Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

(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

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Employee's Retirement System of the Government of
the Commonwealth of Puerto Rico

We have audited the accompanying statement of plan net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 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 inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and do not express an opinion on it.

As discussed in Note 1 to the basic financial statements, the System's unfunded actuarial accrued liability and funded ratio as of June 30, 2011, were $23,733.5 million and 6.8%, 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 2014, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the System. Management's plans concerning this matter are also described in Note 1.

Deloitte & Touche LLP

April 27, 2012

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Introduction

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") administers retirement and other plan member benefits, such as personal, cultural and mortgages loans, occupational and non-occupational disability annuities and death benefits. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). Pension trust resources are only held in trust to pay retirement benefits to plan members. The System presents in the Management's Discussion and Analysis an overview of the annual basic financial statements and provides a narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2011. The financial performance of the System is discussed and analyzed within the context of the accompanying basic financial statements and disclosures.

Overview of the Basic Financial Statements

The Management's Discussion and Analysis introduces the System's basic financial statements. The basic financial statements include the following: (1) Statement of Plan Net Assets, (2) Statement of Changes in Plan Net Assets, and (3) Notes to the Basic Financial Statements. The System also includes additional information 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 status of the System. The System uses the accrual basis of accounting to prepare its basic financial statements.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The statement of changes in plan net assets reports the change in the System's net assets held in trust for pension benefits during the year. All current year additions and deductions are included regardless of when cash is received or paid.

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

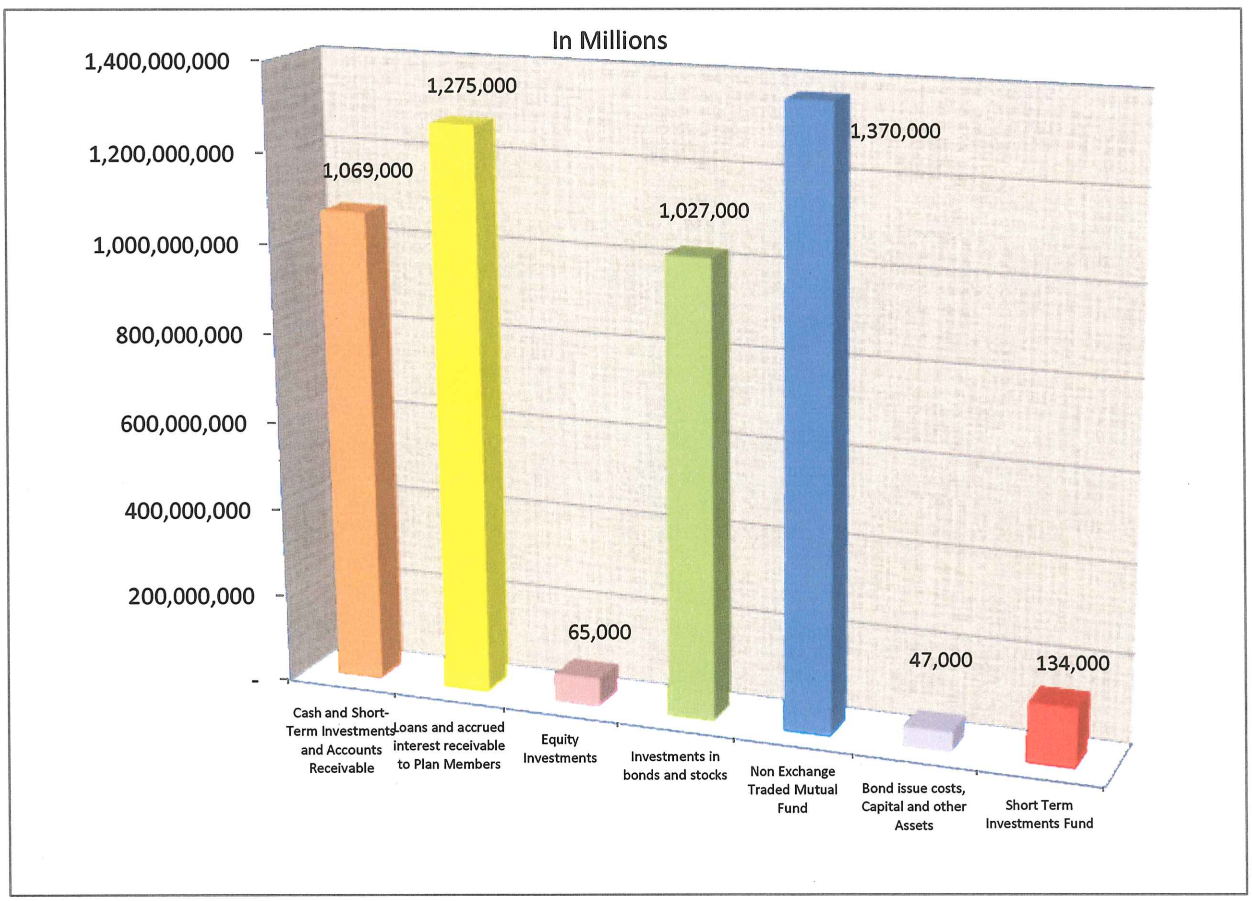
The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plan administered by the System.

Financial Highlights

The System provides retirement benefits to employees of the Commonwealth. The System's total assets as of June 30, 2011 and 2010, amounted to $4,987 million and $4,843 million, respectively.

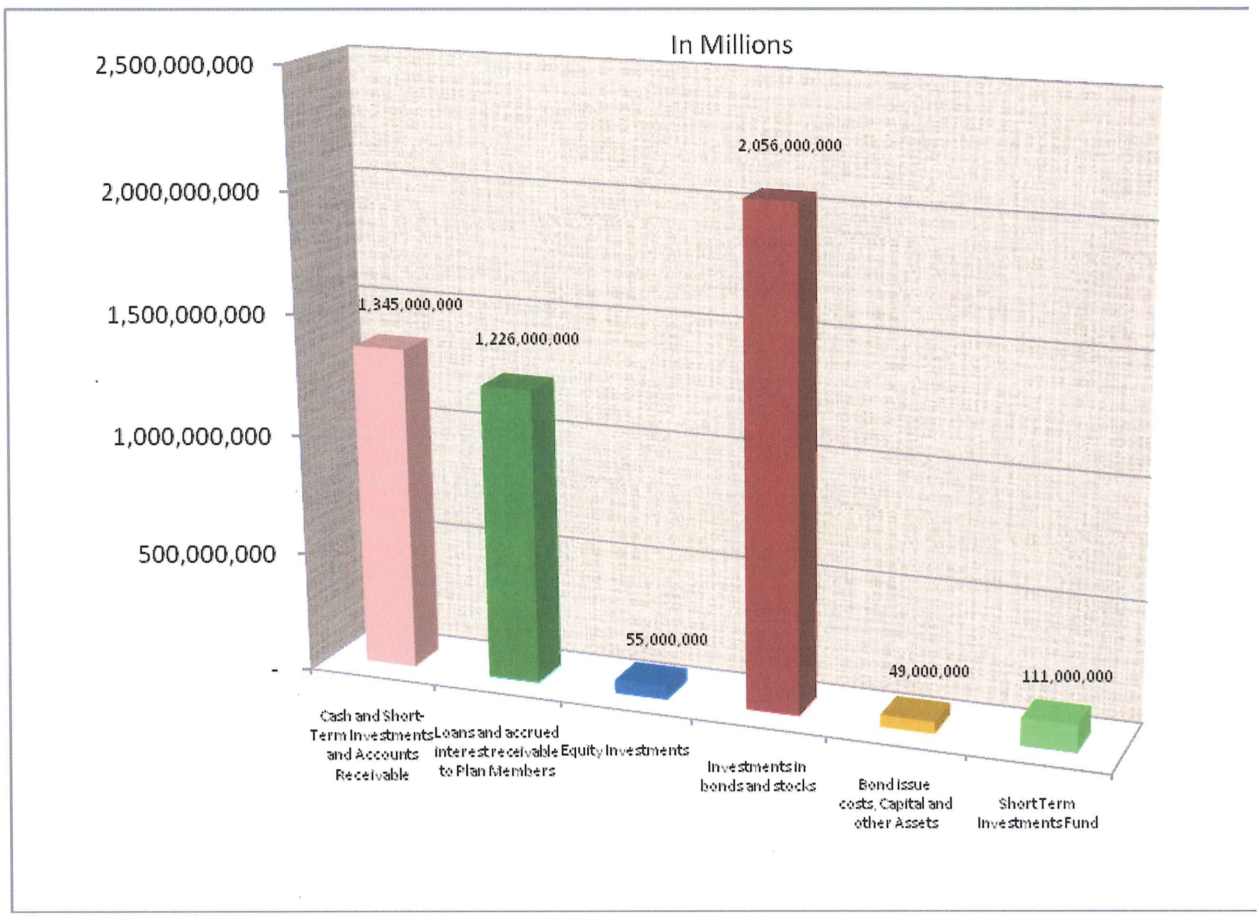
As of June 30, 2011, the System's total assets consist of the following:

- $1,069 million in cash and short-term investments, and accounts receivable, plus $134 million in collateral for securities lending
- $1,275 million in loans and accrued interest receivable from plan members
- $65 million in private equity investments
- $2,397 million of investments in bonds, stocks and non-exchange traded mutual funds
- $47 million in bond issue costs, capital and other assets



As of June 30, 2010, the System's total assets consist of the following:

- $1,345 million in cash and short-term investments, and accounts receivable, plus $111 million in collateral for securities lending
- $1,226 million in loans and accrued interest receivable from plan members
- $55 million in private equity investments
- $2,056 million of investments in bonds, stocks and non-exchange traded mutual funds
- $49 million in bond issue costs, capital and other assets



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

Summary Comparative Statements of Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Assets:				
Cash and short-term investments, and total accounts receivable	$ 1,202,081	$ 1,456,038	$ (253,957)	-17.4%
Investments	2,462,107	2,111,147	350,960	16.6%
Loans to plan members	1,275,381	1,226,155	49,226	4.0%
Capital assets and other	47,498	49,455	(1,957)	-4.0%
Total assets	4,987,067	4,842,795	144,272	3.0%
Liabilities:				
Accounts payable and accrued liabilities	12,923	12,250	673	5.5%
Book overdraft	62,843	22,933	39,910	174.0%
Payables for securities lending	134,319	110,931	23,388	21.1%
Bond interest payable	13,876	13,876		0.0%
Insurance reserve for loans to plan members and investment purchased	11,450	14,241	(2,791)	-19.6%
Bonds payable	3,003,482	2,981,775	21,707	0.7%
Other liabilities	24,363	21,798	2,565	11.8%
Total liabilities	3,263,256	3,177,804	85,452	2.7%
Net assets held in trust for pension benefits	$ 1,723,811	$ 1,664,991	$ 58,820	3.5%

Summary Comparative Statements of Changes in Plan Net Assets

	2011	2010	Total Dollar Change	Total Percentage Change
		(in thousands)		
Additions:				
Contributions:				
Employers	$ 511,707	$ 381,243	130,464	34.2%
Participating employees	322,008	345,265	(23,257)	-6.7%
Special laws	187,369	188,843	(1,474)	-0.8%
Early retirement	305	3,399	(3,094)	-91.0%
Investment income	645,720	398,610	247,110	62.0%
Other	49,257	31,783	17,474	55.0%
Total additions	1,716,366	1,349,143	367,223	27.2%
Deductions:				
Retirement and other benefits	1,329,227	1,249,776	79,451	6.4%
Refunds of contributions	91,195	45,146	46,049	102.0%
Interest on bonds payable	189,342	188,055	1,287	0.7%
General and administrative	34,583	33,063	1,520	4.6%
Other	13,199	10,255	2,944	28.7%
Total deductions	1,657,546	1,526,295	131,251	8.6%
Increase (decrease) in plan net assets	$ 58,820	$ (177,152)	$ 235,972	133.2%

- The System total assets exceeded total liabilities by $1,724 million (plan net assets) for the current fiscal year compared to the prior year, for which assets exceeded liabilities by $1,665 million.

- Based on the last actuarial valuation as of June 30, 2011, the System's funding ratio of the actuarial accrued liability is 6.80%.

- Loans to plan members amounted to $1,275 million as of June 30, 2011, compared to $1,226 million as of June 30, 2010.

The basic financial statements of the System for the fiscal year ended June 30, 2011, presents an increase in net assets of approximately $59 million, when compared to the prior fiscal year. This was mostly the result of an increase on investments of $351 million, principally due to a special contribution from the Commonwealth in the form of a capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million, and an increase in loans and interest receivable from plan members of $49 million. Such increases were partially offset by a decrease in cash and account receivable of $254 million and an increase of $87 million in cash overdraft owed to the Department of Treasury of the Commonwealth (Hacienda), and other liabilities.

During fiscal year 2011, the plan member and employer contributions, including early retirement contributions, decreased by approximately $58 million, from $730 million during fiscal 2010 to $672 million during fiscal year 2011. The System recognized a net appreciation in the fair value of investments of $472 million during 2011, which represents an increase of $256 million from the net appreciation of $216 million recognized in 2010.

Issuance of Bonds Payable

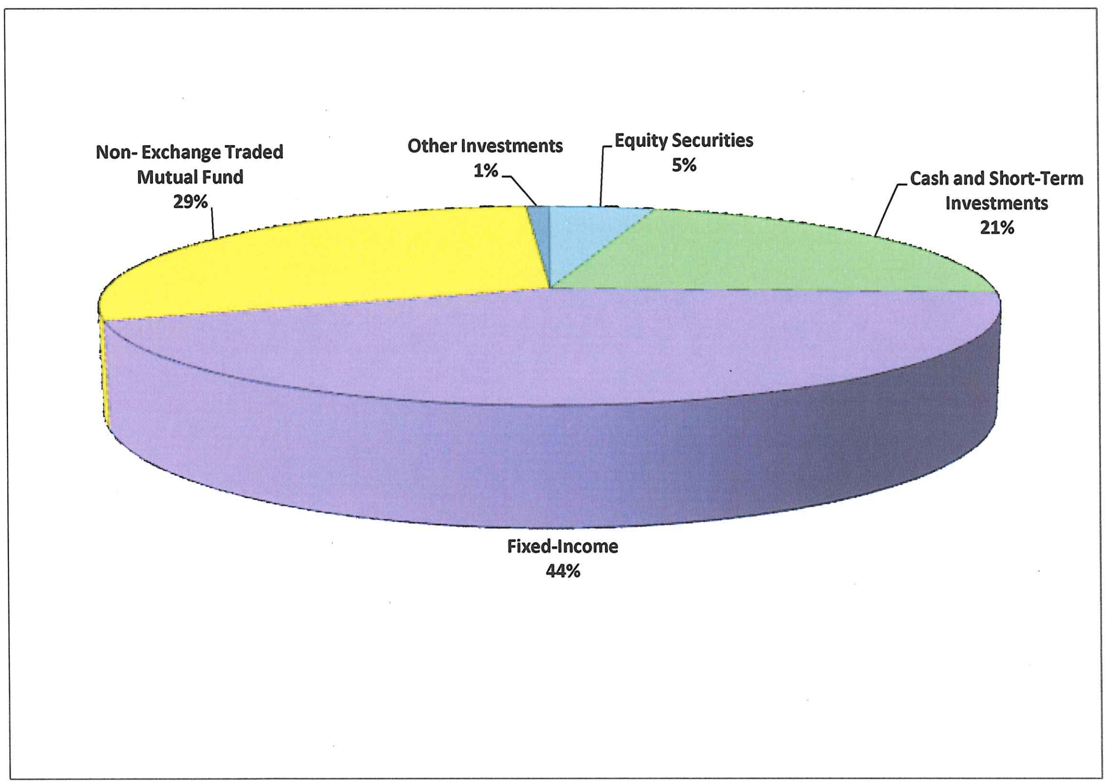
During fiscal year 2007, the Board of Trustees approved the issuance of bonds payable to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. As of June 30, 2011, bonds payable amounted to $3,003 million.

Financial Analysis of the System

Since December 2009, the System, with the assistance of an external investment consultant, has performed various assets and liabilities studies. The purpose of these studies is to properly align the current and future liabilities of the System with its net assets.

In the development of these studies, the external consultant considered the current investment program status; actual liquidity needs; future contributions streams; possible changes in demographics, contribution flows, and general assumptions used by the System. Nevertheless, the results of these studies are long term in nature.

The new asset allocation of the System's investment portfolio fulfills the System's needs, and since it is more adequately balanced, it provides protection in case of a market downturn. As of June 30, 2011, the asset allocation of the System's investment portfolio is 44% in fixed-income investments, including loans receivable, 29% in non-exchange traded mutual funds, 5% in equity securities, 21% in cash and short-term investments, and 1% in other investments as shown in the following chart:



Other Investments and Transactions

As of June 30, 2011 and 2010, the System held approximately $1,275 million and $1,226 million, respectively, in loans and interest receivable from plan members, which represents 36% and 37 %, respectively of the total investment portfolio. As of June 30, 2011, loans and interest receivable from plan members consist of $148 million in mortgage loans, $1,033 million in personal loans, $73 million in cultural trips loans, and $31 million in accrued interest receivable, less $10 million in allowance for adjustment and losses in realization. As of June 30, 2010, loans and interest receivable from plan members consist of $141 million in mortgage loans, $1,005 million in personal loans, $62 million in cultural trips loans, and $27 million in accrued interest receivable, less $9 million in allowance for adjustment and losses in realization. As of June 30, 2011 and 2010, the fair value of the System's investment in limited partnerships amounted to $65.5 and $55.3 million, respectively, which represents approximately 2% and 1% of the investment portfolio, as of June 30, 2011 and 2010.

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 a short-term investment fund in order to earn interest. For financial statements purposes, the amount of securities that was involved in securities lending transactions as of June 30, 2011, has been presented, along with the required disclosures, in accordance with current government accounting pronouncements. For the years ended June 30, 2011 and 2010, net income from the securities lending activity amounted to approximately $185,000 and $716,000, respectively.

Funding Status

The System was created by Act 447 of May 15, 1951, and since its inception it lacked proper planning and the levels of contributions were relatively low and still remain low in comparison to the level of benefits. In addition, all retirement systems in place before 1951 were merged into the System, which then had to absorb all of their unfunded liabilities. Afterwards, in 1973, the benefits structure was enhanced, however, without the appropriate increase in contribution levels. As more people joined the government labor force and then retired under the new enhanced benefit structure, the gap between the assets available to pay benefits and the actuarial obligation started its steeping course.

In 1990, in an effort to withstand the increase in the unfunded liability, the benefit structure was modified to decrease the benefits and to postpone the retirement age from 55 to 65, in order to provide a more affordable benefit structure. Also, the level of contributions was raised and Act No. 447 was amended to provide that any increase in benefits will require actuarial studies and must state the financing source.

Ten years later, the continuing increase in the unfunded liability required further action. As a result, the original defined benefit structure was closed to new plan members joining the System on or after January 1, 2000. To provide a retirement alternative, the System benefit structure was further amended to provide for a cash balance program, similar to a cash balance plan, to be funded only by employees' contributions. The new program is known as the Retirement Savings Account Program ("System 2000"). Under System 2000, the employers' contributions continue at the same level as the original defined benefit structure, but are being used to fund the accrued actuarial liability of the original defined benefit structure that was closed. Also under System 2000, the disability benefits are to be provided through a private insurance long term disability program to those plan members that voluntarily elect to enroll in such program. On September 15, 2004, Act No. 296 was enacted to amend the dispositions of Act No. 305 regarding disbursements and the disability benefits program. After the amendment, any plan member that leaves public service may request that the balance in his/her savings account be transferred to a qualified retirement vehicle such as an individual retirement account or a qualified retirement plan in Puerto Rico. Act No. 296 also provides flexibility on the establishment of the disability program; but still, the employees must finance the program.

Presently, the System consists of three different benefit structures, which are administrated according to their specifications in the Act. For all plan members, excluding System 2000 program participants, the level of contributions established by law is 8.275% of the employee salary. Under System 2000, employee's contributions range from 8.275% to 10% of the salary, as specified by the employee. Under all structures, employers' contributions for the year ended June 30, 2011, were 9.275% of the employee salary.

On February 27, 2007, the System's administration and the Government Development Bank for Puerto Rico, acting as the System's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain beneficiaries and to reduce the unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds and used these investments and the earnings thereon to provide such pension benefits to beneficiaries. On January 31, 2008, the System issued the first series of the Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A. On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B. Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C.

Nevertheless, the System's actuarial obligation continues its increasing trend as a result of the continuous increase in the pensioners' population and its longevity and the fact that incoming pensioners have higher salaries and consequently, they are entitled to even higher annuities. Since 1990, there have been no other increases in the employers or employees contributions to cope with those factors and, therefore, the level of contributions remains low in comparison to the level of pension benefits.

Market events, plus the continuous increase in the actuarial liability have had a negative effect over the System's unfunded actuarial accrued liability. Based on the last actuarial valuation at June 30, 2011, the System's funded ratio is 6.80%, the actuarial obligation is $25,457.4 million, total actuarial value of plan assets amounted to $1,723.8 million, and the unfunded actuarial accrued liability amounted to $23,733.5 million.

The bottom line is that the capital markets by themselves cannot solve the System's funding problem. In order to improve the Systems funding ratio, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. Other measures taken to improve the System's funding, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of the $162.5 million COFINA Bonds.

Increase in Benefits for Retirees Established for 2009, 2008, and 2007

For the years 2009, 2008, and 2007, the Government of Puerto Rico granted several benefits to the System's retirees to help them cope with the increase in the cost of living, which consisted of:

- Increase in the minimum monthly pension benefit from $300 to $400, effective July 1, 2007.
- Increases of 3% in all pensions effective on July 1, 2007, but computed retroactively to January 1, 2007.
- Increase from $500 to $550 and to $600 in the Christmas Bonus for the retiree, effective in December 2006 and 2007, respectively.
- Increases of 3% in all pensions lower than $1,250 effective on July 1, 2008. This increase could not exceed the amount limit of $1,250.

Following the requirements established by Act 1 of February 16, 1990, these benefits are financed through legislative appropriations from the Commonwealth with respect to Central Government retirees and financed by the municipalities and public corporations with respect to their corresponding retirees. There were no additional benefits granted for fiscal years 2011 and 2010.

Capital Assets

The System's investment in capital assets as of June 30, 2011 and 2010, amounted to approximately $9 million for each year, net of accumulated depreciation. Capital assets include land, building and improvements, construction in progress, and equipment. Building and improvements consist of the facilities in which the System has its operations.

Requests for Information

The financial report is designed to provide a general overview of the System's finances, 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 Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

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EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

(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:	
Deposits at commercial banks	$ 220,852
Deposits with Government Development Bank for Puerto Rico:	
Unrestricted	51,396
Restricted	411,946
Deposits with Bank of New York	170,653
Collateral for securities lending	134,319
Total cash and short-term investments	989,166
Investments:	
Bonds and notes	814,408
Stocks	212,040
Non-exchange traded mutual funds	1,370,202
Private equity investments	65,457
Total investments	2,462,107
Total cash and investments	3,451,273
Loans and interest receivable from plan members — net of allowance for adjustments and losses in realization	1,275,381
Accounts receivable:	
Employers — net	184,152
Commonwealth of Puerto Rico	6,147
Due from the Commonwealth of Puerto Rico Judiciary Retirement System	881
Investments sold	9,546
Accrued investment income	7,594
Other	4,595
Total accounts receivable	212,915
Capital assets — net	8,951
Bond issue costs	32,172
Other assets	6,375
Total assets	4,987,067

(Continued)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(A Pension Trust Fund of the Commonwealth of Puerto Rico)

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2011
(In thousands)

LIABILITIES:	
Accounts payable and accrued liabilities, including book overdraft of $62,843	$ 75,766
Payables for securities lending	134,319
Investments purchased	1,854
Bond interest payable	13,876
Funds of mortgage loans and guarantee insurance reserve for loans to plan members	9,596
Bonds payable	3,003,482
Other liabilities	24,363
Total liabilities	3,263,256
CONTINGENCIES (Note 13)	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (Schedule of Funding Progress is presented on page 42)	$ 1,723,811

See notes to financial statements. (Concluded)

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(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:	
Employers	$ 511,707
Participating employees	322,008
Early retirement	305
Special laws	187,369
Total contributions	1,021,389
Investment income:	
Net appreciation of investments	472,076
Dividend income	7,344
Interest income	172,783
Total investment income	652,203
Less investment expense	6,483
Net investment income	645,720
Other income	49,257
Total additions	1,716,366
DEDUCTIONS:	
Annuities	1,133,926
Benefits under special laws	187,369
Death benefits	7,932
Refunds of contributions:	
Employers	992
Participating employees	90,203
Interest on bonds payable	189,342
General and administrative	34,583
Other expenses	13,199
Total deductions	1,657,546
NET INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	58,820
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	1,664,991
End of year	$ 1,723,811

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The System began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The System is a pension trust fund of the Commonwealth of Puerto Rico (the "Commonwealth"). The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the System is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2011, the System has an unfunded actuarial accrued liability of approximately \$23,733.5 million, representing an 6.80% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the System assets will be exhausted by the fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the System are government agencies obligated to make actuarial contributions to fund the System.

To address 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. The Commonwealth is committed to finding a long-term solution to the funding situation 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 would be required to fully fund pensions, without having to liquidate the System's investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Law 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of the System, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million (see Note 11).

Act No. 70 establishes a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also 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' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The System will responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of final salary of the plan member to 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 the significant accounting policies followed by the System in the preparation of its 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*, as amended by GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*. Participating employees and employer's contributions are recognized as additions in the period in which the employee services are rendered. Annuities, benefits, and refunds are recognized as deductions when due and payable in accordance with the terms of the plan.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits and the disclosure of contingent assets and liabilities at the date of the 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 — Cash and short-term investments consist of overnight deposits with the custodian bank, securities lending collateral, money market funds, and certificates of deposits in Government Development Bank for Puerto Rico (GDB) (a component unit of the Commonwealth) and commercial banks. Restricted cash deposited with GDB consists of payments received from mortgage loan holders administered by the mortgage servicers in the servicing of loans (escrow accounts), expired checks not claimed by the plan members, restricted for repayments, and proceeds from the issuance of the Series A and B Bonds restricted for investment purchases.

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 $65,457,000 or 1.3% 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 non-exchange 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 statement of changes in plan net assets.

Loans to Plan Members — Mortgage, personal, and cultural trip loans to plan members are stated at their outstanding principal balance. The maximum amount of loans to plan members for mortgage, personal, and cultural trip loans were $100,000, $15,000, and $10,000, respectively, for the year ended June 30, 2011.

The System services mortgage loans with aggregate principal balances of approximately $6.2 million at June 30, 2011, related to certain mortgage loans sold to the Federal National Mortgage Association (FNMA) for a fee of 25%. The income for 2011 amounted to $5,664 and is recognized as interest income in the accompanying statement of changes in plan net assets.

During 2011, the System repurchased approximately $24,089 in mortgage loans that were sold during fiscal year 1998 to FNMA. The sale contract stipulates that the System must repurchase any loans with payments in arrears over 90 days.

Insurance Premiums, Claims, and Reserve for Life Insurance on Loans to Plan Members — Premiums collected and benefits claimed are recorded as additions and deductions, respectively. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Capital Assets — Capital assets include building, building improvements, and furniture and equipment. 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 equal to or in excess of four years. Capital assets are recorded at historical cost or their estimated historical cost if actual historical costs are not available. Donated capital assets are recorded at their estimated fair value at time of donation.

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

	Years
Building	50
Buildings improvements	10
Equipment, furniture, fixtures, and vehicles	5–10

The System evaluates capital assets for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether the impairment of an asset has occurred. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System should be measured using the method that best reflects the diminished service utility of the capital asset.

The impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that use the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During the year ended June 30, 2011, management assessed and determined that no impairment adjustment was deemed necessary.

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

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, C*odification 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.

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 consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the System) are covered by the System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the System. The System is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

At June 30, 2011, membership of the System consists of the following:

Retirees and beneficiaries currently receiving benefits	113,191
Current participating employees — defined benefit	80,403
Cash Balance System 2000 participating employees	55,569
Total membership	249,163

Plan members, other than those joining the System after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

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.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the System are left within the System until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise 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 $750.

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

Amendments to Benefits Structure for Plan Members who Joined the System on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the System effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the System to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the System to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the System, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the System's retirees. As of June 30, 2011, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipality's employees. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the System in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the System during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (REA) implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. REA has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the System in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the System on or after January 1, 2000.

Employees participating in the System as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the System, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the System's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary for 2011) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2011, System 2000's membership consisted of 55,569 current participating employees.

3. FUNDING POLICY

The contribution requirement to the System is established by law and is not actuarially determined. Required employers' contributions through June 30, 2011, consisted of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the System's pension benefit obligations and general and administrative deductions.

The System, besides the contributions received from plan members and employers, also receives legislative appropriations for special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Actuarial Information — Calculations of the present value of benefits under the System were made by consulting actuaries as of June 30, 2011, using the projected unit credit cost method, with straight proration based on service to decrement. The significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 6.40%, (b) assumed compound rate of wage increases of 3% per year, (c) assumed inflation rate of 2.5%, (d) assumed cost of living adjustment of 0.99% annual COLA to approximate 3% triennial increases, and (e) assumed mortality as follows:

Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007.

Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.

During the year ended June 30, 2011, the System decreased the assumed rate of return from 7.5% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $2.43 billion in the actuarial accrued liability.

As of June 30, 2011, the actuarial accrued liability and the unfunded actuarial accrued liability were approximately $25,457.4 million and $ 23,733.5 million, respectively.

The Legislature of the Commonwealth enacted Act No. 1 of February 16, 1990, to improve the solvency of the System for the next 50 years. Among other provisions, the legislation increased the level of contributions to the System, reduced the benefits for new participating employees, and increased the retirement age from 55 to 65 years. Further, through Act 305 of September 24, 1999, the original defined benefit structure was no longer available to new employees and System 2000 was created (as described in Note 2) for all plan members who started working for the Commonwealth effective January 1, 2000, or after.

4. FUNDED STATUS AND FUNDING PROGRESS

The System's funded status as of June 30, 2011, the most recent actuarial valuation date, is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
June 30, 2011	$ 1,723.8	$ 25,457.4	$ 23,733.5	6.8%	$ 3,666.4	647.3%

The schedule of funding progress (see page 42), presented as required supplementary information (RSI) following the notes to the financial statements, presents multilayer trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

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

Valuation date	June 30, 2011
Actuarial cost method	Projected unit credit cost method, with straight proration based on service to decrement
Amortization method	30 years closed, level dollar
Remaining amortization period	26 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.4%
Projected salary increases	3.0% (no increase in 2010–11)
Projected payroll growth	2.5%
Inflation	2.5%
Mortality rate	Preretirement Mortality — For general employees and mayors, RP-2000 employee mortality rates, with white collar adjustments for males and females, projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 employee mortality rates, with blue collar adjustments for males and females, projected on a generational basis using Scale AA. Postretirement Healthy Mortality — Gender-specific mortality rates were developed based on a study of the plan's experience from 2003-2007. Postretirement Disabled Mortality — RP-2000 disabled annuitant mortality rates, without projection.
Cost of living adjustment	0.99% annual COLA to approximate 3% triennial increases. (Cola is only applied to members covered under Act 127 who become disabled or die in the line of duty).

5. CASH AND INVESTMENTS

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that, in an event of a bank failure, the System's deposits might not be recovered. The Commonwealth requires that public funds deposited in Puerto Rico commercial banks 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. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2011, depository bank balances of approximately $993 million were uninsured and uncollateralized as follows (in thousands):

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Deposits at commercial banks	$ 220,852	$ 220,852	$ 220,852
Deposits with GDB	463,342	466,900	466,900
Deposits with Bank of New York	170,653	170,653	170,653
Collateral for securities lending	134,319	134,319	134,319
Total	$ 989,166	$ 992,724	$ 992,724

Investments — The fair value of 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	$ 210,116
Municipal bonds	32,200
COFINA Bonds	162,500
U.S. corporate bonds	409,592
Total bonds and notes	814,408
U.S. corporate stocks	212,040
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	715,906
Non-U.S.	342,790
Fixed income funds:	
U.S.	204,223
Non-U.S.	107,283
Total non-exchange traded mutual funds	1,370,202
Private equity investments	65,457
Total investments	$2,462,107

The System's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2011:

Custodial Credit Risk Related to Investments — 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 System's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances 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 Standard and Poor's or Moody's Investor Service credit ratings.

The System's U.S. government and sponsored agencies' securities portfolio includes approximately $48,262,000 of U.S. Treasury notes and approximately $23,053,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government. The Moody's ratings of bonds and notes as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 209,023
A3	U.S. government and sponsored agencies securities	1,093
Aaa	U.S. corporate bonds	47,666
Aa2	U.S. corporate bonds	17,077
Aa3	U.S. corporate bonds	33,628
A1	U.S. corporate bonds	39,134
A2	U.S. corporate bonds	71,185
A3	U.S. corporate bonds	50,430
Baa1	U.S. corporate bonds	31,125
Baa2	U.S. corporate bonds	66,677
Baa3	U.S. corporate bonds	28,246
Ba3	U.S. corporate bonds	8,097
B2	U.S. corporate bonds	428
B3	U.S. corporate bonds	537
NR	U.S. corporate bonds	1,180
Ba1	U.S. corporate bonds	10,728
BA2	U.S. corporate bonds	3,454
A1	Municipal bonds (COFINA Bonds)	162,500
A1	Municipal bonds	10,643
A2	Municipal bonds	1,622
A3	Municipal bonds	3,106
Aa1	Municipal bonds	2,053
Aa2	Municipal bonds	9,998
Aa3	Municipal bonds	216
Aaa	Municipal bonds	2,433
Baa1	Municipal bonds	2,129
Total		$ 814,408

In addition, the System invests in shares of the State Street Global Advisor Intermediate U.S. 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 by investing exclusively in fixed income securities. 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	$ 37,256
Aa1/Aa2	Government sponsored	8,193
A2/A3	Government sponsored	5,887
A3/Baa1	Government sponsored	12,616
Aa3/A1	Corporate bonds	9,532
Aa2/Aa3	Corporate bonds	810
A1/A2	Corporate bonds	83,078
A2/A3	Corporate bonds	71,086
A3	Corporate bonds	156
A3/Baa1	Corporate bonds	56,819
Baa1/Baa2	Corporate bonds	18,317
Baa2/Baa3	Corporate bonds	7,756
Total		$ 311,506

Concentration of Credit Risk — No investment in marketable securities in any organization represents 5% or more of the System's net assets held in trust for pension benefits. 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 Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley 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	882,186	$ 227,186
Russell 3000 Fund	38,509,231	488,720
Morgan Stanley Fund	15,311,851	268,983
SSGA Intermediate Fund	309,221,225	311,506
Invesco Fund	2,030,457	73,807
Total		$1,370,202

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 Morgan Stanley Fund is to achieve capital appreciation through exposure to non U.S. markets. 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 Morgan Stanley Fund, the Invesco Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund	Invesco Fund	SSgA Intermediate Fund
Information technology	18%	18%	7%	4%	4%
Health care	12%	12%	7%	7%	0%
Financials	15%	16%	20%	21%	33%
Energy	13%	12%	9%	12%	5%
Consumer staples	11%	9%	9%	10%	10%
Industrials	11%	12%	15%	9%	6%
Consumer discretionary	11%	12%	11%	10%	4%
Utilities	3%	4%	2%	5%	7%
Telecommunication services	3%	3%	5%	10%	7%
Materials	4%	5%	14%	12%	4%
Government sponsored					20%
Totals	100%	100%	100%	100%	100%

Interest Rate Risk — In accordance with its investment policy, the System manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. Investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. 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 contractual maturities of investments in debt securities as of June 30, 2011, are as follow (in thousands):

	Maturity Between	Fair Value	Investment Maturities (In Years) Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and sponsored agencies' securities	(2011–2051)	$ 210,116	$ 18,509	$ 64,028	$ 48,125	$ 79,454
U.S. Corporate bonds	(2011–2044)	409,592	36,402	158,220	159,835	55,135
Municipal bonds	(2012–2033)	32,200	4,288	6,929	10,867	10,116
COFINA Bond		162,500				162,500
Total bonds		$ 814,408	$ 59,199	$ 229,177	$ 218,827	$ 307,205

As of June 30, 2011, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	7%
One to five years	28%
More than five to ten years	27%
More than ten years	38%
Total	100%

Foreign Currency Risk — As of June 30, 2011, the System's investment in the Morgan Stanley Fund amounting to approximately $269 million represented 95.7% of the total commingled fund. Also, as of June 30, 2011, the System owned approximately $74 million in shares of the Invesco Fund, which represented 29.81% of the total commingled fund, and $312 million in shares of the State Street Intermediate Index Bond Fund, which represents 10.98% of the total comingled fund..As of June 30, 2011, the Morgan Stanley Fund had an asset mix and country allocation as follows:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	2.26
Future contracts	7.21
Equity securities	90.53
Total	100.00

Country Allocation		**Currency**	**Currency Code**	**Portfolio Percent**
Australia		Dollars	AUD	4.79
Hong Kong		Dollars	HKD	1.50
Singapore		Dollars	SGD	2.20
Japan		Yen	JPY	13.93
Japan Global Survivor		Yen	JPY	4.69
	Asia/Pacific			27.11
Austria		Euro	EUR	0.64
Belgium		Euro	EUR	0.58
EMU		Euro	EUR	5.20
European Union Growth		Euro	EUR	3.64
European Union Quality		Euro	EUR	0.00
Finland		Euro	EUR	1.23
France		Euro	EUR	6.06
Germany		Euro	EUR	11.19
Italy		Euro	EUR	0.02
Netherlands		Euro	EUR	2.63
Spain		Euro	EUR	1.14
	Euro Europe			32.33
Denmark		Kroner	DKK	1.11
Norway		Kroner	NOK	1.98
Sweden		Krona	SEK	3.56
Switzerland		Francs	CHF	7.22
United Kingdom		Pounds	GBP	16.38
	Non-Euro Europe			30.25
United States		Dollars	USD	0.00
	North America			0.00
Egypt		Egyptian Pound	EGP	0.00
	Africa			.
China		Yuan Renmimbi	CNY	0.55
India		Indian Rupee	INR	0.00
Indonesia		Rupiahs	IDR	0.41
Malaysia		Ringgits	MYR	0.00
Philipines		Peso	PHP	0.88
South Korea		Won	KRW	1.37
Thailand		New Dollars	TWD	0.82
	Asia Emerging			**4.03**
Poland		Zlotych	PLN	0.57
Russia		Ruble	RUB	0.94
Turkey		Turkish Lira	TRY	0.00
	Europe Emerging			**1.51**
Brazil		Real	BRL	0.76
Mexico		Peso	MXN	0.85
	Latin America			1.61
	Emerging			**7.16**
Agriculture				0.90
	Thematic			**0.90**
Cash				2.26
Total				100.00

In addition, the composition of the underlying investments in the Invesco Fund and the SSgA Intermediate Fund by country, as of June 30, 2011, 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%
Emerging markets	Various	6%
Canada	Canada Dollar	6%
Total investments		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 investments		100 %

Investments in Limited Partnerships — The fair value of investments in limited partnerships at June 30, 2011, amounted to approximately $65 million, and is presented within 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 date of commitment, total commitment, 2011 contributions, contributions to date at cost, and estimated fair value of investments in limited partnerships are as follows (in thousands):

	Date of Commitment	Total Commitment	2011 Contributions	Contributions to Date at Cost	Estimated Fair Value
Grupo Guayacán, Inc.					
Guayacán Fund of Funds, LP	Sept. 1996	$25,000	-	$23,820	$4,244
Guayacán Fund of Funds II, LP	Aug. 1999	25,000	-	23,681	9,568
Advent-Morro Equity Partner, Inc.					
Guayacán Private Equity Fund, LP	Jan. 1997	5,000	-	4,645	3,450
Guayacán Private Equity Fund II, LP	Apr. 2007	15,000	2,500	17,244	17,504
Venture Capital Fund, Inc.	Nov. 1995	800	-	800	837
GF Capital Mnagement & Advisors, LLC					
GF Capital Private Equity Fund LP	Dec, 2006	25,000	5,350	20,299	22,397
Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD	Jul. 2000	20,000	-	18,955	7,457
Martineau Bay Resort, s. en c. (s.e.)	Jul. 1998	1,796	-	1,796	-
Total		$ 117,596	$ 7,850	$ 111,240	$ 65,457

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 the end of the year, 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% of the fair value of the domestic 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. government and sponsored agencies' securities	$ 17,255
U.S. corporate stocks	43,869
Non-exchange traded mutual funds:	
U.S.	65,551
Non-U.S.	4,831
Total	$ 131,506

The underlying collateral for these securities had a fair value of approximately $134,319,000 as of June 30, 2011. The collateral received was invested in a short-term investment fund sponsored by the custodian bank and is included as part of cash and short-term investments in the accompanying 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	13.37 %
Commercial paper	20.60 %
Certificates of deposit	17.78 %
Floating rate notes	31.39 %
Interest bearing	0.19 %
Time deposits	16.67 %
Total	100.00 %

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. LOANS AND INTEREST RECEIVABLE FROM PLAN MEMBERS

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amount of loans to plan members for personal and cultural trip loans were $15,000 and $10,000, respectively, for the year ended June 30, 2011.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2011, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$1,033,005
Mortgage	148,156
Cultural trips	73,029
Total loans to plan members	1,254,190
Accrued interest receivable	30,730
Total loans and interest receivable from plan members	1,284,920
Less allowance for adjustments and losses in realization	(9,539)
Total loans and interest receivable from plan members — net	$1,275,381

7. ACCOUNTS RECEIVABLE FROM EMPLOYERS

As of June 30, 2011, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 41,884
Special laws	63,526
Employer and employee contributions	55,412
Interest on late payments	24,241
Total accounts receivable from employers	185,063
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 184,152

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $63.5 million as of June 30, 2011. The System has entered into installment payment agreements with approximately 91% of these employers, while the remaining 9% of employers have not entered into installment payments with the System.

As of June 30, 2011, accounts receivable from employers include accounts receivable from Medical Service Administration (ASEM by its Spanish acronym) of approximately $41 million, as follow (in thousands):

Employer and employee contributions	$ 21,568
Interest	18,997
Total accounts receivable from ASEM	$ 40,565

During the fiscal year 2011, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with the System as of June 30, 2010. On January 5, 2011, the System received an initial payment of $54 million..In addition, on August 2011, the System received an interest payment of $14 million. ASEM and the System has established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 969	$ -	$	$ 969
Construction in progress	3,075		1	3,074
Total capital assets, not being depreciated	4,044		1	4,043
Capital assets, being depreciated:				
Building and improvements	7,631			7,631
Equipment	10,657	739	4	11,392
Total capital assets, being depreciated	18,288	739	4	19,023
Less accumulated depreciation for:				
Building and improvements	4,249	265		4,514
Equipment	9,119	485	3	9,601
Total accumulated depreciation	13,368	750	3	14,115
Total capital assets being depreciated — net	4,920	(11)	1	4,908
Total capital assets — net	$ 8,964	$ (11)	$ 2	$ 8,951

9. OTHER ASSETS

As of June 30, 2011, other assets consist of (in thousands):

Executed land	$4,699
Repossessed and foreclosed properties	1,676
Total	$6,375

Repossessed and foreclosed properties consist mainly of properties acquired through foreclosure proceedings related to delinquent mortgage loans. Foreclosed properties are valued at the outstanding principal balance of the related mortgage loan upon foreclosure. These properties will be sold under a bidding process intended to recover the outstanding principal balance of the related mortgage loan. A gain or loss is recognized at the time of sale.

Differences resulting from the recognition of losses at the point of sale rather than upon foreclosure, as required by GAAP in the United States of America, are not material. Management believes that the carrying value of these properties approximates fair value.

10. BONDS PAYABLE

Senior Pension Funding Bonds — On February 27, 2007, the System's administration and GDB, acting as the System's fiscal agent (the "Fiscal Agent"), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The System authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The System pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the System issued the second of such series of Bonds, which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the System issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds").

As of June 30, 2011, the outstanding balance of the Bonds is as follows (in thousands):

Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 55,485
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,599,255
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	171,400
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	123,263
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,110,763
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,672
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,672
Total bonds outstanding	3,010,690
Less bonds discount	(7,208)
Bonds payable — net	$3,003,482

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds (the "Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium. The Series A Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2012	$ -	$ 95,504
2013		95,504
2014		95,504
2015		95,504
2016		95,504
2017-2021		382,017
2022–2026	200,000	454,121
2027–2031	48,041	419,021
2032–2036	8,500	416,961
2037–2041	962,720	322,971
2042–2046	37,550	114,054
2047–2051		107,070
2052–2056	170,300	107,070
2057–2058	161,700	26,235
Principal outstanding and interest	1,588,811	2,827,040
Add (deduct) accreted value on bonds outstanding	10,444	(10,444)
Total Series A Bonds	$1,599,255	$ 2,816,596

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Series B Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium. The Series B Bonds have the following debt service requirements (in thousands):

Years Ending June 30	**Principal**	**Interest**
2012	$ -	$ 52,428
2013		52,428
2014		52,428
2015		52,428
2016		52,428
2017-2021		209,713
2022–2026		262,141
2027–2031	283,172	262,141
2032–2036	143,963	232,866
2037–2041	202,500	183,023
2042–2046		140,498
2047–2051		140,498
2052–2056	192,500	140,498
2057–2058	236,500	46,472
Principal outstanding and interest	1,058,635	1,879,990
Add (deduct) accreted value on bonds outstanding	52,128	(52,128)
Total Series B Bonds	$ 1,110,763	$ 1,827,862

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

The Series C Bonds have the following debt service requirements (in thousands):

Years Ending June 30	Principal	Interest
2012	$ -	$ 18,587
2013		18,587
2014		18,587
2015		18,587
2016		18,587
2017-2021		74,346
2022-2126		92,933
2027–2031	110,000	79,403
2032–2036	2,203	59,108
2037–2041	45,000	20,831
2042–2043	143,000	
Principal outstanding and interest	300,203	419,556
Add (deduct) accreted value on bonds outstanding	469	(469)
Total Series C Bonds	$ 300,672	$ 419,087
Total bonds	$3,010,690	$ 5,256,772

Activity of bonds payable during the year ended June 30, 2011, is as follows:

	June 30, 2010	Issuances	Accretion	Payments	June 30, 2011	Current Portion
Series A Bonds:						
Capital appreciation bonds	$ 52,198	$ -	$ 3,287	$ -	$ 55,485	$ -
Term bonds	1,543,770	-	-	-	1,543,770	-
Total Series A Bonds	1,595,968	-	3,287	-	1,599,255	-
Series B Bonds:						
Capital appreciation bonds	276,624	-	18,039	-	294,663	-
Term bonds	816,100	-	-	-	816,100	-
Total Series B Bonds	1,092,724	-	18,039	-	1,110,763	-
Series C Bonds:						
Capital appreciation bonds	2,507	-	165	-	2,672	-
Term bonds	298,000	-	-	-	298,000	-
Total Series C Bonds	300,507	-	165	-	300,672	-
Total bonds outstanding	2,989,199	-	21,491	-	3,010,690	-
Less bond discounts	(7,424)	-	216	-	(7,208)	-
Total bonds payable — net	$ 2,981,775	$ -	$21,707	$ -	$ 3,003,482	$ -

Pledge of Employer Contributions Pursuant to Security Agreement — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the System and the Fiscal Agent, on behalf of the owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

11. COFINA BONDS

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, the System received a special contribution of $162.5 million from the Puerto Rico Infrastructure Financing Authority, an instrumentality of the Commonwealth. The contribution was invested in the COFINA Bonds, which provide for a 7% accretion rate and maturity dates between 2043 and 2048. The COFINA Bonds are included as part of bonds and notes in the accompanying statement of plan net assets, while the related contribution is included as part of employers' contributions for the year ended June 30, 2011, in the statement of changes in plan net assets.

12. 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. The plan members who obtained these loans from the System pay the coverage in its entirety. The life insurance rates are actuarially determined and do not vary by age, sex, or health status.

13. CONTINGENCIES

Loss Contingencies — The System is a defendant or co-defendant in various lawsuits resulting from the ordinary conduct of its operations. Based on the advice of legal counsel and considering insurance coverages, management is of the opinion that the ultimate liability, if any, will not have a significant effect on the financial status of the System.

Gain Contingency — The System, besides receiving contributions from participants and employers, also receives legislative appropriations from special laws to cover the increase in benefits to retirees. There have been several acts, which established an increase of 3% in pension annuities every three years for those members who meet the requirements outlined by these acts (Act No. 10 of May 21, 1992, Act No. 207 of August 13, 1995, Act No. 221 of August 9, 1998, Act No. 40 of June 13, 2001, and Act No. 157 of June 27, 2003). Also, there have been other laws that granted additional benefits, such as, summer and Christmas bonuses, and medical plan contributions, among others. Most of the funds needed to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

Nevertheless, the costs of pension benefits that increased from 1992 to 2004 were not received in full by the System from legislative appropriations.

On June 30, 2007, the System filed a reimbursement claim with the Office of Management and Budget of the Commonwealth to collect the remaining unfunded special laws appropriations. The final outcome of this claim cannot be presently determined; therefore, no receivable has been recorded in the System's financial statements.

14. SUBSEQUENT EVENTS

On July 6, 2011, the Commonwealth enacted Act No. 116 to establish an increase in the employer's contributions percentage and to improve the collection of employer contribution receivables. As previously discussed, this Act provides for increases in employer contributions from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

In addition, this Act, provides for the collection of late employer contributions directly from the CRIM when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies, when they fail to send their contributions as per the agreement date.

As the liquidity of the System's assets has been impaired by the growth of its loan portfolio, on August 8, 2011, the System's Board of Trustees issued Resolution No. 8054, limiting the personal and cultural loan maximum amounts to $5,000. Such limitations on loan amounts are expected to improve the liquidity of the System's assets. In addition, Resolution No. 8054 provides for certain limitations on the renewal of personal and cultural loans.

Furthermore, on September 18, 2011, the Commonwealth enacted Act No. 196, which allows the System to pledge contributions to guarantee personal loans issued by a financial institution. Act No. 196 also allows the System to sell personal, cultural and mortgage loans.

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REQUIRED SUPPLEMENTARY SCHEDULES OF EMPLOYERS' CONTRIBUTIONS AND FUNDING PROGRESS

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

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

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

Year Ended June 30,	Actual Employer Contributions	Annual Required Contributions	Percentage Contributed
2011	$701,709	$1,734,979	40.44%
2010	534,275	1,459,774	36.60%
2009	594,509	1,258,695	47.23%
2008	581,285	1,191,275	48.80%
2007	566,524	816,472	69.39%
2006	559,198	816,472	68.49%

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

See notes to schedules

EMPLOYEE'S RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO
(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 Unit Credit (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ 1,723,811	$ 25,457,354	$ 23,733,543	6.8%	$ 3,666,402	647.3 %
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5%	3,818,332	467.1 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7%	4,292,552	398.4 %
June 30, 2008	2,607,086	N/D	N/D	N/D	N/D	N/D
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2%	4,246,409	326.8 %

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

N/D = Not Determined

See notes to schedules

1. SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

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

The System's schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the System's administration costs.

The information was obtained from the last actuarial report as of June 30, 2011.

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 sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2011.

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