive months of positive returns, the U.S. equity rally came to a halt in October as investors began doubting the strength of the economic recovery. Also dragging on performance for the month was a rise in the unemployment rate which reached 10.1%, the highest since April 1983. However markets bounced back in the last two months of the quarter, resulting in a positive quarter return. Government programs such as TALF, TARP, Cash for Clunkers, and offering a tax credit for first time home buyers played a crucial role in the economic recovery. The third quarter 2009 U.S. Gross Domestic Product (GDP) of +3.4%, the first gain in GDP in four consecutive quarters, also benefited the quarter's performance.

The second quarter of the fiscal year ended on a favorable note, as the S&P 500 Index had the best calendar year performance since 2003 and returned 6.0% for the quarter. International stocks also posted gains during the quarter, but to a lesser extent than U.S. stocks as the MSCI EAFE Index returned 2.2%. Emerging markets continued their strong performance; the MSCI Emerging Markets Index gained 8.6% during the quarter and 78.5% over the 2009 calendar year. U.S. bonds returned 0.2% during the quarter. Government securities underperformed the broad bond market amidst concerns regarding an increased supply and investors' continued appetite for risk, while high yield bonds continued to outperform all sectors.

U.S. stocks began 2010 on the right foot, but a sell-off in the second half of January resulted in negative returns for the month. Investors showed signs of being less optimistic, since unemployment remained high at 9.7% and less than half of the fourth quarter's 5.7% GDP was attributed to actual economic growth as the majority was credited to a rebuilding of inventory. However, equity markets produced favorable results in February and March ensuing a positive quarter return. Positive investor sentiment for the last two months of the quarter was led by many factors, including cheap access to credit due to the Fed's decision to keep rates at 0.00%-0.25%, continued job growth, the successful conclusion of the government's trillion dollar Agency MBS Purchase Program, strong merger and acquisition activity, and continued strengthening in the fundamentals of many companies around the world.

During the third quarter of the fiscal year, Greece's potential sovereign debt default dominated financial headlines. The size of Greece's debt was around $400 billion, with over $70 billion coming due in 2010. There were growing concerns for Greece's debt and credit problems as investors feared the euro could weaken and that these problems could spread to Portugal, Ireland, Italy, and Spain. Quieting these concerns was the European Monetary Union (EMU) assurance that it would provide assistance to Greece, as a financial aid package was negotiated with the European Union (EU) and the International Monetary Fund (IMF). Amid Greece's debt problems, international equities managed to post positive, although modest, gains during the quarter. The MSCI EAFE Index gained 0.9% during the quarter, underperforming the S&P 500 Index which returned 5.4%. U.S. bonds also generated favorable results, returning 1.8% during the quarter, while all sectors earned positive returns. Credit spreads continued to decline, which added to the return of corporate bonds (+2.3%) and mortgage-backed securities (+1.5%).

The last quarter of the fiscal year started on a positive note as the majority of equity markets posted gains in April. The stabilizing jobs market, real GDP growth, and consumer-led demand contributed to a favorable U.S. investing climate during the month. Nevertheless, in May, equities significantly retreated for the month, wiping out gains from the previous quarter. Fears from the European debt crisis filtered through economies worldwide and dampened secular outlooks for the year. In the U.S., consumer confidence dipped in line with the lowest home buying rate since 1997, while May's unexpected downward revision of 1Q GDP to 3.0% further stressed local markets. Adding to investors diminishing confidence was what was dubbed "the Flash Crash", the nearly 10% decline in the U.S. stock market in the span of less than thirty minutes experienced on May 6, 2010. While the market recovered most of its losses by end of day, this event was very damaging to investors' confidence in the stability of automated trading.

Equities further declined in June, resulting in a negative quarter return. Job losses continued to be negative, reversing positive growth over the short-term. Investors remained concerned over the weak manufacturing and real estate markets in the U.S. as overall housing sales decreased 10.0% in the second half of the quarter and the home buying rate significantly decreased with the termination of the home buyer tax incentive in April. Other events causing added uncertainty in the markets and driving investors to less risky assets were Congress' proposal for tighter financial regulations; the SEC's filing of fraud charges against Goldman Sachs, the severity in the massive BP oil spill in the Gulf of Mexico, and the economic growth slowdown in China. Additionally, the weary fiscal climate in the European Union also weighed down on performance as the European debt crises worsened liquidity conditions. Greece and Spain experienced downgrades during the quarter and investors sought out highly-rated sovereign bonds. In efforts to stabilize the European banking system, the EU and IMF announced they would provide a $950 billion Euro safety net for troubled sovereigns in the region.

The S&P 500 Index declined 11.4% during the last quarter of the fiscal year, as investor confidence in a sustainable economic recovery continued to decline. Hurt by the European crisis, the MSCI EAFE Index fell approximately 14.0%. The MSCI Emerging Markets Index also experienced significant losses, returning -8.4% during the quarter. Conversely, the U.S. fixed income market fared well, gaining 3.5% during the quarter. Although risky assets were shunned by investors in favor of Treasuries, most fixed income assets posted positive returns. The FOMC met in April and kept the Federal Funds Rate target at 0.00% - 0.25%.

The table below shows the fiscal year and quarterly returns of major indices.

Industry Indices Performance Overview

Indices	FY 2009-10	First Quarter FY 2010	Second Quarter FY 2010	Third Quarter FY 2010	Fourth Quarter FY 2010
S&P 500	14.43%	15.61%	6.04%	5.39%	-11.43%
S&P 500 Citi Growth	12.59%	13.56%	7.76%	3.71%	-11.28%
S&P 500 Citi Value	16.40%	17.94%	4.22%	7.09%	-11.57%
Dow Jones U.S. Total Stock Market	16.13%	16.32%	5.81%	6.16%	-11.12%
Russell 2000	21.48%	19.28%	3.87%	8.85%	-9.92%
Russell 2000 Growth	17.96%	15.95%	4.14%	7.61%	-9.22%
Russell 2000 Value	25.07%	22.71%	3.63%	10.02%	-10.60%
MSCI EAFE	5.92%	19.47%	2.18%	0.87%	-13.97%
MSCI Emerging Markets	23.15%	20.91%	8.55%	2.40%	-8.37%
Barclays Aggregate	9.50%	3.74%	0.20%	1.78%	3.49%

U.S. Equity Overview for the Fiscal Year 2010

U.S. stocks as measured by the S&P 500 Index gained 14.4% during the fiscal year. All sectors produced positive returns during the fiscal year, as consumer discretionary and industrials were among the top performing sectors, returning 27.5% and 26.6% respectively. The energy (1.4%) and telecommunication services (2.1%) sectors were the lowest performing sectors. From a style perspective, value stocks outperformed growth stocks. On a size basis, small cap stocks outpaced their large cap counterpart. While the market rallied during the majority of the fiscal year, there was some pull back in the last quarter of the fiscal year. Riskier asset classes suffered during this quarter and volatility surged as the S&P 500 Index fell over 11%. As a result, volatility as measured by the VIX (Chicago Board Options Exchange Volatility Index) nearly doubled at fiscal year-end from March's closing price.

The Teachers Retirement System's domestic equity component gained 15.1% during the fiscal year, but trailed the Dow Jones U.S. Total Stock Market Index by 1.0 percentage point. Underperformance is attributed to below-benchmark results from its Small Cap Growth Domestic Equity manager. The Small Cap Value fund partially offset underperformance as it returned 29% during the fiscal year, compared to a 25% return from its benchmark. As of June 30, 2010, the System's domestic equity assets totaled $913.7 million and represented approximately 41% of the System's total cash, loans, and investments portfolio.

During the fiscal year, the Investment Committee approved the termination of two U.S. equity fund managers. Additional details are provided below in the Other Investments and Transactions section.

U.S. Fixed Income Overview for the Fiscal Year 2010

The U.S. fixed income market produced consistent positive returns during each of the quarters in the fiscal year, resulting in a 9.5% return. All underlying sectors also generated positive returns during the fiscal year, as commercial mortgages (+30.5%) and Corporates (+14.7%) were the top performing sectors. High yield bonds also performed well as the Barclays Capital U.S. High-Yield Index returned 26.8%. During the fiscal year, the FOMC met several times and kept the Federal Funds Rate target at 0.00% - 0.25%.

The System's fixed income component gained 11% during the year ended June 30, 2010, outperforming the Barclays Capital Aggregate Bond Index. At the end of the year, fixed income assets totaled $397 million, consisting of approximately 18% of the total cash, loans, and investment portfolio.

International Equity Overview for the Fiscal Year 2010

In line with U.S. equity and fixed income markets, but to a lesser extent, international equities generated positive results. The MSCI EAFE Index returned 5.9% during the fiscal year. Significantly weighing down on the international equities' performance was the European debt crises witnessed in the second half of the fiscal year. While the EU and IMF's $950 billion rescue package alleviated some investor concerns of a possible Greece default, concerns still remain about balance sheet problems for European banks. These situations extended from peripheral sovereign bonds (Portugal, Ireland, Italy, Greece, and Spain) to non-performing mortgage loans which fueled housing bubbles in Spain and Ireland.

Over the fiscal year, the System's international equity component advanced 8.6% outpacing the return of the MSCI EAFE Index by 2.7 percentage points. The growth bias manager strong outperformance outweighed the value bias manager with below-benchmark return. At the end of the fiscal year, the component had $381 billion in assets, representing 17% of the System's total cash, loans, and investment portfolio.

Total Fund Performance

The System returned 12.5% during the 2010 fiscal year and outperformed its policy benchmark by 1.8 percent. Outperformance is primarily attributed to a favorable absolute performance from the U.S. equity component coupled with positive absolute and relative results from the international equity and fixed income components. The System's total cash, loans, and investment portfolio as of June 30, 2010 were approximately $2.2 billion.

Other Investments and Transactions

At June 30, 2010 and 2009, the System held $410 million and $399 million in loans to participants, respectively, which as of June 2010 represents approximately 19% of the total cash, loans, and investment portfolio. As of June 30, 2010, these loans consisted of approximately $120 million in mortgage loans, $288 million in personal loans and $1 million in cultural trip loans. The loans to participants had a gross return of 9.34% for the fiscal year ended on June 30, 2010.

As of June 30, 2010, the System had participations in limited partnerships of private equity investments with an approximate value of $27 million, which represents approximately 1% of the total cash, loans, and investment portfolio.

The System earns additional investment income by lending investment securities to brokers via its custodian's securities lending program. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The cash collateral received from the brokers is invested in order to earn interest. For fiscal year 2009-2010, net income from the custodian's securities lending activity amounted to approximately $444,585.

In November 2009, the System hired a new investment consulting firm. Among other transition tasks, the new firm reviewed the investment manager structure of the System. Their focus was to minimize redundancies in strategies, evaluate performance, review fee structures, and identify organizational concerns. Additionally, they worked toward positioning the funds for potential asset allocation or strategy shifts keeping cost and liquidity issues at the forefront. As a result of their reviews, recommendations were made to the Committee to terminate the Large Cap domestic Equity Managers. The Investment Committee approved these recommendations and the managers were terminated during the fiscal year.

The firm also recommended the partial substitution of the S&P 500 Domestic Equity Index fund with a non-lending Russell 3000 Index Fund. The addition of this fund was recommended as it would provide low cost, broadly diversified exposure to the U.S. equity markets. It would also serve as a vehicle to hold assets from terminated managers and provide ready liquidity to meet the ongoing needs of the System. The Committee approved this recommendation and the fund was added in February 2010.

Funding Status

The System performs an actuarial valuation of its assets and obligations at least every other year. The most recent actuarial valuation was performed as of June 30, 2010. According to such valuation, the System's unfunded liability amounted to approximately $7.1 billion with a funding level of 24%.

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

Request for Information

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

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

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2010
(In thousands)

ASSETS:	
Cash and short-term investments:	
Cash	$ 24,019
Collateral for securities lending	48,673
Cash deposited with Government Development Bank for Puerto Rico	3,288
Total cash	75,980
Investments — at fair value:	
Bonds	397,109
Stocks	1,295,232
Total investments — at fair value	1,692,341
Other investments — private equity investments	26,683
Total investments	1,719,024
Loans to plan members:	
Mortgage	119,937
Personal	288,463
Cultural trips	1,481
Total loans to plan members	409,881
Total investments and loans	2,128,905
Accounts receivable:	
Receivable for investments sold	332
Accrued interest and dividends receivable	4,584
Other	56,085
Total accounts receivable	61,001
Capital assets — net	22,970
Other assets	832
Total assets	2,289,688
LIABILITIES:	
Investments purchased	2,722
Payables for securities lending	48,673
Cash overdraft with fiscal agent	2,199
Accounts payable	1,476
Accrued expenses	6,184
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	5,763
Other liabilities	694
Total liabilities	67,711
COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of funding progress is presented on page 35)	$2,221,977

See notes to basic financial statements.

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

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

ADDITIONS:	
Contributions:	
Participating employees	$ 129,888
Employer	118,127
Contributions transferred from other systems	1,265
Special	46,572
Total contributions	295,852
Investment income:	
Interest income	61,303
Dividend income	10,111
Net appreciation in fair value of investments	203,265
Total investment income	274,679
Less investment expense	4,735
Net investment income	269,944
Other income — net	53,771
Total additions	619,567
DEDUCTIONS:	
Benefits paid to participants:	
Annuities and death benefits	470,683
Special benefits	47,870
Refunds of contributions	7,847
Administrative expenses	28,783
Total deductions	555,183
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	64,384
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	2,157,593
End of year	$2,221,977

See notes to basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- Three ex-officio members, which are the Secretary of the Treasury, the Secretary of Education, and the President of the Government Development Bank for Puerto Rico (GDB), or their respective representatives.
- One member who is a representative of a teacher's organization designated by the Governor of the Commonwealth.
- Three teachers of the System, one of which represents currently certified teachers in active service, and two who represent retired teachers. These three teachers are appointed by the Governor of the Commonwealth.
- One member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended.
- One additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor of the Commonwealth of Puerto Rico.

As of June 30, 2010, the System has an unfunded actuarial accrued liability of approximately $7 billion, resulting in a funding ratio of 24%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the System will not be able to fully fund pensions in fiscal years beginning after June 30, 2020. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund the System.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission") to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions to improve the financial condition of the System.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, the System and the Commonwealth, with the assistance of the System's external consulting actuaries, concluded that annual increases in the employers' contribution rate will be required to fully fund pensions, without having to liquidate the System's investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of the System.

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

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

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

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

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

Investments — Investments are carried at fair value. The fair value of investments is based on quoted prices, if available. The System has investments valued at approximately $1,013,055,000 or 44% of total investments as of June 30, 2010, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers. Such investments include private equity investments and nonexchange traded mutual funds.

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

Loans to Plan Members — Mortgages, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. No allowance for uncollectible amounts has been established since loans to plan members are collected through payroll withholdings and secured by mortgage deeds, plan members' contributions, and any unrestricted amount remaining in the escrow funds. Maximum amounts that may be loaned to plan members for mortgage and cultural trip loans are $160,000 ($190,000 if the spouse is also a plan member) and $10,000, respectively. The maximum amount of personal loans to be granted to current participating employees is up to 90% of their accumulated contributions but not in excess of $15,000, and $7,000 in the case of retirees currently receiving benefits.

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

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

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

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

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

Recent Accounting Pronouncements —In June 2007, the GASB issued GASB Statement No. 51, *Intangible Assets*, which was effective for periods beginning after Jun 15, 2009. GASB Statement No. 51 establishes guidance on the recognition, accounting, and financial reporting for intangible assets. The adoption of this statement did not have a material effect on the System's financial statements.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which was effective for periods beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. GASB Statement No. 55 codifies all generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material effect on the System's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Contained in the AICPA Statements on Auditing Standards*, which was effective on issuance. The objective of GASB Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The adoption of this statement did not have a material effect on the System's financial statements.

In December 2009, the GASB issued GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting standards for all governments that have petitioned for relief under Chapter 9 of the U.S. Bankruptcy Code or have been granted relief under the provisions of Chapter 9, including governments that enter into bankruptcy and are not expected to emerge as a going concern. The adoption of this statement did not have a material effect on the System's financial statements.

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2010:

a. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010.

b. GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for financial statements for periods beginning after June 15, 2011.

c. GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for financial statements for periods beginning after June 15, 2010.

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

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

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

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

2. PLAN DESCRIPTION

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

As of June 30, 2010, the membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	34,373
Current participating employees	44,679
Total membership	79,052

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

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

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

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

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

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

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

Death Benefits:

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

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

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

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

Special Benefits — Special benefits include the following:

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

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

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

- Cost-of-living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth. The Legislature did not approve this benefit increase.

3. FUNDING POLICY

The law requires the employer to contribute 8.5% of the applicable payroll. Participating employees are required to contribute 9% of their compensation. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs. The employer and participants' contributions will be evaluated at least every five years.

The special contributions of approximately $46,572,000 in 2010 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws.

Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2010, using the entry age normal actuarial cost method. Significant assumptions underlying the actuarial computations include (a) assumed rate of return on investments of 8%, net of investment expense; (b) assumed compound rate of wage increases of 3.5% per year; and (c) assumed mortality rate based on the Group Annuity Table for 2000.

The actuarial accrued liability (AAL) as of June 30, 2010, was approximately $9,280 million. As of June 30, 2010, the unfunded actuarial accrued liability (UAAL) was approximately $7,058 million.

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Value of Plan Assets	AAL	UAAL	Funded Ratio	Annual Covered Payroll	UAAL Percentage of Annual Covered Payroll
$2,222,000	$9,280,000	$7,058,000	24 %	$1,370,000	515 %

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

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal
Amortization	30 years closed, level percent of payroll
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	3.5% general wage inflation, plus a service-based merit increase
Inflation	2.50%
Cost-of-living adjustment	None

5. DEPOSITS AND INVESTMENTS

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

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

As of June 30, 2010, approximately $75 million of the depository bank balance of approximately $77 million was uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash	$ 4,763	$ 5,952	$ 3,448
Cash equivalents	19,256	19,256	19,256
Collateral for securities lending	48,673	48,673	48,673
Cash deposited with GDB	3,288	3,288	3,288
Total	$75,980	$77,169	$74,665

As of June 30, 2010, uninsured and uncollateralized cash and cash equivalents amounting to $3.4 million and $19.3 million, respectively, represent cash and highly liquid short-term investments held by the System's custodian bank. Collateral received from securities lending transactions amounting to approximately $48.7 million were invested in a short-term investment fund sponsored by the System's custodian bank. These deposits are exempt from the collateral requirement established by the Commonwealth.

Investments — The market value of the investments in marketable securities held by the System as of June 30, 2010, is as follows (in thousands):

Bonds:	
U.S. government and sponsored agencies' securities	$ 193,392
U.S. corporate bonds	203,717
Total bonds	397,109
Stocks:	
U.S. corporate stocks	130,676
Non-U.S. corporate stocks	178,184
Non-exchange traded mutual funds:	
U.S.	783,144
Non-U.S.	203,228
Total stocks	1,295,232
Private equity investments	26,683
Total investments	$1,719,024

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Following is a description of these risks as of June 30, 2010:

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2010, securities investments were registered in the name of the System and were held in the possession of the custodian bank, except for securities lent.

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

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $28,137,000 of U.S. Treasury notes and approximately $25,885,000 of mortgage-backed securities (MBS) guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government.

Moody's credit ratings of bonds as of June 30, 2010, excluding U.S. Treasury notes and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. sponsored agencies MBS	$ 112,599
Aaa	U.S. sponsored agencies	24,577
Aaa	Asset-backed securities	1,603
		138,779
Aa1	Mortgage-backed securities	448
Aa2	Corporate bonds	8,599
Aa2	U.S. government issues	162
		8,761
Aa3	Corporate bonds	4,412
A1	Corporate bonds	16,610
A2	Corporate bonds	39,492
A3	Corporate bonds	32,744
Baa1	Corporate bonds	45,691
Baa2	Corporate bonds	31,013
Baa2	Mortgage-backed securities	156
		31,169
Baa3	Corporate bonds	16,562
Ba1	Corporate bonds	987
Ba1	Mortgage-backed securities	599
		1,586
Ba3	Corporate bonds	1,144
B2	Asset-backed securities	5
	Subtotal	337,403

Moody's Rating	Investment Type	Fair Value
B3	Asset-backed securities	393
C	Asset-backed securities	31
C	Mortgage-backed securities	21
		52
CA	Asset-backed securities	76
CA	Mortgage-backed securities	9
		85
CAA1	Asset-backed securities	181
CAA1	Mortgage-backed securities	1,050
		1,231
Caa3	Mortgage-backed securities	15
NR	Corporate bonds	1,032
NR	Mortgage-backed securities	95
NR	U.S. government issues	2,032
		3,159
WR	Corporate bonds	749
	Total bonds and notes	$ 343,087

(Concluded)

Concentration of Credit Risk — There are no investments in any one issuer that represent 5% or more of total investments as of June 30, 2010. The System's investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

The System owns shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund") and in the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"). As of June 30, 2010, the System's owned 1,636,638 and 45,645,075 shares of the S&P 500 Fund and in the Russell 3000 Fund, respectively. As of June 30, 2010, the fair value of the System's investment in shares of the S&P 500 Fund and in Russell 3000 Fund amounted to approximately $345,864,000 and $437,280,000, respectively. The investment objective of the S&P 500 Fund and the Russell 3000 Fund is to match the return of the Standard & Poor's 500 Index and the Russell 3000, respectively.

As of June 30, 2010, the investments underlying the S&P 500 Fund and the Russell 3000 had the following sector allocations, respectively:

Sector	S&P 500 Fund	Russell 3000 Fund
Information technology	19 %	18 %
Financial	16	17
Health care	12	12
Consumer staples	12	10
Energy	11	10
Industrials	10	11
Consumer discretionary	10	11
Utilities	4	4
Telecommunication services	3	3
Materials	3	4

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

The contractual maturity of investments in debt securities of the System as of June 30, 2010, is summarized as follows (in thousands):

			Investment Maturities (in Years)			
	Maturity From	Fair Value	Less Than 1	1 to 5	More Than 5 to 10	More Than 10
U.S. government and sponsored agencies securities	2010–2039	$193,392	$ 8,963	$33,475	$ 14,012	$136,942
Corporate bonds	2010–2051	203,717	2,637	44,587	60,566	95,927
Total bonds		$397,109	$ 11,600	$78,062	$ 74,578	$232,869

As of June 30, 2010, the percentages of investment maturities by category are as follows:

Maturity	Maximum Maturity
Less than one year	3 %
One to five years	19
More than five to ten years	19
More than ten years	59

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

Investments and deposits exposed to foreign currency risk as of June 30, 2010, are as follows:

Investment Type	Local Currency	Fair Value (in Thousands)
Foreign currency	Pound Sterling	$ 3,358
Foreign currency	Japanese Yen	115
Foreign currency	Hong Kong Dollar	32
Total cash exposed to foreign currency risk		$ 3,505
Shares in a commingled fund	Various (refer to countries below)	$ 203,228
Common stock	Australian Dollar	8,768
Common stock	Danish Krone	10,172
Common stock	Euro Currency	33,421
Common stock	Hong Kong Dollar	9,350
Common stock	Japanese Yen	39,865
Common stock	Norwegian Krone	1,774
Common stock	Pound Sterling	38,558
Common stock	Singapore Dollar	3,153
Common stock	South Korean Won	1,267
Common stock	Swedish Krona	14,188
Common stock	Swiss Franc	15,729
Mutual funds	Turkish Lira	1,939
Total securities exposed to foreign currency risk		381,412
Common stock	U.S. Dollar	912,264
Preferred stock	U.S. Dollar	1,556
		913,820
Total		$1,295,232

The System owns shares in an international equity commingled fund. As of June 30, 2010, the System owned approximately 7,258,160.69 shares that represent 38% of the total commingled fund, which had countries weightings as follows:

	Currency	Percentage
Europe:		
Finland	Euro (various)	1.1 %
France	Euro (various)	8.6
Germany	Euro (various)	4.7
Greece	Euro (various)	0.7
Ireland	Euro (various)	0.1
Italy	Euro (various)	1.7
Netherlands	Euro (various)	3.1
Norway	Norwegian Krone	0.9
Spain	Euro	5.9
Switzerland	Swiss Franc	9.0
United Kingdom	Pound Sterling	15.2
Total Europe		51.0
Pacific Basin:		
Australia	Australian Dollar	6.9
Hong Kong	Hong Kong Dollar	4.0
Japan	Japanese Yen	22.9
Total Pacific Basin		33.8
Total emerging markets	Various	6.6
Canada total equities	Canada Dollar	8.6
Total equity		100 %

Investments in Limited Partnerships — The System invested approximately $109,000 in limited partnerships during the fiscal year ended June 30, 2010. The investments were as follows:

- During the fiscal year 2010, there were no contributions to Guayacán Fund of Funds, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc., as general partner, in which the System has a total commitment of $20 million. The Fund has commitments to invest in 15 U.S.-based and international venture partnerships and ties local pension funds with the private equity asset class without the risks inherent in geographically constrained investments.

- During the fiscal year 2010, there were no contributions to Guayacán Fund of Funds II, L.P., a Delaware limited partnership created by Grupo Guayacán, Inc., as general partner, in which the System has a total commitment of $25 million. The fund seeks to provide investors with a superior investment return and extensive diversification by investing in 19 private equity investment partnerships in the United States and Europe. The fund also invests a portion of its assets in a Puerto Rico-based Private Equity investment entity.

- During the fiscal year 2010, there were no contributions to Guayacán Private Equity Fund, a limited partnership organized pursuant to the laws of the State of Delaware and authorized to engage in business in the Commonwealth, in which the System has a total commitment of $5 million. The purpose of the partnership is to make equity investments in privately held companies as established in its charter.

- During the fiscal year 2010, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC, as general partner, in which the System has a total commitment of approximately $5.5 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily United States and international funds that focus on both early- and later-stage venture capital investments.

- During the fiscal year 2010, there were no contributions to Invesco Non-U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC, as general partner, in which the System has a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non-U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During the fiscal year 2010, there were no contributions to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC, as general partner, in which the System has a total commitment of approximately $3.7 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily investments focusing on small, midsize and large domestic buyout transactions.

- During the fiscal year 2010, $108,825 were invested in Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc., as investment manager, in which the System has a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors, including buyouts, growth equity, venture capital, and other special situations through partnership investments and direct investments.

The fair value of these investments at June 30, 2010, amounted to approximately $27 million and is presented within other investments in the basic statement of plan net assets. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements.

As of June 30, 2010, the System had capital commitments and contributions as follows (in thousands):

	Total Commitments	Fiscal Year Contributions	Cumulative Contributions	Fair Value
Guayacán Fund of Funds, L.P.	$20,000	$ -	$19,056	$ 2,994
Guayacán Fund of Funds II, L.P.	25,000		23,681	8,883
Guayacán Private Equity Fund, L.P.	5,000		4,645	4,364
Invesco Venture Partnership, L.P. Fund III, L.P.	5,498		4,731	2,883
Invesco Non-U.S. Partnership Fund III, L.P.	4,500		4,034	760
Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P.	3,716		3,186	2,110
Chase Capital Partners Private Equity Fund of Funds II, LTD	15,000	109	14,477	4,689
Total	$78,714	$109	$73,810	$26,683

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

At year-end, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2010, the collateral received represented 102.46% of the fair value of the domestic securities lent and 105.37% of the fair value of the international securities lent.

The securities on loan for which collateral was received as of June 30, 2010, consisted of the following:

Securities Lent	Fair Value
U.S. corporate stock	$20,355,652
U.S. government and sponsored agencies' securities	18,828,376
U.S. corporate bonds	3,278,990
Non-U.S. corporate stock	4,905,680
Total	$47,368,698

The underlying collateral for these securities had a fair value of approximately $48,672,545 as of June 30, 2010. The collateral received was invested in a money market fund sponsored by the custodian bank and is included as part of cash and cash equivalents in the accompanying 2010 basic statement of plan net assets. As of June 30, 2010, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	67.15 %
Time deposits	15.34
Floating rate notes	12.47
Commercial paper	3.69
Certificates of deposit	1.29
Asset-backed fixed	0.06

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

6. CAPITAL ASSETS

Capital assets additions are recorded at cost. Depreciation is provided using the straight-line method over the useful life of the asset. For the year ended June 30, 2010, changes in capital assets consisted of the following (in thousands):

	Estimated Useful Life (in Years)	Balance — June 30, 2009	Additions	Retirements	Balance — June 30, 2010
Depreciable capital assets:					
Building	40	$ 26,008	$ -	$ -	$ 26,008
Furniture and equipment	4–10	1,914	136	(140)	1,910
Computers and software	5	4,534	5,303	(176)	9,661
Capital leases	5	106			106
Building improvements	10	39			39
Vehicles	5	42			42
Total depreciable capital assets		32,643	5,439	(316)	37,766
Accumulated depreciation and amortization		(13,174)	(2,244)		(15,418)
Not depreciable — project in progress		6,698	553	(6,629)	622
Capital assets — net		$ 26,167	$ 3,748	$ (6,945)	$ 22,970

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

7. OTHER ASSETS

As of June 30, 2010, other assets consisted of repossessed and in-substance foreclosed properties amounting to approximately $832,000. Repossessed and in-substance foreclosed properties consist mainly of properties acquired or to be acquired upon foreclosure proceedings as collateral from delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance.

8. LINE OF CREDIT

The System has a line of credit with the GDB of $15,000,000, which is due on October 31, 2010, and is guaranteed by a pool of investments of the System. As of June 30, 2010, the System has no outstanding balance under this line of credit.

9. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

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

10. SPECIAL BENEFITS AND HEALTHCARE BENEFITS

The Commonwealth provides through the System certain special benefits (see Note 2) to retirees that are funded on a pay-as-you-go basis. As a result, these special benefits are 100% unfunded. During the year ended June 30, 2010, the System received contributions for special benefits amounting to approximately $46.6 million and paid special benefits of approximately $47.9 million.

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

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

For the period from 2004 to 2010, there has been a shortage of legislative appropriations collected over special benefits and Healthcare Benefits paid of approximately $491,000. The accumulated balance of special benefits and Healthcare Benefits paid and legislative appropriations made by the Commonwealth from 2004 through 2010 are as follows (in thousands):

Fiscal Year	Legislative Appropriations	Healthcare	Special Benefits Paid	Total	Balance	Cumulative Balance
2004	$42,682	$17,314	$31,745	$49,059	$(6,377)	$(6,377)
2005	62,883	23,626	31,829	55,455	7,429	1,051
2006	61,619	25,217	31,485	56,703	4,916	5,968
2007	57,960	26,247	33,025	59,272	(1,312)	4,655
2008	68,168	28,266	43,218	71,484	(3,316)	1,340
2009	75,548	29,333	46,747	76,080	(533)	807
2010	76,733	30,161	47,870	78,031	(1,298)	(491)

11. COMMITMENTS

The System leases office facilities for the operation of its regional offices (Ponce, Mayagüez, Arecibo, Humacao, and Caguas) under operating lease agreements, which expire at different dates through 2012.

The minimum future payments under the existing operating leases as of June 30, 2010, are as follows (in thousands):

Year Ending June 30	Amount
2011	$251
2012	82
Total	$333

12. CONTINGENCIES

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

Gain Contingency — The System, besides receiving contributions from participants and the plan sponsor, also receives legislative appropriations from special laws to cover the increase in benefits to retired teachers. Act No. 62 of September 4, 1992, as amended, establishes an increase of 3% in pension annuities every three years for those members who meet the requirements. In addition, there have been other laws that granted benefits, such as, Summer and Christmas bonuses, among others. Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislature appropriations. Nevertheless, the costs of pension benefits that increased from 1992 to 2004, were not received in full by the System from legislative appropriations. The System had to cover $119,575,193 from its resources that should have been received through special laws.

On May 31, 2004, the System made a claim with the Office of Management and Budget of the Commonwealth (the "OMB") to collect this amount as per a resolution approved by the Board. During 2009, the Department of Education of the Commonwealth paid $12,189,925 that was part of the amounts claimed to OMB.

On April 23, 2010, the OMB and the System settled the claim for $53,820,291, which has been included as part of other income—net in the accompanying statement of changes in plan net assets. OMB will pay the debt over five fiscal years starting on fiscal year 2011. OMB will make four installments of $10,764,058 and a final installment of $10,764,059. The receivable from OMB has been included as part of accounts receivable in the accompanying statement of plan net assets. In July 2010, the System collected the first installment.

13. CONTINGENCIES

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' annual monthly salary. Economic incentives are available to all eligible employees and will consist of a lump-sum payment ranging from one-month to six-month salary. Additionally, all employees that choose to participate in this program are eligible to receive health plan coverage for up to 12 months in a health plan selected by the Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administrator"). Eligible employees may elect to participate in this program within 30 days after a date to be determined by the Administrator, no later than December 31, 2012.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010
(In thousands)

	Pension Plan		
Year Ended June 30	**Annual Required Contribution**	**Actual Employer Contribution**	**Percentage of Contribution**
2010	$477,213	$166,384	34.87 %
2009	393,871	172,841	43.88
2008	341,495	159,101	46.59
2007	341,160	147,597	43.26
2006	220,821	150,215	68.03
2005	220,821	151,690	68.69

See notes to schedules.

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

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2010
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	UAAL Percentage of Annual Covered Payroll
Pension Plan						
June 30, 2010	$ 2,222,000	$ 9,280,000	$ 7,058,000	24 %	$ 1,370,000	515 %
June 30, 2009	2,158,000	8,722,000	6,564,000	25	1,418,000	463
June 30, 2008		Not determined			Not determined	
June 30, 2007	3,163,000	7,756,000	4,593,000	41	1,370,000	335
June 30, 2006		Not determined			Not determined	
June 30, 2005		Not determined			Not determined	
June 30, 2004	2,403,000	4,702,000	2,299,000	51	1,294,000	178

See notes to schedules.

1. SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

2. SCHEDULE OF FUNDING PROGRESS

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

* * * * * *