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, 2011, Required Supplementary Information as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

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, 2011, Required Supplementary Information as of and for the Year Ended June 30, 2011, 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 Chardon
350 Chardon Avenue, Ste. 700
San Juan, PR 00918
USA

Tel: +1 787 759 7171
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Puerto Rico System of Annuities and Pensions for Teachers (the "System"), a pension trust fund of the Commonwealth of Puerto Rico, as of June 30, 2011, 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, 2011, 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's unfunded actuarial liability and funded ratio as of June 30, 2011, were approximately $9 billion and 21%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the System's net assets will be exhausted by the fiscal year 2022, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System.

Deloitte & Touche LLP

April 27, 2012

Stamp No. E26152
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, 2011. 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

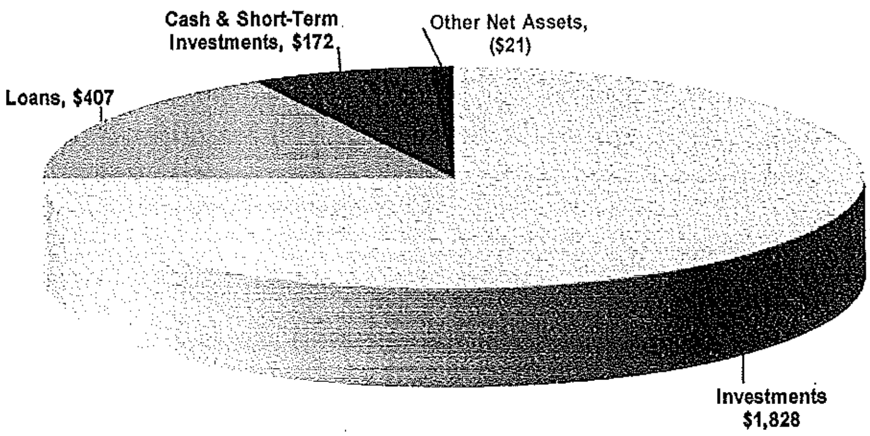
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System's net assets increased from approximately $2,222 million as of June 30, 2010 to $2,386 million as of June 30, 2011. The increase was primarily due to the net appreciation in the fair value of the System's investment portfolio. The amount of $2,386 million in total net assets consists of the following:

- $1,828 million in investments
- $407 million in loans to plan members
- $172 million in cash and short-term investments
- ($21) 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 $2,386 million (net assets) for the fiscal year ended June 30, 2011, when compared to the prior year which assets exceeded liabilities by $2,222 million.

- The fair value of the System's investments (excluding loans to participants) at June 30, 2011, amounted to $1,828 million, compared to $1,719 million at June 30, 2010.

- The System's funded ratio of the actuarial accrued liability at June 30, 2011, was 21%.

The following schedules present comparative summary financial statements of the System's net assets and changes in net assets for fiscal years 2011 and 2010:

Summary Comparative Statements of Plan Net Assets

	2011	2010	Amount of Change	Percentage Change
	(In thousands)			
Assets:				
Cash and short term investments	$ 171,608	$ 75,980	$ 95,628	126 %
Investments — at fair value and loans	2,235,147	2,128,905	106,242	5
Accounts receivable	51,185	61,001	(9,816)	(16)
Capital assets	22,204	22,970	(766)	(3)
Other assets	472	832	(360)	(43)
Total assets	2,480,616	2,289,688	190,928	8
Liabilities:				
Accounts payable and accrued liabilities	14,851	7,660	7,191	94
Insurance reserve for loans to plan members and investments settlements	8,023	8,485	(462)	(5)
Other liabilities	71,879	51,566	20,313	39
Total liabilities	94,753	67,711	27,042	40
Net assets held in trust for pension benefits	$2,385,863	$2,221,977	$ 163,886	7

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

The increase in fair value of investments is primarily attributable to the market conditions experienced during fiscal year 2011. The System's total investments return improved from 12.5% in 2010 to 21.5% in 2011. Detailed information regarding the investment portfolio is included in the Investment Portfolio and Capital Markets Overview section.

The increase in accounts payable and accrued liabilities is primarily due to the implementation of a voluntary termination benefits program for the employees of the System, which resulted in an increase in liabilities of approximately $7.5 million. The increase in other liabilities is mainly due to payables to independent brokers under the securities lending program.

Summary Comparative Statements of Changes in Plan Net Assets

	Years Ended June 30, 2011	2010	Amount of Change	Percentage Change
	(In thousands)			
Additions:				
Contributions	$ 283,949	$ 295,852	$ (11,903)	(4)%
Investment income	481,164	269,944	211,220	78
Other income	968	53,771	(52,803)	(98)
Total additions	766,081	619,567	146,514	24
Deductions:				
Benefits paid to participants	570,625	526,400	44,225	8
Administrative expenses	31,570	28,783	2,787	10
Total deductions	602,195	555,183	47,012	8
Net increase in net assets held in trust for pension benefits	163,886	64,384	99,502	155
Net assets held in trust for pension benefits:				
Beginning of year	2,221,977	2,157,593	64,384	3
End of year	$2,385,863	$2,221,977	$ 163,886	7

Summary Comparable Statements of Changes in Plan Net Assets Analysis

During the fiscal year 2011, 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 2011 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 $422 million for fiscal year 2011.

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

The public discussions regarding the financial condition of the System, together with the recommendations of the financial sectors to alleviate the situation, prompted more teachers to retire during fiscal year 2011 versus fiscal year 2010. During the preceding years, the System has been experiencing an average of 1,000 to 1,200 new retirees per year. However, during fiscal year 2011, the System experienced over 2,000 new retirees.

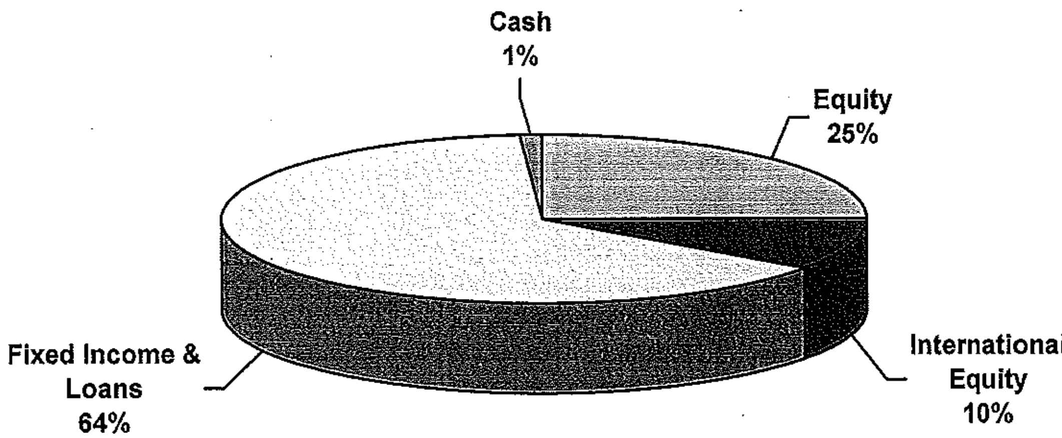
Financial Analysis of the System

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, 2011, amounted to approximately $2,386 million, an increase of approximately $164 million from approximately $2,222 million at June 30, 2010. 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 2011, employer and member contributions decreased by approximately $13 million, from approximately $249 million during fiscal year 2010 to approximately $236 million during fiscal 2011. The System recognized a net appreciation in the fair value of investments of approximately $422 million for fiscal year 2011.

The System administrative expenses increased by approximately $3 million during fiscal year 2011, mainly due to the implementation of the voluntary termination benefits program, partially offset by a decrease in the cost of terminated projects and other expenses.

System's Investment Portfolio and Capital Markets Overview

During the fiscal year ended June 30, 2011, the System considered changes to the target asset allocation and manager structure. The System's asset allocation generated a gross return of 21.5% for the fiscal year ended June 30, 2011. The target asset allocation is as follows:



Economy and Capital Markets Overview

Major capital markets worldwide posted strong returns during the fiscal year ended June 30, 2011, following double digit gains from the previous fiscal year. The 2011 fiscal year started on a positive note as markets rallied from significant declines witnessed during Q2 2010 and remained strong throughout Q2 2011, experiencing two consecutive quarters of positive returns. However, markets cooled off during the last quarter of the fiscal year, as many challenges including concerns with Eurozone debt problems, the economic and environmental disaster in Japan, and political unrest in the Middle East and Northern Africa continued to weigh down on performance.

U.S. equity markets rebounded strongly during the 2011 fiscal year as a result of improving corporate earnings. 1Q 2011 marked the ninth consecutive quarter of better-than-expected earnings results from companies in the S&P 500 Index while 2Q 2011 results were also favorable. These positive corporate earnings were mostly attributed to higher than forecasted revenue levels, instead of the results of cost cutting initiatives. Strong balance sheets also favored performance. According to Goldman Sachs, U.S. companies held more than $1 trillion in cash at the end of 2010.

While the Eurozone debt crisis partially subsided shortly after Greece received a €110 billion loan from the International Monetary Fund (IMF) and European Union (EU) in May 2010, it continued to weigh down on markets during the 2011 fiscal year. Irish banks continued to struggle and Ireland received a €85 billion bailout agreement from the IMF and EU at the end of November 2010. Similarly, Portugal could not withstand ongoing financial pressures and in May 2011, it received a €78 billion bailout package from the IMF, the European Financial Stabilization Mechanism, and the European Financial Stability Facility. Ireland and Portugal's credit ratings were significantly tarnished by the bailout aide received and were given a junk credit rating by Moody's.

On March 2011, Japan was devastated by an earthquake that wrecked the country and sent markets plummeting. The earthquake destroyed the country's infrastructure and factories which halted exports from many of the technology and automotive companies. Japan's energy supply was also significantly reduced as a result of collapsed nuclear plants. Growing fears over radiation leaks at a nuclear power plant and the economic effects of the earthquake caused investors to move towards safer investments of cash and government bonds.

Further impacting global markets were protests and demonstrations across the Middle East and North Africa during December 2010 and throughout 2011, which became known as the "Arab Spring". Citizens of these countries were protesting against high unemployment, rising food prices, and corruption which hindered the economic development of the countries in this area. Middle Eastern markets witnessed an outflow of funds as investors moved funds to European and North American markets. Additionally, oil production was brought to a halt by the turmoil and political unrest in the Middle East, which included a civil war in Libya. Oil prices continued to rise as violence in Libya intensified; and fears of supply disruptions drove up energy prices.

In summary, the US government continued its intervention to avoid a double dip recession during uncertain market conditions. On December 2010, the Federal Open Market Committee (FOMC) decided to continue to expand its holdings of long-term Treasury securities to promote a stronger pace of economic recovery in order to bring down unemployment and to help insure that inflation levels remain consistent. Furthermore, the U.S. Federal Reserve (Fed) maintained its funds target rate at 0%-0.25%. Justifications for holding the rate steady were low rates of resource utilization, subdued inflation trends, and stable inflation expectations. During Q3 2011, we started seeing a major reduction in the performance of equity markets due to the continuance of the recession and the Euro zone debt crisis. Additionally, the EU and IMF provided bailout packages to Ireland and Portugal totaling €163. The European Commission proposed increasing the EU's bailout contributions, which eased investors' concerns that sovereign debt issues would continue to spread throughout the region.

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

Industry Indexes Performance Overview

Indexes	FY 2010-11	First Quarter FY 2011	Second Quarter FY 2011	Third Quarter FY 2011	Fourth Quarter FY 2011
Dow Jones U.S. Total Stock Market	32.44%	11.51%	11.67%	6.37%	-0.01%
S&P 500	30.69%	11.29%	10.76%	5.92%	0.10%
S&P 500 Citi Growth	33.53%	12.63%	11.02%	5.07%	1.64%
S&P 500 Citi Value	27.90%	9.98%	10.51%	6.80%	-1.47%
Russell 3000	32.37%	11.53%	11.59%	6.38%	-0.03%
Russell 2000	37.41%	11.29%	16.25%	7.94%	-1.61%
Russell 2000 Growth	43.49%	12.83%	17.11%	9.24%	-0.59%
Russell 2000 Value	31.35%	9.72%	15.36%	6.60%	-2.65%
MSCI EAFE	30.36%	16.48%	6.61%	3.36%	1.56%
MSCI Emerging Markets	27.80%	18.03%	7.34%	2.05%	-1.15%
Barclays Aggregate	3.90%	2.48%	-1.30%	0.42%	2.29%

U.S. Equity Overview for the Fiscal Year 2011

The U.S. stocks as measured by the Dow Jones U.S. Total Stock Market Index gained 32.4% during the fiscal year. All sectors produced positive returns during the fiscal year, as basic materials and industrials were among the top performing sectors. From a style perspective, growth stocks outpaced value stocks. On a size basis, small cap stocks continued to outperform their large cap counterparts. Markets rallied during the majority of the fiscal year, but there was some pull back in the last quarter. While volatility persisted throughout the fiscal year, volatility at the fiscal year end, as measured by the VIX (Chicago Board Options Exchange Volatility Index), was half of what it was at the beginning of the fiscal year.

The System's domestic equity component gained 33.0% during the fiscal year, outperforming the Dow Jones U.S. Total Stock Market Index by 0.6 percentage points. Outperformance is attributed to above-benchmark results from the component's two active managers, North Pointe Capital and Fisher Investments. As of June 30, 2011, the System's domestic equity assets totaled $950.2 million and represented approximately 43% of the System's total assets, including loans.

U.S. Fixed Income Overview for the Fiscal Year 2011

The U.S. fixed income market produced positive returns for the majority of the fiscal year, resulting in a 3.9% return. All underlying sectors also generated positive returns during the fiscal year as commercial mortgages and Corporates were the top performing sectors. High yield bonds also performed well as the Barclays Capital Corporate High-Yield Index returned 15.6%. 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 4.7% during the one year ended June 30, 2011, outperforming the Barclays Capital Aggregate Bond Index. Taplin, Canida, & Habacht contributed the most to the outperformance.

The State Street Global Advisor Intermediate Credit Index Non Lending Fund (the "SSgA Intermediate Fund") was added to the System during the third quarter of the 2011 fiscal year. This was in line with the Investment Committee's decision on December 2010 to de-risk the System's portfolio based on its particular financial circumstances. Additional details are provided below in the Other Investments and Transactions section.

International Equity Overview for the Fiscal Year 2011

In line with U.S. equity, international equities generated positive results. The MSCI EAFE Index returned 30.4% during the fiscal year, amid many challenges including concerns over the European Crisis and the aftermath of the devastating Japan earthquake. Additionally, there was continued political unrest in Syria and Egypt, as well as the full-on intervention of NATO in Libya.

Over the fiscal year, the System's international equity component advanced 30.2% in line with the MSCI EAFE Index return of 30.4%. Net underperformance by active managers (primarily Invesco) contributed to some underperformance. Approximately $200 million ($100 million from each manager) were redeemed from this component during Q1 2011 in line with the System's new targeted policy allocations (additional details are provided below in the Other Investments and Transactions section.) At the end of the fiscal year, the component had $264.2 million in assets, representing 11% of the System's total assets.

Total System Performance

The System returned 21.5% during the 2010-2011 fiscal year and outperformed its policy benchmark by 3.2 percentage points. Outperformance was mostly the result of a favorable absolute performance from the U.S. equity component and the new portfolio allocation target for the domestic equity component (additional information on the new policy targets can be found in the Other Investments and Transactions section below.) The System's total assets including loans as of June 30, 2011, were approximately $2.5 billion.

Other Investments and Transactions

As of June 30, 2011, the System held approximately $407 million in loans to participants, which represented 19% of the total portfolio's assets. Loans were lower than the $410 million held one year ago.

At the end of the 2011 fiscal year, the System had some exposure on private equity investments, which were valued at approximately $26 million and represented 1% of the total portfolio.

On December 2010, the Investment Committee accepted the recommendation of an external consultant to reduce the risk in the System's portfolio, based on its financial circumstances, resulting in new policy target allocations. The new policy targets significantly reduced equity allocations as shown in the table below and became effective on December 1st, 2010.

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

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

The Investment Committee agreed to gradually transition the portfolio over several quarters to its targeted allocations. The following transactions were made during the second half of the fiscal year in order to bring the portfolio closer to its target allocation.

- $170 million was transferred from the SSgA S&P 500 Index Fund to fund the SSgA Intermediate Fund in February 2011.

- A total of $200 million, $100 million from each Invesco and Baillie Gifford, was withdrawn in June 2011. $50 million was transferred to the SSgA Intermediate Fund and $90 million was used for operational transactions. The remaining proceeds were in the System's transition account as of June 30, 2011 and were transferred to the SSgA Intermediate Fund and the Mesirow Intermediate Government/Credit Fixed Income Fund in July 2011.

As part of the de-risking process, the Investment Committee also accepted the consultant's recommendation to transition the System's fixed income portfolio to a more appropriate composition, focusing on good quality and investment grade credit, with intermediate to low duration. This was determined to be an intermediate credit mandate which would be implemented through a passive fund, the SSgA Intermediate Fund, and active portfolio(s). In addition, the consultant reviewed the capabilities of System's fixed income managers and recommended altering Taplin's mandate from the current structure (benchmarked to the Barclays Capital Aggregate Bond Index) to a mandate benchmarked to the Barclays Capital Intermediate Credit Index. Furthermore, the consultant recommended adding another active manager. As of June 30, 2011, there was no active intermediate credit mandates in the System, but would be added in Q3 2011.

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, 2011. According to such valuation, the System's unfunded liability amounted to approximately $9 billion, with a funding level of 21%.

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, 2011
(In thousands)

ASSETS:	
Cash and short-term investments:	
Cash	$ 97,269
Cash with fiscal agent	110
Collateral for securities lending	70,938
Cash deposited with Government Development Bank for Puerto Rico	3,291
Total cash	171,608
Investments — at fair value:	
Bonds and notes	366,995
Stocks	284,785
Non-exchange traded mutual funds	1,151,073
Total investments — at fair value	1,802,853
Other investments — private equity investments	25,630
Total investments	1,828,483
Loans to plan members:	
Mortgage	128,312
Personal	276,692
Cultural trips	1,660
Total loans to plan members	406,664
Total investments and loans	2,235,147
Accounts receivable:	
Receivable for investments sold	2,320
Accrued interest and dividends receivable	3,982
Other	44,883
Total accounts receivable	51,185
Capital assets — net	22,204
Other assets	472
Total assets	2,480,616
LIABILITIES:	
Investments purchased	1,701
Payables for securities lending	70,938
Accounts payable	1,530
Accrued expenses	13,321
Escrow funds of mortgage loans and guarantee insurance reserve for loans to plan members	6,322
Other liabilities	941
Total liabilities	94,753
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of funding progress is presented on page 34)	$ 2,385,863

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, 2011
(In thousands)

ADDITIONS:	
Contributions:	
Participating employees	$ 123,297
Employer	112,071
Contributions transferred from other systems	828
Special	47,753
Total contributions	283,949
Investment income:	
Interest income	57,008
Dividend income	6,915
Net appreciation in fair value of investments	421,923
Total investment income	485,846
Less investment expense	4,682
Net investment income	481,164
Other income — net	968
Total additions	766,081
DEDUCTIONS:	
Benefits paid to participants:	
Annuities and death benefits	513,874
Special benefits	48,286
Refunds of contributions	8,465
Administrative expenses	31,570
Total deductions	602,195
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	163,886
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	2,221,977
End of year	$2,385,863

See notes to basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

As of June 30, 2011, the System has an unfunded actuarial accrued liability of approximately $9 billion, resulting in a funding ratio of 21%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the System's assets will be exhausted by the fiscal year. 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 created the Special Commission on the Retirement Systems Reform (the "Commission") in 2010 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.

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. As a result of such determination, the Commonwealth approved Act. No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

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

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

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

Use of Estimates — The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits, 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 $25,630,000 or 1% of total assets as of June 30, 2011, 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 $20,000; and in the case of retirees currently receiving benefits is $7,000.

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

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

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

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

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

Recently Issued Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2011:

a. 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.

b. 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.

c. *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.

d. 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 Dec*ember 15, 2011.*

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

f. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision-an amendment of GASB Statement No. 53,* which is effective for financial statements for periods beginning after June 15, 2011.

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

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

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, 2011, the membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	35,361
Current participating employees	43,402
Total membership	78,763

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.

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

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

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

3. FUNDING POLICY

Participating employees are required to contribute 9% of their compensation to the System, while the employer was required to contribute 8.5% of the applicable payroll until June 30, 2011. However, as discussed in Note 1, Act. No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2012 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the System's pension benefit obligations and administrative costs.

The special contributions of approximately $47,753,000 in 2011 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, 2011, using the entry age normal actuarial cost method. Significant assumptions underlying the actuarial computations include (a) assumed rate of return on investments of 6.4%, net of investment expense; (b) assumed compound rate of wage increases of 3.5% per year; and (c) assumed mortality rate based on the Group Annuity Table for 2000.

During the year ended June 30, 2011, the System decreased the assumed rate of return from 8% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $1.87 billion in the actuarial accrued liability (AAL).

The AAL as of June 30, 2011, was approximately $11,449 million. As of June 30, 2011, the unfunded actuarial accrued liability (UAAL) was approximately $9,063 million.

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of June 30, 2011, 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
$2,386,000	$11,449,000	$9,063,000	21 %	$1,320,400	686 %

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

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

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal
Amortization	30 years closed, level percent of payroll
Remaining amortization period	26 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.4%
Projected salary increases	3.5% general wage inflation, plus a service-based merit increase
Inflation	2.5%
Cost-of-living adjustment	None

5. DEPOSITS AND INVESTMENTS

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

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

As of June 30, 2011, approximately $169 million of the depository bank balance of approximately $173 million was uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash	$ 2,371	$ 3,836	$ 158
Cash equivalents	94,898	94,897	94,897
Cash with fiscal agent	110	110	-
Collateral for securities lending	70,938	70,938	70,938
Cash deposited with GDB	3,291	3,291	3,291
Total	$171,608	$173,072	$169,284

As of June 30, 2011, uninsured and uncollateralized cash and cash equivalents amounting to $158 thousands and $95 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 $71 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, 2011, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 154,488
U.S. corporate bonds	212,507
Total bonds	366,995
Stocks:	
U.S. corporate stock	179,619
Non-U.S. corporate stock	105,166
Total stocks	284,785
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	778,875
Non-U.S.	147,424
Fixed income funds:	
U.S.	147,362
Non-U.S.	77,412
Total non-exchange traded mutual funds	1,151,073
Private equity investments	25,630
Total	$ 1,828,483

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, 2011:

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, 2011, 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 $21,951,000 of U.S. Treasury notes and bonds, and approximately $19,142,000 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, 2011, excluding U.S. Treasury notes and bonds, and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. sponsored agencies	$ 81,066
Aaa	U.S. sponsored agencies	32,170
Aaa	Asset-backed securities	1,916
		115,152
Aa1	Mortgage-backed securities	480
Aa2	Corporate bonds	8,150
Aa2	U.S. government issues	158
		8,308
Aa3	Corporate bonds	9,944
A1	Asset-backed securities	8
A1	Corporate bonds	16,950
		16,958
A2	Corporate bonds	36,517
A3	Corporate bonds	35,083
Baa1	Corporate bonds	36,633
Baa2	Corporate bonds	41,291
Baa2	Mortgage-backed securities	42
		41,333
Baa3	Corporate bonds	15,705
Ba1	Corporate bonds	1,501
Ba2	Corporate bonds	1,225
Ba2	Mortgage-backed securities	253
		1,478
B3	Asset-backed securities	40
B3	Mortgage-backed securities	76
		116
C	Asset-backed securities	99
C	Mortgage-backed securities	10
		109

(Continued)

Moody's Rating	Investment Type	Fair Value
CA	Asset-backed securities	$ 10
CA	Mortgage-backed securities	234
		244
Caa1	Asset-backed securities	295
Caa1	Mortgage-backed securities	796
		1,091
Caa2	Asset-backed securities	125
Caa3	Mortgage-backed securities	424
NR	Corporate bonds	1,076
NR	Mortgage-backed securities	118
		1,194
WR	Corporate bonds	3,507
	Sub-total	325,902
	U.S. Treasury notes and bonds	21,951
	Government National Mortgage Association (GNMA)	19,142
Total bonds and notes		$ 366,995

(Concluded)

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

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 26,883
Aa1/Aa2	Government sponsored	5,912
A2/A3	Government sponsored	4,248
A3/Baa1	Government sponsored	9,103
Aa3/A1	Corporate bonds	6,878
Aa2/Aa3	Corporate bonds	584
A1/A2	Corporate bonds	59,948
A2/A3	Corporate bonds	51,293
A3	Corporate bonds	112
A3/Baa1	Corporate bonds	40,999
Baa1/Baa2	Corporate bonds	13,217
Baa2/Baa3	Corporate bonds	5,597
Total		$ 224,774

Concentration of Credit Risk — There are no investments in any one issuer that represent 5% or more of total investments as of June 30, 2011. The System's investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

As of June 30, 2011, the System owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund,) the Invesco International Equity Trust Fund (the "Invesco Fund"), and the SSgA Intermediate Fund as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	722,327	$ 199,593
Russell 3000 Fund	45,645,075	579,282
Invesco Fund	4,055,689	147,424
SSGA Intermediate Fund	8,940,909	224,774
Total		$1,151,073

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. The objective of the Invesco Fund is to achieve capital appreciation by investing primarily in the securities of foreign companies. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The System's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2011, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, the Invesco Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Invesco Fund	SSgA Intermediate Fund
Information technology	18%	18%	4%	4%
Health care	11%	12%	7%	
Financials	15%	16%	21%	33%
Energy	13%	11%	12%	5%
Consumer staples	11%	9%	10%	10%
Industrials	11%	12%	9%	6%
Consumer discretionary	11%	12%	10%	4%
Utilities	3%	3%	5%	7%
Telecommunication services	3%	3%	10%	7%
Materials	4%	4%	12%	4%
Government sponsored				20%
Totals	100%	100%	100%	100%

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

The contractual maturity of investments in debt securities of the System as of June 30, 2011, is summarized as follows (in thousands):

	Maturity From	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	More Than 5 to 10	More Than 10
U.S. government and sponsored agencies securities	2011–2039	$154,488	$12,716	$24,090	$14,925	$102,757
Corporate bonds	2011–2051	212,507	4,270	59,585	62,164	86,488
Total bonds		$366,995	$16,986	$83,675	$77,089	$189,245

As of June 30, 2011, the percentages of investment maturities by category are as follows:

Maturity	Maximum Maturity
Less than one year	5%
One to five years	23%
More than five to ten years	21%
More than ten years	51%
Total	100%

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

Investments and deposits exposed to foreign currency risk as of June 30, 2011, are as follows:

Investment Type	Local Currency	Fair Value (in thousands)
Foreign currency	Japanese Yen	$ 161
Total cash exposed to foreign currency risk		$ 161
Shares of the Invesco Fund	Various (refer to countries below)	$ 147,424
Shares of the SSgA Intermediate Fund	Various (refer to countries below)	77,412
Common stock	Australian Dollar	6,057
Common stock	British Sterling Pound	22,498
Common stock	Danish Krone	6,583
Common stock	Euro Currency	16,958
Common stock	Hong Kong Dollar	4,269
Common stock	Japanese Yen	22,480
Common stock	Norwegian Krone	1,492
Common stock	South Africa Rand	1,113
Common stock	Singapore Dollar	2,758
Common stock	South Korean Won	877
Common stock	Swedish Krona	8,374
Common stock	Swiss Franc	10,767
Common stock	Turkish Lira	940
Total securities exposed to foreign currency risk		330,002
Common stock	US Dollar	957,715
Preferred stock	US Dollar	779
Shares of the SSgA Intermediate Fund	US Dollar	147,362
		1,105,856
Total investment		$ 1,435,858

As of June 30, 2011, the composition of the underlying investments in the Invesco Fund and the SSgA Intermediate Fund by country was as follows:

Invesco Fund

	Currency	Percentage
Europe:		
Denmark	Danish Krone	1%
Finland	Euro	1%
France	Euro	9%
Germany	Euro	6%
Italy	Euro	3%
Netherlands	Euro	2%
Norway	Norwegian Krone	3%
Spain	Euro	6%
Switzerland	Swiss Franc	8%
United Kingdom	Sterling Pound	14%
Total Europe		53%
Pacific Basin:		
Australia	Australian Dollar	7%
Hong Kong	Hong Kong Dollar	3%
Japan	Japanese Yen	25%
Total Pacific Basin		35%
Total emerging markets	Various	6%
Canada total equities	Canada Dollar	6%
Total investment		100%

SSgA Intermediate Fund

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	2 %
United Kingdom	Sterling Pound	4 %
Total Europe		10 %
Pacific Basin:		
Australia	Australian Dollar	1 %
Japan	Japanese Yen	1 %
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5 %
Mexico	Mexican Peso	1 %
Brazil	Brazilian Real	1 %
U.S.	U.S. Dollar	66 %
Total Americas		73 %
Supranational	Various	7 %
Other	Various	8 %
Total investment		100 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships at June 30, 2011, amounted to approximately $26 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, 2011, 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	$ 3,395
Guayacán Fund of Funds II, L.P.	25,000		23,681	9,568
Guayacán Private Equity Fund, L.P.	5,000		4,645	3,450
Invesco Venture Partnership, Fund III, L.P.	5,498		4,731	2,826
Invesco Non-U.S. Partnership Fund III, L.P.	4,500		4,034	638
Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P.	3,716		3,186	1,935
Chase Capital Partners Private Equity Fund of Funds II, LTD	15,000		14,477	3,816
Total	$78,714	$ -	$73,810	$25,630

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

At year-end, there was no credit risk exposure to borrowers because the amounts the System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the System (the "loaned securities"). At June 30, 2011, the collateral received represented 102.52% of the fair value of the domestic securities lent and 105.26% of the fair value of the international securities lent.

The securities on loan for which collateral was received as of June 30, 2011, consisted of the following:

Securities Lent	Fair Value
U.S. corporate stock	$34,270,216
U.S. government and sponsored agencies' securities	20,071,656
U.S. corporate bonds	9,644,515
Non-U.S. corporate stock	5,073,962
Total	$69,060,350

The underlying collateral for these securities had a fair value of approximately $70,938,000 as of June 30, 2011. 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 2011 basic statement of plan net assets. As of June 30, 2011, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	13%
Time deposits	17%
Floating rate notes	31%
Commercial paper	21%
Certificates of deposit	18%
Total	100%

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

6. CAPITAL ASSETS

Capital assets additions are recorded at cost. Depreciation is provided using the straight-line method over the useful life of the asset. For the year ended June 30, 2011, changes in capital assets consisted of the following (in thousands):

	Estimated Useful Life (In Years)	Balance — June 30, 2010	Additions	Retirements	Balance — June 30, 2011
Depreciable capital assets:					
Building	40	$ 26,008	$ -	$ -	$ 26,008
Furniture and equipment	4 - 10	1,910	106	(5)	2,011
Computers and software	5	9,661	40	(39)	9,662
Capital leases	5	106			106
Building improvements	10	39	726		765
Vehicles	5	42			42
Total depreciable capital assets		37,766	872	(44)	38,594
Accumulated depreciation and amortization		(15,418)	(2,177)		(17,595)
Not depreciable — project in progress		622	583		1,205
Capital assets — net		$ 22,970	$ (722)	$ (44)	$ 22,204

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, 2011, other assets consisted of repossessed and in-substance foreclosed properties amounting to approximately $472,000. Repossessed and in-substance foreclosed properties consist mainly of properties acquired or to be acquired upon foreclosure proceedings as collateral from delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance.

8. GUARANTEE INSURANCE RESERVE FOR LOANS TO PLAN MEMBERS

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

9. SPECIAL BENEFITS AND HEALTHCARE BENEFITS

The Commonwealth provides through the System certain special benefits (see Note 2) to retirees that are funded on a pay-as-you-go basis. As a result, these special benefits are 100% unfunded. During the year ended June 30, 2011, the System received contributions for special benefits amounting to approximately $47.8 million and paid special benefits of approximately $48.3 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 2011, there has been a shortage of legislative appropriations collected over special benefits and Healthcare Benefits paid of approximately $4 million. The accumulated balance of special benefits and Healthcare Benefits paid and legislative appropriations made by the Commonwealth from 2004 through 2011 are as follows (in thousands):

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

10. COMMITMENTS

The System leases office facilities for the operation of its regional offices (Ponce, Mayagüez, Arecibo, Humacao, and Caguas) under operating lease agreements, which expire at different dates through fiscal year 2017. Rent expense for the year ended June 30, 2011 amounted to approximately $235,000.

The minimum future payments under the existing operating leases as of June 30, 2011, are as follows (in thousands):

Year Ending June 30	Amount
2012	$ 244
2013	184
2014	142
2015	142
2016	77
Thereafter	39
Total	$ 828

11. CONTINGENCIES

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

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2011
(In thousands)

Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage of Contribution
2011	$ 528,170	$ 161,628	30.60%
2010	477,213	166,384	34.87%
2009	393,871	172,841	43.88%
2008	341,495	159,101	46.59%
2007	341,160	147,597	43.26%
2006	220,821	150,215	68.03%

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

See notes to schedules.

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

SCHEDULE OF FUNDING PROGRESS
AS OF JUNE 30, 2011
(In thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL Percentage of Annual Covered Payroll
Pension Plan						
June 30, 2011	$2,386,000	$ 11,448,609	$9,062,746	21%	$ 1,320,400	686 %
June 30, 2010	2,222,000	9,280,000	7,058,000	24%	1,370,000	515 %
June 30, 2009	2,158,000	8,722,000	6,564,000	25%	1,418,000	463 %
June 30, 2008		N/D	N/D	N/D	N/D	N/D
June 30, 2007	3,163,000	7,756,000	4,593,000	41%	1,370,000	335 %
June 30, 2006		N/D	N/D	N/D	N/D	N/D

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

N/D = Not Determined

See notes to schedules.

1. SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

2. SCHEDULE OF FUNDING PROGRESS

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

* * * * * *