Financial Statements, required Supplementary Information and Supplemental Schedules

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Year Ended June 30, 2020
With Report of Independent Auditors

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University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Year Ended June 30, 2020

Contents

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Report of Independent Auditors

Governing Board
University of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Desarrollos Universitarios, Inc. and Molecular Sciences Research Center, Inc., which financial statements reflect total assets constituting 6.3%, total net position constituting .42% and total revenues constituting 1.4%, of the related University's Primary Government totals. Those financial statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for Desarrollos Universitarios, Inc., and Molecular Sciences Research Center, Inc. is based solely on the reports of the other auditors. We also, did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc., and Material Characterization Center, Inc., which represent 100% of the aggregate discretely presented component units, as of June 30, 2020 and for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Desarrollos Universitarios, Inc., Molecular Sciences Research Center, Inc., Servicios Médicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc. and Material Characterization Center, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The University's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the University will continue as a going concern. As discussed in Note 2 to the financial statements, the University is highly dependent on the Commonwealth of Puerto Rico (the Commonwealth) appropriations to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the University's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4-52, schedule of changes in the University's net pension liability and related ratios on page 155, schedule of the University's contributions- pension plan on page 156, and the schedule of changes in the University's total postemployement benefits other than pensions (OPEB) liability and related ratios on page 160 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audits were conducted for the purposes of forming opinions of the basic financial statements that collectively comprise the University of Puerto Rico's financial statements. The other information on page 162 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information on page 162 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 30, 2021 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University's internal control over financial reporting and compliance.

Ernst & Young LLP

March 30, 2021

Stamp No. E426785 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Introduction

The University of Puerto Rico (the University), founded in 1903, is a state supported university system created by Law No. 1 of January 20, 1966, "Law of the University of Puerto Rico" ("Act No. 1"), as amended, with the mission to serve the people of Puerto Rico and contribute to the development and enjoyment of the fundamental, ethical and esthetic values of Puerto Rican culture, and committed to the ideals of a democratic society. To advance its mission, the University strives to provide high quality education and create new knowledge in the Arts, Sciences and Technology.

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a fourteen-member Governing Board, of which eight members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico for a term of six years. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth and the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) or their designees become ex-officio members of the Governing Board. The terms for the students and professors are one year.

FAAFA is the fiscal agent, financial advisor and reporting agent of the Commonwealth of Puerto Rico, its agencies, instrumentalities, subdivisions, public corporations (including the University) and/or municipalities.

The University is exempt from the payment of taxes on its revenues and properties. The University is a discretely presented major component unit of the Commonwealth.

The University is the oldest and largest institution of higher education in Puerto Rico with a history of academic excellence. Commonwealth appropriations are the principal source of the University revenues. Additional revenues are derived from tuitions, federal grants, patient services, auxiliary enterprises, interest income, and other sources.

The University capacity to attract federal funding for research, training, public service and other endeavors to advance its mission and priorities is certainly a premier strength. A broad range of federal agencies currently sponsors the University research activity in the Sciences, Health Sciences, Engineering, Technology and the Arts. Efforts continue to increase and diversify sources of funding.

The University of Puerto Rico system includes all the campuses at Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado, and the Central Administration. The Middle States Commission on Higher Education is the regional accreditation entity of the eleven campuses of the University.

The financial reporting entity consists of the University and its Component Units which are legally separate organizations for which the University is financially accountable. The University of Puerto Rico consists of the University and its blended component units. The definition of the reporting entity is based primarily on the notion of financial accountability. The University is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the University. The University may also be financially accountable for organizations that are fiscally dependent on it if there is a potential for the organizations to provide specific financial benefits to the University or impose specific financial burdens on the University regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The University is financially accountable for all of its Component Units.

Most Component Units are included in the financial reporting entity by discrete presentation. Two of the component units, despite being legally separate from the University, are so integrated with the University that they are in substance part of the University. These component units are blended with the University.

Blended Component Units: Desarrollos Universitarios, Inc. ("DUI") and Molecular Sciences Research Center, Inc. ("MSRC"), blended component units, although legally separate, are reported as if they were part of the University because their debts are expected to be repaid entirely or almost entirely with resources of the University. DUI and MSRC are nonstock corporations that are governed by separate boards.

DUI was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. DUI was organized to develop, construct, and operate academic, residential, administrative, office, commercial, and maintenance facilities for the use of students and other persons or entities conducting business with the University. DUI developed the Plaza Universitaria Project, which consists of a student housing facility, a multi-story parking building and an institution building to house administrative, student service and support functions, and, to a lesser extent, to lease commercial space.

MSRC is a not-for-profit corporation, organized under the Laws of the Commonwealth of Puerto Rico, on March 23, 2011, to operate and administer the University's Molecular Science Building ("MSB"). Commencing in August 2019, MSRC functions as a separated component unit of the University. Previously, this component unit operated as a division of the University. During the years from 2011 to 2018, MSRC focused its agenda in establishing the research infrastructure to support research projects and to increase its research productivity. As a result of the MSRC not being able to complete its development toward a self-standing and self-sufficient corporation, a collaboration agreement was drawn between the MSRC and the University through a Memorandum of Understanding (MOU) signed on August 27, 2019. The agreement is for a period of six (6) years during which the University will provide funding and after which is expected that the MSRC will be able to produce the financial resources to sustain its scientific and operational activities.

MSB is an advanced research facility of the University with laboratories conducting basic and translational biomedical research in the areas of protein structure and dynamics, molecular biology, genomics, proteomics, bio-imaging, pharmacogenetics, and neurosciences. The primary goal of the MSRC is to produce a significant increase in competitively funded forefront scientific research by scientists at University. The MSRC is the University System's first multidisciplinary environment, designed to meet the needs of cutting-edge research in Puerto Rico for the foreseeable future. This research space design paradigm features standardization, flexibility and adaptability, systems integration, and ease of sharing equipment and human resources.

Discretely Presented Component Units: All discretely presented component units are legally separate from the primary government and are nonstock corporations governed by separate boards. These entities are reported as discretely presented component units because the University appoints a majority of these organization's boards, is able to impose its will on them, or a financial benefit/burden situation exists. They include the following:

1. Servicios Médicos Universitarios, Inc. ("the Hospital" or "SMU")
2. University of Puerto Rico Parking System, Inc. ("UPRPS")
3. Materials Characterization Center, Inc. ("MCC")

The Hospital is a not-for-profit acute care corporation, organized under the Laws of the Commonwealth of Puerto Rico on February 11, 1998 to operate and administer healthcare units. The principal objectives of the Hospital are to constitute it as the principal medical education institution of the University and to offer healthcare services to the residents of Puerto Rico.

UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses.

MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University.

The financial statements of the discretely presented component units have a June 30 year-end, except for MCC, which has a December 31 year-end.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. Financial statements and information relating to the component units may be obtained from their respective administrative officers.

The following discussion presents an overview of the financial position and financial activities of the University and its blended component units (hereafter referred as the "University") for the years ended June 30, 2020 and 2019. It excludes its discretely presented component units. This discussion and analysis should be read in conjunction with the basic financial statements of the University, including the notes thereto.

Financial Highlights

As of June 30, 2020, the University had total assets of $1.37 billion, total deferred outflows of resources of $640.8 million, total liabilities of $4.34 billion, total deferred inflows of resources of $41.9 million and net deficit of $2.37 billion. As of June 30, 2019, the University had total assets of $1.49 billion, total deferred outflows of resources of $648.0 million, total liabilities of $4.03 billion, total deferred inflows of resources of $45.6 million and net deficit of $1.94 billion.

The most significant fluctuations in the statements of net position came from the changes in the net pension liability, the total other post-employment benefit (OPEB) liability and their related deferred outflows and inflows of resources and in the University's cash position. The net pension liability which amounted to approximately $3.32 billion and $3.02 billion as of June 30, 2020 and 2019, respectively, increased by approximately $294.3 million or 10% in fiscal year 2020, when compared with the prior year balance. The increase in the net pension liability mainly resulted from the decrease in the discount rates used to calculate the total pension liability, which amounted to 3.56% and 3.81% in fiscal years 2020 and 2019, respectively.

The total OPEB liability which amounted to approximately $235.3 million and $226.8 million as of June 30, 2020 and 2019, respectively, increased by approximately $8.5 million or 4% in fiscal year 2020, when compared to prior year balance. The increase in the total OPEB liability mainly resulted from the decrease in the discount rates used to calculate the total OPEB liability, which amounted to 2.79% and 2.98% in fiscal years 2020 and 2019, respectively.

Deferred outflows of resources mainly include those related to pension and OPEB activities. Deferred outflows of resources related to pension and OPEB activities which amounted to $639.6 million and $646.6 million as of June 30, 2020 and 2019, respectively, decreased by approximately $7.0 million in fiscal year 2020, when compared to prior year balance. Deferred inflows of resources related to pension and OPEB activities which amounted to $41.9 million and $45.6 million, as of June 30, 2020 and 2019, respectively, decreased by approximately $3.8 million in fiscal year 2020, when compared with the prior year balance. Changes in deferred outflows of resources mainly resulted from the changes in assumptions and other inputs, and changes in inflows of resources mainly resulted from the changes in differences between expected and actual experience and actual earnings on plan investments.

The University's net deficit position amounted to approximately $2.37 billion as of June 30, 2020, an increase of approximately $428.9 million or 22%, when compared to a deficit position of approximately $1.94 billion as of June 30, 2019.

In fiscal year 2020, the operating loss which amounted to $1.23 billion exceeded by approximately $428.9 million the total net nonoperating revenues which amounted to $804.5 million and the additions to term and permanent endowments which amounted to $1.5 million. The increase in the net operating loss of approximately $193.1 million or 19% in fiscal year 2020 was mainly caused by the decrease in total operating revenues of approximately $72.1 million or 21% and the increase in total operating expenses of approximately $120.9 million or 9%.

Total operating revenues decreased by $72.1 million or 21%, from $346.2 million in 2019 to $274.1 million in 2020. The decreases in all lines of operating revenues in fiscal year 2020 are mainly related to the effects of the Coronavirus disease ("COVID-19") pandemic since the middle of March 2020. On March 12, 2020, the Governor of Puerto Rico declared a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The Governor of Puerto Rico ordered the closure of all governmental operations, including the University. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty and staff. In addition, other operating revenues decreased on a net basis because the University received in 2019 approximately $33.8 million of proceeds from an insurance company to cover the damages caused to the University by the passage of two hurricanes in Puerto Rico in 2017. No such insurance proceeds were received in 2020.

Total operating expenses increased by $120.9 million or 9%, from $1.39 billion in 2019 to $1.51 billion in fiscal year 2020. The increase in operating expenses in fiscal year 2020 is mainly related to the increases in benefits of pension cost and OPEB expenses and in the scholarship and fellowships expenses. Benefits related to pension cost and OPEB expense increased by $149.9 million or 45% from $333.1 million in fiscal year 2019 to $483.0 million in fiscal year 2020 because of the decrease in the discount rates used to calculate these liabilities as explained above and lower recognition (amortization) of beginning deferred inflows as a credit to the pension cost. Scholarships and fellowships expense increased by $17.9 million or 12% from $147.7 million in fiscal year 2019 to $165.6 million in fiscal year 2020 because of the student financial aids provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") federal funds received of $36.1 million which effect was partially offset by lesser students eligible for Federal Pell Grant program because of the reduction in the University' student body as a result of the effects of the COVID-19 pandemic.

Total nonoperating revenues decreased on a net basis by $168.4 million or 17%, from $972.9 million in fiscal year 2019 to $804.5 million in fiscal year 2020. The decrease in net nonoperating revenues in fiscal year 2020 is mainly related to the decrease in the Commonwealth and other appropriations and a onetime recognition of a recovered amount on impaired deposits with governmental bank in fiscal year 2019, which effects were partially offset by CARES Act federal funds received to provide student financial aids. The decrease in the Commonwealth and other appropriations in fiscal year 2020 amounted of approximately $105.8 million or 15%, from $695.7 million in fiscal year 2019 to $589.9 million in fiscal year 2020. In accordance with the Commonwealth Budget for the fiscal year 2020 certified by the Oversight Board of PROMESA, the Commonwealth appropriations that support the University's general expenses (the Commonwealth formula appropriations) amounted to $501.1 million, a decrease of approximately $86.0 million or 15% when compared with the Commonwealth formula appropriations of $587.1 million for 2019. In addition, the Puerto Rico Tourism Company ("PRTC")'s appropriations for distributions of income received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 decreased by $17.6 million or 27%, from $66.5 million in fiscal year 2019 to $48.9 million in fiscal year 2020 because the casinos were closed in the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic.

The effect of the decrease in the Commonwealth and other appropriations was partially offset by the CARES Act federal funds received of approximately $36.1 million which were disbursed as student financial aids in 2020. In fiscal year 2019, the University recognized a noncash revenue for a recovered amount on previously written off impaired deposits with a governmental bank of approximately $87.3 million as a result of the offset of the credit facilities with the Government Development Bank for Puerto Rico ("GDB") of approximately $87.3 million, including accrued interest payable of approximately $10.9 million, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB.

The University's cash position has been deteriorating since last year. The University's cash position amounted to approximately $233.9 million and $317.1 million as of June 30, 2020 and 2019, respectively, a decrease of approximately $83.2 million or 26% in fiscal year 2020.

In addition, the University's cash position has been exacerbated by the effects of the COVID-19 pandemic. The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial. Much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utilities.

The decrease in the University's cash position of approximately $83.2 million or 26% in fiscal year 2020 mainly resulted from the deficiency of the net cash provided by noncapital financing activities which amounted to $813.1 million and the net cash provided by the investing activities which amounted to $10.3 million when compared with the net cash used in operating activities which amounted to $844.3 million and the net cash used in capital and related financing activities which amounted to $62.3 million.

The net cash used in operating activities in 2020 increased by approximately $63.5 million or 8%, when compared with the prior year balance of $780.8 million mainly as a result of:

- the increase in payments for benefits of approximately $60.0 million or 26% mainly because of the increase in the University contributions to the pension plan of approximately $86.1 million or 115% from $74.8 million in fiscal year 2019 to $160.9 million in fiscal year 2020;
- the increase in payments for scholarships and fellowships of approximately $15.0 million mainly because of student financial aids provided through the CARES Act federal funds received of $36.1 million which effect was partially offset by lesser students eligible for Federal Pell Grant program because of the reduction in the University' student body as a result of the effects of the COVID-19 pandemic;
- a decrease in the collected funds from the governmental grants and contracts (mainly Federal grants and contracts) of approximately $10.4 million because of the reduced research activity as a result of the effects of the COVID-19 pandemic;
- the insurance proceeds of approximately $33.8 million received in fiscal year 2019 to partially cover the University's damages caused by hurricanes;
- which effects were partially offset by the decrease in payments to employees of approximately $38.5 million or 7% because of the headcount attrition of about 400 employees; and the decrease in the payments to suppliers and for utilities of approximately $28.4 million or 15% because most of the facilities were closed during the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic.

The net cash provided by noncapital financing activities decreased by approximately $79.4 million or 9% mainly as a result of the decrease in the Commonwealth and other appropriations of approximately $103.4 million or 15%, from $695.7 million in fiscal year 2019 to $592.3 million in fiscal year 2020, as previously explained. The effect on the decrease in the Commonwealths and other appropriations was partially offset by the CARES Act federal funds received of approximately $36.1 million which were disbursed as student financial aids in 2020.

The reasons for the changes in net position and cash flows are explained in the section entitled "Analysis of Net Position and Changes in Net Position". An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2020 and 2019 follows:

Condensed Statements of Net Position (Deficit) (In thousands)

	June 30	
	2020	**2019**
Assets:		
Current assets:		
Cash and cash equivalents	$ 231,969	$ 315,038
Investments	58,979	61,551
Accounts receivable, net	14,128	17,102
Due from Federal Government	39,417	42,282
Due from related parties, net	13,270	20,218
Other assets	4,428	4,697
Total current assets	362,191	460,888
Noncurrent assets:		
Investments	208,854	204,521
Capital assets, net	784,822	810,368
Other assets	10,023	10,920
Total noncurrent assets	1,003,699	1,025,809
Total assets	1,365,890	1,486,697
Deferred outflows of resources	640,819	648,044
Total assets and deferred outflows of resources	2,006,709	2,134,741
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	99,969	88,193
Unearned revenue	42,326	29,021
Long-term debt	28,360	26,995
Other long-term liabilities	29,712	26,145
Total current liabilities	200,367	170,354
Non-current liabilities, net of current portion:		
Long-term debt	380,782	410,699
Other long-term liabilities:		
Net pension liability	3,318,458	3,024,133
OPEB liability	235,270	226,844
Other liabilities	202,064	200,262
Total noncurrent liabilities	4,136,574	3,861,938
Total liabilities	4,336,941	4,032,292
Total deferred inflows of resources	41,886	45,649
Total liabilities and deferred inflows of resources	4,378,827	4,077,941
Net position (deficit):		
Net investment in capital assets	398,451	395,920
Restricted:		
Nonexpendable	123,023	123,300
Expendable	64,364	67,185
Unrestricted (deficit)	(2,957,956)	(2,529,605)
Total net position (deficit)	$ (2,372,118)	$ (1,943,200)

Condensed Statements of Revenues, Expenses and Changes in Net Position (Deficit) (In thousands)

	Years Ended June 30	
	2020	**2019**
Operating revenues:		
Tuition and fees, net	$ 70,668	$ 80,518
Governmental grants and contracts, net	114,380	126,436
Net patient services revenue and other	63,550	73,835
Other operating revenues, net	25,478	65,442
Total operating revenues	274,076	346,231
Operating expenses:		
Salaries	523,427	560,158
Benefits:		
Pension cost and OPEB expense	483,048	333,145
Other benefits	122,926	110,919
Scholarships and fellowships	165,632	147,724
Supplies and other services and utilities	163,916	185,205
Other operating expenses	50,107	50,997
Total operating expenses	1,509,056	1,388,148
Operating loss	(1,234,980)	(1,041,917)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	589,923	695,711
Federal grants:		
Federal Pell Grant program	177,387	180,361
Other nonoperating grants	38,382	6,250
Gain on settlement of governmental bank liabilities	–	87,316
Net other nonoperating (expenses) revenues	(1,163)	3,255
Net nonoperating revenues	804,529	972,893
Loss before other revenues	(430,451)	(69,024)
Additions to term and permanent endowments	1,533	157
Change in net position	(428,918)	(68,867)
Net position (deficit):		
Beginning of year	(1,943,200)	(1,874,333)
End of year	$ (2,372,118)	$ (1,943,200)

Condensed Statements of Cash Flows (In thousands)

	Years Ended June 30 2020	2019
Net cash used in operating activities	$ (844,290)	$ (780,754)
Net cash provided by noncapital financing activities	813,110	892,555
Net cash used in capital and related financing activities	(62,314)	(73,001)
Net cash provided by investing activities	10,357	13,991
Net change in cash and cash equivalents	(83,137)	52,791
Cash and cash equivalents:		
Beginning of year	317,071	264,280
End of year	$ 233,934	$ 317,071

Certain reclassifications of prior year balances have been made to conform to the current year presentation.

Going Concern

The discussion in the following paragraphs regarding the University's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the University's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, Going Concern Considerations Section,* establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation.

The University faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the University together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the University to continue as a going concern in accordance with GASB Statement No. 56.

The University is highly dependent on the Commonwealth's appropriations to finance its operations. The financial difficulties being experienced by the Commonwealth have significant adverse impacts on the University, given its reliance on Commonwealth's appropriations and lack of available funding alternatives at reasonable interest rates.

The Commonwealth Going Concern

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk.

The Commonwealth is in the midst of a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment rate, a population decline and high levels of debt and pension obligations and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern.

As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's General Fund budget was allocated to health care and pension related costs, debt service requirements, and funding for essential services has been reduced. The Commonwealth's liquidity constraints, among other factors, affected its credit ratings and its ability to obtain financing at prevailing interest rates.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") establishing the Financial Oversight and Management Board (the "Oversight Board").

PROMESA was signed by the U.S. President on June 30, 2016. PROMESA grants the Commonwealth and its component units, including the University, access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors (Title VI of PROMESA). This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code (Title III of PROMESA). This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board of PROMESA, at the request of the Governor of Puerto Rico, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of the Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation.

Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D". Since April 2016, the Commonwealth and certain components units suspended their respective debt service payments.

The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-Type Activities for financial reporting purposes, reflects a net deficit of approximately $71.1 billion as of June 30, 2017 (the most recent audited financial information). The Commonwealth's General Fund shows a fund deficit of approximately $100.6 million as of June 30, 2017.

The Commonwealth's current fiscal crisis has been exacerbated with the effects of the Coronavirus disease ("COVID-19"), as further explained in Section COVID-19 Pandemic.

Detailed information about the Commonwealth's conditions and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plans are disclosed in the notes of the Commonwealth's 2017 fiscal year audited basic financial statements.

The University Going Concern

The University had an unrestricted deficit position and a total net deficit position of approximately $2.96 billion and $2.37 billion, respectively, as of June 30, 2020. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other nonoperating federal grants and other revenues and depreciation, interest and other expenses) during fiscal years 2020, 2019 and 2018 of $1.23 billion, $1.04 billion and $1.20 billion, respectively.

Since October 30, 2016, the University is a covered entity of the Oversight Board created by PROMESA. As a covered entity, the University is required to submit to the Oversight Board of PROMESA annual individual fiscal plan for its certification, among other things. The University is not a debtor under a Title III case.

The University is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 55% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other appropriations which amounted to approximately $589.9 million, $695.7 million and $733.1 million for the years ended June 30, 2020, 2019 and 2018, respectively.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriated for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations support the University's general expenses. On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ended on June 30, 2015, 2016 and 2017.

Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth formula appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2020, 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula appropriations of the University amounted to $501.1 million, $587.1 million and $631.2 million, respectively, for the years ended June 30, 2020, 2019 and 2018, respectively, a decrease of $332.8 million or 39.9% when compared the 2020 Commonwealth formula appropriation with the Commonwealth formula appropriation of $833.9 million for fiscal year 2017.

In light of the COVID-19 pandemic, the Oversight board of PROMESA agreed to provide a one-year delay in the reduction of the Commonwealth formula appropriations of the University. The 2020 Commonwealth Fiscal Plan for fiscal years 2021 to 2025 continues to reduce the general appropriations to the University over a four-year period with the expectation that the University will become more self-sufficient and develop more diverse and resilient revenue streams outlined in the 2020 University Fiscal Plan for fiscal years 2021 to 2025. The approved Commonwealth formula appropriations are $501.1 million for 2021, $430.1 million for 2022, $407.1 million for 2023 and $383.1 million for 2024. No further cuts are expected after fiscal year 2024 and these appropriations are indexed to inflation in fiscal year 2025 and beyond.

In compliance with Executive Order 31 signed by the Governor of Puerto Rico on June 30, 2016, the University suspended the monthly payments to the trustee of the Trust Agreement that governs the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the Bank of New York Mellon, in its capacity as Trustee of the DUI's AFICA Bonds, notified to the University that it failed to make the basic lease payments to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21 (known as the Puerto Rico Emergency Moratorium and Rehabilitation Act), or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, the University has paid as agreed, the monthly payments to the trustee of the DUI's AFICA Bonds and the trustee on behalf of DUI has paid as agreed, the scheduled principal and interest payments on its outstanding AFICA Bonds.

The University's is in a dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence. In a letter dated June 22, 2020, the Trustee of the DUI's AFICA Bonds notified the University that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under paragraph 7.1(b) of the lease agreement, and that a default under the lease agreement could lead to an event of default under section 7.01(g) of the loan agreement, which causes an event of default under section 801(d) of the trust agreement. On October 28, 2020, the University formally notified to DUI the termination of the Operations and Management Agreement effective October 31, 2020, pursuant to Section 3.01 (iii) thereof. After

October 2020, all operating activities as contemplated in the Operations and Management Agreement were assumed by the University.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion sought relief from the stay of PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA"), entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. As agreed in the letter agreement, the University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017 and continued to pay monthly to the trustee the $4 million of pledged revenues. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through the end of the Compliance Period as provided in the trust agreement.

The letter agreement has been extended fourteen times and the new Compliance Period is August 31, 2021. Pursuant to the letter agreement and the fourteen standstill extension agreements, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. In addition, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the monthly payments of pledged revenues, detailed in the section entitled "Capital Assets and Debt Administration", to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period.

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given to the Letter Agreement and the various Standstill Extension Agreements prior to August 31, 2021.

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has complied with and has made all transfers due under the letter agreement, as extended. In addition, the Trustee on behalf of the University has paid as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

In addition, the Trust Agreement required the University to comply with other covenants. At June 30, 2020, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any

Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosures for fiscal years 2016 to 2019, and in the case of the Commonwealth, it has not filed the continuing disclosures and its audited financial statements for fiscal years 2017 to 2019.

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit on March 31, 2017 acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method.

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University are operating on limited Title IV eligibility and are placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $250 million for the year ended June 30, 2020. The University was in compliance with various program requirements for the year ended June 30, 2020.

The University's unrestricted cash position has been deteriorating since last year. The University's unrestricted cash position amounted to approximately $185.2 million and $281.2 million as of June 30, 2020 and 2019, respectively a decrease of $96.0 million or 34%. This decrease in the University's unrestricted cash position was mainly caused by the decrease of $86.0 million or 15% in the Commonwealth formula appropriations of the University which amounted to approximately $501.1 million and $587.1 million for the years ended June 30, 2020 and 2019, respectively, and the significant increase of $86.1 million or 115% in the University contributions to its pension plan, the University's Retirement System, which amounted to approximately $160.9 million and $74.8 million for the years ended June 30, 2020 and 2019, respectively.

In addition, the University's unrestricted cash position has been exacerbated by the effects of the COVID-19 pandemic. The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial.

Much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utility. Under an extended lockdown scenario, a viral resurgence would result in extension of social distancing measures through Fall Semester 2021. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control. Refer to next section for further information regarding COVID-19 pandemic.

Given the high dependency of the University on the Commonwealth appropriations and lack of available financing sources at reasonable interest rates, the University's financial condition and liquidity is being adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

The University Management Fiscal Plan

The Oversight Board of PROMESA has certified four fiscal plans for the University since 2017. Considering the many variables in the forecasts, the Oversight Board of PROMESA has chosen to annually update and certify a Fiscal Plan for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. These various University's Fiscal Plans, in accordance with PROMESA, have outlined a path to achieve fiscal responsibility, maintain access to capital markets, and provide adequate funding for the University's Retirement System.

The Oversight Board of PROMESA recognizes that the University has made progress on implementing some measures for fiscal year 2020, for example the University increased undergraduate tuition to $124 per credit over the past academic year. However, on other measures, the University is in the process to comply with previous fiscal plan requirements. For example, the University is in the process to: (1) reform its pension plan, (2) adjust benefits to sustainable levels, and (3) implement adjustment measures to capture the required procurement savings. In order to comply with the UPR Fiscal Plan, during the fiscal year 2020, the University eliminated most of the tuition exemption categories and implemented a new need-based scholarship policy ("Internal Scholarship Fund") to provide scholarship assistance to students, as intended with the eliminated original exemptions.

The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halt much of it research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 on the University have also been substantial.

On June 12, 2020, the Oversight Board certified a new fiscal plan for the University for fiscal years 2021 to 2025 (the "UPR 2020 Fiscal Plan"). The UPR 2020 Fiscal Plan, continuing with the priorities outlined in the UPR 2019 Fiscal Plan, includes four core elements centered largely around improving operations and increasing revenues, while maintaining the ability of all students to access and benefit from the improved university system:

- Operational efficiencies: The University's existing operational model, with eleven semiautonomous campuses, creates unnecessary complexity and drives higher costs. The UPR 2020 Fiscal Plan identifies personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty. The UPR 2020 Fiscal Plan calls for a 5% decrease in total operating disbursements between fiscal years 2021 and 2025. These cost reductions are paired with operational improvements, such as the transition to shared administrative service hubs and an optimization of academic offerings-pairing resources with greatest student need. The fiscal plan mainly includes the following expense measures:

    - Attrition: reduce overall headcount from approximately 10,900 employees in fiscal year 2020 to 10,300 employees in fiscal year 2025, mainly in non-faculty personnel and trust and senior administrative position.

    - Centralized procurement efforts and contract negotiations.

    - Benefits adjustments: reduce the employer monthly contribution to the medical insurance plans to \$390 per month to each faculty members and to \$125 per month to each non-faculty members plans commencing in fiscal year 2020, while keeping baseline contributions to employees with preexisting conditions; reduce prospective pay out of non-payroll compensation (e.g., sick days, union charges); and eliminate the payment of Christmas bonus for all employees.

- Revenue enhancement: The UPR 2020 Fiscal Plan maximizes opportunities to increase revenue from non-tuition sources: federal grants and awards, intellectual property and patent monetization, and ancillary service fees for providing training to external institutions. Given the unprecedented reality Puerto Rico currently faces with COVID-19 pandemic, it defers the increase in undergraduate and graduate tuition, and fees previously scheduled for fiscal year 2021 and it provides a one-year delay in the reduction of the University's annual appropriations from the Commonwealth.

    - Non-tuition sources: maximizing opportunities to increase revenue from non-tuition sources such as: federal grants and awards, intellectual property and patent monetization, increase in due and charges and ancillary service fees for providing training to external institutions. The University will receive approximately \$12 million, net of corresponding expenses, per year from fiscal years 2021 to 2025 by offering tutorial and training services to the Puerto Rico Department of Education and other government agencies.

- Tuitions sources:

    - Gradual increase in the undergraduate student cost as previously certified from \$124 per credit in fiscal year 2020 to: \$124 per credit in fiscal year 2021; \$145 per credit in fiscal year 2022; and, \$157 per credit in fiscal year 2023. After fiscal year 2023, tuition will be indexed to public 4-year tuition inflation (estimated to be 3.1% for fiscal year 2024).
    - Eliminate 13 of 16 tuition exemption categories (keeping only teaching assistants, honor students, and veterans only (not spouse). To the extent tuition increases are required, this plan calls for implementing a need-based scholarship policy alongside increases in the cost per credit and related fees.
    - Increase cost per credit for graduate programs to be more in line with Puerto Rico and United States of America benchmarks in fiscal year 2022 and then index the increase first to the average public higher education tuition growth over the past decade (3.1%), then to the Puerto Rico inflation (1%).

- Pension reform: The University's pension fund faces significant challenges, with 57% of liabilities unfunded. The UPR 2020 Fiscal Plan outlines options to ensure pension obligations can be paid without requiring significantly higher revenues or lower expenses. PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. Accordingly, the UPR 2020 Fiscal Plan requires the University to make full actuarially required contribution to its pension plan. This Fiscal Plan outlines reform measures the University and the UPR Retirement System could take to ensure pension obligations can be paid without requiring significantly higher revenues or lower expenses, while still allowing the University to achieve operating surplus (pre-debt service) within the fiscal plan period. The Oversight Board of PROMESA offers the University the following options:

    - Option 1: freeze its current defined benefit plan and move to a defined contribution plan without cutting accrued benefits. To make this option sustainable and achieve a primary operating surplus (pre-debt service), the University will need to find additional savings above what is presented in this fiscal plan of approximately \$40 million per year, again faculty reduction, significant consolidation, or tuition increases.
    - Option 2: freeze its current defined benefit plan, move to a defined contribution plan and progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans. Eliminate \$250 minimum benefit and \$400 holiday bonus. This option does not require additional savings or revenue measures to this Fiscal Plan. This is the option presented in this fiscal plan.

    The Oversight Board of PROMESA strongly believes that Option 2 is the most responsible course of action for the University. If the University's pension plan remains in its current status and no measures are implemented, the University will need to find additional savings above what is presented in this fiscal plan of approximately \$90 million per year, in faculty reduction, significant consolidation, or tuition increases to avoid operating at a deficit and maintain the solvency of its retirement system.

- Fiscal governance and controls: The University has been facing difficulties with maintaining an adequate central control of and transparency into campus finances. The UPR 2020 Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures reported.

As in prior year, the 2020 UPR Fiscal Plan is balanced with actual unrestricted cash and cash equivalents that may be used to cover modest operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan.

To ensure the University continues to fulfill its role as an important driver of socioeconomic mobility and all students can continue to access a university education, this fiscal plan and the 2020 Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of income level, have access. The University's Internal Scholarship Fund expenditures will amount to $9 million in fiscal year 2021.

In addition, the Commonwealth, in collaboration with the Oversight Board, and as certified in the May 2018 Commonwealth's fiscal plan, will establish an external scholarship fund named the University of Puerto Rico Scholarship Fund (the "Scholarship Fund") to benefit the students of the University. The Commonwealth will contribute $35 to $50 million per year for external scholarships from fiscal year 2019 to fiscal 2023 to the Scholarship Fund. The Scholarship Fund will be managed by an independent third party. The Scholarship Fund's returns would be used to provide need-based scholarships to the students of the University. The Scholarship Fund is expected to award the first scholarships in August 2021. Commonwealth's contributions to the Scholarship Fund for fiscal years 2019 and 2020, are held under the custody of the Department of Treasury of the Commonwealth. In fiscal year 2021, $43 million will be added to the fund, and will be used to provide need-based scholarships to the University students.

The 2020 Commonwealth Fiscal plan creates a new, incremental scholarship program to incentivize doctors to practice in underserved areas in Puerto Rico. The Oversight Board of PROMESA has allocated funding for a loan forgiveness offered to medical residents or students. Each student or resident would be eligible for $25,000 of loan forgiveness per year of service (up to four years) in underserved areas. The program would be administered by an independent party chosen in a competitive process managed by FAAFA. The Commonwealth will fund the program with a $30 million endowment, investing $10 million in fiscal year 2020 and $20 million in fiscal year 2021.

Unique to the UPR 2020 Fiscal Plan is the context of COVID-19 pandemic – an evolving epidemic that has radically reshaped the operations of the University. Even in the most optimistic scenario, COVID-19 pandemic will present unprecedented humanitarian and fiscal setbacks that challenge the University's administration to rethink its operating model in ways it has never had to consider before. For example, the University is looking to expand its distance learning capabilities for at least a portion of the student population, rethinking residences and discovering how to provide the full student experience under the "new normal." The relief from the CARES Act and the decision from the Commonwealth and the Oversight Board of PROMESA to delay subsidy reductions for fiscal year 2021 will provide some assistance in making these adaptations.

With the UPR 2020 Fiscal Plans measures, including the reduction in the Government appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2021 through fiscal year 2025.

There is no certainty that the UPR 2020 Fiscal Plans or any subsequently certified fiscal plan for the University will be fully implemented or if implemented will ultimately provide the intended results. All these plans and measures, and the University's ability to reduce its deficit and to achieve a balanced budget in the future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. As such, management does not believe that its ability to continue as a going concern has been fully alleviated.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. As a result of the health threat and to contain the virus spread across de island, the Governor of Puerto Rico issued an executive order on March 12, 2020, declaring a state of emergency in Puerto Rico, which is still in effect, to concentrate all efforts and implement necessary measures to safeguard the health, well-being, and public safety of the citizens of Puerto Rico. The executive order, as amended several times, ordered the lockdown of all non-essential businesses, and mandated that all employees, other than essential workers, remain at home. While many of the restrictions have been gradually lifted, a mandatory curfew is still in effect. Certain businesses activities have been permitted to reopen although limitations on some activities, such as large indoor gathering and indoor services at bars and restaurants, are still in effect. Moreover, most businesses that can operate have had to make significant adjustments to protect customers and employees, including transitioning to telework and suspending or modifying certain operations in compliance with health and safety guidelines.

The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. Public and private schools and universities, including the University, have temporarily limited access to their facilities in accordance with the executive orders.

The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses to web-based technology assisted teaching since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty, and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial.

Additionally, the Federal Government has also approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") that seek to cushion the economic fallout of the pandemic. In fiscal year 2020, the University received and disbursed $36.1 million of CARES Act federal funds to cover costs associated with refunding student housing, dining and other related expenditures in the Spring 2020 semester.

In January 2021, the U.S. Department of Education announced new economic stimulus available to higher education institutions to ensure learning continues for students during the COVID-19 pandemic. This funding is allocated to the Higher Education Emergency Relief Fund II by the Coronavirus Response and Relief Supplemental Appropriations Act, which was signed into law by the U.S President of the Unites States of America on December 27, 2020. The University can use their awards for financial aid grants to students, student support activities, and to cover a variety of institutional costs, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll. The total assigned to the University amounted to approximately $128.5 million, of which approximately $40.5 million of these funds are assigned to awards for financial aid to be granted to students.

The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. Even after the pandemic subsides, the global economy may continue to experience a recession, and the University anticipates that its operations would be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects the University's financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks.

The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

As mentioned before, the University has adopted proactive measures, such as the implementation of web-based technology assisted teaching and learning tools for its current and future students, to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. However, much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utility. Under an extended lockdown scenario, a viral resurgence would result in extension of social distancing measures through Fall Semester 2021. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

The COVID-19 pandemic and economic disruption resulting from measures to contain it have resulted in reductions in the University's fiscal year 2020 and projected revenues. However, the ultimate impact of the COVID-19 pandemic on the amount and timing of collections of the University revenues cannot be determined at this time. No assurance can be provided that the COVID-19 pandemic and resulting economic disruption will not result in revenues to the University that are lower than projected.

For the year ended June 30, 2020, the University's operating revenues, decreased from $312.4 million in 2019, excluding $33.8 million from proceeds from the insurance company related to damages caused by hurricanes, to $274.1 million in 2020, a decrease of $38.3 million or 12% when compared with the prior year balance, as adjusted. The University's student body decreased by 4,155 students in 2020, from 54,940 students for fiscal year 2019 to 50,785 students for fiscal year 2020. PRTC appropriations (nonoperating revenues) related to distributions of income to be received from slot machines and others decreased by $17.7 million or 27%, from $66.5 million in 2019 to $48.9 million in 2020 because the casinos were closed during the last three months of fiscal year 2020 as result of the COVID-19 pandemic. Supplies and other services expenses, including utilities, decreased by $21.3 million or 11%, from $185.2 million in 2019 to $163.9 million in 2020 because of the lower operational activity at the University in the last quarter of fiscal year 2020 as a result of the effects of COVID-19 pandemic.

The COVID-19 pandemic has significantly disrupted the global economy and the markets in which the University operates, which has adversely impacted, and is likely to continue to adversely impact, the University's business, financial condition, and results of operation. Its continued impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, students, customers, clients, counterparties, and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

Overview of the Basic Financial Statements

This discussion and analysis is required supplementary information to the basic financial statements of the University and is intended to serve as introduction to the basic financial statements of the University. The basic financial statements present information about the University, which includes the University's Blended Component Units. This information is presented separately from the University's Discretely Presented Component Units.

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities, as well as interfund receivable and payable balances and transactions, have been eliminated where appropriate.

The basic financial statements of the University include the following: (1) Statement of Net Position (Deficit), (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the Basic Financial Statements. The University also includes additional information to supplement the basic financial statements.

The statement of net position presents information on all the University's assets, liabilities and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the University is improving or deteriorating. The net position is displayed in three parts, net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable, and are those assets that are restricted by law on third-party agreements or by an external donor. Unrestricted net position, while it is generally designated for specific purposes, is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided, and expenses are recognized when others provide the service to the University, regardless of when cash is exchanged. Assets and liabilities included in the statements of net position are classified as current or noncurrent.

The statement of revenues, expenses and changes in net position presents information on how the University's net position changed during the reporting periods. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The purpose of this statement is to present the revenues earned, both operating and nonoperating, and the expenses paid and accrued, and any other revenues, expenses, gains and losses earned or spent by the University during the reporting periods. Generally, operating revenues are used to provide goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided.

The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non–capital and capital financing and investing activities, which include cash receipts and cash disbursements information.

The notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

The required supplementary information consists of three schedules concerning the following: (1) the supplementary information (two schedules) of the University's Employees Retirement Plan as required by the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27*, and (2) the supplementary information (one schedule) of the University´s Postemployment Benefits Other Than Pensions Program as required by the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The other financial information consists of the University's Schedule of Changes in Sinking Fund Reserves.

Analysis of Net Position and Changes in Net Position

Statements of Net Position (Deficit)

Assets

Total assets amounted to $1.37 billion and $1.49 billion as of June 30, 2020 and 2019, respectively. Total assets decreased by approximately $120.8 million or 8% in 2020.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2020, cash and cash equivalents, investments and accounts receivable, including due from related parties, comprise approximately 64%, 16% and 18%, respectively, of the current assets; meanwhile 78% and 21% of the noncurrent assets are capital assets and investments, respectively. As of June 30, 2019, cash and cash equivalents, investments and accounts receivable, including due from related parties, comprise approximately 68%, 13% and 17%, respectively, of the current assets; meanwhile 79% and 20% of the noncurrent assets are capital assets and investments, respectively.

Total cash and cash equivalents (current and noncurrent assets) (mainly deposit accounts in a commercial bank in Puerto Rico and money market funds in U.S. commercial banks, amounted to $233.9 million and $317.1 million at June 30, 2020 and 2019, respectively, a decrease of approximately $83.2 million or 26% in fiscal year 2020.

The University's cash position has been deteriorated since last year. In addition, the University's cash position has been exacerbated by the effects of the COVID-19 pandemic. The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial. Much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utility.

The decrease in the University's cash position of approximately $83.2 million or 26% in fiscal year 2020 mainly resulted from the deficiency of the net cash provided by noncapital financing activities which amounted to $813.1 million and the net cash provided by the investing activities which amounted to $10.3 million when compared with the net cash used in operating activities which amounted to $844.3 million and the net cash used in capital and related financing activities which amounted to $62.3 million.

The net cash used in operating activities in 2020 increased by approximately $63.5 million or 8%, when compared with the prior year balance of $780.8 million mainly as a result of: 1) the increase in payments for benefits of approximately $60.0 million or 26% mainly because of the increase in the University contributions to the pension plan of approximately $86.1 million or 115 % from $74.8 million in fiscal year 2019 to $160.9 million in fiscal year 2020; 2) the increase in payments for scholarships and fellowships of approximately $15.0 million mainly because of student financial aids provided through the CARES Act federal funds received of $36.1 million which effect was partially offset by lesser students eligible for Federal Pell Grant because of the reduction in the University' student body program as a result of the effects of the COVID-19 pandemic; 3) a decrease in the collected funds from the governmental grants and contracts (mainly Federal grants and contracts) of approximately $10.4 million because of the reduced research activity as a result of the effects of the COVID-19 pandemic; 4) the insurance proceeds of approximately $33.8 million only received in fiscal year 2019 to partially cover the University's damages caused by the hurricanes; 5) which effects were partially offset by the decrease in payments to employees of approximately $38.5 million or 7% because of the headcount attrition of about 400 employees; and the decrease in the payments to suppliers and for utilities of approximately $28.4 million or 15% because most of the facilities were closed during the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic.

The net cash provided by noncapital financing activities decreased by approximately $79.4 million or 9% mainly as a result of the decrease in the Commonwealth and other appropriations of approximately $103.4 million or 15%, from $695.7 million in fiscal year 2019 to $592.3 million in fiscal year 2020. In accordance with the Commonwealth Budget for the fiscal year 2020 certified by the Oversight Board of PROMESA, the Commonwealth formula appropriations amounted to $501.1 million, a decrease of approximately $86.0 million or 15% when compared with the Commonwealth formula appropriations of $587.1 million for 2019. In addition, the Puerto Rico Tourism Company ("PRTC")'s appropriations for distributions of income received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 decreased by $17.6 million or 27%, from $66.5 million in fiscal year 2019 to $48.9 million in fiscal year 2020 because the casinos were closed in the last quarter of fiscal year 2020. The effect on the decrease in the Commonwealth and other appropriations was partially offset by the CARES Act federal funds received of approximately $36.1 million which were disbursed as student financial aids in 2020.

For a more detailed information of the changes in cash and cash equivalents, refer to the University's statement of cash flows for the year ended June 30, 2020.

Total investments (current and noncurrent assets) amounted to $267.8 million and $266.1 million at June 30, 2020 and 2019, respectively. The increase of approximately $1.8 million or less than 1% in 2020 mainly resulted from the increase of approximately $3.8 million in the restricted investments of the permanent endowment funds mainly as a result of the excess of purchases over sales of investment and increase in the net appreciation in the fair value of such investments of approximately $0.9 million, which effect was partially offset by the decrease of approximately $2.7 million in the restricted investments in the sinking funds because of lower deposits made in accordance with the letter agreement approved by the Trustee of the University's revenue bonds.

Deposits held with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit of the Commonwealth of Puerto Rico, amounted to $7.1 million as of June 30, 2020 and 2019. GDB faces significant risks and uncertainties and it currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full. On March 23, 2018, GDB ceased its operations and it is currently winding down in an orderly fashion under Title VI of PROMESA. At June 30, 2020 and 2019, the entire balance of the deposits held with GDB was considered not realizable.

Accounts receivable, net, amounted to $14.1 million and $17.1 million at June 30, 2020 and 2019, respectively. Most of the University's accounts receivable are amounts due from medical plans and other entities located in Puerto Rico, student tuitions and fees receivable and other accounts. The decrease of approximately $3.0 million or 17% in 2020 mainly resulted from a decrease in due from medical plans and other accounts receivable of approximately $2.7 million or 21%. Gross accounts receivable amounted to $158.8 million and $156.2 million at June 30, 2020 and 2019, respectively. The allowance for doubtful accounts amounted to $144.7 million and $139.1 million at June 30, 2020 and 2019, respectively. The increases in the allowance for doubtful accounts in 2020 mainly resulted from the deterioration in the aging of these receivable because of the recessionary economic conditions in Puerto Rico.

Due from Federal Government amounted to $39.4 million and $42.3 million at June 30, 2020 and 2019, respectively. These accounts are mainly related to grants and contracts from Federal Government for research activity in the Sciences, Health Sciences, Engineering, Technology and the Arts. These accounts decreased by approximately $2.9 million or 7% in 2020 because of the reduced research activity as a result of the effects fo the COVID-19 pandemic.

Due from related parties, net amounted to $13.3 million and $20.2 million at June 30, 2020 and 2019, respectively. Most of the University's related party accounts receivable are with Commonwealth's agencies, component units and municipalities and with Servicios Médicos Universitarios, Inc., a discretely presented component unit of the University. In fiscal years 2020, these accounts decreased by approximately $6.9 million or 34% mainly as a result of the collections of approximately $5.0 million in advances given to the University's Retirement System in 2019 and the decrease of approximately $2.4 million in the account receivable to the Puerto Rico Tourism Company for unremitted distributions of income under the Gambling Law (slot machines and others). Gross related party accounts receivable amounted to $127.1 million and $127.7 million at June 30, 2020 and 2019, respectively. The allowance for these doubtful accounts amounted to $113.8 million and $107.5 million at June 30, 2020 and 2019, respectively. The increases in the allowance for doubtful accounts in 2020 mainly resulted from the deterioration of the financial condition of the Commonwealth and several of its component units as previously discussed in the Going Concern Section.

Due from Commonwealth's agencies mainly includes the accounts receivable from the Department of Health which amounted to $18.0 million and $17.5 million at June 30, 2020 and 2019, respectively, for unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the Commonwealth's health reform program patients and other services, and from the Department of Education which amounted to $2.8 million and $2.3 million at June 30, 2020 and 2019, respectively, for contracts for professional development of public school teachers and others.

Due from Commonwealth's component units include an account receivable from the Puerto Rico Medical Service Administration ("PRMSA"), a component unit of the Commonwealth, which amounted to $55.2 million and $49.4 million at June 30, 2020 and 2019, respectively, for contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA. In addition, due from Commonwealth's component units include the accounts receivable from the Puerto Rico Tourism Company ("PRTC"), a component unit of the Commonwealth, which amounted to $3.0 million and $5.4 million at June 30, 2020 and 2019, respectively, for unremitted distributions of income to be received by the University under the Gambling Law. The 2019 due from balance from PRTC was collected at the beginning of the July 2019, however, 2020 due from balance has not been collected. Due from

Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR"), a component unit of the Commonwealth, which amounted to $2.4 million and $3.4 million at June 30, 2020 and 2019 for unpaid charges of salaries, fringe benefits and other expenses incurred by certain professors of the Medical Science Campus of the University for cancer research and investigations provided to the CCCUPR. The University collected these accounts receivable in October 2020.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital"), a discretely presented component unit of the University, which amounted to $23.9 million and $24.0 million at June 30, 2020 and 2019, respectively, mainly comes from contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital.

The University had a due from the University of Puerto Rico Retirement System (the "Retirement System") of approximately $24 thousand and $5.1 million at June 30, 2020 and 2019, respectively, which resulted from unpaid advances given by the University to the Retirement System. The amount due by the Retirement System was unsecured, non-interest bearing and payable upon demand. In fiscal year 2020, the University collected the whole amount due from the Retirement System at June 30, 2019.

The University maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable based on type of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: type of receivables, Commonwealth guidelines, historical losses adjusted to consider current market conditions, the amounts of receivable in dispute, the current receivables aging, and current payment patterns. The University has significant amounts receivable from the Commonwealth's and its instrumentalities. There is significant uncertainty regarding the collection of such receivables due to the financial challenges these entities are facing. The University has considered this in its estimate of the specific governmental allowance for uncollectible accounts and fully reserved for all receivables from the Commonwealth affiliated entities that have not been collected in the twelve months period post the balance sheet date. The University reviews its allowance for doubtful accounts annually. Past due balances over a specified amount are reviewed individually for collectability. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital assets, net of accumulated depreciation and amortization, amounted to $784.8 million and $810.4 million at June 30, 2020 and 2019, respectively. Capital assets decreased by approximately $25.5 million or 3% in 2020. The decreases in 2020 mainly resulted from the depreciation and amortization expense of approximately $40.6 million and the capital asset retirements of approximately $1.7 million, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to approximately $16.8 million.

Noncurrent other assets amounted to $10.0 million and $10.9 million at June 30, 2020 and 2019, respectively, and mainly consisted of restricted cash and cash equivalents, prepaid assets and notes receivable, net.

Deferred Outflows of Resources

Deferred outflows of resources, which represents resources applicable to a future reporting period, amounted to $640.8 million and $648.0 million at June 30, 2020 and 2019, respectively. The decrease of approximately $7.2 million in 2020 mainly resulted from the decrease of $101.8 million in the deferred outflows from pension activities related to changes in assumptions and other inputs, which effect was partially offset by the increase of $86.1 million in the deferred outflows from pension activities related to employer contributions made subsequent to the measurement date.

Deferred outflows of resources also include the deferred refunding loss on the University' revenue bonds of $1.2 million and $1.4 million at June 30, 2020 and 2019, respectively, which decreased by the amortization expense of approximately $0.2 million in 2020.

Liabilities

Total liabilities amounted to $4.34 billion and $4.03 billion at June 30, 2020 and 2019, respectively, an increase of approximately $304.6 million or 8% in 2020. The increase in 2020 mainly resulted from the increase of approximately $294.3 million or 10% in the net pension liability which balance amounted to $3.32 billion and $3.02 billion at June 30, 2020 and 2019, respectively. In addition, the total OPEB liability amounted to $235.3 million and $226.8 million as of June 30, 2020 and 2019, respectively, and increase of $8.5 million or 4%. As further explained below, the increases in the net pension liability and in the OPEB liability mainly resulted from the decrease in the discount rates used to measure such liabilities.

Current liabilities consist primarily of accounts payable and accrued liabilities, the current portions of long-term debt and other liabilities. Noncurrent liabilities primarily consist of long-term debt obligations, net pension liability, total OPEB liability, deferred compensation plan payable and compensated absences.

Accounts payable and accrued liabilities amounted to $100.0 million and $88.2 million at June 30, 2020 and 2019, respectively. Accounts payable and accrued liabilities increased by approximately $11.8 million or 13% in 2020. The increase in 2020 mainly resulted from the increase in the accounts payable to related parties (Commonwealth and its component units, municipalities and the University component units) of approximately $10.7 million or 25% because of a delay in the payments of utilities as a result of the effects of the COVID-19 pandemic and in the increase of approximately $4.7 million in the accrual to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), a fiduciary fund of the Commonwealth, for the PayGo charge for fiscal year 2020 billed by the ERS to the University corresponding to certain retirees of a unit of the University, who are members of the ERS.

Unearned revenues amounted to $42.3 million and $29.0 million at June 30, 2020 and 2019, respectively, an increase of approximately $13.3 million or 46% in 2020. Unearned revenues mainly include cash advances received from Commonwealth grants of $20.0 million in 2020 and in 2019 and of $10.0 million in 2018 for tutorial and training services to public employees for which the University has not rendered those services at year end. The University commenced to offer the services in fiscal year 2019. In fiscal years 2020 and 2019, the University offered part of the trainings and seminars to public employees for advances received before 2020 and realized a revenue of approximately $6.7 million and $1.0 million, respectively, for those services rendered.

Total long-term debt obligations (current and noncurrent liabilities) amounted to $409.1 million and $437.7 million at June 30, 2020 and 2019, respectively. The decreases of approximately $28.6 million or 7% in 2020 mainly resulted from principal paid on long-term debt of approximately $27.0 million; and the amortization of bond premium of approximately $1.6 million.

Long-term debt obligations include the University's revenue bonds and the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds) which amounted to $352.8 million and $56.3 million at June 30, 2020, respectively, and $378.7 million and $59.0 million as of June 30, 2019, respectively. The decrease in 2020 mainly resulted from the principal repayments of approximately $24.3 million in the University's revenue bonds and of approximately $2.7 million in the AFICA bonds, respectively. These bonds are currently rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

Net pension liability amounted to $3.32 billion and $3.02 billion at June 30, 2020 and 2019, respectively, an increase of approximately $294.3 million or 10% in 2020. As permitted by GASB, the University's net pension liability as of June 30, 2020 and 2019, were measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2019 and 2018, respectively, and assuming no liability gains and losses. The increase in the net pension liability mainly resulted from the decrease in the discount rates used to measure the total pension liability, which amounted to 3.56% and 3.81% in fiscal years 2020 and 2019, respectively, because of the decrease in the municipal bond index, based on the Bond Buyer General Obligation 20-year Municipal Bond Index, from 2.98% in 2019 to 2.79% in 2020.

The projections of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made according to the University's new fiscal plan certified by the Oversight Board of PROMESA for fiscal years through 2024, and the five-year average of those contributions thereafter.

Based on those assumptions, in fiscal year 2020, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2034. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments through June 30, 2034 and the applicable municipal bond index rate of 2.79%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2019, was applied to all periods of projected benefit payments after June 30, 2034. The Single Equivalent Interest Rate ("SEIR") of 3.56% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2019.

In fiscal year 2019, the SEIR at June 30, 2018 was 3.81% based on the long-term expected rate of return on pension plan investments of 6.75% applied to all periods of projected benefit payments through June 30, 2033 and the applicable municipal bond index rate of 2.98% as of June 30, 2018 applied to all periods of projected benefit payments after June 30, 2033.

The total OPEB liability amounted to amounted to $235.3 million and $226.8 million as of June 30, 2020 and 2019, respectively, an increase of approximately $8.5 million or 4% in 2020. As permitted by GASB, the University's unfunded total OPEB liability (TOL) as of June 30, 2020 and 2019 were measured at June 30, 2019 and 2018, respectively, by actuarial valuations as of those dates. The discount rates used to calculate the total OPEB liability amounted to 2.79% and 2.98% in fiscal years 2020 and 2019, respectively.

Total other long-term debt liabilities (current and noncurrent liabilities) amounted to $231.8 million and $226.4 million at June 30, 2020 and 2019, respectively, an increase of approximately $5.4 million or 2% in 2020. Other long-term debt liabilities include the accrual of compensated absences, the liability for the deferred compensation plan and claims liability.

The accrual for compensated absences amounted to $138.0 million and $132.0 million at June 30, 2020 and 2019, respectively, an increase approximately $6.0 million or 5% in 2020. Changes in compensated absences are mainly related to the variations on the use of vacations and sick leaves by employees, salary changes, the total number of employees at the end of periods and the amounts of sick leaves liquidated upon employee retirement or termination.

The liability for the deferred compensation plan amounted to $85.2 million and $84.4 million at June 30, 2020 and 2019, respectively, an increase of approximately $0.8 million or 1% in 2020. The increase in 2020 mainly resulted from income earned and the increase in fair value of related investments of approximately $3.2 million, which effect was partially offset by the participants' withdrawals of approximately $2.5 million. The University offers to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds and other securities, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University, subject only to the claims of the University's general creditors in the event of the University's insolvency, as defined in the Trust Agreements. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

Claims liability amounted to $8.6 million and $10.0 million at June 30, 2020 and 2019, respectively, a decrease of approximately $1.4 million or 14% in 2020. The decrease in 2020 mainly resulted from the settlements of various claims in which the University paid an aggregated amount of approximately $0.9 million in 2020.

In January 2019, the U.S. Department of Justice notified a researcher (faculty member) employed by the University about a potential civil action for violations under Title 21 as a result of a Drug Enforcement Administration ("DEA") inspection in the research activities. In October 2019, the U.S. Department of Justice notified the University, that as a grant recipient, it is the legal entity responsible for compliance with the terms and conditions of the grant award of the National Institutes of Health. The claim seeks civil penalties amounted to approximately $1.3million. At June 30, 2020 and 2019, the University accrued approximately $1.3 million for this claim.

Deferred Inflows of Resources

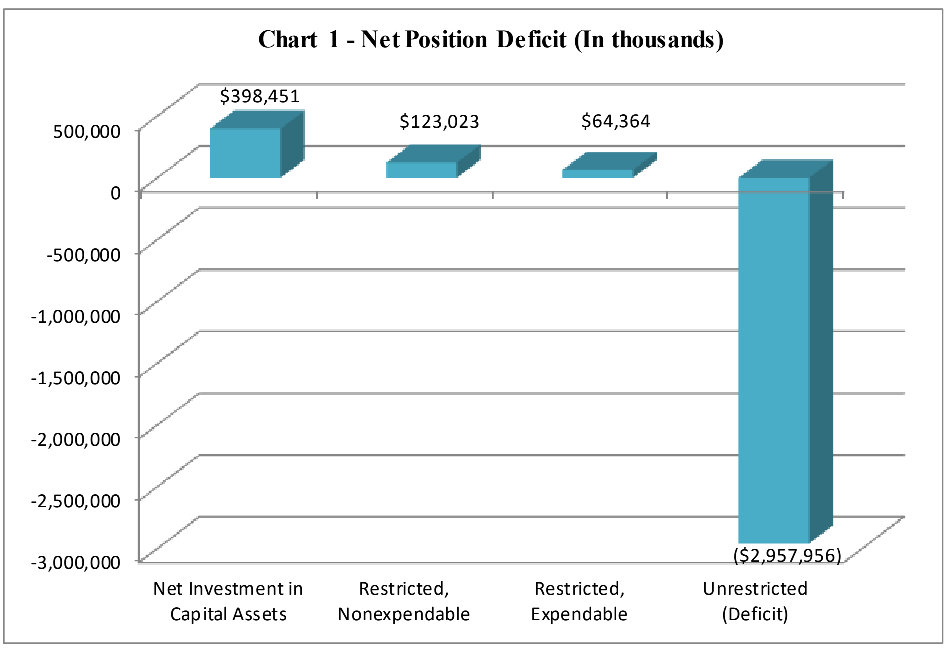
Deferred inflows of resources, which is an acquisition of resources by the University that is applicable to a future reporting period, amounted to $41.9 million and $45.6 million at June 30, 2020 and 2019, respectively. The decrease of approximately $3.8 million in 2020 mainly resulted from changes in the deferred inflows of resources from pension activities related to differences between expected and actual experience and net differences between projected and actual earnings on plan investments.

Net Position (Deficit)

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to a deficit of $2.37 billion and of $1.94 billion at June 30, 2020 and 2019, respectively. The change in the net position amounted to an increase of approximately $428.9 million in the net deficit position for the year ended June 30, 2020.

The changes in the net deficit position are explained in the section entitled "*Statements of Revenues, Expenses and Changes in Net Position*".

The major classifications of the net position (deficit) at June 30, 2020 are shown in the following illustration:



Net investment in capital assets consists of the University's capital assets less accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position. To the extent proceeds from issuance of debt have been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.

Restricted, nonexpendable net position consists of restricted, nonexpendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. Restricted, expendable net position consists of restricted, expendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position is the net position (deficit) amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Governing Board, they are available for use, at the discretion of the Governing Board, to meet current expenses for any purpose.

Statements of Revenues, Expenses and Changes in Net Position (Deficit)

Approximately 85% of the operating revenues and nonoperating revenues, net of the University are Commonwealth and Federal appropriations, grants and contracts. The remainder consists primarily of tuition and fees and patient services.

Operating Revenues

Total operating revenues amounted to $274.1 million and $346.2 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $72.1 million or 21% in 2020. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in-patient services revenues and other operating revenues.

Tuitions and fees, net amounted to $70.7 million and $80.5 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $9.8 million or 12% in 2020. Gross tuitions and fees increased by approximately $25.4 million or 14%, from $182.3 million in 2019 to $207.7 million in 2020. In 2019, the University started to gradually increase the tuitions cost and fees in accordance with its certified fiscal plan. In fiscal year 2020, the tuitions cost increased as follows: the undergraduate student cost per credit from $115 in 2019 to $124 in 2020 and the graduate student cost per credit for masters programs increased from $175 cost per credit in 2019 to $190 cost per credit in 2020, meanwhile cost per credit for doctoral programs in 2020 and 2019 remained at a $200 cost per credit; and for most of the Doctor of Medicine programs the average annual tuition increased from $12 thousand in 2019 to $16 thousand in 2020.

In fiscal year 2020, the University eliminated 13 of 16 tuition exemption categories (keeping only teaching assistants, honor students, and veterans only (not spouse). To reduce the financial impact on affected students, the University implemented a new financial aid grant system ("Internal Scholarship Fund") that maintained most of the original exemptions categories. Gross tuitions and fees included $19.4 million of tuition scholarships granted through the Internal Scholarship Fund and tuition exemptions in fiscal year 2020. The tuition scholarships and tuition exemptions have not impact on the tuitions and fees, net of scholarship allowances and provision to allowance because they represent a gross tuition and a tuition scholarship allowance. In addition, the student body decreased by 4,155 students in 2020, from 54,940 students for fiscal year 2019 to 50,785 students for fiscal year 2020. This reduction in the student body was mainly caused for the effects of the COVID-19 pandemic and the passage of Hurricanes Maria and Irma through the Island of Puerto Rico.

The change in gross tuitions and fees was partially offset by the change in the tuition scholarship allowances and the provision for doubtful accounts. Tuition scholarship allowances amounted to $134.2 million and $103.9 million for the fiscal years 2020 and 2019, an increase of approximately $30.3 million or 29% in 2020. The increase in the tuition scholarship allowances in 2020 mainly resulted from the increase in tuitions costs of eligible participants to Federal Pell Grant program of approximately $10.8 million and the inclusion of scholarships granted through the Internal Scholarship Fund and the tuition exemptions of approximately $19.4 million. The provision for doubtful accounts amounted to a provision of approximately $2.8 million in 2020 and a credit of approximately $2.1 million in 2019. Refer to the Going Concern section for future increases in tuitions and related fees included in the University fiscal plan for the fiscal years 2021 to 2024.

Revenues from governmental grants and contracts, net amounted to $114.4 million and $126.4 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $12.0 million or 10% in 2020. Gross revenues from governmental grants and contracts decreased by approximately $7.3 million or 6%, from $129.9 million in 2019 to $122.6 million in 2020. The decrease in 2020 mainly resulted from the Federal grants and contracts which decreased by approximately $17.6 million related to lower activity in the research and development grants and contracts as a result of the effects of the COVID-19 pandemic. The provision for doubtful accounts for these accounts amounted to approximately $8.2 million and $3.5 million in 2020 and 2019, respectively.

Net patient services revenue and other amounted to $63.6 million and $73.8 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $10.3 million or 14% in 2020. Patient service revenue depends on medical services, including laboratories, rendered by the University's Medical Sciences Campus faculty members. Net patient services revenues decreased due to a decline in volume as a result of the effects of the COVID-19 pandemic and the Governor of Puerto Rico's executive orders cancelling all elective procedures, surgeries, and clinic visits. The provision for doubtful accounts for these accounts decreased by approximately $5.4 million in 2020, from $8.2 million in 2019 to $2.9 million in 2020.

Other operating revenues, net amounted to $25.4 million and $65.4 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $40.0 million or 61% in 2020. The decrease mainly resulted from the proceeds of approximately $33.8 million received from the insurance company in fiscal year 2019 to partially cover the damages caused to the University by passage of the hurricanes in Puerto Rico and the effects of the COVID-19 pandemic.

Net Non-operating Revenues

Total net non-operating revenues amounted to $804.5 million and $972.9 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $168.4 million or 17% in 2020.

The Commonwealth and other appropriations amounted to $589.9 million and $695.7 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $105.8 million or 15% in 2020.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriated for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations support the University's general expenses. On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ended on June 30, 2015, 2016 and 2017.

Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth formula appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2020, 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula appropriations of the University amounted to $501.1 million, $587.1 million and $631.2 million, respectively, for the years ended June 30, 2020, 2019 and 2018, respectively, a decrease of $332.8 million or 39.9% when compared the 2020 Commonwealth formula appropriations with the Commonwealth formula appropriations of $833.9 million for fiscal year 2017. Refer to the Going Concern Section for future decreases in the Commonwealth formula appropriations in fiscal years 2022 to 2024.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to $40.0 million and $42.0 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $2.0 million or 5% in 2020. In fiscal year 2019, the University commenced to receive funds from the Additional Lottery of the Commonwealth which amounted to approximately $1.3 million and $3.2 million in fiscal years 2020 and 2019, respectively, as per Act No. 44, "Special Fund for Scholarships of the University of Puerto Rico" approved on January 22, 2018.

Appropriations from the Commonwealth also include distributions of income received by the University from the PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005. PRTC appropriations for the years ended June 30, 2020 and 2019, amounted to $48.9 million and $66.5 million, respectively, a decrease of approximately $17.6 million or 26% in 2020 because the casinos were closed in the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic.

In fiscal year 2019, the University recorded a noncash revenue for a recovered amount on previously written off impaired deposits with the GDB of approximately $87.3 million as a nonoperating revenue in the statement of revenues, expenses and changes in net position for the year ended June 30, 2019, as a result of the offset of the credit facilities with the GDB ($87.3 million, including accrued interest payable of approximately $10.9 million), on a dollar-for dollar basis, by the amount of the University's deposits at the GDB.

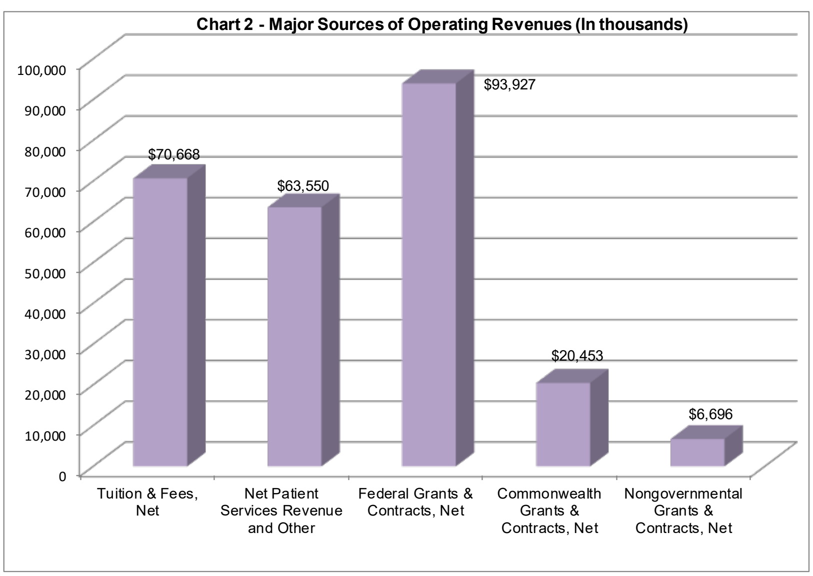
Federal Pell Grant program revenues amounted to $177.4 million and $180.4 million in 2020 and 2019, respectively, a decrease of approximately $3.0 million or 2% in 2020. The decrease in 2020 was mainly due to a lower number of eligible participants because of the reduction in the University' student body caused by the effects of the COVID-19 pandemic and by the emigration of students after the passage of hurricanes in Puerto Rico during September 2017.

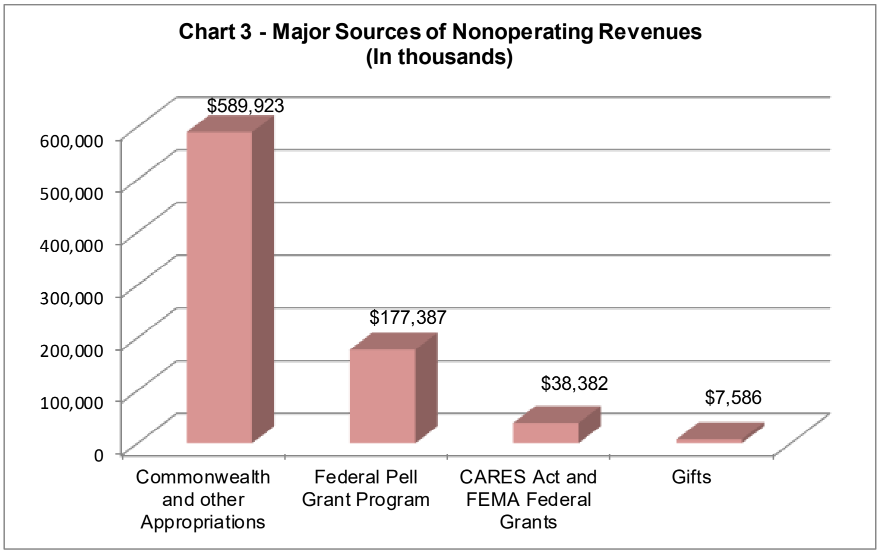
Nonoperating federal grants amounted to $38.4 million and $6.3 million for the years ended June 30, 2020 and 2019, respectively, an increase of $32.1 million. Nonoperating grants include the student financial aids provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") federal funds received of $36.1 million in 2020 as a result of the effects of the COVID-19 pandemic and other disaster grants for public assistance from the U.S. Department of Homeland Security (presidentially declared disasters) of approximately $2.3 million and $6.3 million in 2020 and 2019, respectively, as a result of the damages caused by the hurricanes to the University in September 2017.

Net other nonoperating revenues (expenses) mainly includes the interest expense on capital assets-related debt and others which amounted to $19.7 million and $22.2 million for the years ended June 30, 2020 and 2019, respectively. The decrease of interest expense of approximately $2.5 million in fiscal year 2020 was mainly related to the reduced principal balance on these debts. The interest expense for the year ended June 30, 2019, included $1.2 million of interest related to the credit facilities with the GDB which were extinguished on November 29, 2018.

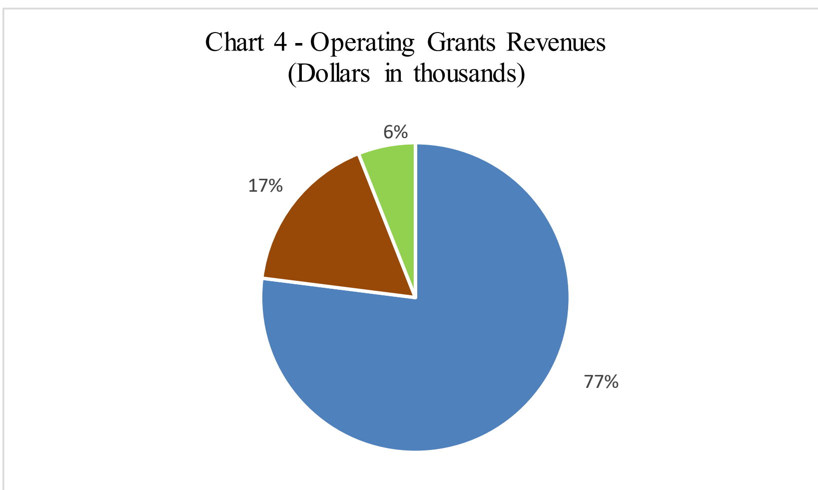
No capital appropriations were received in fiscal years 2020 and 2019.

The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2020:





Federal grants represent approximately 77% of the University operating grants revenues. The following illustration presents the operating grants revenues of the University of Puerto Rico for the year ended June 30, 2020:



Federal	$ 93,927	77%
Commonwealth	20,453	17%
Nongovernmental	6,696	6%
Total	$ 121,076	100%

Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to $1.51 billion and $1.39 billion for the years ended June 30, 2020 and 2019, respectively, an increase of approximately $120.9 million or 9% in 2020. The changes in operating expenses are mainly related to the increases in benefits, including the pension cost and OPEB expense, and in the expenses related to scholarships and fellowships, which effects were partially offset by the decreases in salaries and in supplies and other services and utilities expenses because of the effects of the COVID-19 pandemic. Salaries and benefits are the most significant components of operating expenses.

Salaries amounted to $523.4 million and $560.1 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $36.7 million or 7% in 2020. In fiscal year 2020, salaries of faculty personnel decreased by approximately $15.9 million or 5% and salaries of exempt staff decreased by approximately $21.0 million or 10%, as a result of the headcount attrition and of lower distributions to faculty members of the University's Medical Sciences Campus of approximately $3.4 million because collected patient revenues decreased due to a decline in volume as a result of the effects of the COVID-19 pandemic. The University's headcount decreased by approximately 400 positions from approximately 10,400 positions in June 2019 to 10,000 positions in June 2020.

Benefits amounted to $606.0 million and $444.1 million for the years ended June 30, 2020 and 2019, respectively. In fiscal year 2020, benefits increased by approximately $161.9 million or 36%, when compared to prior year balance, mainly as a result of the increase in the pension cost and OPEB expense, which effect was partially offset by increase in other benefits. In fiscal years 2020 and 2019, the University recognized pension cost and OPEB expense of approximately $483.0 million and $333.1 million, respectively, an increase of $149.9 million or 45% in accordance with GASB Statements No. 68 and No. 75, mainly as result of the increase in the net pension liability, as previously explained in the Liabilities Section. Other benefits amounted to $122.9 million and $110.9 million for the years ended June 30, 2020 and 2019, respectively, an increase of approximately $12.0 million or 11% in 2020, when compared with the prior year balance. In fiscal year 2020, other benefits mainly increased approximately $19.3 million in the accrual of compensated absences, which effect was partially offset by the decrease in the following benefits: $4.7 million in the medical plan insurance and $4.1 million in payroll-related costs because of decrease in salaries.

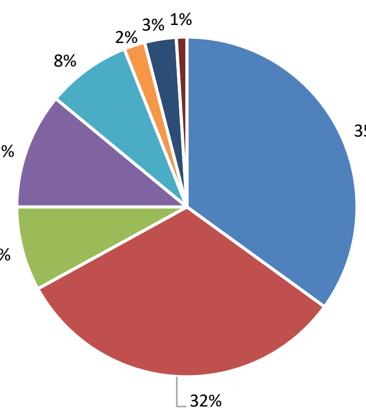
Scholarships and fellowships amounted to $165.6 million and $147.7 million for the years ended June 30, 2020 and 2019, respectively, an increase of approximately $17.9 million or 12% in 2020. In fiscal year 2020, the increase in scholarships and fellowships mainly resulted from the student financial aids provided through the CARES Act federal funds received of $36.1 million as a result of the effects of the COVID-19 pandemic which effect was partially offset with the reduction in student financial aids provided through Federal Pell Grant of approximately $10.8 million because of lesser participants eligible for Federal Pell Grant program as a result of the reduction in the University' student body because of the effects of the COVID-19 pandemic; the reduction in student financial aids provided through Commonwealth appropriations of approximately $2.4 million; and the elimination of approximately $9.0 million in the institutional student financial aids provided through the Internal Scholarship Fund approved by the Governing Board of the University which now it is only provided to cover tuitions cost and certain fees.

Supplies and other services and utilities amounted to $163.9 million and $185.2 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $21.3 million or 11% in 2020. The decrease mainly resulted because most of the facilities were closed during the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic. The decrease in 2020 mainly resulted from the decreases in professional services (approximately $6.7 million), maintenance expense (approximately $2.9 million), supplies (approximately $5.7 million) and utilities (electricity and water) (of approximately $2.6 million, which effects were partially offset by the increase of approximately $2.3 million in the insurance premium cost of the commercial property and fine arts insurance policies. Utilities amounted to $39.1 million and $41.7 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $2.6 million or 7% in 2020.

Other expenses amounted to $50.1 million and $51.0 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $0.9 million. The decrease in 2020 mainly resulted from the decrease in depreciation and amortization expense. Depreciation and amortization expense amounted to $40.6 million and $43.9 million for the years ended June 30, 2020 and 2019, respectively, a decrease of approximately $3.3 million or 7% in 2020.

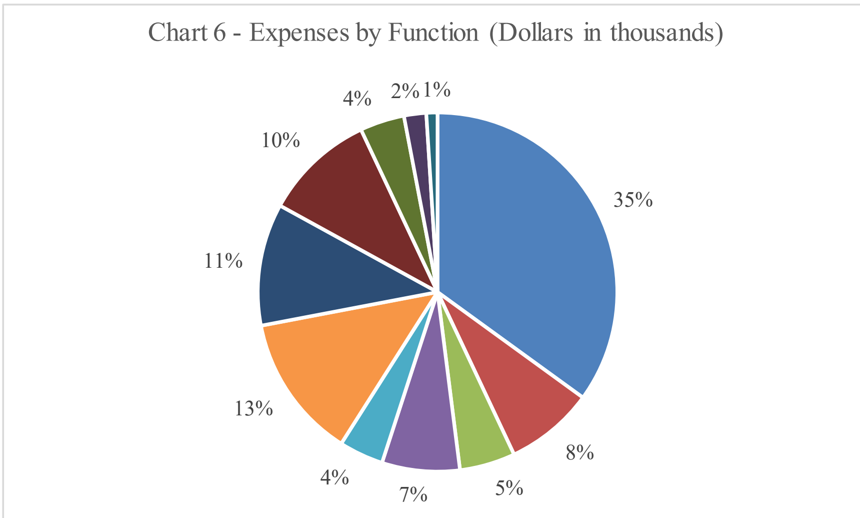
The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2020:

Chart 5 - Operating Expenses (Dollars in thousands)



Salaries	$	523,427	35%
Benefits- Pension cost and OPEB expense		483,048	32%
Benefits- others		122,926	8%
Scholarships and fellowships		165,632	11%
Supplies and other services		124,764	8%
Utilities		39,152	2%
Depreciation and amortization		40,616	3%
Other expenditures		9,491	1%
Total	$	1,509,056	100%

Functional expense classification presents University expenses in the operational categories they benefit. The following illustration presents the major uses of University revenues (both operating and nonoperating) on a functional basis for the year ended June 30, 2020:



Instruction	$	523,446	35%
Research		115,507	8%
Public service		84,307	5%
Academic support		112,214	7%
Student services		58,605	4%
Institutional support		193,307	13%
Operations and maintenance		167,310	11%
Student aid		150,413	10%
Patient services		61,963	4%
Depreciation and amortization		40,616	2%
Others		1,368	1%
Total	$	1,509,056	100%

Operating Loss and Net Change in Net Position (Deficit)

For the year ended June 30, 2020, the University reported an operating loss of $1.23 billion. After adding nonoperating revenues, net of $804.5 million, primarily from the Commonwealth's appropriations, Federal Pell Grant program and other nonoperating federal grants, the net deficit position increased by $428.9 million for the year ended June 30, 2020 or 22% from the prior year net deficit position.

For the year ended June 30, 2019, the University reported an operating loss of $1.04 billion. After adding nonoperating revenues, net of $972.9 million, primarily from the Commonwealth's appropriations, Federal Pell Grant program and a noncash revenue for a recovered amount on previously written off impaired deposits with a governmental bank, the net deficit position increased by $68.9 million for the year ended June 30, 2019 or 4% from the prior year net deficit position.

The increase in the net operating loss of approximately $193.1 million or 19% in fiscal year 2020 was mainly caused by the decrease in total operating revenues of approximately $72.1 million or 21% and the increase in total operating expenses of approximately $120.9 million or 9%.

The decreases in all lines of operating revenues in fiscal year 2020 are mainly related to the effects of the COVID-19 pandemic since the middle of March 2020. In addition, other operating revenues, net decreased because the University received in 2019 approximately $33.8 million of proceeds from the insurance company to cover the damages caused to the University by passage of the hurricanes in Puerto Rico in 2017. No such insurance proceeds were received in 2020.

The increase in operating expenses of approximately $120.9 million or 9% in fiscal year 2020 is mainly related to the increases in benefits of pension cost and OPEB expenses of approximately $149.9 million or 45% and in the scholarship and fellowships expenses of approximately $17.9 million or 12%.

The decrease in nonoperating revenues, net of approximately $168.4 million or 17% in fiscal year 2020 is mainly related to the decrease in the Commonwealth and other appropriations of approximately $105.8 million or 15% and a onetime recognition of a recovered amount of approximately $87.3 million on impaired deposits with governmental bank in fiscal year 2019, which effects were partially offset by CARES Act federal funds received of approximately $36.1 million which were disbursed as student financial aids in 2020.

Statements of Cash Flows

Net cash provided by noncapital financing activities was primarily due to the receipts of the Commonwealth's appropriations and the Federal Pell grants. Net cash provided by (used in) investing activities mainly results from the proceeds from sales and maturities of investments, net of the purchases of investments. The change in cash and cash equivalents was partially offset by the cash used in capital and related financing activities and in operating activities. Net cash used in capital and related financing activities was primarily due to purchases of capital assets and principal and interest payments on capital debt. Net cash used in operating activities is consistent with the University's operating loss.

Subsequent Events

On November 5, 2018, the Retirement System's Board and certain plaintiffs filed an injunction application against the University's Governing Board, as well as against the University, in the Puerto Rico Court of First Instance, requesting the removal of the University's Governing Board and the designation of the Retirement System's Board as trustee of the University's Retirement System Trust. On November 30, 2018, the Retirement System's Board filed another injunction in the Puerto Rico Court of First Instance to stop the amendments to the University's Retirement System Regulations approved by the University's Governing Board. On February 22, 2019, the Puerto Rico Court of First Instance denied both injunctions. Then, the plaintiffs appealed both judgements and requested the consolidation of both legal cases in the Puerto Rico Court of Appeals, which the Puerto Rico Court of Appeals agreed to. On October 1, 2020, the Puerto Rico Court of Appeals issued a judgment revoking the determinations of the Puerto Rico Court of First Instance. In addition, it determined that the University's Governing Board should be removed as Trustee of the University's Retirement System Trust, and consequently, the Retirement System's Board should be the substitute trustee. On October 16, 2020, the University requested a reconsideration of this judgement in the Puerto Rico Court of Appeals, but it was denied by the Court in November 2020. Then, the University requested to the Puerto Rico Supreme Court the revision of the judgement of Puerto Rico Court of Appeals, however, it was denied by the Puerto Rico Supreme Court on February 5, 2021.

On February 18, 2021, the Oversight Board of PROMESA approved the reapportionment request submitted by the University on February 12, 2021 to cover the financial impact of retroactive payouts of approximately $5,592,000 provided in the proposed amendment to the Supplemental Rules and Work Conditions ("the Supplemental Rules") negotiated with the Brotherhood of Non-Teaching Employees ("HEEND" for its Spanish acronym) in December 2020. The retroactive payouts cover certain benefits eliminated to the HEEND from fiscal years 2017 to 2021. Funds to pay the retroactive payout will be sourced from current year savings in facilities and payments for public services, Christmas bonus, and other operating payments. The University and the HEEND, acknowledge that these benefits will be unenforceable after June 30, 2021, insofar as they will begin negotiations in March 2021, with the aim of adopting new Supplemental Rules which shall be in effect from July 1, 2021 onwards. In addition, the University acknowledged that these new Supplemental Rules and any amendments thereto will comply with its Certified Fiscal Plan for the fiscal year 2021. The University must submit a draft of the new Supplemental Rules to the Oversight Board of PROMESA for review on or before April 30, 2021. Furthermore, the University must share a detailed report on the use of the funds approved herein within sixty (60) days from February 18, 2021. Any unused funds must be returned to the original line item in the budget. Finally, Oversight Board of PROMESA notes that the payout subject of this reapportionment will be a one-time payment which shall not extend for any future fiscal years other than the current.

On March 25, 2021, the Governing Board of the University approved that the University's Retirement System will be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees will participate in a defined contribution plan beginning January 1, 2022. Vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

Refer to the following sections for additional information of the following subsequent events:

- Going Concern section and Capital Assets and Debt Administration section for the extensions of the compliance period until August 31, 2021 of the letter agreement among the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), the University and FAFAA.

- Going Concern section and Capital Assets and Debt Administration section for the University's dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of the Plaza Universitaria facilities is no longer in existence; the assumption by the University of all operating activities as contemplated in the Operations and Management Agreement after October 2020; and the University's appointment of UPRPS as administrative agent of Plaza Universitaria facilities until June 30, 2021.

- COVID-19 Pandemic section for the new economic stimulus available to the University to ensure learning continues for students during the COVID-19 pandemic announced by the U.S. Department of Education in January 2021.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $25.5 million or 3% in 2020**

Capital assets are comprised of buildings used to provide high quality education and create new knowledge in the Arts, Sciences and Technology and equipment and assets under capital lease. Significant capital assets additions for the year ended June 30, 2020, consisted mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes. Capital assets decreased by approximately $25.5 million or 3%, from $810.4 million at June 30, 2019 to $784.8 million at June 30, 2020. The decrease in 2020 mainly resulted from the depreciation and amortization expense of approximately $40.6 million and the capital asset retirements of approximately $1.7 million, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to approximately $16.8 million.

Construction commitments at June 30, 2020, entered into by the University, amounted to approximately $28.9 million. Refer to Note 9 to the financial statements for further information regarding the University's net capital assets.

- **Long-term debt obligations decreased by $28.6 million or 7% in 2020**

The decrease in 2020 mainly resulted from principal paid on long-term debt obligations of approximately $27.0 million.

Long-term debt obligations include the University's revenue bonds which amounted to approximately $352.8 million as of June 30, 2020. The University issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which were used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. These bonds are rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P). In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the "AFICA bonds") which amounted to approximately $56.3 million as of June 30, 2020. The AFICA bonds are rated "C" by Moody's and "CC" by S&P. The AFICA bonds were principally issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University. In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc. for the use of Project. The lease payments from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as is established in the financing documents and is pledged to guarantee such payments. The variable component of the lease payments is used to cover operating, maintenance, administrative, management, and other fees and costs, which is established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

The Trust Agreements governing the University's revenue bonds and the AFICA bonds issued require a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2020, the University was in compliance with the total debt service coverage ratio requirement.

In addition, the Trust Agreement required the University to comply with other covenants. At June 30, 2020, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosures for fiscal years 2016 to 2019, and in the case of the Commonwealth, it has not filed the continuing disclosures and its audited financial statements for fiscal years 2017 to 2019.

In compliance with Executive Order 31 signed by the Governor of Puerto Rico on June 30, 2016, the University suspended the monthly payments to the trustee of the Trust Agreement that governs the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The lawsuit sought relief from the stay imposed by PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement (the "Letter Agreement") providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through the Compliance Period, as defined, the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. Pursuant to the Letter Agreement, during the Compliance Period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. As part of the Letter Agreement, the University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017 and continues to make monthly payments to the Trustee in amounts totaling between $2-$4 million on account of pledged revenues, as set forth in a schedule to the Letter Agreement, as extended.

The Letter Agreement has been extended fourteen times and the new Compliance Period is August 31, 2021. Pursuant to the Letter Agreement and the fourteen standstill extension agreements, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. In addition, the Trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the following monthly payments of Pledged Revenues to the Trustee to be applied in accordance with the Trust Agreement during the new Compliance Period:

- in consideration for extending the Compliance Period until May 31, 2018, the University transferred to the Trustee $4 million monthly from July 2017 to May 2018;
- in consideration for extending the Compliance Period until December 31, 2018, the University transferred to the Trustee the following monthly payments: $4.0 million on or before July 15, 2018; $2.0 million on or before August 5, 2018; $3.0 million on or before August 25, 2018; $2.3 million on or before September 25, 2018; $2.3 million on or before October 25, 2018; $3.0 million on or before November 25, 2018; and $3.0 million on or before December 25, 2018;
- in consideration for extending the Compliance Period until June 30, 2019, the University transferred to the Trustee the following monthly payments: $2.9 million on or before each of January 25, 2019; February 25, 2019; March 25, 2019; April 25, 2019; and May 25, 2019; and $1.069 million on or before June 25, 2019;
- in consideration for extending the Compliance Period until November 30, 2019, the University transferred to the Trustee $3.65 million on or before each of July 25, 2019; August 25, 2019; September 25, 2019; and October 25, 2019; and a payment of $3.604 million on or before November 25, 2019;
- in consideration for extending the Compliance Period until May 29, 2020, the University transferred to the Trustee $3.65 million on or before each of December 31, 2019; January 31, 2020; and February 28, 2020; and made a payment of $9.852 million in May 2020 (to cover March 2020 and April 2020 payments of $3.65 million each and the May 2020 payment of $2.552 million);
- in consideration for extending the Compliance Period until August 31, 2020 (the twelfth standstill extension agreement), the University agreed to transfer $10.938 million on or before August 21, 2020, subject to the execution by the parties of a forbearance agreement extending beyond September 1, 2020; this August 2020 payment was not realized;
- as a condition precedent to the effectiveness of the thirteenth standstill extension agreement which extend the Compliance Period until February 28, 2021, the University transferred $14.484 million of past due payments on October 2, 2020 to the Trustee to hold or to make payments or distributions as required under the Trust Agreement; also, in consideration for extending the Compliance Period until February 28, 2021, the University transferred $10.8 million on or before January 1, 2021 and $7.2 million on or before February 26, 2021; and,
- in consideration for extending the Compliance Period until August 31, 2021, the University transferred to the Trustee $3.535 million on or before March 25, 2021 and agreed to transfer to the Trustee the following additional monthly payments: $3.535 million on or before April 23, 2021; $3.535 million on or before May 25, 2021; $3.535 million on or before June 25, 2021; $3.535 million on or before July 23, 2021; and $3.535 million on or before August 25, 2021, less a credit for any amount as of August 18, 2021 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of $49,664,125.

In addition, the University and FAFAA shall provide the Trustee with detailed plans and specifications for repairing, replacing or reconstructing the University's property that was damaged or destroyed by Hurricane Maria as these plans are approved by the University. The University shall deposit all proceeds of casualty insurance policies or direct federal aid (the "Repair Funds") in segregated accounts of the University at a commercial bank. The University shall deposit proceeds of casualty insurance in a separate account and shall deposit proceeds of direct federal aid in one or more separate accounts to facilitate the audit of the expenditure of such funds. All Repair Funds in excess of $1 million shall be used pursuant to a written requisition. On or before the fifteenth (15th) calendar day of each month, the University will submit the preceding month's Requisitions to the Trustee, as set forth below. Pursuant to extended Letter Agreement, the majority bondholders expand their direction to instruct the Trustee not to call a default during the pendency of the new Compliance Period if by the fifteenth (15th) calendar day of each month the University sends to the Trustee copies of the preceding month's Requisitions. On the fifteenth (15th) calendar day of each month the University or FAFAA will provide, or cause relevant agencies to provide, the trustee with all project requests, progress or other reports provided to the Federal Emergency Management Agency (FEMA) or to any casualty insurance company with respect to the expenditure of Repair Funds during the preceding month.

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given to the Letter Agreement and the various Standstill Extension Agreements prior to August 31, 2021.

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has complied with and has made all transfers due under the Letter Agreement, as extended. In addition, the Trustee on behalf of the University has paid as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

On December 19, 2018, DUI notified the Trustee of its AFICA Bonds that the University is taking the position that its Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence. According to DUI, the University has not made a payment to DUI pursuant to the Operations and Management Agreement since July 2018, which now constitutes an event of default under the lease agreement, the loan agreement, and the trust agreement. On January 3, 2019, the Trustee of the DUI's AFICA Bonds notified the University that its failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, the loan agreement, and the trust agreement. On January 11, 2019, the University and FAFAA notified the Trustee of the DUI's AFICA Bonds that they dispute several of the statements set forth in the DUI letter, including the obligation of the University to satisfy certain of the payments DUI alleges are outstanding under the Operations and Management Agreement.

The University has stated its position that DUI's compensation for carrying out its obligations under the Operations and Management Agreement will be limited to amounts collected by DUI for the rental of dormitories and commercial facilities and for parking operations. The University and DUI have not reached an agreement regarding this matter.

Effective October 2018, DUI commenced using dormitories and commercial facilities and parking rent collections, otherwise payable to the University, as offsets and reductions to the fixed and reimbursable expenditures fees due from the University. On April 30, 2019, DUI filed a civil action requesting declaratory judgements regarding: (a) the expiration date of the Operations and Management Agreement and the fact that it remains in force; (b) the fact that the University has defaulted under the terms of said agreement and concurrently other ancillary agreements; (c) the amounts owed by the University under said agreement; and (d) the obligation of the University to fully fund the Working Capital account. Amounts claimed by DUI to the University for reimbursable expenditures fees, as defined in the Operations and Management Agreement, amounted to approximately $2,596,000 as of June 30, 2020.

The closing of in-person classes by the University because of the onset of the COVID-19 pandemic has compounded the existing DUI's cash flow problems. This situation has forced the suspension of substantially all the DUI's operations starting in March 2020. Because of this situation, DUI's cash reserves have been almost fully exhausted. This included cessation of security, janitorial and dorm operations oversight activities, among other.

In a letter dated May 22, 2020, DUI notified the Trustee of its AFICA Bonds that the University has repeatedly failed to pay contractual sums due to DUI since July 1, 2018 under the Operations and Management Agreement. In a subsequent communication to the Trustee of the DUI's AFICA Bonds, DUI stated that it will close the Plaza Universitaria facilities and that it will no longer operate, manage, and maintain the Plaza Universitaria facilities.

In a letter dated June 22, 2020, the Trustee of the DUI's AFICA Bonds notified the University that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under paragraph 7.1(b) of the lease agreement, and that a default under the lease agreement could lead to an event of default under section 7.01(g) of the loan agreement, which causes an event of default under section 801(d) of the trust agreement.

On June 22, 2020, DUI filed a request for summary judgement restating its claims in the original complaint and updating amounts due by the University thought July 31, 2020. The University contested the motion. A hearing was held in August 2020, where both parties presented their arguments. On September 17, 2020, the Court issued an order that all arguments were under the advisement pending the Court's final determination and adjudication.

On October 28, 2020, the University formally notified to DUI the termination of the Operations and Management Agreement effective October 31, 2020, pursuant to Section 3.01 (iii) thereof. After October 2020, all operating activities as contemplated in the Operations and Management Agreement were assumed by the University.

On December 1, 2020, the Court issued a resolution denying the University's motion for dismissal of the complaint. On December 16, 2020, the University filed an appeal to the Resolution. DUI has also moved the Court for the entry of injunctive relief as it understands that the University has unduly interfered with DUI's management of Plaza Universitaria, despite of DUI's reiterated admission of insolvency. The University opposed DUI's request for injunctive relief on December 31, 2020. On February 18, 2021, the Court denied the DUI's request for injunction and ordered the continuation of DUI's claim via the Court's ordinary course.

On January 22, 2021, the University entered into a Memorandum of Understanding ("MOU") with the University of Puerto Rico Parking System, Inc. ("UPRPS"), a discretely presented component unit of the University, in which the University appointed UPRPS, as the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. The University will pay $15 thousand monthly as a fee for acquiring, screening and renting the premises and managing the property, up to $90 thousand, and the University will reimburse all expenses, including but not limited to repair, security, maintenance, utilities and any other expenses, up to $300 thousand, for the term of the MOU. The MOU expires on June 30, 2021.

Refer to Notes 2, 8, 10, 12, and 18 to the basic financial statements for further information regarding the University's long-term debt obligations.

Economic Outlook

The University's operational and academic activities are conducted in Puerto Rico, which in recent years has been experiencing a deep economic recession and a government fiscal and liquidity crisis. The University's operating results are mainly funded by nonoperating revenues mainly from the Commonwealth of Puerto Rico appropriations and from the United States of America Government grants and contracts (Federal Pell Grant Program). Therefore, the University's operations and financial condition may be adversely affected by an extended economic slowdown, adverse political, fiscal or economic developments in Puerto Rico or the effects of natural disasters.

Puerto Rico uses the U.S. currency and forms part of the U.S. financial system. Factors affecting the U.S. economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, the rate of inflation, and tourist expenditures, among others.

The dominant sectors of the Commonwealth's economy are manufacturing and services. The manufacturing sector has undergone fundamental changes in recent years as a result of the elimination of certain tax incentives under the U.S. Tax Code and an increased concentration in higher-wage, high-technology industries, such as pharmaceuticals, computer products, biotechnology, professional and scientific instruments, and certain high technology machinery and equipment. The service sector, which includes finance, insurance, real estate, wholesale and retail trade, transportation, communications and public utilities and other services, leads all sectors in providing employment.

The Puerto Rico economy has been in a recession since 2006, and the Commonwealth's gross national product has contracted (in real terms) almost every fiscal year from 2007 to present. The Commonwealth has been unable to spur economic growth and eliminate the recurrent excess of expenditures over revenues.

The Commonwealth government currently faces a severe fiscal and liquidity crisis as a result of many years of significant budget deficits, among other factors. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in retail sales, budget shortfalls and diminished consumer buying power resulting in higher costs of living.

Economic activity is expected to be constrained as a result of anticipated severe austerity measures and continued increasing migration trends. A further deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values.

The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations and inability to access the credit markets at reasonable interest rates. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other essential services, including appropriations to the University. The Commonwealth's high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of PROMESA. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

The University is highly dependent on the Commonwealth's appropriations to finance its operations. The financial difficulties being experienced by the Commonwealth have significant adverse impacts on the University, given its reliance on Commonwealth's appropriations and lack of available funding alternatives at reasonable interest rates. The approximately 55% of the University's total revenues (operating and nonoperating revenues, net) are derived from the Commonwealth's appropriations which amounted to approximately $589.9 million for the year ended June 30, 2020. Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.

Given the high dependency of the University on the Commonwealth appropriations and lack of available financing sources at reasonable interest rates, the University's financial condition and liquidity is being adversely affected. There can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified.

The global economy and the University's operational and academic activities, its financial position and change in its net position could be adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of novel coronavirus (COVID-19). The ultimate extent of the impact of any epidemic, pandemic or other health crisis on our operations, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others.

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. As a result of the health threat and to contain the virus spread across de island, the Governor of Puerto Rico issued an executive order on March 12, 2020, declaring a state of emergency in Puerto Rico, which is still in effect, to concentrate all efforts and implement necessary measures to safeguard the health, well-being, and public safety of the citizens of Puerto Rico. The executive order, as amended several times, ordered the lockdown of all non-essential businesses, and mandated that all employees, other than essential workers, remain at home. While many of the restrictions have been gradually lifted, a mandatory curfew is still in effect. Certain businesses activities have been permitted to reopen although limitations on some activities, such as large indoor gathering and indoor services at bars and restaurants, are still in effect. Moreover, most businesses that can operate have had to make significant adjustments to protect customers and employees, including transitioning to telework and suspending or modifying certain operations in compliance with health and safety guidelines.

Additionally, the Federal Government has also approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") that seek to cushion the economic fallout of the pandemic. In fiscal year 2020, the University received and disbursed $36.1 million of CARES Act federal funds to cover costs associated with refunding student housing, dining and other related expenditures in the Spring 2020 semester.

In January 2021, the U.S. Department of Education announced new economic stimuluses available to higher education institutions to ensure learning continues for students during the COVID-19 pandemic. This funding is allocated to the Higher Education Emergency Relief Fund II by the Coronavirus Response and Relief Supplemental Appropriations Act, which was signed into law by the U.S President of the Unites States of America on December 27, 2020. The University can use their awards for financial aid grants to students, student support activities, and to cover a variety of institutional costs, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll. The total assigned to the University amounted to approximately $128.5 million, of which approximately $40.5 million of these funds are assigned to awards for financial aid to be granted to students.

The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. Even after the pandemic subsides, the global economy may continue to experience a recession, and the University anticipates that its operations would be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects the University's financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks.

The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

If economic conditions worsen more than expected, it could significantly reduce the Commonwealth's revenues and therefore reduce the University's revenues from the Commonwealth's appropriations and the University's liquidity, which could have an adverse effect on the University's financial position or change in its net position.

Request for Information

This financial report is designed to provide a general overview of the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer. The executive offices of the University are located at 1187 Flamboyán Street, Jardín Botánico Sur, San Juan, Puerto Rico 00926.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit)
As of June 30, 2020 (In thousands)

	Primary Government	Component Units
Assets		
Current assets:		
Cash and cash equivalents	$ 185,169	$ 27,949
Restricted cash and cash equivalents	46,800	–
Restricted investments at fair value deposited with trustees and others	58,979	–
Accounts receivable, net	14,128	3,973
Due from Federal Government	39,417	629
Due from related parties, net	13,270	10,835
Inventories	1,576	803
Other assets	2,852	715
Total current assets	362,191	44,904
Noncurrent assets:		
Restricted cash and cash equivalents	1,965	–
Restricted investments at fair value:		
Endowment funds	121,166	–
Healthcare Deferred Compensation Plan	85,153	–
Other long-term investments at fair value	2,535	–
Due from Commonwealth of Puerto Rico	–	270
Notes receivable, net	7,559	–
Capital assets:		
Land and other nondepreciable assets	67,822	4,072
Depreciable assets (net of accumulated depreciation and amortization)	717,000	9,768
Other assets	499	–
Total noncurrent assets	1,003,699	14,110
Total assets	1,365,890	59,014
Deferred outflows of resources:		
Deferred outflows from pension activities	616,196	–
Deferred outflows from OPEB activities	23,449	–
Deferred refunding loss	1,174	–
Total deferred outflows of resources	640,819	–
Total assets and deferred outflows of resources	2,006,709	59,014
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	99,969	6,777
Unearned revenue-cash advances from governmental grants	42,326	3,309
Current portion of long-term debt:		
Notes payable	–	2,430
Bonds payable	28,360	–
Due to University of Puerto Rico	–	24,559
Other current liabilities:		
Claims liability	678	–
Compensated absences	29,034	794
Total current liabilities	200,367	37,869
Noncurrent liabilities:		
Long-term debt, net of current portion:		
Notes payable	–	10,617
Bonds payable	380,782	–
Other long-term liabilities, net of current portion:		
Deferred compensation plan	85,153	–
Claims liability	7,918	1,767
Compensated absences	108,993	–
Net pension liability	3,318,458	–
Other postemployment benefit (OPEB) liability	235,270	–
Total noncurrent liabilities	4,136,574	12,384
Total liabilities	4,336,941	50,253
Deferred inflows of resources:		
Deferred inflows from pension activities	37,986	–
Deferred inflows from OPEB activities	3,900	–
Total deferred inflows of resources	41,886	–
Total liabilities and deferred inflows of resources	4,378,827	50,253
Net position (deficit)		
Net investment in capital assets	398,451	396
Restricted, nonexpendable:		
Scholarships and fellowships	41,790	–
Research	49,653	–
Other	31,580	–
Restricted, expendable:		
Loans	11,543	–
Capital projects	7,025	–
Debt service	45,796	–
Unrestricted (deficit)	(2,957,956)	8,365
Total net position (deficit)	$ (2,372,118)	$ 8,761

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the Year Ended June 30, 2020 (In thousands)

	Primary Government	Component Units
Revenues		
Operating revenues:		
Tuitions and fees (net of scholarship allowances and others of $137,019)	$ 70,668	$ –
Net patient services revenue and other (net of provision for allowances of $8,316)	63,550	45,418
Federal grants and contracts (net of provision for allowances of $2,754)	93,927	–
Commonwealth grants and contracts (net of provision for allowances of $5,456)	20,453	–
Nongovernmental grants and contracts (net of provision for allowances of $257)	6,696	–
Sales and services of educational departments	10,772	–
Auxiliary enterprises, net	973	–
Other operating revenues	7,037	3,849
Total operating revenues	274,076	49,267
Operating expenses:		
Salaries:		
Faculty	325,738	–
Exempt staff	196,754	4,549
Nonexempt wages	935	11,480
Benefits:		
Pension cost (see Note 14)	470,884	–
OPEB expense (see Note 15)	12,164	–
Other benefits	122,926	2,725
Scholarships and fellowships	165,632	–
Supplies and other services	124,764	23,830
Utilities	39,152	2,967
Depreciation and amortization	40,616	2,384
Other expenses	9,491	1,472
Total operating expenses	1,509,056	49,407
Operating loss	(1,234,980)	(140)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	589,923	–
Federal grants:		
Federal Pell Grant program	177,387	–
CARES Act	36,073	1,858
Federal Emergency Management Agency (FEMA)	2,309	–
Gifts	7,586	–
Net investment income	8,584	3
Interest on capital assets - related debt	(19,700)	–
Interest on notes payable	–	(526)
Contributions from a component unit	1,944	(1,944)
Other nonoperating revenues, net	423	–
Net nonoperating revenues (expenses)	804,529	(609)
Loss before other revenues	(430,451)	(749)
Additions to term and permanent endowments	1,533	–
Change in net position	(428,918)	(749)
Net position (deficit):		
Beginning net position (deficit)	(1,943,200)	9,510
End of year	$ (2,372,118)	$ 8,761

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For the Year Ended June 30, 2020 (In thousands)

	Primary Government
Cash flows from operating activities	
Tuition and fees	$ 73,280
Grants and contracts	140,812
Patient services	65,210
Payments to employees	(521,622)
Payments for benefits	(292,107)
Payments for scholarships and fellowships	(162,710)
Payments to suppliers	(131,223)
Payments for utilities	(34,395)
Loans issued to students, net of collection of loans	(84)
Auxiliary enterprises	1,018
Sales and services educational departments and others	17,531
Net cash used in operating activities	(844,290)
Cash flows from noncapital financing activities	
Commonwealth and other appropriations	592,292
Federal grants:	
Federal Pell Grant program	174,465
CARES Act	36,073
FEMA	738
Endowment gifts	1,533
Federal direct student loan program receipts	65,918
Federal direct student loan program disbursements	(65,918)
Gifts and grants for other than capital purposes	7,586
Other non-operating receipts, net	423
Net cash provided by noncapital financing activities	813,110
Cash flows from capital and related financing activities	
Purchases of capital assets	(16,776)
Principal paid on capital debt	(26,995)
Interest paid on capital debt	(21,183)
Decrease in deposits with trustees and others	2,640
Net cash used in capital and related financing activities	(62,314)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	45,059
Purchases of investments	(48,640)
Collections of interest and dividend income on investments	7,882
Collections of advances to the University of Puerto Rico Retirement System	5,049
Contributions received from a component unit	1,000
Other receipts, net of disbursements	7
Net cash provided by investing activities	10,357
Net change in cash and cash equivalents	(83,137)
Cash and cash equivalents:	
Beginning of year	317,071
End of year	$ 233,934

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (continued)
For the Year Ended June 30, 2020 (In thousands)

	Primary Government
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (1,234,980)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	40,616
Provision for doubtful accounts	14,203
Changes in operating assets and liabilities and deferred outflows and inflows of resources:	
Decrease (increase) in:	
Grants and contracts receivables	(2,788)
Prepaid expenses, inventories and other	(199)
Deferred outflows of resources from pension activities	15,694
Deferred outflows of resources from OPEB activities	(8,711)
Increase (decrease) in:	
Accounts payable and accrued liabilities	11,953
Unearned revenue	13,278
Accrued salaries, wages, benefits and other liabilities	7,656
Net pension liability	294,325
OPEB liability	8,427
Deferred inflows of resources from pension activities	(5,217)
Deferred inflows of resources from OPEB activities	1,453
Net cash used in operating activities	$ (844,290)
Supplemental schedule of noncash investing, capital and financing activities	
Change in fair value of investments	$ 874
Amortization of:	
Bonds premiums, net of discounts	$ 1,557
Deferred refunding loss	$ 241
Contributions from a component unit in lieu of payment of account payable	$ 944

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The University of Puerto Rico (the University), founded in 1903, is a state supported university system created by Law No. 1 of January 20, 1966, "Law of the University of Puerto Rico" ("Act No. 1"), as amended, with the mission to serve the people of Puerto Rico and contribute to the development and enjoyment of the fundamental, ethical and esthetic values of Puerto Rican culture, and committed to the ideals of a democratic society. To advance its mission, the University strives to provide high quality education and create new knowledge in the Arts, Sciences and Technology. The University is the oldest and largest institution of higher education on the island of Puerto Rico with a history of academic excellence.

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a fourteen-member Governing Board, of which eight members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth and a member of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA") become ex-officio members of the Governing Board. The Governor appointed the original members for a term of six years. The terms for the students and professors are one year.

FAAFA is the fiscal agent, financial advisor and reporting agent of the Commonwealth of Puerto Rico, its agencies, instrumentalities, subdivisions, public corporations (including the University) and/or municipalities.

The University is exempt from the payment of taxes on its revenues and properties. The University is a discretely presented major component unit of the Commonwealth.

The University system includes all the campuses at Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado, and the Central Administration.

The financial reporting entity consists of the University and its Component Units which are legally separate organizations for which the University is financially accountable. The University of Puerto Rico consists of the University and its blended component units (hereafter referred as the University). The definition of the reporting entity is based primarily on the notion of financial accountability. The University is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the University. The University may also be financially accountable for organizations that are fiscally dependent on it if there is a potential for the organizations to provide specific financial benefits to the University or impose specific financial burdens on the University regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The University is financially accountable for all of its Component Units.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Most Component Units are included in the financial reporting entity by discrete presentation. Two of the component units, despite being legally separate from the University, are so integrated with the University that are in substance part of the University. These component units are blended with the University.

Blended Component Units: The following component units, although legally separate, are reported as if they were part of the University because their debts are expected to be repaid entirely or almost entirely with resources of the University:

Desarrollos Universitarios, Inc.

Desarrollos Universitarios, Inc. (“DUI”) is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. DUI was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. DUI was organized to develop, construct, and operate academic, residential, administrative, office, commercial, and maintenance facilities for the use of students and other persons or entities conducting business with the University. DUI developed the Plaza Universitaria Project, which consists of a student housing facility, a multi-story parking building and an institution building to house administrative, student service and support functions, and, to a lesser extent, to lease commercial space. The financing for the Projects was provided by the issuance of $86,735,000 in Educational Facilities Revenue Bonds through the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (“AFICA”) on December 20, 2000. In 2008, the University entered into a capital lease agreement with DUI for the Plaza Universitaria Project which was assigned to the AFICA bonds. DUI is fiscally dependent on the University and its debt is expected to be repaid entirely or almost entirely with resources of the University. Complete financial statements of DUI can be obtained directly by contacting DUI’s administrative offices.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Molecular Sciences Research Center, Inc.

Molecular Sciences Research Center, Inc. ("MSRC") is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. MSRC is a not-for-profit corporation, organized under the Laws of the Commonwealth of Puerto Rico, on March 23, 2011, to operate and administer the University's Molecular Science Building ("MSB"). Commencing in August 2019, MSRC functions as a separated component unit of the University. Previously, this component unit operated as a division of the University. During the years from 2011 to 2018, MSRC focused its agenda in establishing the research infrastructure to support research projects and to increase its research productivity. As a result of the MSRC not being able to complete its development toward a self-standing and self-sufficient corporation, a collaboration agreement was drawn between the MSRC and the University through a Memorandum of Understanding (MOU) signed on August 27, 2019. The agreement is for a period of six (6) years during which the University will provide funding and after which is expected that the MSRC will be able to produce the financial resources to sustain its scientific and operational activities.

MSB is an advanced research facility of the University with laboratories conducting basic and translational biomedical research in the areas of protein structure and dynamics, molecular biology, genomics, proteomics, bio-imaging, pharmacogenetics, and neurosciences. The primary goal of the MSRC is to produce a significant increase in competitively funded forefront scientific research by scientists at University. The MSRC is the University System's first multidisciplinary environment, designed to meet the needs of cutting-edge research in Puerto Rico for the foreseeable future. This research space design paradigm features standardization, flexibility and adaptability, systems integration, and ease of sharing equipment and human resources. MSRC is fiscally dependent on the University and its debt is expected to be repaid entirely or almost entirely with resources of the University. Complete financial statements of MSRC can be obtained directly by contacting MSRC's administrative offices.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Condensed financial information as of June 30, 2020 and for the fiscal year then ended of the blended component units is as follows (expressed in thousands):

Statements of net position (deficit) as of June 30, 2020	DUI	MSRC	Total
Current assets:			
Cash and cash equivalents	$ 321	$ 497	$ 818
Restricted investments at fair value deposited with trustee	16,051	–	16,051
Internal balance- net investment in direct financing lease, current portion (see Note 8)	2,681	–	2,681
Accounts receivable, net	–	5	5
Internal balance - due from the University of Puerto Rico (see Note 8)	3,943	–	3,943
Other assets	13	36	49
Total current assets	23,009	538	23,547
Noncurrent assets:			
Restricted cash and cash equivalents	161	–	161
Internal balance- net investment in direct financing lease, net of current portion (see Note 8)	44,613	–	44,613
Depreciable capital assets (net of accumulated depreciation and amortization)	–	2	2
Other assets	201	–	201
Total noncurrent assets	44,975	2	44,977
Total assets	$ 67,984	$ 540	$ 68,524
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,633	$ 114	$ 1,747
Current portion of long-term debt bonds payable	2,880	–	2,880
Internal balance- due to the University of Puerto Rico (see Note 8)	–	64	64
Compensated absences	2	–	2
Total current liabilities	4,515	178	4,693
Noncurrent liabilities:			
Long-term debt, net of current portion of bonds payable	53,426	–	53,426
Internal balance - due to the University of Puerto Rico (see Note 8)	–	1,500	1,500
Total noncurrent liabilities	53,426	1,500	54,926
Total liabilities	$ 57,941	$ 1,678	$ 59,619
Net position (deficit):			
Net investment in capital assets	$ –	$ 2	2
Restricted expendable:			
Capital project	3,194	–	3,194
Debt service	8,567	–	8,567
Unrestricted deficit	(1,718)	(1,140)	(2,858)
Total net position (deficit)	$ 10,043	$ (1,138)	$ 8,905

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Statements of revenues, expenses and changes in net position for the year ended June 30, 2020	DUI	MSRC	Total
Operating revenues	$ 3,400	$ 18	$ 3,418
Operating expenses	(2,996)	(1,658)	(4,654)
Operating income (loss)	404	(1,640)	(1,236)
Non operating revenues (expenses):			
Interest on capital assets - related debt	(2,843)	–	(2,843)
Interest income from internal balance investment in direct financing lease	3,185	–	3,185
Net investing income	490	2	492
Contributions from the University of Puerto Rico	–	500	500
Net nonoperating revenues	832	502	1,334
Change in net position	1,236	(1,138)	98
Net position (deficit):			
Beginning of year	8,807	–	8,807
End of year	$ 10,043	$ (1,138)	$ 8,905

Statements of cash flows for the year ended June 30, 2020	DUI	MSRC	Total
Net cash used in operating activities	$ (1,192)	$ (1,502)	$ (2,694)
Net cash provided by noncapital financing activities	–	2,000	2,000
Net cash used in capital and related financing activities	(5,934)	(3)	(5,937)
Net cash provided by investing activities	6,198	2	6,200
Net change in cash and cash equivalents	(928)	497	(431)
Cash and cash equivalents:			
Beginning of year	1,410	–	1,410
End of year	$ 482	$ 497	$ 979

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Discretely Presented Component Units: All discretely presented component units are legally separate from the University. These entities are reported as discretely presented component units because the University appoints a majority of these organization's boards, is able to impose its will on them, or a financial benefit/burden situation exists. They include the following:

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. (the "Hospital" or "SMU") is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. The Hospital is a not-for-profit acute care corporation, organized under the Laws of the Commonwealth of Puerto Rico on February 11, 1998 to operate and administer healthcare units. The principal objectives of the Hospital are to constitute it as the principal medical education institution of the University and to offer healthcare services to the residents of Puerto Rico. The University appoints a voting majority of the Hospital board and is also financially accountable for the Hospital. Complete financial statements of the Hospital can be obtained directly by contacting the Hospital's administrative offices.

University of Puerto Rico Parking System, Inc.

University of Puerto Rico Parking System, Inc. ("UPRPS") is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses. The University appoints a voting majority of UPRPS board and is also financially accountable for UPRPS. UPRPS's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the years ended June 30, 2019 and 2018. Complete financial statements of UPRPS can be obtained directly by contacting the UPRPS's administrative offices.

Materials Characterization Center, Inc.

Materials Characterization Center, Inc. ("MCC") is a legally separate entity from the University and a nonstock corporation that is governed by a separate board. MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University. The University appoints a voting majority of MCC board and is also financially accountable for MCC. MCC's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the years ended June 30, 2019 and 2018. Complete financial statements of MCC can be obtained directly by contacting the MCC's administrative offices.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The financial statements of the discretely presented component units have a June 30 year-end, except for MCC, which has a December 31 year-end.

Refer to Note 3 for the combining financial information of the discretely presented component units as of and for the year ended June 30, 2020.

The following is a summary of the significant accounting policies followed by the University:

Measurement Focus and Basis of Accounting

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB).

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,* an Amendment of GASB Statement No. 34. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, telecommunications and institutional computing have been eliminated, where appropriate.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at fair value, except for money market investments and deposits held in banks which are carried at cost, in the statement of net position. Fair value is based on quoted market prices. The changes in the fair value of investments are reported in the statement of revenues, expenses and changes in net position as a component of net investment income (non-operating activities).

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value, except for nonparticipating guaranteed investment contracts and money investments which are carried at cost.

Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments includes funds restricted for capital expenditures or set aside for payments to bondholders because their use is limited by applicable bond covenants; endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal; funds that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external source or entity such as: creditors, laws or regulations of other governments, or by constitutional provisions or enabling legislation; and funds held in escrow based on terms and conditions of various agreements, among others.

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's sponsored agreements. In addition, accounts receivable includes unpaid medical services provided by the faculty members of the Medical Sciences Campus (MSC) of the University to the Commonwealth's health reform program patients; contracted services provided by the faculty members of the MSC to a component unit of the Commonwealth and to SMU; and unremitted distributions of income to be received by the University from a component unit of the Commonwealth under the Gambling Law by virtue of Act No. 36 of 2005.

Other receivables mainly consist of due from Commonwealth's agencies, component units and municipalities which includes unremitted Commonwealth formula appropriations by virtue of Act No. 2 of January 20, 1966, as amended; due from the University Retirement System which includes uncollected advances given to the Retirement System; and notes receivable which includes institutional loans.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Receivables (continued)

Receivables are stated net of estimated allowances for uncollectible accounts. The University maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable based on type of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: type of receivables, Commonwealth guidelines, historical losses adjusted to consider current market conditions, the amounts of receivable in dispute, the current receivables aging, and current payment patterns. The University has significant amounts receivable from the Commonwealth and its instrumentalities. There is significant uncertainty regarding the collection of such receivables due to the financial challenges these entities are facing. The University has considered this in its estimate of the specific governmental allowance for uncollectible accounts and fully reserved for all receivables from the Commonwealth and its affiliated entities that are not expected to be collected in the twelve months period post the balance sheet date. The University reviews its allowance for doubtful accounts annually. Past due balances over a specified amount are reviewed individually for collectability. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Interfund Balances and Transactions

Interfund receivable and payable balances and transactions have been eliminated from the basic financial statements.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market and consist primarily of books.

Capital Assets

All capital expenditures of $5 thousand ($1 thousand before July 1, 2014) or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment, library materials and software, and 7 to 30 years for land improvements.

Renovations to buildings and other assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense has been incurred.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the University are reported at the lower of carrying value or fair value. No impairment loss was incurred in fiscal year 2020.

Long-term Debt, Debt Issuance Costs and Deferred Loss on Debt Refunding

Long-term debt on the statement of net position is reported net of related discounts and premiums. Premium and discounts incurred in the issuance of long-term debts are deferred and amortized using the effective interest method. DUI amortize long-term debt premium and/or discount using a method which approximates the effective interest method. Debt issuance costs, except portions related to prepaid insurance, are expensed as nonoperating expenses.

For debt refunding, the excess of reacquisition cost over the carrying value of long-term debt is recorded as a deferred outflow of resources and amortized to operating expenses using the effective interest method over the remaining life of the original debt or the life of the new debt, whichever is shorter.

Unearned Revenue

Unearned revenue consists primarily of cash received from grant and contract sponsors that has not been earned under the terms of the agreement.

Deferred Compensation Plan

The University offered to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits certain employees to defer a portion of their salary until future years. At the participant's election, such amounts may be invested in mutual funds and other securities, which represent varying levels of risk and return. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the participant or other beneficiary) solely the property and rights of the University, subject only to the claims of the University's general creditors in the event of the University's insolvency, as defined in the Trust Agreements. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Compensated Absences

The vacation policy of the University generally provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, termination or death, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the University. An accrual for earned sick leaves is made only to the extent it is probable that the benefits will result in termination benefits, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals. This liability, which is based on the termination payment method, is an estimate based on the University's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination payment policy and other current factors. Accrued compensated absences liabilities include an additional amount for salary-related payments directly and incrementally associated with the payment of compensated absences.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents an increase in net position (a consumption of assets) applicable to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. Similarly, the University reports deferred inflows of resources in the Statement of Net Position in a separate section following Liabilities. This separate financial statement element, *deferred inflows of resources*, represents a reduction of net position and resources (an acquisition of assets) applicable to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Deferred outflows and inflows of resources mainly affect the unrestricted (deficit) net position.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Classification of Net Position

The University's net position is classified as follows:

- *Net investment in capital assets component of net position* consists of capital assets, net of accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position. To the extent proceeds from issuance of debt have been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.

- *Restricted, nonexpendable component of net position* consists of restricted, nonexpendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

- *Restricted, expendable component of net position* consists of restricted, expendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

- *Unrestricted component of net position* is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Governing Board, they are available for use, at the discretion of the Governing Board, to meet current expenses for any purpose.

When both restricted and unrestricted resources are available for use, it is the University's policy to use restricted resources first and then use unrestricted resources as they are needed.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Classification of Revenues

The University and its component units have classified their revenues as either operating or nonoperating revenues. Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state and local grants and contracts, net of allowance for doubtful accounts; and, hospital patient service revenues, net of allowances for contractual adjustments and doubtful accounts. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Federal Pell Grants and other revenue sources that are defined as nonoperating revenues, such as Commonwealth appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are recorded net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as federal grants, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

Net Patient Service Revenue

The University and the Hospital have agreements with third-party payers that provide for payments to the University and the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Grants and Contracts

The University has been awarded grants and contracts for which the funds have not yet been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the financial statements but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue is recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed, and for grants without either of the above requirements, the revenue is recognized as it is received.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Gifts and Pledges

Pledges of financial support from organizations and individuals representing unconditional promises to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promises, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

Pension

Pension cost is recognized and disclosed using the accrual basis of accounting. The University recognizes a net pension liability for its qualified pension plan, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, measured as of the University's prior year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Employer's contributions made after the measurement date of the net pension liability are recorded as a deferred outflow of resources.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information of the fiduciary net position of the University of Puerto Rico Retirement System and additions to/deductions from the employees pension plan's fiduciary net position have been determined on the same basis as they are reported by the University of Puerto Rico Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions

Other postemployment benefits ("OPEB") expense is recognized and disclosed using the accrual basis of accounting. The University recognizes the total OPEB liability since the University's OPEB program is funded on a pay-as-you-go basis, measured as of the University's prior year-end. Changes in the total OPEB liability during the period are recorded as OPEB expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in total OPEB liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees and recorded as a component of OPEB expense beginning with the period in which they arose. Employer's contributions made after the measurement date of the total OPEB liability are recorded as a deferred outflow of resources.

Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 84, *Fiduciary Activities* (GASB Statement No. 84), which is effective for periods beginning after December 15, 2019 (as postponed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB Statement No. 95), establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 87, *Leases* (GASB Statement No. 87), which is effective for periods beginning after December 15, 2021 (as postponed by GASB Statement No. 95), establishes a single approach to accounting for and reporting leases by state and local governments. GASB Statement No. 87 is based on the principle that leases are financing of the right to use an underlying asset. GASB Statement No. 87 provides guidance for lease contracts for nonfinancial assets–including vehicles, heavy equipment and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). GASB Statement No. 87 provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

  Under this statement, a lessee government is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset. The liability should be the present value of the payments covered by the contract, and its value should be reduced as payments are made over the lease's term. The asset should equal the initial measurement of the liability. A lessee also will report the following in its financial statements:

  (1) amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset; (2) interest expense on the lease liability; and (3) note disclosures about the lease, include a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments to be made.

  Under this statement, a lessor government is required to recognize a lease receivable and a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. A lessor also will report the following in its financial statements: (1) lease revenue, systematically recognized over the term of the lease, corresponding with the reduction of the deferred inflow; (2) interest revenue on the receivable; and (3) note disclosures about the lease, including a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB Statement No. 89), which is effective for periods beginning after December 15, 2020 (as postponed by GASB Statement No. 95), enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* (GASB Statement No. 89), which is effective for periods beginning after December 15, 2019 (as postponed by GASB Statement No. 95), improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

  For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

  This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), which is effective for periods beginning after December 15, 2021 (as postponed by GASB Statement No. 95), provides a single method for government issuers to report conduit debt obligations and related commitments. GASB Statement No. 91 addresses the variation in practice by: clarifying what is a conduit debt obligation; eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting; broadening the definition of conduit debt obligations to include those for which government issuers make related additional commitments, such as guarantees or moral obligation pledges, or voluntarily agree to make debt service payments or request an appropriation for such payments, if necessary; clarifying how government issuers should account for and report commitments they extend or voluntarily provide, and arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes; and enhancing note disclosures. Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. GASB Statement No. 91 requires a government issuer to recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

- GASB Statement No. 92, *Omnibus 2020* (GASB Statement No. 92), enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: the effective date of GASB Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

The requirements of GASB Statement No. 92 are effective as follows (as postponed by GASB Statement No. 95): the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; the requirements related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74 are effective for fiscal years beginning after June 15, 2021; the requirements related to application of GASB Statement No. 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021; the requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB Statement No. 93) assists state and local governments to address those and other accounting and financial reporting implications in the transition away from existing interbank offered rates (IBORs) to other reference rates.

  Some governments have entered into agreements (particularly derivative instruments and lease agreements) in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53), requires a government that renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment, to terminate hedge accounting. GASB Statement No. 93 provides an exception to this rule, allowing hedge accounting to continue when an IBOR is replaced as the reference rate of the hedging derivative instrument.

  GASB Statement No. 93 also clarifies that, when evaluating the probability of the occurrence of an expected transaction pursuant to paragraph 29 of GASB Statement No. 53, the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether a hedged expected transaction is probable.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

Finally, for the purpose of the qualitative evaluation of the effectiveness of an interest rate swap under paragraphs 35-38 of GASB Statement No. 53, GASB Statement No. 93 removes LIBOR as an appropriate benchmark interest rate and adds the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates.

GASB Statement No. 87, *Leases,* requires that a government apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable, when the replacement of the rate on which variable payments depend in a lease contract occurs. GASB Statement No. 93 provides an exception to the lease modifications guidance in GASB Statement No. 87 for lease contracts that are amended to replace an IBOR as the rate upon which variable payments depend.

The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for periods ending after December 31, 2021. All other provisions of GASB Statement No. 93 are effective for fiscal years beginning after June 15, 2020. Earlier application is encouraged.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement* (GASB Statement No. 94), which is effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs).

  A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs are service concession arrangements (SCA), in which the operator collects and is compensated by fees from third parties; the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services, and the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

  Some PPPs may meet the definition of a lease, in which GASB Statement No. 87 should be followed, if the existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a SCA.

  The PPP term is defined as the period during which the operator has a noncancellable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

The accounting for a PPP is generally that the transferor should recognize an underlying PPP asset as an asset in financial statements using full accrual method. There are instances where a receivable should be recorded rather than an underlying PPP asset. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term. Governmental fund revenue is recognized in a systematic and rational method over the life of the receivable when a receivable is recorded. If the government is the operator of the PPP, the full accrual method requires an intangible right to use asset be recorded. Certain limitations do apply.

- GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96, which is effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

  GASB Statement No. 96 defines a subscription-based technology arrangement as a contract that conveys control of the right to use a vendor's software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period in an exchange or exchange-like transaction.

  GASB Statement No. 96 requires governments with subscription-based technology arrangements to recognize a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability. There is an exception for short-term subscription-based technology arrangements (those with a maximum possible term of 12 months).

  GASB Statement No. 96 provides guidance related to outlays other than subscription payments, including implementation costs and requirements for note disclosures related to a subscription-based technology arrangement.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB Statement No. 97), reduces costs and increases the consistency and comparability of reporting on state and local governments' fiduciary component units. The statement also improves the reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan, and for benefits provided through those plans.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

GASB Statement No. 97 includes guidance for determining whether a primary government is financially accountable for a potential component unit. GASB Statement No. 97 requires a Section 457 plan to be classified as either a pension plan or another employee benefit plan, depending on whether the plan meets the definition of a pension plan. GASB Statement No. 97 clarifies that GASB Statement No. 84, *Fiduciary Activities*, as amended, should be applied to all arrangements organized under Section 457 to determine whether those arrangements should be reported as fiduciary activities.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of GASB Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement 67 or paragraph 3 of GASB Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The University is evaluating the impact that these statements will have on its financial statements.

2. Going Concern

The University faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the University together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the University to continue as a going concern in accordance with GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, Going Concern Considerations Section*.

The University is highly dependent on the Commonwealth's appropriations to finance its operations. The financial difficulties being experienced by the Commonwealth have significant adverse impacts on the University, given its reliance on Commonwealth's appropriations and lack of available funding alternatives at reasonable interest rates.

2. Going Concern (continued)

The Commonwealth Going Concern

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk.

The Commonwealth is in the midst of a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment rate, a population decline and high levels of debt and pension obligations and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern.

As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's General Fund budget was allocated to health care and pension related costs, debt service requirements, and funding for essential services has been reduced. The Commonwealth's liquidity constraints, among other factors, affected its credit ratings and its ability to obtain financing at prevailing interest rates.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") establishing the Financial Oversight and Management Board (the "Oversight Board").

PROMESA was signed by the U.S. President on June 30, 2016. PROMESA grants the Commonwealth and its component units, including the University, access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Government's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors (Title VI of PROMESA). This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code (Title III of PROMESA). This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

2. Going Concern (continued)

The Commonwealth Going Concern (continued)

On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board of PROMESA, at the request of the Governor of Puerto Rico, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of the Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation.

Since June 30, 2014, the principal rating agencies lowered their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D". Since April 2016, the Commonwealth and certain components units suspended their respective debt service payments.

The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-Type Activities for financial reporting purposes, reflects a net deficit of approximately $71.1 billion as of June 30, 2017 (the most recent audited financial information). The Commonwealth's General Fund shows a fund deficit of approximately $100.6 million as of June 30, 2017.

The Commonwealth's current fiscal crisis has been exacerbated with the effects of the Coronavirus disease ("COVID-19"), as further explained in Note 13, Section COVID-19 Pandemic.

Detailed information about the Commonwealth's conditions and events that raise doubt about its ability to continue as a going concern and the corresponding remediation plans are disclosed in the notes of the Commonwealth's 2017 fiscal year audited basic financial statements.

The University Going Concern

The University had an unrestricted deficit position and a total net deficit position of approximately $2.96 billion and $2.37 billion, respectively, as of June 30, 2020. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other nonoperating federal grants and other revenues and depreciation, interest and other expenses) during fiscal years 2020, 2019 and 2018 of $1.23 billion, $1.04 billion and $1.20 billion, respectively.

Since October 30, 2016, the University is a covered entity of the Oversight Board created by PROMESA. As a covered entity, the University is required to submit to the Oversight Board of PROMESA an annual individual fiscal plan for its certification, among other things. The University is not a debtor under a Title III case.

2. Going Concern (continued)

The University Going Concern (continued)

The University is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 55% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other appropriations which amounted to approximately $589.9 million, $695.7 million and $733.1 million for the years ended June 30, 2020, 2019 and 2018, respectively.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriated for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations support the University's general expenses. On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ended on June 30, 2015, 2016 and 2017.

Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth formula appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2020, 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula appropriations of the University amounted to $501.1 million, $587.1 million and $631.2 million, respectively, for the years ended June 30, 2020, 2019 and 2018, respectively, a decrease of $332.8 million or 39.9% when compared the 2020 Commonwealth formula appropriations with the Commonwealth formula appropriations of $833.9 million for fiscal year 2017.

In light of the COVID-19 pandemic, the Oversight board of PROMESA agreed to provide a one-year delay in the reduction of the Commonwealth formula appropriations of the University. The 2020 Commonwealth Fiscal Plan for fiscal years 2021 to 2025 continues to reduce the general appropriations to the University over a four-year period with the expectation that the University will become more self-sufficient and develop more diverse and resilient revenue streams outlined in the 2020 University Fiscal Plan for fiscal years 2021 to 2025. The approved Commonwealth formula appropriations are $501.1 million for 2021, $430.1 million for 2022, $407.1 million for 2023 and $383.1 million for 2024. No further cuts are expected after fiscal year 2024 and these appropriations are indexed to inflation in fiscal year 2025 and beyond.

2. Going Concern (continued)

The University Going Concern (continued)

In compliance with Executive Order 31 signed by the Governor of Puerto Rico on June 30, 2016, the University suspended the monthly payments to the trustee of the Trust Agreement that governs the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the Bank of New York Mellon, in its capacity as Trustee of the DUI's AFICA Bonds, notified to the University that it failed to make the basic lease payments to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21 (known as the Puerto Rico Emergency Moratorium and Rehabilitation Act), or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, the University has paid as agreed, the monthly payments to the trustee of the DUI's AFICA Bonds and the trustee on behalf of DUI has paid as agreed, the scheduled principal and interest payments on its outstanding AFICA Bonds.

The University's is in a dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence. In a letter dated June 22, 2020, the Trustee of the DUI's AFICA Bonds notified the University that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under paragraph 7.1(b) of the lease agreement, and that a default under the lease agreement could lead to an event of default under section 7.01(g) of the loan agreement, which causes an event of default under section 801(d) of the trust agreement. On October 28, 2020, the University formally notified to DUI the termination of the Operations and Management Agreement effective October 31, 2020, pursuant to Section 3.01 (iii) thereof. After October 2020, all operating activities as contemplated in the Operations and Management Agreement were assumed by the University. Refer to Note 9 for further information.

2. Going Concern (continued)

The University Going Concern (continued)

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion sought relief from the stay of PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA"), entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. As agreed in the letter agreement, the University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017 and continued to pay monthly to the trustee the $4 million of pledged revenues. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through the end of the Compliance Period as provided in the trust agreement.

The letter agreement has been extended fourteen times and the new Compliance Period is August 31, 2021. Pursuant to the letter agreement and the fourteen standstill extension agreements, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. In addition, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the monthly payments of pledged revenues, detailed in Note 12, to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period.

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given to the Letter Agreement and the various Standstill Extension Agreements prior to August 31, 2021.

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has complied with and has made all transfers due under the letter agreement, as extended. In addition, the Trustee on behalf of the University has paid as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

2. Going Concern (continued)

The University Going Concern (continued)

In addition, the Trust Agreement required the University to comply with other covenants. At June 30, 2020, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosures for fiscal years 2016 to 2019, and in the case of the Commonwealth, it has not filed the continuing disclosures and its audited financial statements for fiscal years 2017 to 2019.

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit on March 31, 2017 acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method.

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University are operating on limited Title IV eligibility and are placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $250 million for the year ended June 30, 2020. The University was in compliance with various program requirements for the year ended June 30, 2020.

2. Going Concern (continued)

The University Going Concern (continued)

The University's unrestricted cash position has been deteriorating since last year. The University's unrestricted cash position amounted to approximately $185.2 million and $281.2 million as of June 30, 2020 and 2019, respectively a decrease of $96.0 million or 34%. This decrease in the University's unrestricted cash position was mainly caused by the decrease of $86.0 million or 15% in the Commonwealth formula-based appropriations of the University which amounted to approximately $501.1 million and $587.1 million for the years ended June 30, 2020 and 2019, respectively, and the significant increase of $86.1 million or 115% in the University contributions to its pension plan, the University's Retirement System, which amounted to approximately $160.9 million and $74.8 million for the years ended June 30, 2020 and 2019, respectively.

In addition, the University's unrestricted cash position has been exacerbated by the effects of the COVID-19 pandemic. The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial.

Much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utility. Under an extended lockdown scenario, a viral resurgence would result in extension of social distancing measures through Fall Semester 2021. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control. Refer to Note 13 for further information regarding COVID-19 pandemic.

Given the high dependency of the University on the Commonwealth appropriations and lack of available financing sources at reasonable interest rates, the University's financial condition and liquidity is being adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

2. Going Concern (continued)

The University Management Fiscal Plan

The Oversight Board of PROMESA has certified four fiscal plans for the University since 2017. Considering the many variables in the forecasts, the Oversight Board of PROMESA has chosen to annually update and certify a Fiscal Plan for accuracy and to serve as the most updated information for the purposes of certifying an annual budget. These various University's Fiscal Plans, in accordance with PROMESA, have outlined a path to achieve fiscal responsibility, maintain access to capital markets, and provide adequate funding for the University's Retirement System.

The Oversight Board of PROMESA recognizes that the University has made progress on implementing some measures for fiscal year 2020, for example the University increased undergraduate tuition to $124 per credit over the past academic year. However, on other measures, the University is in the process to comply with previous fiscal plan requirements. For example, the University is in the process to: (1) reform its pension plan, (2) adjust benefits to sustainable levels, and (3) implement adjustment measures to capture the required procurement savings. In order to comply with the UPR Fiscal Plan, during the fiscal year 2020, the University eliminated most of the tuition exemption categories and implemented a new need-based scholarship policy ("Internal Scholarship Fund") to provide scholarship assistance to students, as intended with the eliminated original exemptions.

The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses online since Spring 2020 semester to present and halt much of it research activity to safeguard its community of students, faculty and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial.

On June 12, 2020, the Oversight Board certified a new fiscal plan for the University for fiscal years 2021 to 2025 (the "UPR 2020 Fiscal Plan"). The UPR 2020 Fiscal Plan, continuing with the priorities outlined in the UPR 2019 Fiscal Plan, includes four core elements centered largely around improving operations and increasing revenues, while maintaining the ability of all students to access and benefit from the improved university system:

- Operational efficiencies: The University's existing operational model, with eleven semiautonomous campuses, creates unnecessary complexity and drives higher costs. The UPR 2020 Fiscal Plan identifies personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty. The UPR 2020 Fiscal Plan calls for a 5% decrease in total operating disbursements between fiscal years 2021 and 2025. These cost reductions are paired with operational improvements, such as the transition to shared administrative service hubs and an optimization of academic offerings-pairing resources with greatest student need. The fiscal plan mainly includes the following expense measures:

    - Attrition: reduce overall headcount from approximately 10,900 employees in fiscal year 2020 to 10,300 employees in fiscal year 2025, mainly in non-faculty personnel and trust and senior administrative position.

    - Centralized procurement efforts and contract negotiations.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

- Benefits adjustments: reduce the employer monthly contribution to the medical insurance plans to $390 per month to each faculty members and to $125 per month to each non-faculty members plans commencing in fiscal year 2020, while keeping baseline contributions to employees with preexisting conditions; reduce prospective pay out of non-payroll compensation (e.g. sick days, union charges); and eliminate the payment of Christmas bonus for all employees.

- Revenue enhancement: The UPR 2020 Fiscal Plan maximizes opportunities to increase revenue from non-tuition sources: federal grants and awards, intellectual property and patent monetization, and ancillary service fees for providing training to external institutions. Given the unprecedented reality Puerto Rico currently faces with COVID-19 pandemic, it defers the increase in undergraduate and graduate tuition, and fees previously scheduled for fiscal year 2021 and it provides a one-year delay in the reduction of the University's annual appropriations from the Commonwealth.

    - Non-tuition sources: maximizing opportunities to increase revenue from non-tuition sources such as: federal grants and awards, intellectual property and patent monetization, increase in due and charges and ancillary service fees for providing training to external institutions. The University will receive approximately $12 million, net of corresponding expenses, per year from fiscal years 2021 to 2025 by offering tutorial and training services to the Puerto Rico Department of Education and other government agencies.

    - Tuitions sources:

        - Gradual increase in the undergraduate student cost as previously certified from $124 per credit in fiscal year 2020 to: $124 per credit in fiscal year 2021; $145 per credit in fiscal year 2022; and, $157 per credit in fiscal year 2023. After fiscal year 2023, tuition will be indexed to public 4-year tuition inflation (estimated to be 3.1% for fiscal year 2024).
        - Eliminate 13 of 16 tuition exemption categories (keeping only teaching assistants, honor students, and veterans only (not spouse). To the extent tuition increases are required, this plan calls for implementing a need-based scholarship policy alongside increases in the cost per credit and related fees.
        - Increase cost per credit for graduate programs to be more in line with Puerto Rico and United States of America benchmarks in fiscal year 2022 and then index the increase first to the average public higher education tuition growth over the past decade (3.1%), then to the Puerto Rico inflation (1%).

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

- Pension reform: The University's pension fund faces significant challenges, with 57% of liabilities unfunded. The UPR 2020 Fiscal Plan outlines options to ensure pension obligations can be paid without requiring significantly higher revenues or lower expenses. PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. Accordingly, the UPR 2020 Fiscal Plan requires the University to make full actuarially required contribution to its pension plan. This Fiscal Plan outlines reform measures the University and the UPR Retirement System could take to ensure pension obligations can be paid without requiring significantly higher revenues or lower expenses, while still allowing the University to achieve operating surplus (pre-debt service) within the fiscal plan period. The Oversight Board of PROMESA offers the University the following options:

    - Option 1: freeze its current defined benefit plan and move to a defined contribution plan without cutting accrued benefits. To make this option sustainable and achieve a primary operating surplus (pre-debt service), the University will need to find additional savings above what is presented in this fiscal plan of approximately $40 million per year, again faculty reduction, significant consolidation, or tuition increases.

    - Option 2: freeze its current defined benefit plan, move to a defined contribution plan and progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans. Eliminate $250 minimum benefit and $400 holiday bonus. This option does not require additional savings or revenue measures to this Fiscal Plan. This is the option presented in this fiscal plan.

  The Oversight Board of PROMESA strongly believes that Option 2 is the most responsible course of action for the University. If the University's pension plan remains in its current status and no measures are implemented, the University will need to find additional savings above what is presented in this fiscal plan of approximately $90 million per year, in faculty reduction, significant consolidation, or tuition increases to avoid operating at a deficit and maintain the solvency of its retirement system.

- Fiscal governance and controls: The University has been facing difficulties with maintaining an adequate central control of and transparency into campus finances. The UPR 2020 Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures reported.

As in prior year, the 2020 UPR Fiscal Plan is balanced with actual unrestricted cash and cash equivalents that may be used to cover modest operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

To ensure the University continues to fulfill its role as an important driver of socioeconomic mobility and all students can continue to access a university education, this fiscal plan and the 2020 Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of income level, have access. The University's Internal Scholarship Fund expenditures will amount to $9 million in fiscal year 2021.

In addition, the Commonwealth, in collaboration with the Oversight Board, and as certified in the May 2018 Commonwealth's fiscal plan, will establish an external scholarship fund named the University of Puerto Rico Scholarship Fund (the "Scholarship Fund") to benefit the students of the University. The Commonwealth will contribute $35 to $50 million per year for external scholarships from fiscal year 2019 to fiscal 2023 to the Scholarship Fund. The Scholarship Fund will be managed by an independent third party. The Scholarship Fund's returns would be used to provide need-based scholarships to the students of the University. The Scholarship Fund is expected to award the first scholarships in August 2021. Commonwealth's contributions to the Scholarship Fund for fiscal years 2019 and 2020, are held under the custody of the Department of Treasury of the Commonwealth. In fiscal year 2021, $43 million will be added to the fund, and will be used to provide need-based scholarships to the University students.

The 2020 Commonwealth Fiscal plan creates a new, incremental scholarship program to incentivize doctors to practice in underserved areas in Puerto Rico. The Oversight Board of PROMESA has allocated funding for a loan forgiveness offered to medical residents or students. Each student or resident would be eligible for $25 thousand of loan forgiveness per year of service (up to four years) in underserved areas. The program would be administered by an independent party chosen in a competitive process managed by FAAFA. The Commonwealth will fund the program with a $30 million endowment, investing $10 million in fiscal year 2020 and $20 million in fiscal year 2021.

Unique to the UPR 2020 Fiscal Plan is the context of COVID-19 pandemic – an evolving epidemic that has radically reshaped the operations of the University. Even in the most optimistic scenario, COVID-19 pandemic will present unprecedented humanitarian and fiscal setbacks that challenge the University's administration to rethink its operating model in ways it has never had to consider before. For example, the University is looking to expand its distance learning capabilities for at least a portion of the student population, rethinking residences and discovering how to provide the full student experience under the "new normal." The relief from the CARES Act and the decision from the Commonwealth and the Oversight Board of PROMESA to delay subsidy reductions for fiscal year 2021 will provide some assistance in making these adaptations.

With the UPR 2020 Fiscal Plans measures, including the reduction in the Government appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2021 through fiscal year 2025.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

There is no certainty that the UPR 2020 Fiscal Plans or any subsequently certified fiscal plan for the University will be fully implemented or if implemented will ultimately provide the intended results. All these plans and measures, and the University's ability to reduce its deficit and to achieve a balanced budget in the future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. As such, management does not believe that its ability to continue as a going concern has been fully alleviated.

3. Combining Financial Information of the Discretely Presented Component Units

The following table presents the combining statements of net position of the discretely presented component units as of June 30, 2020 (expressed in thousands):

	SMU	UPRPS	MCC	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 26,010	$ 1,568	$ 371	$ 27,949
Accounts receivable, net	3,563	79	331	3,973
Due from Federal Government	629	–	–	629
Due from the University of Puerto Rico	10,835	–	–	10,835
Inventories	803	–	–	803
Other assets	599	27	89	715
Total current assets	42,439	1,674	791	44,904
Noncurrent assets:				
Due from Commonwealth of Puerto Rico	270	–	–	270
Capital assets:				
Other nondepreciable assets	4,072	–	–	4,072
Depreciable assets (net of accumulated				–
depreciation and amortization)	9,372	191	205	9,768
Total noncurrent assets	13,714	191	205	14,110
Total assets	56,153	1,865	996	59,014
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	6,540	208	29	6,777
Unearned revenue- advances from federal grants	3,309	–	–	3,309
Current portion of long-term debt - notes payable	2,430	–	–	2,430
Due to University of Puerto Rico	24,559	–	–	24,559
Other current liabilities - compensated absences	748	46	–	794
Total current liabilities	37,586	254	29	37,869
Noncurrent liabilities:				
Long-term debt, net of current portion - notes payable	10,617	–	–	10,617
Other long-term liabilities - claims liability	1,767	–	–	1,767
Total noncurrent liabilities	12,384	–	–	12,384
Total liabilities	49,970	254	29	50,253
Net position				
Net investment in capital assets	–	191	205	396
Unrestricted	6,183	1,420	762	8,365
Total net position	$ 6,183	$ 1,611	$ 967	$ 8,761

3. Combining Financial Information of the Discretely Presented Component Units (continued)

The following table presents the combining statements of revenues, expenses and changes in net position of the discretely presented component units for the year ended June 30, 2020 (expressed in thousands):

	SMU	UPRPS	MCC	Total
Revenues				
Operating revenues:				
Net patient services revenue and other (net of provision for allowances of $5,187)	$ 45,418	$ –	$ –	$ 45,418
Other operating revenues	1,643	1,418	788	3,849
Total operating revenues	47,061	1,418	788	49,267
Operating expenses:				
Salaries:				
Exempt staff	4,549	–	–	4,549
Nonexempt wages	10,856	428	196	11,480
Benefits	2,594	89	42	2,725
Supplies and other services	22,729	650	451	23,830
Utilities	2,945	20	2	2,967
Depreciation and amortization	2,336	25	23	2,384
Other expenses	1,405	67	–	1,472
Total operating expenses	47,414	1,279	714	49,407
Operating income (loss)	(353)	139	74	(140)
Nonoperating revenues (expenses):				
Cares Act federal grants	1,858	–	–	1,858
Net investment income	–	3	–	3
Interest on capital assets - related debt	(526)	–	–	(526)
Contributions to the University of Puerto Rico	–	(1,944)	–	(1,944)
Net nonoperating revenues (expenses)	1,332	(1,941)	–	(609)
Change in net position	979	(1,802)	74	(749)
Net position:				
Beginning of year	5,204	3,413	893	9,510
End of year	$ 6,183	$ 1,611	$ 967	$ 8,761

4. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2020 consisted of the following (expressed in thousands):

	Unrestricted	Restricted	Total
The University Only			
Cash:			
Cash on hand	$ 164	$ –	$ 164
Deposit accounts with commercial banks in Puerto Rico	47,487	2,593	50,080
Total cash	47,651	2,593	50,244
Cash equivalents:			
Deposit accounts with:			
Commercial banks in Puerto Rico	31,473	44,161	75,634
Commercial banks in USA	1,011	–	1,011
U.S. Treasury bills	104,216	–	104,216
Money market funds	–	1,850	1,850
Total cash equivalents	136,700	46,011	182,711
Total University's cash and cash equivalents	184,351	48,604	232,955
DUI			
Cash on hand	4	–	4
Deposit accounts with commercial banks in Puerto Rico	317	161	478
Total DUI cash and cash equivalents	321	161	482
MSRC			
Deposit accounts with commercial banks in Puerto Rico	497	–	497
Total cash and cash equivalents	$ 185,169	$ 48,765	$ 233,934
Current portion	$ 185,169	$ 46,800	$ 231,969
Noncurrent portion	–	1,965	1,965
Total	$ 185,169	$ 48,765	$ 233,934

The University Only

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and some of its discretely presented component units (SMU and MSRC) are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico ("Treasury"), and such deposits are maintained in separate bank accounts in the name of the University and its discretely presented component units. Such authorized depositories collateralize the amount deposited in excess of the federal depository insurance of $250,000 with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. The balances in cash accounts with commercial banks outside of Puerto Rico and in money market funds which amounted to approximately $2,861,000 at June 30, 2020 are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

4. Cash and Cash Equivalents (continued)

The University Only (continued)

Restricted cash and cash equivalents of the University's permanent endowment funds amounted to approximately $3,846,000 as of June 30, 2020 (refer to Note 5). Other restricted cash equivalents amounted to approximately $44,758,000 as of June 30, 2020, and mainly include approximately $42,326,000 of unearned cash advances from Commonwealth's grants and contracts, and $346,000 of funds held in the construction fund.

As of June 30, 2020, the University's cash deposited in the banks amounted to approximately $242,496,000.

Blended Component Units' Cash and Cash Equivalents

Blended component units' cash and cash equivalents as of June 30, 2020 amounted to approximately $979,000, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. DUI's deposits are insured up to $250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is uncollateralized. MSRC's deposits are insured up to $250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is collateralized. As of June 30, 2020, blended component units' cash deposited in the banks amounted to approximately $1,115,000. DUI's uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $377,000 as of June 30, 2020.

Discretely Presented Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2020, amounted to approximately $27,949,000, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2020, the discretely presented component units' cash deposited in the banks amounted to approximately $28,039,000. The discretely presented component units' uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $1,498,000 as of June 30, 2020.

5. Investments

The University's investments held at June 30, 2020, are summarized in the following table (expressed in thousands):

	Restricted Investments in:						
	Permanent Endowment Funds	Sinking Funds	Healthcare Deferred Compensation Plan	Construction Fund	Others	Unrestricted Investments	Total
University:							
U.S. Treasury notes	$ 9,049	$ –	$ –	$ –	$ –	$ –	$ 9,049
U.S. Treasury bonds	3	–	–	–	–	–	3
U.S. sponsored agencies bonds and notes	6,680	–	–	–	–	–	6,680
U.S. municipal bonds	–	–	–	–	–	2,365	2,365
Mortgage-backed securities	29,073	–	–	–	–	–	29,073
Asset-backed securities	5,515	–	–	–	–	–	5,515
Corporate bonds	21,133	–	–	–	–	–	21,133
Common stock and convertibles	43,791	–	89	–	–	–	43,880
External investment pools	–	–	17,877	–	–	170	18,047
Nonparticipating guaranteed investment contracts	–	–	67,187	–	–	–	67,187
Certificates of deposit	153	–	–	–	5	–	158
Money market funds and others	6,093	42,599	–	–	–	–	48,692
Total University's investments	121,490	42,599	85,153	–	5	2,535	251,782
DUI:							
U.S. sponsored agency notes	–	5,848	–	–	–	–	5,848
Money market funds	–	7,009	–	3,194	–	–	10,203
Total DUI's Investments	–	12,857	–	3,194	–	–	16,051
Total Primary Government	$ 121,490	$ 55,456	$ 85,153	$ 3,194	$ 5	$ 2,535	$ 267,833
Current portion	$ 324	$ 55,456	$ –	$ 3,194	$ 5	$ –	$ 58,979
Noncurrent portion	121,166	–	85,153	–	–	2,535	208,854
Total	$ 121,490	$ 55,456	$ 85,153	$ 3,194	$ 5	$ 2,535	$ 267,833

Restricted Investments in Sinking Funds

The University and DUI are required to maintain sinking funds held by trustees for the retirement of the "University System Revenue Bonds" and the "DUI AFICA Bonds". The Trustees shall, upon the receipt of the pledged revenues, make deposits to the credit of the sinking fund accounts.

The University's funds held by trustee at June 30, 2020 amounted to approximately $42,599,000 and consisted of money market funds.

DUI's funds held by trustee at June 30, 2020 amounted to approximately $12,857,000 and consisted of money market funds and a U.S. sponsored agency note (Federal National Mortgage Association discounted note) purchased with remaining maturities of six months or less.

Restricted Investments in Construction Fund

Although the construction of Plaza Universitaria project was terminated in September 2006, DUI maintains a Construction Fund account held by trustee, related to the issuance of the AFICA bonds. As of June 30, 2020, the account balance amounted to approximately $3,194,000 and consisted of a money market fund.

5. Investments (continued)

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2020 amounted to approximately $121,490,000. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended.

For each permanent endowment fund, the University is mainly authorized by the donor to invest a percentage of total assets, with certain limitations, in the following types of investments: not less than 50% and no more than 80% in fixed income securities and not less than 20% and no more than 50% in equity securities. No international equity, private equity and non-U.S. income security investments other than foreign government bonds are held by the University.

If a donor has not provided specific instructions, state law permits the Governing Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Governing Board is required to consider the University's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions". Any net appreciation that is spent must be used for the purposes for which the endowment was established.

As of June 30, 2020, almost all the donors of the University's endowment funds only authorize the realized portion of the net appreciation of their investments (including interest and dividend income on investment and cash equivalents) to be spent in amounts that range from 75% to 100% in accordance with the donor specific instructions. Unrealized net appreciation on investments of the endowment funds is not available for authorization for expenditure by the Governing Board. As of June 30, 2020, net appreciation of approximately $12,936,000 was restricted to specific purposes.

Investments Designated to Fund the University's Healthcare Deferred Compensation Plan

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which mainly consisted of external investment pools, nonparticipating guaranteed investment contracts and money market fund amounted to approximately $85,153,000 as of June 30, 2020. At the participant's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to participant until termination, retirement, death or unforeseeable emergency. These investments are (until paid or made available to the participant or other beneficiary) solely the property and rights of the University, subject only to the claims of the University's general creditors in the event of the University's insolvency, as defined in the Trust Agreements. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant.

Investments designated to fund the University's Healthcare Deferred Compensation Plan include the Voya Retirement Insurance and Annuity Company ("Voya") Fixed Account, a nonparticipating guaranteed investment contract, which amounted to approximately $67,187,000 as of June 30, 2020.

5. Investments (continued)

Credit Risk

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. All of the University's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by the Government National Mortgage Association carry the explicit guarantee of the U.S. government.

As of June 30, 2020, the University's credit quality distribution for securities is as follows (expressed in thousands):

	Carrying Value	Quality Rating AAA	AA+ to AA	A+ to A-	BBB+ to BBB-	BB-	Unrated	No Risk
U.S. Treasury bonds and notes	$ 9,052	$ –	$ –	$ –	$ –	$ –	$ –	$ 9,052
U.S. sponsored agencies bonds and notes	12,528	812	11,716	–	–	–	–	–
U.S. municipal bonds	2,365	180	1,133	301	622	129	–	–
Mortgage-backed securities	29,073	22,142	3,717	–	–	–	–	3,214
Asset-backed securities	5,515	5,515	–	–	–	–	–	–
Corporate bonds	21,133	2,721	4,289	14,123	–	–	–	–
Common stock and convertibles	43,880	–	–	–	–	–	43,880	–
External investment pools	18,047	–	–	–	–	–	18,047	–
Nonparticipating guaranteed investment contracts	67,187	–	–	67,187	–	–	–	–
Certificates of deposit	158	–	–	–	–	–	158	–
Money market funds	58,895	10,203	–	42,599	–	–	6,093	–
Total	$ 267,833	$ 41,573	$ 20,855	$ 124,210	$ 622	$ 129	$ 68,178	$ 12,266

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and DUI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The balances in certificates of deposit of approximately $158,000 at June 30, 2020 is uninsured and uncollateralized. These deposits are exposed to custodial credit risk. At June 30, 2020, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolios are managed by brokerage firms.

Impaired Deposits with Governmental Bank

Deposits held with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit of the Commonwealth of Puerto Rico, amounted to approximately $7,125,000 as of June 30, 2020. GDB faces significant risks and uncertainties and it currently does not have (and is not expected to have) sufficient liquid financial resources to meet its obligations in full. On March 23, 2018, GDB ceased its operations and it is currently winding down in an orderly fashion under Title VI of PROMESA. At June 30, 2020, the entire balance of the deposits held with GDB was considered not realizable.

5. Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the US Bank money market account (approximately $42,599,000) and the Voya Retirement Insurance and Annuity Company Fixed Account (a nonparticipating guaranteed investment contract) (approximately $67,187,000), represented 5% or more of the total investment portfolio at June 30, 2020.

At June 30, 2020, the University had variable rate interest investments amounting to approximately $3,500,000.

The following table summarizes the type and maturity of investments held by the University at June 30, 2020 (expressed in thousands):

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	No Stated Maturity Date	Total Fair Value
U.S. Treasury bonds and notes	$ –	$ 3,479	$ 5,573	$ –	$ –	$ 9,052
U.S. sponsored agencies						
bonds and notes	6,592	4,790	1,146	–	–	12,528
U.S. municipal bonds	–	739	984	642	–	2,365
Mortgage-backed securities	8	6,894	10,459	11,712	–	29,073
Asset-backed securities	–	5,515	–	–	–	5,515
Corporate bonds	138	11,642	9,353	–	–	21,133
Certificates of deposit	158	–	–	–	–	158
Nonparticipating guaranteed investment contracts	–	67,187	–	–	–	67,187
External investment pools	12	1,040	16	–	16,979	18,047
Money market funds	58,895	–	–	–	–	58,895
Common stock and convertibles	–	–	–	–	43,880	43,880
Total	$ 65,803	$ 101,286	$ 27,531	$ 12,354	$ 60,859	$ 267,833

Fair Value Hierarchy

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the University does not value any of its investments using level 3 inputs). Investments in nonparticipating guaranteed investment contracts, certificates of deposit and money market funds and others amounting to approximately $126,240,000 as of June 30, 2020 are not classified in the fair value hierarchy below because they are carried at cost.

5. Investments (continued)

Fair Value Hierarchy (continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the University as of June 30, 2020 (expressed in thousands):

		Fair Value Measurements Using	
Investments by Fair Value Level	Total	Quoted Prices in in Active Markets Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
U.S. Treasury notes and bonds	$ 9,052	$ 9,052	$ –
U.S. sponsored agencies bonds and notes	12,528	–	12,528
U.S. municipal bonds	2,365	–	2,365
Mortgage-backed securities	29,073	–	29,073
Asset-backed securities	5,515	–	5,515
Corporate bonds	21,133	–	21,133
Common stock and convertibles	43,880	43,880	–
External investment pools	18,047	18,047	–
Total Investments by Fair Value Level	$ 141,593	$ 70,979	$ 70,614

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets.

Investment income securities, including U.S. sponsored agencies bonds and notes, U.S. municipal bonds, foreign government bonds, mortgage-backed securities, asset-backed securities and corporate bonds, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

6. Accounts Receivable

The University's accounts receivable, net of allowance for doubtful accounts as of June 30, 2020 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
Due from medical plans	$ 126,579	$ (120,020)	$ 6,559
Student tuition and fees	14,027	(10,111)	3,916
Other	18,236	(14,583)	3,653
Total accounts receivable	158,842	(144,714)	14,128
Due from Federal Government	39,417	–	39,417
Due from related parties (see Note 7)	127,100	(113,830)	13,270
Total	$ 325,359	$ (258,544)	$ 66,815

Component Units

The Component Units' accounts receivable, net of allowance for doubtful accounts as of June 30, 2020 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
The Hospital:			
Patient accounts	$ 27,630	$ (24,483)	$ 3,147
Others	416	–	416
Total the Hospital	28,046	(24,483)	3,563
UPRPS - others	79	–	79
MCC - others	342	(11)	331
Total	28,467	(24,494)	3,973
Due from Federal Government - The Hospital	629	–	629
Due from the University of Puerto Rico - The Hospital	10,835	–	10,835
Total	$ 39,931	$ (24,494)	$ 15,437

The University's Due from Federal Government accounts are mainly related to grants and contracts from Federal Government for research activity in the Sciences, Health Sciences, Engineering, Technology and the Arts. The Hospital's Due from Federal Government accounts are mainly related to inpatient acute care and outpatient services rendered to Medicare program beneficiaries and inpatient capital cost related to Medicare program beneficiaries.

7. Related-Party Transactions

The University's related-party accounts receivable, net of allowance for doubtful accounts as of June 30, 2020 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
Due from Commonwealth's:			
Agencies	$ 30,325	$ (27,740)	$ 2,585
Component Units	69,109	(60,545)	8,564
Municipalities	3,781	(3,126)	655
Due from Servicios Médicos Universitarios, Inc.	23,861	(22,419)	1,442
Due from the University Retirement System	24	–	24
Total	$ 127,100	$ (113,830)	$ 13,270

Due from and Appropriations from Commonwealth of Puerto Rico

Due from Commonwealth's agencies mainly includes the accounts receivable from the Department of Health which amounted to approximately $17,973,000 at June 30, 2020 for unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the Commonwealth's health reform program patients and other services; and from the Department of Education which amounted to approximately $2,784,000 at June 30, 2020 for contracts for professional development of public-school teachers, autism programs and others.

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations amounted to approximately $501,101,000 for the year ended June 30, 2020. In accordance with the Commonwealth Budget for the fiscal year 2020 certified by the Oversight Board of PROMESA, the Commonwealth formula appropriations were reduced by approximately $86.0 million, from $587,136,000 for the year ended June 30, 2019.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to approximately $39,962,000 for the year ended June 30, 2020.

All Commonwealth formula and other appropriations for the fiscal year 2020 were collected in the corresponding fiscal year.

7. Related-Party Transactions (continued)

Due from Commonwealth's Component Units

Due from Commonwealth's component units includes accounts receivable from the Puerto Rico Medical Service Administration ("PRMSA") which amounted to approximately $55,177,000 as of June 30, 2020. These accounts receivable mainly come from contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA.

In addition, due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company ("PRTC") which amounted to approximately $3,019,000 at June 30, 2020. This account receivable includes unremitted distributions of income to be received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. Due from PRTC at June 30, 2020 has not been collected. PRTC appropriations (nonoperating revenues) for the year ended June 30, 2020, amounted to approximately $48,860,000, and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses and changes in net position.

Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR") which amounted to approximately $2,434,000 at June 30, 2020. These accounts receivable mainly come from unpaid charges of salaries, fringe benefits and other expenses incurred in fiscal years 2019 and 2020 by certain professors of the Medical Science Campus of the University for Cancer research and investigations provided to the CCCUPR. The University collected these accounts receivable in October 2020.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital") mainly comes from contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital.

Due from the University of Puerto Rico Retirement System

The University has a due from the University of Puerto Rico Retirement System (the "Retirement System") of approximately $24,000 as of June 30, 2020 which resulted from unpaid advances given by the University to the Retirement System which are unsecured, non-interest bearing and payable upon demand. The amount due by the Retirement System as of June 30, 2020 has not been collected.

7. Related-Party Transactions (continued)

Other Related-Party Transactions

The University's accounts payable and accrued liabilities include the following related-party transactions as of June 30, 2020 (expressed in thousands):

	Amount
Due to:	
Commonwealth and its component units:	
Puerto Rico Medical Service Administration ("PRMSA")	$ 16,166
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS")	9,562
Puerto Rico Electric Power Authority ("PREPA")	8,691
Puerto Rico Aqueduct and Sewer Authority ("PRASA")	880
Others	3,484
Servicios Médicos Universitarios, Inc.	10,836
University's Retirement System	3,852
Total	$ 53,471

Accounts payable to PRMSA, a component unit of the Commonwealth, mainly come from contracted medical services provided by the PRMSA to the University. Accounts payable to PREPA and PRASA, components units of the Commonwealth, come from utilities services (electricity and water, respectively) provided to the University.

Accounts payable to the ERS, a fiduciary component unit of the Commonwealth, as of June 30, 2020 come from the unpaid PayGo charges for the fiscal years 2019 and 2020 billed by the ERS to the University corresponding to certain retirees of a unit of the University, who are members of the ERS. Refer to note 14.

Due to Servicios Médicos Universitarios, Inc. (the "Hospital") mainly comes from rental income owed by the University to the Hospital and contracted medical services provided by the Hospital to the University.

Due to the University's Retirement System at June 30, 2020 mainly resulted for unpaid medical insurance contributions to retirees (other post-employment benefits) of approximately $2.9 million.

For additional related-party transactions, refer to Notes 5, 8, 10, 11, 12, 13, 14 and 15.

8. Interfund Balances and Transactions

Desarrollos Universitarios, Inc. ("DUI")

The University and DUI have the following interfund balances and transactions:

Capital Lease Agreement

In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc., a nonprofit corporation and a blended component unit of the University. The agreement is for the use of Plaza Universitaria (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University.

On May 11, 2000, the University's Board of Trustees ratified a Memorandum of Agreement (the Agreement) to establish a contractual agreement between the University and DUI. The Agreement, dated May 22, 1998, states among other things the following: (1) the University will lease to, or otherwise grant to, DUI the right for the long-term use of the land, for the sole purpose of developing, constructing and operating Plaza Universitaria, (2) DUI shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line credit and/or any other structure or credit facility, (3) DUI will own the Plaza Universitaria improvements and will lease them exclusively to the University, during the life of the AFICA Bonds, (4) the University shall have the right to prepay or refinance the Bonds at any time, consistent with the restrictions on refinancing contained in the financing documents, (5) upon the payment or prepayment in full of all the AFICA Bonds, the lease on the land shall terminate and the University shall become, *ipso facto,* owner of all the Plaza Universitaria improvements, without the need or obligation to make any additional payment of any kind (other than any "bargain purchase" payment as may be required under the project documents), and (6) rental payments (lease payments) from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as may be established in the financing documents and will be pledged to guarantee such payments. The variable component of the lease payments will be used to cover operating, maintenance, administrative, management, and other fees and costs, which will be established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

The University makes basic lease payments, payable monthly, in amounts sufficient to pay principal of and interest on the DUI's AFICA Bonds payable and are pledged to guarantee such payments. In addition, the University pays as supplemental lease payments, such amounts as may be required under the management contract then in effect for the cost of maintaining and repairing the Project. Under the term of the lease agreement, the University makes the lease payment directly to the AFICA Bonds trustee. At the expiration date of the agreement, the University may purchase the Project for $1.

Also, DUI maintain a Debt Service Reserve Fund with the trustee at its required level to make payments of the AFICA Bonds whenever and to the extent that moneys to the credit of the Bond Fund are insufficient for such purpose. The initial required amount deposited in the Debt Service Reserve Fund was approximately $5,702,000.

8. Interfund Balances and Transactions (continued)

Desarrollos Universitarios, Inc. ("DUI") (continued)

Capital Lease Agreement (continued)

The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2020 on this capital lease was approximately $47,294,000. The effective interest rate was 6.54 % at June 30, 2020.

The activity of the principal balance of the capital lease obligation for the year ended June 30, 2020 is as follows (expressed in thousands):

	Amount
Beginning Balance	$ 49,810
Additions	–
Reductions	(2,516)
Ending Balance	47,294
Less current portion	2,681
Total noncurrent portion	$ 44,613

During the year ended June 30, 2020, the University paid approximately $5,701,000 under the capital lease agreement. The trustee also established that the required amount deposited in the Debt Service Reserve Fund of $5.7 million (which amount is similar to the loan repayments and basic lease payments for fiscal year 2033) would be credited to both DUI and the University as loan repayments and basic lease payments, respectively, commencing in July 2032.

At June 30, 2020, the future minimum lease payments under the capital lease are as follows (expressed in thousands):

Year Ending June 30,	Amount
2021	$ 5,697
2022	5,701
2023	5,697
2024	5,701
2025	5,701
2026-2030	28,498
2031-2033 (1)	11,401
Total future minimum lease payments	68,396
Less amounts representing interest costs	(21,102)
Present value of minimum lease payments	$ 47,294

(1) Minimum lease payments were reduced by $5.7 million in fiscal year 2033 of the required amount of the Debt Service Reserve Fund.

8. Interfund Balances and Transactions (continued)

Desarrollos Universitarios, Inc. ("DUI") (continued)

Qualified Operations and Management Agreement

On December 21, 2000, DUI executed the Qualified Operations and Management Agreement (the "Management Agreement") with the University for the operation, maintenance and management of Plaza Universitaria facilities. The Management Agreement has a term of 15 years, originally commencing on the earliest of January 1, 2003 or six months prior to the Opening Date, as defined, and may be extended for three additional five-year terms at the University's option. On April 7, 2008, DUI and the University formally agreed to amend certain clauses contained in the Management Agreement, including the commencement date, which was set as October 1, 2006.

Under the terms of the Management Agreement, DUI received a monthly fixed management fee, which was subject to automatic annual increases reflecting increases in the Consumer Price Index. The fixed management fee was $75,000 per month for the year ended June 30, 2020. DUI also received a reimbursable expenditures fee to cover expenditures incurred in operating and maintaining Plaza Universitaria facilities, at actual cost, and was not to be used to pay expenses that should otherwise be covered by the fixed management fee. The amount to be paid was determined by an annual operating budget prepared by DUI and approved by the University. The University must also fund non-routine capital expenditures, as defined.

DUI's responsibilities under the Management Agreement also included the rental and related income derived from the student dormitory and commercial facilities, as well as the parking operation. Accordingly, DUI only acted as an agent for the University in the collection and oversight of student dormitories rental, commercial facilities rental and related income, as well as the parking operation. DUI maintained separate cash accounts for such concepts, and periodically transferred funds from these accounts to the University. Rental and other miscellaneous income derived from the student dormitories, commercial facilities and parking operations amounted to approximately $2,087,000 for the year ended June 30, 2020. In addition, and as further described below, during fiscal year 2020, DUI applied $1,226,000 in amounts collected from student dormitories and commercial facilities and parking operations towards amounts due from the University under the Management Agreement.

On December 19, 2018, DUI notified the Trustee of its AFICA Bonds that the University is taking the position that its Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence. According to DUI, the University has not made a payment to DUI pursuant to the Operations and Management Agreement since July 2018, which now constitutes an event of default under the lease agreement, the loan agreement, and the trust agreement. On January 3, 2019, the Trustee of the DUI's AFICA Bonds notified the University that its failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, the loan agreement, and the trust agreement. On January 11, 2019, the University and FAFAA notified the Trustee of the DUI's AFICA Bonds that they dispute several of the statements set forth in the DUI letter, including the obligation of the University to satisfy certain of the payments DUI alleges are outstanding under the Operations and Management Agreement.

8. Interfund Balances and Transactions (continued)

Desarrollos Universitarios, Inc. ("DUI") (continued)

Qualified Operations and Management Agreement (continued)

The University has stated its position that DUI's compensation for carrying out its obligations under the Operations and Management Agreement will be limited to amounts collected by DUI for the rental of dormitories and commercial facilities and for parking operations. The University and DUI have not reached an agreement regarding this matter.

Effective October 2018, DUI commenced using dormitories and commercial facilities and parking rent collections, otherwise payable to the University, as offsets and reductions to the fixed and reimbursable expenditures fees due from the University. On April 30, 2019, DUI filed a civil action requesting declaratory judgements regarding: (a) the expiration date of the Operations and Management Agreement and the fact that it remains in force; (b) the fact that the University has defaulted under the terms of said agreement and concurrently other ancillary agreements; (c) the amounts owed by the University under said agreement; and (d) the obligation of the University to fully fund the Working Capital account. Amounts claimed by DUI to the University for reimbursable expenditures fees, as defined in the Operations and Management Agreement, amounted to approximately $2,596,000 as of June 30, 2020.

The closing of in-person classes by the University because of the onset of the COVID-19 pandemic has compounded the existing DUI's cash flow problems. This situation has forced the suspension of substantially all the DUI's operations starting in March 2020. Because of this situation, DUI's cash reserves have been almost fully exhausted. This included cessation of security, janitorial and dorm operations oversight activities, among other.

In a letter dated May 22, 2020, DUI notified the Trustee of its AFICA Bonds that the University has repeatedly failed to pay contractual sums due to DUI since July 1, 2018 under the Operations and Management Agreement. In a subsequent communication to the Trustee of the DUI's AFICA Bonds, DUI stated that it will close the Plaza Universitaria facilities and that it will no longer operate, manage, and maintain the Plaza Universitaria facilities.

In a letter dated June 22, 2020, the Trustee of the DUI's AFICA Bonds notified the University that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under paragraph 7.1(b) of the lease agreement, and that a default under the lease agreement could lead to an event of default under section 7.01(g) of the loan agreement, which causes an event of default under section 801(d) of the trust agreement.

On June 22, 2020, DUI filed a request for summary judgement restating its claims in the original complaint and updating amounts due by the University thought July 31, 2020. The University contested the motion. A hearing was held in August 2020, where both parties presented their arguments. On September 17, 2020, the Court issued an order that all arguments were under the advisement pending the Court's final determination and adjudication.

8. Interfund Balances and Transactions (continued)

Desarrollos Universitarios, Inc. ("DUI") (continued)

Qualified Operations and Management Agreement (continued)

On October 28, 2020, the University formally notified to DUI the termination of the Operations and Management Agreement effective October 31, 2020, pursuant to Section 3.01 (iii) thereof. After October 2020, all operating activities as contemplated in the Operations and Management Agreement were assumed by the University.

On December 1, 2020, the Court issued a resolution denying the University's motion for dismissal of the complaint. On December 16, 2020, the University filed an appeal to the Resolution. DUI has also moved the Court for the entry of injunctive relief as it understands that the University has unduly interfered with DUI's management of Plaza Universitaria, despite of DUI's reiterated admission of insolvency. The University opposed DUI's request for injunctive relief on December 31, 2020. On February 18, 2021, the Court denied the DUI's request for injunction and ordered the continuation of DUI's claim via the Court's ordinary course.

On January 22, 2021, the University entered into a Memorandum of Understanding ("MOU") with the University of Puerto Rico Parking System, Inc. ("UPRPS"), a discretely presented component unit of the University, in which the University appointed UPRPS, as the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. The University will pay $15,000 monthly as a fee for acquiring, screening and renting the premises and managing the property, up to $90,000, and the University will reimburse all expenses, including but not limited to repair, security, maintenance, utilities and any other expenses, up to $300,000, for the term of the MOU. The MOU expires on June 30, 2021.

DUI's due from the University of Puerto Rico amounted to approximately $3,943,000 as of June 30, 2020 and mainly includes reimbursable expenditure fees receivable and tenant improvement receivable under the operations and management agreement. In addition, during the year ended June 30, 2020, the University incurred the following expenditures under the operations and management agreement (expressed in thousands):

	Amount
Fixed management fee	$ 900
Reimbursable expenditures fee	2,500
Total	$ 3,400

8. Interfund Balances and Transactions (continued)

Molecular Sciences Center, Inc. ("MSRC")

The University and MSRC have the following interfund balances and transactions:

Memorandum of Understanding Agreement

MSRC operates and administers the University's Molecular Science Building ("MSB"). MSB is an advanced research facility of the University with laboratories conducting basic and translational biomedical research in the areas of protein structure and dynamics, molecular biology, genomics, proteomics, bio-imaging, pharmacogenetics, and neurosciences.

In August 2019, the University and MSRC entered into a memorandum of understanding agreement (MOU). This MOU includes areas of collaborations between the MSRC and the University. The MOU shall be in effect for a period of six years and may be renew for an additional five-year period. The University agreed to advance $10.0 million to MSRC for the period of six years in consecutive assignments of $2.0 million each year for the first three year, $1.5 million each year for the next two years, and $1.0 million for the last year. At the end of the six year, the MSRC agreed to repay only the 75% of the University $10.0 million investment for up to fifteen years. As a result of this agreement, a portion of 25% of the advance received each year by MSRC will be allocated to a revenue from the University and the remaining 75% will be recorded as an amount due to the University.

In 2020, the MSRC received $2.0 million from the University of which it recorded a noncurrent liability, due to the University, of $1,500,000 (75% of the 2020 advance) and a nonoperating revenue, contribution from the University, of $500,000 (25% of the 2020 advance); meanwhile, the University recorded noncurrent asset, due from MSRC, of $1,500,000 and a nonoperating expense, contribution to MSRC, of $500,000.

In addition, MSRC recorded a due to the University of Puerto Rico of approximately $64,000 at June 30, 2020 for the reimbursements of certain operating expenses paid by the University on behalf of MSRC such as: salaries and related payroll expenses, medical plan expenses and security expense.

Interfund receivable and payable balances and transactions have been eliminated from the basic financial statements.

9. Capital Assets

Changes in the University's capital assets for the year ended June 30, 2020 are as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	34,861	5,452	(22,107)	–	18,206
	84,477	5,452	(22,107)	–	67,822
Other capital assets:					
Land improvements	43,858	–	–	–	43,858
Buildings, fixed equipment, improvements and infrastructure	1,096,926	61	22,107	–	1,119,094
Equipment, software and library materials	329,084	11,263	–	(5,412)	334,935
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,569,357	11,324	22,107	(5,412)	1,597,376
Less accumulated depreciation and amortization for:					
Land improvements	(28,624)	(1,350)	–	(17)	(29,991)
Buildings, fixed equipment, improvements and infrastructure	(498,702)	(25,834)	–	(286)	(524,822)
Equipment, software and library materials	(279,980)	(10,727)	–	4,024	(286,683)
Building and equipment under capital lease	(36,160)	(2,705)	–	(15)	(38,880)
	(843,466)	(40,616)	–	3,706	(880,376)
Other capital assets, net of accumulated depreciation	725,891	(29,292)	22,107	(1,706)	717,000
Capital assets, net	$ 810,368	$ (23,840)	$ –	$ (1,706)	$ 784,822

As of June 30, 2020, the carrying value of the University's assets recorded under capital leases amounted to approximately $60,609,000. Amortization expense on these assets amounted to approximately $2,705,000 in 2020.

In fiscal year 2020, no interest was capitalized because all additions to construction in progress were financed with operating funds.

9. Capital Assets (continued)

Component Units

Changes in the Component Units' capital assets for the year ended June 30, 2020 are as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,629	$ 2,945	$ (502)	$ –	$ 4,072
	1,629	2,945	(502)	–	4,072
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	8,890	281	38	(2,477)	6,732
Equipment, software and library materials	28,778	1,007	464	(11,839)	18,410
	37,668	1,288	502	(14,316)	25,142
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(5,345)	(627)	–	2,478	(3,494)
Equipment, software and library materials	(21,961)	(1,757)	–	11,838	(11,880)
	(27,306)	(2,384)	–	14,316	(15,374)
Other capital assets, net of accumulated depreciation	10,362	(1,096)	502	–	9,768
Capital assets, net	$ 11,991	$ 1,849	$ –	$ –	$ 13,840

10. Noncurrent Liabilities

Changes in the University's noncurrent liabilities for the year ended June 30, 2020 are as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Bonds payable	$ 378,672	$ -	$ (24,270)	$ (1,566)	$ 352,836	$ 25,480	$ 327,356
Total University's long-term debt	378,672	–	(24,270)	(1,566)	352,836	25,480	327,356
DUI's long-term debt- bonds payable	59,022	–	(2,725)	9	56,306	2,880	53,426
Total long-term debt	$ 437,694	$ –	$ (26,995)	$ (1,557)	$ 409,142	$ 28,360	$ 380,782
The University's other long-term liabilities							
Deferred compensation payable (see Note 5)	$ 84,417	$ –	$ –	$ 736	$ 85,153	$ –	$ 85,153
Claims liability (1)	9,988	–	(934)	(458)	8,596	678	7,918
Compensated absences	131,990	–	(8,969)	15,004	138,025	29,032	108,993
Net pension liability	3,024,133	–	–	294,325	3,318,458	–	3,318,458
OPEB obligation	226,844	–	(10,998)	19,424	235,270	–	235,270
Total University's other long-term liabilities	3,477,372	–	(20,901)	329,031	3,785,502	29,710	3,755,792
DUI's other long-term liabilities- compensated absences	12	–	–	(10)	2	2	–
Total other long-term liabilities	$ 3,477,384	$ –	$ (20,901)	$ 329,021	$ 3,785,504	$ 29,712	$ 3,755,792

(1) Includes a claim liability with federal agencies of approximately $1,261,000 at June 30, 2020 and 2019. See Note 13.

Bonds payable, claim liability, net pension liability and total OPEB liability are further discussed in Notes 12, 13, 14, and 15, respectively.

11. Notes Payable

Notes Payable – Component Units

Servicios Médicos Universitarios, Inc. (the "Hospital") has notes payable amounting to approximately $13,047,000 as of June 30, 2020.

A summary of the Hospital's notes payable at June 30, 2020 follows (expressed in thousands):

	Amount
Term loan payable with GDB	$ 6,191
Non-interest bearing notes payable to:	
Puerto Rico Electric Power Authority	6,431
Supplier	168
Term loans payable with a commercial bank	257
	13,047
Less: current portion	2,430
Noncurrent portion	$ 10,617

The Hospital operates and administers the University's healthcare unit located in Carolina. This facility was acquired by the University and includes land, building and medical equipment. During 2009, the Hospital restructured its line of credit facility with GDB and accrued interest in the aggregated amount of approximately $23,361,000 into a term loan and extended the maturity date to June 30, 2025. As part of the term loan agreement, the Hospital made a down payment of $2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately $172,000 and bears interest per annum equal to prime rate plus 150 basis points (interest rate of 4.50 % at June 30, 2020), with a floor of 6% and a ceiling of 12%. The loan is guaranteed by the University.

The non-interest-bearing note payable to Puerto Rico Electric Power Authority ("PREPA"), a component unit of the Commonwealth, resulted from trade accounts payable for utilities (electricity) provided by PREPA that were restructured into an unsecured, long-term debts. The PREPA note is payable in 230 monthly installments of approximately $50,000 and matures on March 28, 2031.

In September 2016, the Hospital entered into a non-interest-bearing note with a supplier for a total amount of $720,000 for the acquisition of equipment. The note is payable in 60 monthly installments of approximately $12,000 and matures on November 30, 2021.

In May 2018, the Hospital entered into a term loan agreement with a commercial bank for a total amount of $425,000 for the acquisition of medical equipment. The term loan is payable in 60 monthly payments of approximately $8,207. The term loan is collateralized with the acquired medical equipment, mature on April 23, 2023, and bears interest per annum equal to 5.95%.

11. Notes Payable (continued)

Notes Payable – Component Units (continued)

The loan agreements contain a provision that in an event of default, outstanding amounts become immediately due if the Hospital is unable to make a payment. In addition, the loan agreement with GDB contain a provision that in an event of default, GDB will activate the University's guaranty. Events of default in the loan agreement with GDB can include, but are not necessarily limited to: payments defaults by SMU; SMU failure to observe certain covenants; SMU representations in loan documents prove to be incorrect; bankruptcy or insolvency of SMU; and provisions in the SMU's loan documents cease to be valid and binding or SMU repudiates obligations. The Hospital must comply with certain operating and financial covenants, among other requirements established in the loan agreements. At June 30, 2020, the Hospital was not in compliance with some such covenants of a commercial bank. The Hospital requested to the governmental bank to waive the existing defaults at June 30, 2020; however, at the time that the financial statements were available to be issued, the waiver on such events of default hast not been granted.

The activity of the principal balance of the long- term debt for the year ended June 30, 2020 is as follows (expressed in thousands):

Beginning Balance	$	15,615
Additions		–
Reductions		(2,568)
Ending Balance	$	13,047

The table below represents debt service payments on long-term debt as of June 30, 2020. Although interest rates on variable rate debt change over time, the calculations included in the table below assume that the variable rate on June 30, 2020 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
	(In thousands)		
2021	$ 2,430	$ 472	$ 2,902
2022	2,529	253	2,782
2023	2,617	126	2,743
2024	1,440	9	1,449
2025	600	–	600
2026-2030	3,000	–	3,000
2031	431	–	431
	$ 13,047	$ 860	$ 13,907

11. Notes Payable (continued)

Notes Payable – Component Units (continued)

MCC has a $250,000 unsecured line of credit facility with a commercial bank at prime rate plus 250-basis points. At June 30, 2020, there is no outstanding balance on this line of credit. In addition, MCC will be investing in the purchase of highly sophisticated equipment to improve the services and operations. This investment for the acquisition of equipment will be for a total of approximately $509,000 of which $305,000 will be financed with a line of credit facility with a commercial bank approved on December 23, 2019. The line of credit requires that MCC completes a 40% initial cash investment. At June 30, 2020, there is no outstanding balance on this line of credit.

12. Bonds Payable

University's Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities relating to its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of the University's bonds payable as of June 30, 2020 (dollars expressed in thousands):

Series	Amount	Annual Interest Rate (%)	Due Date June 30, 2019
P - Serial	$ 107,935	5.00%	2021-2026
P - Term	47,645	5.00%	2027-2030
Q - Serial	53,435	5.00%	2021-2026
Q - Term	132,415	5.00%	2027-2036
	341,430		
Plus unamortized premium	11,406		
Total	$ 352,836		

At June 30, 2020, the University's bonds payable require payments of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2021	$ 25,480	$ 17,071	$ 42,551
2022	26,760	15,798	42,558
2023	28,095	14,459	42,554
2024	29,505	13,055	42,560
2025	30,975	11,579	42,554
2026 to 2030	113,575	39,350	152,925
2031 to 2035	70,710	15,034	85,744
2036	16,330	817	17,147
	$ 341,430	$ 127,163	$ 468,593

12. Bonds Payable (continued)

University's Bonds (continued)

Interest on these bonds is payable each June 1 and December 1. Bonds maturing after June 1, 2016 may be redeemed, at the option of the University in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest, without premium.

Blended Component Unit's Bonds

On December 21, 2000, the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority ("AFICA"), a component unit of the Commonwealth, issued, on behalf of Desarrollos Universitarios, Inc., Educational Facilities Revenue Bonds, 2000 Series A, in the amount of $86,735,000. The bonds were mainly issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project) and to repay a portion of certain advances made by the Government Development Bank for Puerto Rico under a line of credit facility for the purpose of paying certain costs of the development and construction of the Project. The principal and interest on the bonds are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation, and by the assignment of the lease agreement with the University.

The blended component unit's AFICA bonds payable at June 30, 2020, consist of (dollars expressed in thousands):

Description	Interest Rate	Maturity	Amount
Serial Bonds	5.00%	July 1, 2020	$ 2,880
Serial Bonds	5.00%	July 1, 2021	3,020
Term Bonds	5.00%	July 1, 2023-2033	50,520
Total			56,420
Less unamortized discount			(114)
Total			$ 56,306

At June 30, 2020, the blended component unit's AFICA bonds payable require payment of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2021	$ 2,880	$ 2,749	$ 5,629
2022	3,020	2,602	5,622
2023	3,175	2,447	5,622
2024	3,330	2,284	5,614
2025	3,500	2,113	5,613
2026 to 2030	20,300	7,690	27,990
2031 to 2034	20,215	2,082	22,297
	$ 56,420	$ 21,967	$ 78,387

12. Bonds Payable (continued)

Blended Component Unit's Bonds (continued)

Interest on these bonds is payable each January 1 and July 1. Bonds maturing after July 1, 2011 may be redeemed, at the option of the University in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest, without premium.

In addition, term bonds are subject to mandatory redemption in part commencing on July 1, 2022 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest.

Redemption Period	Amount (In thousands)
July 1, 2022	$ 3,175
July 1, 2023	3,330
July 1, 2024	3,500
July 1, 2025	3,675
July 1, 2026	3,855
July 1, 2027	4,050
July 1, 2028	4,255
July 1, 2029	4,465
July 1, 2030	4,690
July 1, 2031	4,925
July 1, 2032	5,170
July 1, 2033	5,430
Total	$ 50,520

Pledged Revenues and Debt Covenants

The University's bonds are general obligations of the University and are collateralized by the pledge of, and a first lien on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued. In the event that the pledged revenues are insufficient to pay the principal of, and the interest on, the bonds, the University agrees to provide any additional required monies from other funds available to the University for such purposes, including funds appropriated by the Commonwealth of Puerto Rico.

In addition, the DUI's AFICA bonds are subordinated to the University's bonds and are collateralized by the pledge of, and a second lien on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

The University's revenues pledged were as follows for the year ended June 30, 2020 (dollars expressed in thousands):

Pledged revenues:		
Tuition and other fees	$	158,401
Student fees		7,863
Rental and other charges received for the right of use and occupancy of the facilities in the University system		1,313
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement		973
Funds paid to the University in respect to overhead allowance on federal research projects		12,147
Other income (1)		26,981
Total pledged revenues		207,678
Sinking fund reserve interest		708
Total pledged revenues plus interest	$	208,386
Aggregate debt service:		
Principal and interest requirement	$	42,555
Senior debt service coverage ratio		4.90
DUI's AFICA Bonds (Subordinate to the University's Bonds)	$	5,623
Aggregate debt service	$	48,178
Total debt service ratio		4.33

(1) Includes $25 million of PRTC appropriations under the Gambling Law (slot machines and others).

The Trust Agreements governing the bonds issued require a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2020, the University was in compliance with the total debt service coverage ratio requirement.

The University is required to maintain the funds for retirement of indebtedness consist of a sinking fund which includes three separate accounts designated as Bond Service Account, Redemption Account and Reserve Account. The Trustee shall, upon the receipt of the pledged revenues, make deposits to the credit of the following accounts in the amounts specified and in the following order:

- *Bond Service Account* - such amount thereof as may be required to make the amount then to its credit equal to the interest then due, or to become due, within the next ensuing six (6) months on the bonds of each series then outstanding, and the amount of principal of the serial bonds of each series then due, or to become due, within the next ensuing twelve (12) months.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- *Redemption Account* - such amount, if any, after making the deposit to the Bond Service Account, as may be required to make the amount then to its credit equal to the amortization requirements, if any, for the fiscal year in which such deposit is made for the term bonds of each series then outstanding plus redemption premiums, if any.

- *Reserve Account* - such amount, if any, after making the deposit to the above accounts as may be required to make the amount then to its credit equal to the maximum principal and interest (less any federal debt service grant payments) requirements for any year thereafter, on account of all bonds then outstanding.

Monies in the University's Bond Service Account shall be used only for the payment of principal on the serial bonds and interest on all bonds. Monies in the University's Reserve Account shall first be used for the payment of interest on the bonds and maturing principal of the bonds whenever monies in the University's Bond Service Account are insufficient and thereafter for the purpose of making the deposits to the credit of the University's Redemption Account on account of the amortization requirements for the term bonds for the then current or any previous fiscal year whenever and to the extent that the pledged revenues are insufficient for such purpose.

Monies in the University's Bond Service Account and the Redemption Account shall, as nearly as may be practicable, be continuously invested and reinvested in direct obligations of, or obligations, the principal of and interest on which are unconditionally guaranteed by the United States Government. Monies in the Reserve Account may be invested in a broader range of investments including interest bearing bank accounts, federal agency obligations, repurchase agreements, commercial paper and other highly rated obligations.

In addition, the Trust Agreement required the University to comply with other covenants. At June 30, 2020, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosures for fiscal years 2016 to 2019, and in the case of the Commonwealth, it has not filed the continuing disclosures and its audited financial statements for fiscal years 2017 to 2019.

The Trust Agreements governing the University's revenue bonds contain the following events of default:

- the University failure to pay principal, redemption premium, if any, when due or any installment of interest within 30 days;

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- the University failure for 30 days (or such longer period if said default cannot be cured within said thirty (30) day period and the University has exercised reasonable diligence in remedying said defaults) after written notice by the Trustee (which is required to give such notice at the written request of the holders of 10% of the aggregate principal amount of the bonds then outstanding) to perform any covenant, condition, agreement or provision contained in the bonds or the Trust Agreement, including meeting any Amortization Requirement;
- the University's being rendered incapable of fulfilling its obligations under the Trust Agreement, if so provided in the resolution authorizing the issuance of a particular series of bonds;
- the receipt of notice by the Trustee and the University that an event of default has occurred under the agreement providing for the issuance of a letter of creditor a similar credit or liquidity facility relating to any bonds or if the provider thereof has failed to make the facility available or to reinstate the interest component of the facility in accordance with its terms;
- the entry of a decree appointing a receiver with or without the consent or acquiescence of the University; and,
- the institution of proceedings with the consent or acquiescence of the University for the purpose of adjusting the claims of creditors pursuant to any Federal or state statute, in each case within or for the specified period of grace, if any.

In the event of any default, the Trustee may on its own initiative and shall, upon satisfactory indemnification and the request of the holders of not less than 20% in aggregate principal amount of the bonds then outstanding, declare the principal of all the bonds then outstanding to be due and payable. In the event of any default, the Trustee may on its own initiative and shall, upon satisfactory indemnification and the request of the holders of not less than 10% in aggregate principal amount of the bonds then outstanding, proceed either at law or in equity to protect and enforce any and all rights of the Trustee and the bondholders under the laws of the Commonwealth of Puerto Rico or the Trust Agreement and may enforce and compel the performance of all duties required under the laws of the Commonwealth of Puerto Rico or the Trust Agreement to be performed by the University.

In compliance with Executive Order 31 signed by the Governor of Puerto Rico on June 30, 2016, the University suspended the monthly payments to the trustee of the Trust Agreement that governs the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The lawsuit sought relief from the stay imposed by PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement (the "Letter Agreement") providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through the Compliance Period, as defined, the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. Pursuant to the Letter Agreement, during the Compliance Period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. As part of the Letter Agreement, the University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017 and continues to make monthly payments to the Trustee in amounts totaling between $2-$4 million on account of pledged revenues, as set forth in a schedule to the Letter Agreement, as extended.

The Letter Agreement has been extended fourteen times and the new Compliance Period is August 31, 2021. Pursuant to the Letter Agreement and the fourteen standstill extension agreements, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. In addition, the Trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer the following monthly payments of Pledged Revenues to the Trustee to be applied in accordance with the Trust Agreement during the new Compliance Period:

- in consideration for extending the Compliance Period until May 31, 2018, the University transferred to the Trustee $4 million monthly from July 2017 to May 2018;
- in consideration for extending the Compliance Period until December 31, 2018, the University transferred to the Trustee the following monthly payments: $4.0 million on or before July 15, 2018; $2.0 million on or before August 5, 2018; $3.0 million on or before August 25, 2018; $2.3 million on or before September 25, 2018; $2.3 million on or before October 25, 2018; $3.0 million on or before November 25, 2018; and $3.0 million on or before December 25, 2018;
- in consideration for extending the Compliance Period until June 30, 2019, the University transferred to the Trustee the following monthly payments: $2.9 million on or before each of January 25, 2019; February 25, 2019; March 25, 2019; April 25, 2019; and May 25, 2019; and $1.069 million on or before June 25, 2019;
- in consideration for extending the Compliance Period until November 30, 2019, the University transferred to the Trustee $3.65 million on or before each of July 25, 2019; August 25, 2019; September 25, 2019; and October 25, 2019; and a payment of $3.604 million on or before November 25, 2019;

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- in consideration for extending the Compliance Period until May 29, 2020, the University transferred to the Trustee \$3.65 million on or before each of December 31, 2019; January 31, 2020; and February 28, 2020; and made a payment of \$9.852 million in May 2020 (to cover March 2020 and April 2020 payments of \$3.65 million each and the May 2020 payment of \$2.552 million);
- in consideration for extending the Compliance Period until August 31, 2020 (the twelfth standstill extension agreement), the University agreed to transfer \$10.938 million on or before August 21, 2020, subject to the execution by the parties of a forbearance agreement extending beyond September 1, 2020; this August 2020 payment was not realized;
- as a condition precedent to the effectiveness of the thirteenth standstill extension agreement which extend the Compliance Period until February 28, 2021, the University transferred \$14.484 million of past due payments on October 2, 2020 to the Trustee to hold or to make payments or distributions as required under the Trust Agreement; also, in consideration for extending the Compliance Period until February 28, 2021, the University transferred \$10.8 million on or before January 1, 2021 and \$7.2 million on or before February 26, 2021; and,
- in consideration for extending the Compliance Period until August 31, 2021, the University transferred to the Trustee \$3.535 million on or before March 25, 2021 and agreed to transfer to the Trustee the following additional monthly payments: \$3.535 million on or before April 23, 2021; \$3.535 million on or before May 25, 2021; \$3.535 million on or before June 25, 2021; \$3.535 million on or before July 23, 2021; and \$3.535 million on or before August 25, 2021, less a credit for any amount as of August 18, 2021 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of \$49,664,125.

In addition, the University and FAFAA shall provide the Trustee with detailed plans and specifications for repairing, replacing or reconstructing the University's property that was damaged or destroyed by Hurricane Maria as these plans are approved by the University. The University shall deposit all proceeds of casualty insurance policies or direct federal aid (the "Repair Funds") in segregated accounts of the University at a commercial bank. The University shall deposit proceeds of casualty insurance in a separate account and shall deposit proceeds of direct federal aid in one or more separate accounts to facilitate the audit of the expenditure of such funds. All Repair Funds in excess of \$1 million shall be used pursuant to a written requisition. On or before the fifteenth (15th) calendar day of each month, the University will submit the preceding month's Requisitions to the Trustee, as set forth below. Pursuant to extended Letter Agreement, the majority bondholders expand their direction to instruct the Trustee not to call a default during the pendency of the new Compliance Period if by the fifteenth (15th) calendar day of each month the University sends to the Trustee copies of the preceding month's Requisitions. On the fifteenth (15th) calendar day of each month the University or FAFAA will provide, or cause relevant agencies to provide, the trustee with all project requests, progress or other reports provided to the Federal Emergency Management Agency (FEMA) or to any casualty insurance company with respect to the expenditure of Repair Funds during the preceding month.

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given to the Letter Agreement and the various Standstill Extension Agreements prior to August 31, 2021.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has complied with and has made all transfers due under the Letter Agreement, as extended. In addition, the Trustee on behalf of the University has paid as agreed, the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

DUI, the blended component unit, is required to maintain a bond fund consisting of three accounts, where all the capital lease agreement (which are paid by the University directly to the trustee of the DUI's AFICA bond) and required payments are to be deposited in the following order:

- *Interest Account* – Each month, 1/6 of the amount due and payable on the next interest payment date.
- *Principal Account* - Each month, 1/12 of the principal amount payable for all serial bonds maturing on the next July 1.
- *Sinking Fund Account* – Beginning on July 25, 2021 and each month thereafter, 1/12 of the sinking fund requirement for each bond year for the term bonds then outstanding; and any remaining amounts after attaining the required balances in the Interest and Principal Accounts.

In addition, the blended component unit is required to maintain a *Debt Service Reserve* fund with a required balance of approximately $5,702,000 which was created from the bond proceeds. Funds are to be used to cure deficiencies in any of the bond fund accounts but must be replenished. In the event funds decline in value below 90% of the required balance, the fund must be replenished in monthly installments of 1/12 of the deficiency.

Also, the blended component unit's term bonds are subject to mandatory redemption in part commencing on July 1, 2022 to the extent of the sinking fund requirement for said bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The blended component unit complied with the sinking fund requirements at June 30, 2020.

The Trust Agreements governing the DUI's AFICA bonds contain the following events of default:

- AFICA failure to pay principal, redemption premium, if any, when due or any installment of interest within 30 days;
- DUI failure for 30 days (or such longer period if said default cannot be cured within said thirty (30) day period and the University has exercised reasonable diligence in remedying said defaults) after written notice by the Trustee (which is required to give such notice at the written request of the holders of 10% of the aggregate principal amount of the bonds then outstanding) to perform any covenant, condition, agreement or provisions contained in the Trust Agreement or any agreement supplemental thereto; and,
- an event of default, as defined, shall have occurred under the Loan Agreement or the Lease Agreement and such default shall not have been remedied or waived.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

In the event of any default, the Trustee may on its own initiative and shall, upon satisfactory indemnification and the request of the holders of not less than 25% in aggregate principal amount of the bonds then outstanding, declare the principal of all the bonds then outstanding to be due and payable. Such declaration may be rescinded under circumstances specified in the Trust Agreement.

On August 5, 2016 and monthly thereafter until April 2017, the Bank of New York Mellon, in its capacity as Trustee of the DUI's AFICA Bonds, notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21 (known as the Puerto Rico Emergency Moratorium and Rehabilitation Act), or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, the University has paid as agreed, the monthly payments to the trustee of the DUI's AFICA Bonds and the trustee on behalf of DUI has paid as agreed, the scheduled principal and interest payments on its outstanding AFICA Bonds.

Refer to Note 8 for the following:

- the University's dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence;
- a notification to the University dated June 22, 2020 from the Trustee of the DUI's AFICA Bonds that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, and that a default under the lease agreement could lead to an event of default the loan agreement, which causes an event of default under the trust agreement; and,
- the assumption by the University of all operating activities as contemplated in the Operations and Management Agreement after October 2020.

13. Commitments and Contingent Liabilities

Claims Liability

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

13. Commitments and Contingent Liabilities (continued)

Claims Liability (continued)

The University was insured through January 1993 under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. The University has been a self-insured for such risks since that date. Under Law Number 98 of August 24, 1994, the responsibility of the University is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount, because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount for medical malpractice in the year ended June 30, 2020 were (expressed in thousands):

Claims payable - July 1	$	6,764
Incurred claims and changes in estimates		488
Payments for claims and adjustments expenses		(702)
Claims payable - June 30	$	6,550

In September 2013, the Federal Centers for Disease Control and Prevention ("CDC") issued a preliminary report, which indicated that bacteria affected several patients in the Hospital's Intensive Care Unit during a period of time. Also, as of June 30, 2020, there are known judicial and extra-judicial claims related with this matter against the University, the Hospital, the Commonwealth and other defendants. As permitted by Law Number 98 of August 24, 1994, maximum claims loss against the University and the Hospital is limited to $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is the opinion of the University's legal counsels and the University's management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigation, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

In addition, the University is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately $785,000 as of June 30, 2020 to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

13. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit in a timely fashion acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method.

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University are operating on limited Title IV eligibility and are placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for the amount of those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $250 million for the year ended June 30, 2020. The University was in compliance with various program requirements for the year ended June 30, 2020.

In January 2019, the U.S. Department of Justice notified a researcher (faculty member) employed by the University about a potential civil action for violations under Title 21 as a result of a Drug Enforcement Administration ("DEA") inspection in the research activities. The DEA inspection denoted that as an Authorized DEA Registrant and Researcher, the faculty member employed by the University failed in the responsibilities regarding controlled substances' accountability, recordkeeping, licensing and reporting requirements, maintaining complete and accurate receiving, production and distribution records and have also failed in maintaining and complying with effective security controls and procedures as required by certain statutes of Title 21. In October 2019, the U.S. Department of Justice notified the University, that as a grant recipient, it is the legal entity responsible for compliance with the terms and conditions of the grant award of the National Institutes of Health. The claim seeks civil penalties amounted to approximately $1,261,000. At June 30, 2020, management has recorded an accrual of approximately $1.3 million for this claim.

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles*, and *Audit Requirements for Federal Awards* ("Uniform Guidance") or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact, beyond any amount accrued at June 30, 2020, will not be material to the University's financial statements.

13. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

During the year ended June 30, 2020, Servicios Médicos Universitarios, Inc. (the "Hospital") received various conditional contribution grants from local government and from federal funded programs by the U.S. Treasury Department and the U.S. Department of Health and Human Services ("HHS"). The funds received from the federal funded programs will be subject to financial and compliance audits in accordance with the provisions of the Uniform Guidance or to compliance audits by the above-mentioned federal agencies and the pass-through entities, as applicable. The reports on the audits of these programs, will be conducted to pursuant such federal regulations, when the Hospital incur in eligible expenditures related to these federal grants in excess of $750,000 in the aggregate, and will be required to submitted by the Hospital to such federal agencies. During the year ended June 30, 2020, the Hospital did not incur in eligible expenses in excess of such amount.

Institutional Accreditation

Since 1946, the University obtained and maintains institutional accreditation by the Middle States Commission on Higher Education (the "MSCHE" or the "Commission"), the regional accreditation entity, as its leading credential to validate and strengthen the quality and integrity of its endeavors in the framework of internationally recognized standards.

On April 6, 2017, a student stoppage at the University interrupted the operations of all campuses for up to 93 days, but less in other cases. This student stoppage was prompted as a result of student opposition to the annual reductions in the Commonwealth's formula appropriations to the University as ordered by the Oversight Board of PROMESA. As a result of the student stoppage at the University, eight of the eleven units that comprise the University of Puerto system are on probation by the MSCHE.

On January 10, 2019, the MSCHE notified the University that each one of its eleven campuses was in show cause status because of non-compliance with Standard VI (Planning, Resources, and Institutional Improvement), Requirements of Affiliation 11 and 14, and the Related Entities Policy. The MSCHE noted that each one of the eleven campuses of the University remained accredited while on show cause.

On June 27, 2019, MSCHE reaffirmed the accreditation of the eleven campuses of the University. Each campus of the University is now in compliance with Standard VI (Planning, Resources, and Institutional Improvement) and Requirement of Affiliation 11.

13. Commitments and Contingent Liabilities (continued)

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease (“COVID-19”) as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. As a result of the health threat and to contain the virus spread across de island, the Governor of Puerto Rico issued an executive order on March 12, 2020, declaring a state of emergency in Puerto Rico, which is still in effect, to concentrate all efforts and implement necessary measures to safeguard the health, well-being, and public safety of the citizens of Puerto Rico. The executive order, as amended several times, ordered the lockdown of all non-essential businesses, and mandated that all employees, other than essential workers, remain at home. While many of the restrictions have been gradually lifted, a mandatory curfew is still in effect. Certain businesses activities have been permitted to reopen although limitations on some activities, such as large indoor gathering and indoor services at bars and restaurants, are still in effect. Moreover, most businesses that can operate have had to make significant adjustments to protect customers and employees, including transitioning to telework and suspending or modifying certain operations in compliance with health and safety guidelines.

The University, like many other institutions in Puerto Rico and across the globe, is facing a significant shock to its systems and operations related to the spread of the COVID-19 virus. Public and private schools and universities, including the University, have temporarily limited access to their facilities in accordance with the executive orders.

The COVID-19 pandemic changed the manner the University offers its services. The University shifted nearly 100% of its courses to web-based technology assisted teaching since Spring 2020 semester to present and halted much of its research activity to safeguard its community of students, faculty, and staff. While first and foremost a humanitarian crisis, the fiscal impacts of COVID-19 pandemic on the University have also been substantial.

Additionally, the Federal Government has also approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) that seek to cushion the economic fallout of the pandemic. In fiscal year 2020, the University received and disbursed $36.1 million of CARES Act federal funds to cover costs associated with refunding student housing, dining and other related expenditures in the Spring 2020 semester.

13. Commitments and Contingent Liabilities (continued)

COVID-19 Pandemic (continued)

In January 2021, the U.S. Department of Education announced new economic stimulus available to higher education institutions to ensure learning continues for students during the COVID-19 pandemic. This funding is allocated to the Higher Education Emergency Relief Fund II by the Coronavirus Response and Relief Supplemental Appropriations Act, which was signed into law by the U.S President of the Unites States of America on December 27, 2020. The University can use their awards for financial aid grants to students, student support activities, and to cover a variety of institutional costs, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll. The total assigned to the University amounted to approximately $128.5 million, of which approximately $40.5 million of these funds are assigned to awards for financial aid to be granted to students.

The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. Even after the pandemic subsides, the global economy may continue to experience a recession, and the University anticipates that its operations would be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects the University's financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks.

The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

As mentioned before, the University has adopted proactive measures, such as the implementation of web-based technology assisted teaching and learning tools for its current and future students, to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. However, much of the self-generated revenue the University relies on to cover operating expenditures will no longer be available during the pandemic period. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utility. Under an extended lockdown scenario, a viral resurgence would result in extension of social distancing measures through Fall Semester 2021. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

The COVID-19 pandemic and economic disruption resulting from measures to contain it have resulted in reductions in the University's fiscal year 2020 and projected revenues. However, the ultimate impact of the COVID-19 pandemic on the amount and timing of collections of the University revenues cannot be determined at this time. No assurance can be provided that the COVID-19 pandemic and resulting economic disruption will not result in revenues to the University that are lower than projected.

13. Commitments and Contingent Liabilities (continued)

COVID-19 Pandemic (continued)

For the year ended June 30, 2020, the University's operating revenues, decreased from $312.4 million in 2019, excluding $33.8 million from proceeds from the insurance company related to damages caused by hurricanes, to $274.1 million in 2020, a decrease of $38.3 million or 12% when compared with the prior year balance, as adjusted. The University's student body decreased by 4,155 students in 2020, from 54,940 students for fiscal year 2019 to 50,785 students for fiscal year 2020. PRTC appropriations (nonoperating revenues) related to distributions of income to be received from slot machines and others decreased by $17.7 million or 27%, from $66.5 million in 2019 to $48.9 million in 2020 because the casinos were closed during the last three months of fiscal year 2020 as result of the COVID-19 pandemic. Supplies and other services expenses, including utilities, decreased by $21.3 million or 11%, from $185.2 million in 2019 to $163.9 million in 2020 because of the lower operational activity at the University in the last quarter of fiscal year 2020 as a result of the effects of COVID-19 pandemic.

The COVID-19 pandemic has significantly disrupted the global economy and the markets in which the University operates, which has adversely impacted, and is likely to continue to adversely impact, the University's business, financial condition, and results of operation. Its continued impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, students, customers, clients, counterparties, and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

Construction Commitments

Construction commitments entered by the University and the Hospital at June 30, 2020 amounted to approximately $28.9 million and $2.1 million, respectively.

Operating Lease Agreements

The University rents a building of an outside clinic of the medical practice plan of the Medical Sciences Campus under a non-cancelable long-term operating lease agreement which expires in December 2023. The lease has no renewal options. Rent charged to operations, including common area maintenance, taxes and other charges, amounted to approximately $1,256,000 in fiscal year 2020.

At June 30, 2020, the minimum annual future rental are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2021	$ 1,357
2022	1,357
2023	1,357
2024	677
	$ 4,748

13. Commitments and Contingent Liabilities (continued)

Operating Lease Agreements (continued)

Servicios Médicos Universitarios, Inc. (the "Hospital") leases to physicians and other third parties, office facilities located in the Hospital's premises under rent agreements, some of which are renewed annually. Rent income for the year ended June 30, 2020 amounted to approximately $392,000. At June 30, 2020, total future minimum rental income on operating leases, is approximately $254,000 due in fiscal year ending June 30, 2021.

Guaranty Commitment

The University guarantees the Hospital's long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to approximately $6,191,000 at June 30, 2020 which matures on June 30, 2025. See Note 11.

Blended Component Unit

Desarrollos Universitarios, Inc. ("DUI") operated the Plaza Universitaria facilities for use by students and other persons and entities related to or conducting business with the University community, or other activities conducted in such facility.

Refer to Note 8 for the following:

- the University's dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence;
- a notification to the University dated June 22, 2020 from the Trustee of the DUI's AFICA Bonds that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, and that a default under the lease agreement could lead to an event of default the loan agreement, which causes an event of default under the trust agreement;
- the assumption by the University of all operating activities as contemplated in the Operations and Management Agreement after October 2020; and,
- the appointment of UPRPS as the administrative agent of the Plaza Universitaria facilities until June 30, 2021.

13. Commitments and Contingent Liabilities (continued)

Discretely Presented Component Unit

Since inception, Servicios Médicos Universitarios, Inc. (The Hospital), based on the opinion of its legal counsel, is considered an instrumentality of the Commonwealth. Under Law Number 98 of August 24, 1994, the responsibility of the Hospital for claim losses is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of these facts and circumstances, the Hospital's management has recorded a provision for claims losses of $150,000 for the fiscal year ended June 30, 2020 and has recorded an accrual of approximately $1,767,000 as of June 30, 2020, to cover claims and lawsuits that may be assessed against the Hospital.

Medical malpractice claims have been asserted against the Hospital and are currently at various stages of litigation. It is the opinion of the Hospital's legal counsel and the Hospital's management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigation, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

14. University of Puerto Rico Retirement System

Plan Description and Membership

The University of Puerto Rico Retirement System (the "Retirement System") is a single-employer, defined benefit pension plan that covers all employees of the University of Puerto Rico (the "University") with the exception of hourly, temporary, part-time, contract and substitute employees, visiting professors and employees of its blended component units and discretely presented component units. It is qualified and exempt from Puerto Rico and United States income taxes. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 "(ERISA"). The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769 or at www.retiro.upr.edu.

The Retirement System is a mature retirement system with a significant retiree population. As of June 30, 2019, the latest published information, membership in the Retirement System consisted of the following:

Retirees and beneficiaries currently receiving benefits	9,096
Terminated plan participants entitled to but not yet receiving benefits	591
Terminated non-vested plan participants entitled to return of their contributions	8,133
Current participating employees	9,140
Total membership	26,960

14. University of Puerto Rico Retirement System (continued)

Plan Description and Membership (continued)

The benefits provided to members of the Retirement System are established by the Governing Board of the University (the Governing Board). Directions of the Governing Board are communicated through a document named "Certification". Benefit provisions vary depending on the date of membership. The responsibility for the proper operation and administration of the Retirement System is vested on the Governing Board which then assigns duty to its Financial Affairs and Retirement System Committee. Decisions are made by the Governing Board upon recommendation of its Financial Affairs and Retirement System Committee. In addition, the Governing Board appointed the University of Puerto Rico Retirement Board (the "Retirement System's Board") to oversee the Retirement System administration and an Executive Director to manage its everyday affairs in accordance with the faculties and provisions of Certification Number 27 (1973-74), as amended, of the Governing Board. The Retirement System has functioned pursuant to the terms and conditions of Act No. 1 and Certification Number 27 of the Governing Board.

On October 1, 2020, the Puerto Rico Court of Appeals issued a judgment and determined that the University's Governing Board should be removed as Trustee of the University's Retirement System Trust, and consequently, the Retirement System's Board should be the substitute trustee. On October 16, 2020, the University requested a reconsideration of this judgement in the Puerto Rico Court of Appeals, but it was denied by the Court in November 2020. Then, the University requested to the Puerto Rico Supreme Court the revision of the judgement of Puerto Rico Court of Appeals, however, it was denied by the Puerto Rico Supreme Court on February 5, 2021.

The Trust of the University Retirement System is a "de facto trust" since 1945. In July 2016, the University filed the Deed of Confirmation and Acknowledgement of Trust of the University Retirement System in which the University as the Original Settlor and the University through its Governing Board as the Original Trustee hereby confirm, restate and acknowledge the inception of the Pension Plan and its Trust Fund in accordance with the provisions of the laws of the Commonwealth of Puerto Rico, specifically, the provisions of Act No. 219-2012.

The Retirement System provides retirement, disability and death benefits to participants and beneficiaries.

Retirement Benefits

Participants are entitled to annual retirement benefits at any age after 30 years of service; or at age 58 after 10 years of service; or at age 55 after 25 years of service. No cost-of-living adjustments have been granted by the Governing Board since July 1, 2007.

14. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

The amount of service retirement annuity is as follows:

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

  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the participant completed 30 years of service before July 1973, the annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to no more than 85% of average compensation.

  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 58 at the time the annuity begins.

  - After age 65 – same as before age 65.

  - Average compensation – the average of the highest-paid 36 months of service without limit on compensation.

  - Minimum annuity – $250 per month.

– For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989, including those participants that later elected Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:

  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the member of Certification No. 37 is under age 58 at time annuity begins or reduced by 1/3% for each month the participant of Certification No. 54 or Certification No. 55 is under age 55 at time annuity begins if the member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.

  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for the participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount is reduced by .5% for each month the participant who did not elect Certification No. 54 or Certification No. 55 is under age 58 at time annuity begins. Amount is reduced by 1/3% for each month the participant of Certification No. 54 or Certification No. 55 is under age 58 at time annuity begins if member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.

14. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

  - After age 65 – for a participant who elected Certification 54 or Certification No. 55, if the participant elected full supplement (Certification No. 54), the annuity is the same as before age 65; otherwise, the annuity is reduced by .5% of average compensation for each year of service up to 30 years. If the participant did not elect Certification 54 or Certification No. 55, the benefit is coordinated and the annuity is reduced by .5% of average compensation in excess of Social Security wage base in effect at the retirement date for each year of service up to 30 years; if the participant had less than 30 years of service and was under age 58 at the beginning date, coordination adjustment is made before application of .5% reduction per month under age 58.

  - Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.

  - Minimum annuity – $250 per month.

- For all participants entering into the Retirement System on or after January 1, 1990:

  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by 1/3% for each month the member is under age 55 at time annuity begins if the member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.

  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount is reduced by 1/3% for each month the participant is under age 58 at time annuity begins if the member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.

  - After Age 65 – same as for before age 65.

  - Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.

  - Minimum annuity – $250 per month.

Effective July 1, 1998, the Retirement System was amended by Certification No. 94 (1997-98) of the Governing Board, to offer participants an increase from $35,000 to $50,000 in the maximum compensation subject to withholding contributions. The participants who elected this benefit paid retroactively to July 1, 1979 or to their first day of employment, if later, the differences in withholding contributions for prior year compensations exceeding $35,000 and up to a maximum of $35,000 plus 8% interest. Effective July 1, 1998, all new participants contribute 9% of their compensation up to $50,000.

14. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

Effective July 1, 2002, the Retirement System was amended, by Certification No. 139 (2001-2002) of the Governing Board, to offer participants an increase from $50,000 to $60,000 in the maximum compensation subject to withholding contribution. The participants who elected this benefit paid retroactively to July 1, 1979 or their first day of employment, if later, the differences in withholding contributions for prior year compensations exceeding $35,000 or $50,000, as applicable, and up to a maximum of $60,000. The $60,000 compensation limit was increased by 3% every two years until June 30, 2014. Effective July 1, 2014, the maximum compensation for Certification No. 139 (2001-2002) of the Governing Board was frozen at $69,556.44 by Certification No. 70 (2013-2014) of the Governing Board.

Disability Benefits

Employees who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes or after 15 years of service if disability is due to non-occupational causes. If the employee is also eligible for a retirement annuity, the benefit payable is the higher of the two. Disability benefit annuity is paid as follows:

- Before age 65 – if service related, 50% of final compensation (subject to applicable compensation cap). If not services related, 90% of member's regular retirement benefit payable by the applicable retirement formula above.

- After age 65 – reduced to amount payable by the applicable retirement annuity; however, if that amount plus primary Social Security benefit is less than disability retirement annuity, then the retirement annuity is increased by the amount necessary to match the disability annuity.

- Minimum annuity – $250 per month.

Death Benefits

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

- Post retirement death benefits – employee's contributions are refunded to the extent that they exceed retirement payments already made, unless reversionary annuity was elected. Minimum payment is $600. In addition, 50% of retirement annuity is payable to surviving spouse until death or remarriage or until they become eligible for Social Security benefits. The minimum annuity is $75 per month and the maximum annuity is $150 per month.

14. University of Puerto Rico Retirement System (continued)

Reversionary Annuity

Member may elect to receive a reduced annuity in order to provide a lifetime benefit after death to a spouse or relative. The benefit to the spouse or relative may be as low as $25 per month or as high as 100% of the member's reduced annuity. This option is not permitted if member retires on a disability annuity.

Christmas Bonus

- A $400 annual bonus is given to all retired participants.

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

Non-vested Termination Benefits

If a participant terminates before rendering 10 years of service, the right to receive the portion of his accumulated plan benefits attributable to the University's contributions is forfeited. However, the employee is entitled to receive, in a lump-sum payment, the value of his accumulated contributions. Refund of a participant's own contributions may also be obtained after 10 years of service, but the vested benefit is lost.

Funding Policy

The contribution requirements of participants and the University are established and may be amended by the Governing Board. Plan members are required to contribute as follows:

1. Participants who have completed 20 years of service by July 1, 1979:
   - If full supplement election: 7% of the monthly compensation.
   - If no full supplement election: 4% of the monthly compensation up to $350, plus 6.5% of the excess.
2. For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989 and who did not elect Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:
   - Only no full supplement election: 5% of the monthly compensation up to $2,916.67 for members with 25 years of service as of July 1, 2015, and 6% of the monthly compensation up to $2,916.67 of the monthly compensation up to $2,916.67 for members with less than 25 years of service as of July 1, 2015.

14. University of Puerto Rico Retirement System (continued)

Funding Policy (continued)

3. For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989 and later elected Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:

   - If full supplement election: 7% of the monthly compensation up to $2,916.67 for members with 25 or more years of service as of July 1, 2015 and 8% of the monthly compensation up to $2,916.67 for members with less than 25 years of service as of July 1, 2015.

   - If no full supplement election: 4% of the monthly compensation up to $350.00, plus 6.5% of the monthly compensation in excess up to $2,916.67 for members with 25 or more years of service as of July 1, 2015 and 5% of the monthly compensation up to $350.00, plus 6.5% of the monthly compensation in excess up to $2,916.67 for members with less than 25 years of service as of July 1, 2015.

4. For all participants entering into the Retirement System on or after January 1, 1990:

   - Only full supplement election: 8% of the monthly compensation up to $2,916.67 67 for members with 25 or more years of service as of July 1, 2015 and 9% of the monthly compensation up to $2,916.67 for members with less than 25 years of service as of July 1, 2015.

   - If Certification No. 94 (1997-98) of the Governing Board election: 9% of the monthly compensation up to $4,166.67 for members with 25 or more years of service as of July 1, 2015 and 10% of the monthly compensation up to $4,166.67 for members with less than 25 years of service as of July 1, 2015.

   - If Certification No. 139 (2001-2002) of the Governing Board election: 11% of monthly compensation up to $5,796.42 for members with 25 or more years of service as of July 1, 2015 and 12% of the monthly compensation up to $5,796.42 for members with less than 25 years of service as of July 1, 2015.

   - Effective July 1, 2015, all new participants will be covered under Certification No. 139 (2001-2002) of the Governing Board and will pay 12% of the monthly compensation up to $5,796.42.

Contribution rates to the Retirement System are annually established by the Governing Board of the University and they are mainly based on an actuarially determined rate recommended by an independent actuary at the beginning of the fiscal year. The actuarially determined rate is the estimated amount to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The University is required to contribute the difference between the total contribution rate approved by the Governing Board of the University and the contribution rate of employees.

14. University of Puerto Rico Retirement System (continued)

Funding Policy (continued)

For the year ended June 30, 2020, the average active employee contribution rate was 8.8% of annual pay, and the University's average contribution rate was 37.0% of annual payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund. The University contributed approximately 37.6% of covered-employee payroll in 2020. The University's contributions to the Retirement System amounted to approximately $160,900,000 for the year ended June 30, 2020.

The contributions of the University were originally designed to fund, together with the contributions of the participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the Retirement System over a 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

Net Pension Liability

As permitted by GASB, the University's net pension liability as of June 30, 2020 was measured as of June 30, 2019 (the "2019 Actuarial Valuation"), and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with beginning-of-year census data that was rolled forward to June 30, 2019, and assuming no liability gains and losses. The components of the employer's net pension liability as of June 30, 2020 was as follows (dollars expressed in thousands):

Total pension liability	$ 4,722,160
Less Plan's fiduciary net position	1,403,702
Employer's net pension liability	$ 3,318,458
Plan's fiduciary net position as a percentage of the total pension liability	29.73%

14. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

Changes in the net pension liability for the year ended June 30, 2020 are as follows (expressed in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at beginning of year	$ 4,432,509	$ 1,408,376	$ 3,024,133
Changes for the year:			
Service cost	72,823	–	72,823
Interest	164,920	–	164,920
Benefit changes	–	–	–
Difference between expected and actual experience	(11,902)	–	(11,902)
Changes in assumptions or other inputs	271,633	–	271,633
Contributions - employer	–	75,263	(75,263)
Contributions - employee	–	32,849	(32,849)
Net investment income	–	98,788	(98,788)
Benefit payments, including refunds of employee contributions	(207,823)	(207,823)	–
Administrative expenses and others	–	(3,751)	3,751
Net changes	289,651	(4,674)	294,325
Balance at end of year	$ 4,722,160	$ 1,403,702	$ 3,318,458

For the year ended June 30, 2020, the University recognized pension expense of approximately $466,160,000.

14. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

As of June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources from pension activities as follows (expressed in thousands):

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 160,900	$ –
Differences between expected and actual experience	–	15,924
Changes in assumptions or other inputs	455,296	–
Net difference between projected and actual earnings on plan investments	–	22,062
Total	$ 616,196	$ 37,986

Deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date which amounted to $160,900,000 as of June 30, 2020 is recognized as a reduction of the net pension liability in the year ending June 30, 2021.

Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities at June 30, 2020 will be recognized in the pension expense (credit) as follows (expressed in thousands):

Year Ending June 30:	Amount
2021	$ 311,265
2022	64,855
2023	42,633
2024	(1,443)
Total	$ 417,310

14. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total pension liability at June 30, 2020 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

Measurement Date	June 30, 2019
Valuation Date	June 30, 2018
Actuarial Accrued Liability Amortization Method	Level percentage of payroll, closed 30-year period
Remaining Amortization Period	26 years
Asset Valuation Method	5-year smoothed market
Inflation	2.40% per year
Projected Salary Increases	2.40% per year and wage growth of 0.35%, including inflation
Investment Rate of Return	6.75% per annum, compounded anually, net of investment expenses, including inflation
Municipal Bond Index	2.79%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount Rate	3.56% per annum, compounded annually

The mortality tables used in the 2019 Actuarial Valuation were as follows:

- Pre-retirement Mortality: Pub 2010 Teachers Employees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.
- Post-retirement Healthy Mortality: Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.
- Post-retirement Disabled Mortality: Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.

Changes of Actuarial Assumptions

In the 2019 Actuarial Valuation, rates of mortality for the period after retirement were changed from RP-2014 White Collar Headcount-Weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for retired healthy pensioners; and rates of mortality for the period after disability retirement were changed from RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020. In addition, the discount rate decreased from 3.81% to 3.56% and the assumed inflation was reduced from 2.50% to 2.40% in 2019.

14. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions (continued)

Changes of Benefit Terms

There was no change in the benefit terms that affected the measurement of the total pension liability since the prior measurement dates.

Long-term Expected Rate of Return

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Long-term Expected Real Rate of Return
Broad U.S. equity	32.0%	6.30%	6.27%
Global ex U.S. equity	24.0%	6.45%	6.96%
Domestic fixed	30.0%	0.55%	0.82%
High Yield	7.5%	2.85%	3.04%
Real Estate	5.0%	4.80%	4.84%
Private Equity	1.5%	9.75%	10.51%
Total	100.0%		

Date of Depletion and Discount Rate

The asset basis for the date of depletion projection is the pension plan's fiduciary net position. The pension plan's fiduciary net position is not expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent interest rate (SEIR) that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate applied to benefit payments, to the extent that the pension plan's fiduciary net position is not projected to be sufficient.

14. University of Puerto Rico Retirement System (continued)

Date of Depletion and Discount Rate (continued)

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made according to the University's new fiscal plan certified by the Oversight Board of PROMESA for fiscal years through 2024, and the five-year average of those contributions thereafter. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2034. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments through June 30, 2034 and the applicable municipal bond index rate of 2.79%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2019, was applied to all periods of projected benefit payments after June 30, 2034. The SEIR of 3.56% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2019.

The SEIR at June 30, 2018 was 3.81% based on the long-term expected rate of return on pension plan investments of 6.75% applied to all periods of projected benefit payments through June 30, 2033 and the applicable municipal bond index rate of 2.98%, as of June 30, 2018 applied to all periods of projected benefit payments after June 30, 2033.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability at June 30, 2020, calculated using the discount rate of 3.56%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate (dollars expressed in thousands):

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Net pension liability	$ 3,956,383	$ 3,318,458	$ 2,789,604

Other Pension Costs

Certain retirees of a unit of the University, who are not members of the University Retirement System, are members of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), a fiduciary fund of the Commonwealth. ERS is a cost sharing, multiple employers defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.

14. University of Puerto Rico Retirement System (continued)

Other Pension Costs (continued)

The ERS is severely underfunded. On May 21, 2017, the Oversight Board of PROMESA, at the request of the Governor of Puerto Rico, commenced a Title III Case for the ERS by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. On June 30, 2017, the United States Trustee appointed the Official Committee of Retired Employees of Puerto Rico in the Commonwealth's Title III cases.

On August 23, 2017, the Governor of Puerto Rico signed into law the "Act to Guarantee the Payment to our Pensioners and Establish a New Plan of Defined Contributions for Public Servants (Act No. 106-2017). Act No. 106-2017 established the PayGo mechanism effective July 1, 2017 for all the Commonwealth's pension plans, including the ERS.

The University is a cost sharing employer of the ERS for the above retirees of a unit of the University. Because of the method used by the Commonwealth to allocate the proportional share of the ERS's net pension liability and the related pension amounts (based on the proportional share of the overall projected long-term contribution effort relative to that of all the participating government employers), no share of the ERS's net pension liability and the related pension amounts were allocated to the University. The PayGo charges (which commenced in fiscal year 2018) billed by the ERS to the University amounted to approximately $4,724,000 and $4,838,000 in fiscal years 2020 and 2019, respectively. The PayGo charges for fiscal years 2020 and 2019 amounting to approximately $9,562,000 have not be paid to the ERS and was included in the accounts payable and accrued liabilities in the statement of net position at June 30, 2020.

15. Post-Employment Benefits Other Than Pensions ("OPEB")

Program Description and Membership

The University of Puerto Rico (the University) provides post-employment benefits other than pension for its retired employees (the "OPEB Program"). Substantially all of the employees may become eligible for these benefits if they are eligible to retire under the University of Puerto Rico Retirement System (30 years of service, age 58 with 10 years of service or age 55 with 25 years of service). Employees are also eligible on disability with 10 years of service. The cost of providing such benefits is recognized when paid.

The University provides the following OPEB:

- Medical Subsidy: Fixed subsidy of $125 per month ($1,500 per year) per participant ($0 for spouse) is paid by the University for the life of the participant at retirement to an insurance company selected by the University whose premiums are paid by the retiree and by the University or directly to the participant living outside of Puerto Rico with proof of coverage.

15. Post-Employment Benefits Other Than Pensions ("OPEB")

Program Description and Membership (continued)

At June 30, 2019, the date of the most recent actuarial valuation, membership in the OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,029
Current participating employees	9,140
Total membership	16,169

The benefits provided to members of the University's OPEB Program are established by the Governing Board of the University. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the payment of these benefits.

The University's OPEB Program is funded on a pay-as-you-go basis. Retiree benefits are paid out of the University's general assets each year.

Total OPEB Liability

As permitted by GASB, the University's unfunded total OPEB liability (TOL) as of June 30, 2020 of approximately $235,270,000 was measured at June 30, 2019 by actuarial valuations as of that date (the "OPEB 2019 Actuarial Valuation").

In fiscal year 2020, an expected TOL was determined as of June 30, 2019 using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, June 30, 2018, adds the annual normal cost (also called the service cost) and interest at the discount rate for the previous year, and subtracts expected benefit payments for the year. The difference between this result and the actual TOL as of June 30, 2019, before reflecting any assumption changes, is reflected as an experience gain or loss for the year. In addition, the actual TOL as of June 30, 2019 is determined after any assumption changes. The difference between this result and the TOL as of June 30, 2019, before assumption changes, is reflected as an assumption gain or loss for the year.

15. Post-Employment Benefits Other Than Pensions ("OPEB") (continued)

Total OPEB Liability (continued)

Changes in the total OPEB liability for the year ended June 30, 2020 are as follows (expressed in thousands):

Balance at beginning of year	$ 226,844
Changes for the year:	
Service cost	3,805
Interest	6,596
Benefit changes	–
Difference between expected and actual experience	(2,382)
Changes in assumptions or other inputs	11,405
Benefit payments	(10,998)
Net changes	8,426
Balance at end of year	$ 235,270

For the year ended June 30, 2020, the University recognized OPEB expense of approximately $12,164,000.

As of June 30, 2020, the University reported deferred outflows of resources and deferred inflows of resources from OPEB activities as follows (expressed in thousands):

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 11,381	$ –
Differences between expected and actual experience	–	3,900
Changes in assumptions or other inputs	12,068	–
Total	$ 23,449	$ 3,900

Deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date which amounted to $11,381,000 as of June 30, 2020 are recognized as a reduction of the total OPEB liability in the years ending June 30, 2021.

15. Post-Employment Benefits Other Than Pensions ("OPEB") (continued)

Total OPEB Liability (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources from OPEB activities at June 30, 2020 will be recognized in the OPEB expense as follows (in thousands):

Year Ending June 30:	Amount
2021	$ 1,762
2022	1,762
2023	1,668
2024	1,472
2025	1,504
Total	$ 8,168

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability at June 30, 2020 was the individual entry age normal cost method. The actuarial valuation used the following actuarial method and assumptions:

Measurement Date	June 30, 2019
Valuation Date	June 30, 2019
Percentage Electing to Receive:	
Medical Subsidy	85% (applied to current and future retirees)
Tuition Remission	Not applicable
Inflation	2.40%
Payroll Growth	Not applicable
Salary Increases	Not applicable
Discount Rate -Municipal Bond Index	2.79%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index

The mortality tables used in the OPEB 2019 Actuarial Valuation were as follows:

- Mortality for Healthy Participants - Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.

- Mortality for Disabled Participants - Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.

The mortality and other assumptions matched that used by the University's Retirement System.

15. Post-Employment Benefits Other Than Pensions ("OPEB") (continued)

Actuarial Methods and Assumptions (continued)

Changes of Actuarial Assumptions

In the OPEB 2019 Actuarial Valuation, rates of mortality for the period after retirement were changed from RP-2014 White Collar Headcount-Weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for retired healthy pensioners; and rates of mortality for the period after disability retirement were changed from RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020. In addition, the discount rate decreased from 2.98% to 2.79% and the assumed inflation was reduced from 2.50% to 2.40% in 2019.

Changes of Benefit Terms

There was no change in the benefit terms that affected the measurement of the total OPEB liability since the prior measurement date.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability at June 30, 2020, calculated using the discount rate of 2.79, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate (dollars expressed in thousands):

	1% Decrease (1.79%)	Current Discount Rate (2.79%)	1% Increase (3.79%)
Total OPEB Liability	$ 267,111	$ 235,270	$ 208,910

16. Functional Information

The University's operating expenses by functional classification during the year ended June 30, 2020 were as follows (expressed in thousands):

Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and Other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 512,706	$ 2,185	$ 8,113	$ 136	$ –	$ 306	$ 523,446
Research	76,826	12,185	19,853	315	–	6,328	115,507
Public service	69,292	2,480	11,618	542	–	375	84,307
Academic support	97,060	880	13,738	51	–	485	112,214
Student services	52,817	502	4,993	2	–	291	58,605
Institutional support	168,035	2,140	20,793	1,616	–	723	193,307
Operations and maintenance	89,924	47	41,012	36,323	–	4	167,310
Student aid	4,361	145,178	752	–	–	122	150,413
Independent operations	225	2	340	–	–	–	567
Patient service	58,066	13	2,902	164	–	818	61,963
Auxiliary enterprises	89	20	650	3	–	39	801
Depreciation and amortization	–	–	–	–	40,616	–	40,616
	$ 1,129,401	$ 165,632	$ 124,764	$ 39,152	$ 40,616	$ 9,491	$ 1,509,056

17. University Only Financial Statements

The following tables present the financial information pertaining only to the University (excluding its blended component units):

17. University Only Financial Statements (continued)

Statement of Net Position (Deficit) as of June 30, 2020 (In thousands)	
Assets	
Current assets:	
Cash and cash equivalents	$ 184,351
Restricted cash and cash equivalents	46,800
Restricted investments at fair value:	
Deposited with trustee and others	42,928
Accounts receivable, net	14,059
Internal balance- due from MSRC (see Note 8)	64
Due from Federal Government	39,417
Due from related parties, net	13,334
Inventories	1,576
Other assets	2,803
Total current assets	345,332
Noncurrent assets:	
Restricted cash and cash equivalents	1,804
Restricted investments at fair value:	
Endowment funds	121,166
Healthcare Deferred Compensation Plan	85,153
Other long-term investments at fair value	2,535
Notes receivable, net	7,559
Internal balance- due from MSRC (see Note 8)	1,500
Capital assets (net of accumulated depreciation and amortization):	
Land and other nondepreciable assets	67,822
Depreciable assets	716,998
Other assets	298
Total noncurrent assets	1,004,835
Total assets	1,350,167
Deferred outflows of resources:	
Deferred outflows from pension activities	616,196
Deferred outflows from OPEB activities	23,449
Deferred refunding loss	1,174
Total deferred outflows of resources	640,819
Total assets and deferred outflows of resources	1,990,986
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	98,222
Unearned revenue-cash advance from governmental grant	42,326
Internal balance- due to DUI	3,943
Current portion of long-term debt:	
Bonds payable	25,480
Internal balance - obligation under capital lease, current portion	2,681
Other current liabilities:	
Claims liability	678
Compensated absences	29,032
Total current liabilities	202,362
Noncurrent liabilities:	
Long-term debt, net of current portion:	
Bonds payable	327,356
Internal balance - obligation under capital lease, net of current portion	44,613
Other long-term liabilities:	
Deferred compensation plan	85,153
Claims liability	7,918
Compensated absences	108,993
Net pension liability	3,318,458
Other postemployment benefit (OPEB) liability	235,270
Total noncurrent liabilities	4,127,761
Total liabilities	4,330,123
Deferred inflows of resources:	
Deferred inflows from pension activities	37,986
Deferred inflows from OPEB activities	3,900
Total deferred inflows of resources	41,886
Total liabilities and deferred inflows of resources	4,372,009
Net position (deficit):	
Net investment in capital assets	398,449
Restricted, nonexpendable:	
Scholarships and fellowships	41,790
Research	49,653
Other	31,580
Restricted, expendable:	
Loans	11,543
Capital projects	3,831
Debt service	37,229
Unrestricted (deficit)	(2,955,098)
Total net position (deficit)	$ (2,381,023)

17. University Only Financial Statements (continued)

Statement of Revenues, Expenses and Changes in Net Position (Deficit) for the Year Ended June 30, 2020 (In thousands)

Revenues	
Operating revenues:	
Tuitions and fees (net of scholarship allowances and others of $137,019)	$ 70,668
Net patient services revenue and other (net of provision for allowances of $2,889)	63,550
Federal grants and contracts (net of provision for allowances of $2,754)	93,927
Commonwealth grants and contracts (net of provision for allowances of $5,456)	20,453
Nongovernmental grants and contracts (net of provision for allowances of $257)	6,696
Sales and services of educational departments	10,772
Auxiliary enterprises, net	973
Other operating revenues	7,019
Total operating revenues	274,058
Operating expenses:	
Salaries:	
Faculty	325,738
Exempt staff	196,087
Nonexempt wages	756
Benefits:	
Pension cost (see Note 14)	470,884
OPEB expense (see Note 15)	12,164
Other benefits	122,729
Scholarships and fellowships	165,632
Supplies and other services	125,188
Utilities	38,541
Depreciation and amortization	40,616
Other expenses	9,467
Total operating expenses	1,507,802
Operating loss	(1,233,744)
Nonoperating revenues (expenses):	
Commonwealth and other appropriations	589,923
Federal grants:	
Federal Pell Grant program	177,387
CARES Act	36,073
Federal Emergency Management Agency (FEMA)	2,309
Gifts	7,586
Net investment income	8,092
Interest on capital assets - related debt	(20,042)
Contributions to a component unit (see Note 8)	(500)
Contributions from a component unit (see Note 3)	1,944
Other nonoperating (expenses) revenues, net	423
Net nonoperating revenues	803,195
Loss before other revenues	(430,549)
Additions to term and permanent endowments	1,533
Change in net position	(429,016)
Net position (deficit):	
Beginning net position (deficit)	(1,952,007)
End of year	$ (2,381,023)

17. University Only Financial Statements (continued)

Statement of Cash Flows for the Year Ended June 30, 2020 (In thousands)

Cash flows from operating activities	
Tuition and fees	$ 73,280
Grants and contracts	140,812
Patient services	65,210
Payments to employees	(520,779)
Payments for benefits	(291,963)
Payments for scholarships and fellowships	(162,710)
Payments to suppliers	(130,108)
Payments for utilities	(33,783)
Loans issued to students, net of collection of loans	(84)
Auxiliary enterprises	1,018
Sales and services educational department and others	17,512
Net cash used in operating activities	(841,595)
Cash flows from noncapital financing activities	
Commonwealth and other appropriations	592,292
Federal grants:	
Federal Pell Grant program	174,465
CARES Act	36,073
FEMA	738
Endowment gifts	1,533
Federal direct student loan program receipts	65,918
Federal direct student loan program disbursements	(65,918)
Gifts and grants for other than capital purposes	7,586
Other non-operating receipts, net	423
Net cash provided by noncapital financing activities	813,110
Cash flows from capital and related financing activities	
Purchases of capital assets	(16,773)
Principal paid on capital debt and lease	(26,786)
Interest paid on capital debt and lease	(21,470)
Decrease in deposit with trustees and others	2,951
Net cash used in capital and related financing activities	(62,078)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	45,059
Purchases of investments	(48,640)
Collections of interest and dividend income on investments	7,389
Collections of advances to the University of Puerto Rico Retirement System	5,049
Contributions received from a component unit (UPRPS) (see Note 3)	1,000
Contributions paid to a component unit (MSRC) (see Note 8)	(500)
Loan granted to a component unit (MSRC) (see Note 8)	(1,500)
Net cash provided by investing activities	7,857
Net change in cash and cash equivalents	(82,706)
Cash and cash equivalents:	
Beginning of year	315,661
End of year	$ 232,955

17. University Only Financial Statements (continued)

Statement of Cash Flows for the Year Ended June 30, 2020 (In thousands)

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (1,233,744)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	40,616
Provision for doubtful accounts	14,203
Changes in operating assets and liabilities and deferred outflows and inflows of resources:	
Decrease (increase) in:	
Grants and contracts receivables	(2,783)
Prepaid expenses, inventories and other	1,123
Deferred outflows of resources from pension activities	15,694
Deferred outflows of resources from OPEB activities	(8,711)
Increase (decrease) in:	
Accounts payable and accrued liabilities	11,897
Unearned revenue	13,278
Accrued salaries, wages, benefits and other liabilities	7,844
Net pension liability	294,325
OPEB liability	8,427
Deferred inflows of resources from pension activities	(5,217)
Deferred inflows of resources from OPEB activities	1,453
Net cash used in operating activities	$ (841,595)
Supplemental schedule of noncash investing, capital and financing activities	
Change in fair value of investments	$ 874
Amortization of:	
Bonds premiums	$ 1,566
Deferred refunding loss	$ 241
Contributions from a component unit (UPRPS) in lieu of payment of account payable	$ 944

18. Subsequent Events

On November 5, 2018, the Retirement System's Board and certain plaintiffs filed an injunction application against the University's Governing Board, as well as against the University, in the Puerto Rico Court of First Instance, requesting the removal of the University's Governing Board and the designation of the Retirement System's Board as trustee of the University's Retirement System Trust. On November 30, 2018, the Retirement System's Board filed another injunction in the Puerto Rico Court of First Instance to stop the amendments to the University's Retirement System Regulations approved by the University's Governing Board. On February 22, 2019, the Puerto Rico Court of First Instance denied both injunctions. Then, the plaintiffs appealed both judgements and requested the consolidation of both legal cases in the Puerto Rico Court of Appeals, which the Puerto Rico Court of Appeals agreed to. On October 1, 2020, the Puerto Rico Court of Appeals issued a judgment revoking the determinations of the Puerto Rico Court of First Instance. In addition, it determined that the University's Governing Board should be removed as Trustee of the University's Retirement System Trust, and consequently, the Retirement System's Board should be the substitute trustee. On October 16, 2020, the University requested a reconsideration of this judgement in the Puerto Rico Court of Appeals, but it was denied by the Court in November 2020. Then, the University requested to the Puerto Rico Supreme Court the revision of the judgement of Puerto Rico Court of Appeals, however, it was denied by the Puerto Rico Supreme Court on February 5, 2021.

On February 18, 2021, the Oversight Board of PROMESA approved the reapportionment request submitted by the University on February 12, 2021 to cover the financial impact of retroactive payouts of approximately $5,592,000 provided in the proposed amendment to the Supplemental Rules and Work Conditions ("the Supplemental Rules") negotiated with the Brotherhood of Non-Teaching Employees ("HEEND" for its Spanish acronym) in December 2020. The retroactive payouts cover certain benefits eliminated to the HEEND from fiscal years 2017 to 2021. Funds to pay the retroactive payout will be sourced from current year savings in facilities and payments for public services, Christmas bonus, and other operating payments. The University and the HEEND, acknowledge that these benefits will be unenforceable after June 30, 2021, insofar as they will begin negotiations in March 2021, with the aim of adopting new Supplemental Rules which shall be in effect from July 1, 2021 onwards. In addition, the University acknowledged that these new Supplemental Rules and any amendments thereto will comply with its Certified Fiscal Plan for the fiscal year 2021. The University must submit a draft of the new Supplemental Rules to the Oversight Board of PROMESA for review on or before April 30, 2021. Furthermore, the University must share a detailed report on the use of the funds approved herein within sixty (60) days from February 18, 2021. Any unused funds must be returned to the original line item in the budget. Finally, Oversight Board of PROMESA notes that the payout subject of this reapportionment will be a one-time payment which shall not extend for any future fiscal years other than the current.

On March 25, 2021, the Governing Board of the University approved that the University's Retirement System will be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees will participate in a defined contribution plan beginning January 1, 2022. Vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

18. Subsequent Events (continued)

Refer to the following notes for additional information of the following subsequent events:

- Notes 2 and 12 for the extensions of the compliance period until August 31, 2021 of the letter agreement among the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), the University and FAFAA.

- Notes 8 and 13 for the University's dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of the Plaza Universitaria facilities is no longer in existence; the assumption by the University of all operating activities as contemplated in the Operations and Management Agreement after October 2020; and the University's appointment of UPRPS as administrative agent of Plaza Universitaria facilities until June 30, 2021.

- Note 13 for the new economic stimulus available to the University to ensure learning continues for students during the COVID-19 pandemic announced by the U.S. Department of Education in January 2021.

Required Supplementary Information

University of Puerto Rico
Schedule of Changes in the University's Net Pension Liability and Related Ratios
Last Six Years*
(Dollars in thousands) (Unaudited)

	2020	2019	2018	2017	2016	2015
Total Pension Liability:						
Service cost	$ 72,823	$ 74,827	$ 52,000	$ 46,571	$ 48,107	$ 49,499
Interest	164,920	167,015	191,144	194,184	177,334	173,630
Changes in benefit terms	–	–	–	(14,671)	(45,209)	–
Differences between expected and actual experience	(11,902)	(2,678)	(24,376)	(4,733)	(323,974)	–
Changes in assumptions	271,633	31,859	989,905	160,911	32,269	(24,034)
Benefit payments, including refunds of member contributions	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Net change in total pension liability	289,651	72,776	1,020,362	199,648	(288,345)	29,932
Total pension liability, beginning	4,432,509	4,359,733	3,339,371	3,139,723	3,428,068	3,398,136
Total pension liability, ending (a)	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371	$ 3,139,723	$ 3,428,068
Fiduciary Net Position:						
Contributions - employer	$ 75,263	$ 73,360	$ 79,491	$ 78,004	$ 88,251	$ 91,689
Contributions - member	32,849	35,864	39,042	38,640	35,594	37,900
Net investment income	98,788	110,357	132,950	59,009	76,684	206,595
Benefit payments	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Administrative expenses and others	(3,751)	(4,458)	(4,340)	(3,367)	(4,689)	(4,566)
Net change in plan net position	(4,674)	16,876	58,832	(10,328)	18,968	162,455
Fiduciary net position, beginning	1,408,376	1,391,500	1,332,668	1,342,996	1,324,028	1,161,573
Fiduciary net position, ending (b)	$ 1,403,702	$ 1,408,376	$ 1,391,500	$ 1,332,668	$ 1,342,996	$ 1,324,028
Employer's Net Pension Liability - Ending (a) - (b)	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703	$ 1,796,727	$ 2,104,040
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	29.73%	31.77%	31.92%	39.91%	42.77%	38.62%
Covered-Employee Payroll	$ 453,802	$ 478,529	$ 488,775	$ 515,994	$ 516,226	$ 515,856
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	731.26%	631.96%	607.28%	388.90%	348.05%	407.87%

Note: The University's net pension liability at year end was measured at beginning of year (measurement date) and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data that was rolled forward to the measurement date, and assuming no liability gains and losses.

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See notes to required supplementary information.

University of Puerto Rico
Schedule of the University's Contributions – Pension Plan
Last 10 Years *(Dollars in thousands) (Unaudited)*

Fiscal Year Ended June 30	Actuarial Determined Contribution (ADC) (1)	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (2)
2019	$ 127,609	$ 75,263	$ 52,346	$ 453,802	16.58%
2018	96,089	73,360	22,729	478,529	15.33%
2017	85,829	79,491	6,338	488,775	16.26%
2016	86,635	78,004	8,631	515,994	15.12%
2015	89,255	88,251	1,004	516,226	17.10%
2014	78,204	91,689	(13,485)	515,856	17.77%
2013	77,772	88,481	(10,709)	491,291	18.01%
2012	72,186	75,140	(2,954)	491,063	15.30%
2011	68,487	70,761	(2,274)	526,820	13.43%
2010	63,722	71,177	(7,455)	558,961	12.73%

(1) The actuarially determined contribution for fiscal years 2019, 2018, 2017, 2016, 2015 and 2014 were determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2019, 2018, 2017, 2016, 2015 and 2014, respectively, and assumed no gains or losses. Prior year actuarial valuations were made using end-of-year census data.

(2) ADC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (One-Year-Lag Methodology) (e.g., the June 30, 2019, Required Contribution was established in the June 30, 2018 actuarial valuation).

See notes to required supplementary information.

The Governing Board of the University establishes contribution rates to the Retirement System mainly based on an actuarially determined rate recommended by an independent actuary at the beginning of the fiscal year. The actuarially determined rate is the estimated amount to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The University is required to contribute the difference between the total contribution rate approved by the Governing Board of the University and the contribution rate of employees. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund.

The contributions of the University were originally designed to fund, together with the contributions of the participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the Retirement System over a 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

During fiscal years 2019, 2018, 2017, 2014 and 2013, the University approved additional contributions to the Retirement System of approximately $8.5 million, $3.7 million, $6.3 million, $10.5 million and $10.0 million, respectively, to fund its actuarial deficit. The University made the additional contribution for fiscal years 2018 and 2017 in fiscal year 2019 and made the additional contributions for fiscal years 2019, 2014 and 2013 in the corresponding fiscal year.

Starting in fiscal year 2015, with the adoption of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 and* GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27*, the discount rate for calculating the total pension liability is equal to the single equivalent interest rate (SEIR) that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate applied to benefit payments, to the extent that the pension plan's fiduciary net position is not projected to be sufficient. Before fiscal year 2015, the discount rate for calculating the total pension liability was equal to the projected investment of return.

The following tables present the methods and assumptions used to determine the actuarially determined contribution. Changes in the mortality tables and other actuarial assumptions for the June 30, 2018 actuarial valuations were based on an experience study of economic and demographic experience for the University's Retirement System for the five-year-period ended June 30, 2017 performed by an independent consultant.

	2019	2018	2017	2016	2015
Valuation date	June 30, 2018 (Lag)	June 30, 2017 (Lag)	June 30, 2016 (Lag)	June 30, 2015 (Lag)	June 30, 2014 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Actuarial accrued liablity amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	26 years- constant (open basis)	27 years- constant (open basis)	28 years- constant (open basis)	29 years- constant (open basis)	30 years- constant (open basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	2.5% per year	3.0% per year	3.0% per year	3.00% per year	3.00% per year
Projected salary increases	2.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation
Investment rate of return	6.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation
Mortality:					
Pre-retirement Mortality	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females
Post-retirement Healthy Mortality	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females
Post-retirement Disabled Mortality	RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected to 2019 using scale MP-2017.	RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected to 2019 using scale MP-2017.	RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females	RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females	RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females

University of Puerto Rico
Notes to Schedule of the University's Contributions – Pension Plan
Last 10 Years (continued)

	2014	2013	2012	2011	2010
Valuation date	June 30, 2013 (Lag)	June 30, 2013 (Lag)	June 30, 2012 (Lag)	June 30, 2011 (Lag)	June 30, 2010 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Actuarial accrued liablity amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	3.50% per year	3.50% per year	3.50% per year	3.50% per year	3.50% per year
Projected salary increases	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation
Investment rate of return	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation
Mortality:					
Pre-retirement Mortality	RP-2000 Employee Mortality Table, projected to 2026 using Scale AA	RP-2000 Employee Mortality Table, projected to 2026 using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	RP-2000 Healthy Annuitant Mortality Table, projected to 2018 using Scale AA	RP-2000 Healthy Annuitant Mortality Table, projected to 2018 using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	1994 Group Annuity Mortality Table
Post-retirement Disabled Mortality	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

University of Puerto Rico
Schedule of Changes in the University's Total Postemployment Benefits other than Pensions (OPEB) Liability and Related Ratios
Last Three Years*
(Dollars in thousands) (Unaudited)

	2020	2019	2018
Total OPEB Liability:			
Service cost	$ 3,805	$ 3,945	$ 4,560
Interest	6,596	7,064	6,091
Changes in benefit terms	–	(3,097)	–
Differences between expected and actual experience	(2,382)	(2,978)	–
Changes in assumptions	11,405	2,680	1,775
Benefit payments	(10,998)	(12,885)	(10,119)
Net change in total OPEB liability	8,426	(5,271)	2,307
Total OPEB liability, beginning	226,844	232,115	229,808
Total OPEB liability, ending	$ 235,270	$ 226,844	$ 232,115
Covered-Employee Payroll	$ 428,086	$ 453,802	$ 478,529
Total OPEB Liability as a Percentage of Covered-Employee Payroll	54.96%	49.99%	48.51%

*Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Note to schedule:

Total OPEB Liability

The University's total OPEB liability (TOL) as of June 30, 2020, 2019 and 2018 was measured at June 30, 2019, 2018 and 2017, respectively, by actuarial valuations as of those dates.

In fiscal years 2020 and 2019, the expected TOL was determined at valuation date (as of June 30, 2019 and 2018, respectively), using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, adds the annual normal cost (also called the service cost) and interest at the discount rate for the previous year, and subtracts expected benefit payments for the year. The difference between this result and the actual TOL at valuation date, before reflecting any assumption changes, is reflected as an experience gain or loss for the year. In addition, the actual TOL at valuation date is determined after any changes in benefit terms. The difference between this result and the TOL at valuation date, before benefit changes, is reflected as change in benefit terms gain or loss for the year. Finally, the actual TOL at valuation date is determined after any assumption changes. The difference between this result and the TOL at valuation date, before assumption changes, is reflected as an assumption change gain or loss for the year.

In fiscal year 2018, an expected TOL was determined as of June 30, 2016, the prior measurement date, using standard roll back techniques. The roll back calculation begins with the TOL, as of the measurement date, June 30, 2017, adds the expected benefit payments for the year, deducts interest at the discount rate for the year, and then subtracts the annual normal cost.

Plan Assets

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the payment of these benefits.

Changes of Actuarial Assumptions

In the 2019 Actuarial Valuation, rates of mortality for the period after retirement were changed from RP-2014 White Collar Headcount-Weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020 for retired healthy pensioners; and rates of mortality for the period after disability retirement were changed from RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected generationally using scale MP-2019 to Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2020. In addition, the discount rate decreased from 2.98% to 2.79% and the assumed inflation was reduced from 2.50% to 2.40% in 2019.

In the 2018 Actuarial Valuation, the mortality projection scale was changed from MP-2017 to MP-2019. In addition, in 2018, the discount rate has decreased from 3.13% to 2.98%.

In the 2017 Actuarial Valuation, the rates of separation from active service and the rates of post-retirement mortality have been changed based on an experience study performed for the five-year period ending June 30, 2017; and, the discount rate has increased from 2.71% to 3.13%.

Changes in Benefit Terms

In the 2018 Actuarial Valuation, the tuition remission provision was eliminated.

Other Financial Information

University of Puerto Rico
Schedule of Changes in the University's Sinking Fund Reserve
Year Ended June 30, 2020 *(In thousands) (Unaudited)*

	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from unrestricted current funds	$ 39,006	$ –	$ 39,006
Interest earned on investments	583	125	708
Total receipts	39,589	125	39,714
Deductions:			
Payments of bond interest	18,285	–	18,285
Payments of bond principal	24,270	–	24,270
Legal fees and related expenses	–	188	188
Total disbursements	42,555	188	42,743
Net decrease for the year	(2,966)	(63)	(3,029)
Balances at beginning of year	35,567	10,061	45,628
Balance at end of year	$ 32,601	$ 9,998	$ 42,599

Note: The University's Sinking Fund assets as of June 30, 2020 consisted of investments in money market funds.

Report on Internal Control and on Compliance

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
University of Puerto Rico

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico ("the University"), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 30, 2021. Our report includes a reference to other auditors who audited the financial statements of Desarrollos Universitarios, Inc., Molecular Sciences Research Center, Inc., Servicios Medicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc. , and Materials Characterization Center, Inc., ("The Component Units") as described on our report on the University's financial statements. The financial statements of the Component Units, were not audited in accordance with *Government Auditing Standards,* and accordingly this report does not include reporting on internal control over financial reporting and on compliance and other matters associated with the Component Units or that are reported on separately by those auditors who audited the financial statements of the Component Units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

March 30, 2021

Stamp No. E426786 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Finding Number: 2020-001 - Financial Statement Close Process

Criteria

A fundamental element of a sound system of internal controls is an effective financial statement close process. Such a process is essential in enabling organizations to prepare timely and accurate financial statements. This process helps ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the University's general ledger and culminates in the preparation of the University's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Condition

During our audit, we noted deficiencies in the University's financial statement close process, including the following:

- Multiple audit/post-closing entries that were not initially identified by the University's internal controls were required to properly record revenue and expense activity, accounts receivable activity, cash activity, prepaid expenses activity and certain liabilities. These entries were considered material to the financial statements.

- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.

- The accounting and financial reporting operations of certain units of the University, specifically the Medical Sciences Campus and the Mayagüez Campus, are not able to detect or prevent accounting errors effectively nor efficiently which resulted in multiple audit adjustments.

Cause

The lack of adequate controls has resulted in an ineffective and inefficient financial statements close process. In addition, the lack of integration between the units and the central administration finance and accounting functions has an adverse impact on the financial reporting of the University as a whole.

Effect

There were numerous post-closing entries that were recorded by the University and audit adjustments that were recorded by the University as noted above. Moreover, the lack of appropriate procedures to ensure a complete reporting package and timely production of records may cause delays in the audit process thus affecting future grant awards.

Finding Number: 2020-001 - Financial Statement Close Process (continued)

Recommendations

Management should improve the annual closing process, including more effective monitoring controls over financial information. All general ledger accounts should be supported by reconciliations, roll-forward schedules and other appropriate documentation which are timely reviewed at two levels, and evidenced by supervisory and signature approval. Journal entries should be supported by complete documentation and timely reviewed as well as reviewing the processing of journal entries at year end.

All accounting judgments and estimates should also be properly supported and reviewed. In reviewing and developing the closing process, the University should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. Additionally, there is a need for key accounting personnel to review the draft financial statements for correctness of accounting, presentation and disclosure prior to its presentation to the auditors. This may include holding internal training programs for the preparers and first level reviewers related to the financial statement close process.

The University should consider changing or reinforcing the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities should be centralized and units should report directly, timely and effectively to the Central Administration Finance Director and Controller.

An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be reinforced.

Management's Response

The UPR concurs with this finding and despite the University is current in compliance with its submission of audited financial statements. Management is continuously taking further proactive actions to shorten its annual financial reporting time-to-issuance. Said improvements come as a result of using enhanced monitoring controls over the financial information and in doing so, the University has continued to employ the following actions to shorten the reporting gap and ultimate purpose of improving its timeliness over financial reporting:

- Timeline for key milestones and monitoring of audit progress.

Finding Number: 2020-001 - Financial Statement Close Process (continued)

Management's Response (continued)

- Identification of human, financial, and technological resources necessary to enable solutions focused approach and smooth progress of the process. During the year 2020, management hired a financial reporting specialist, which has been in-charge of preparing monthly, quarterly and annual financial statements and related financial reports during the years 2020 and 2021, including the monitoring of key accounting aspects.

- Deployment of financial consultants as an aid to management for the analyses, and processing of financial and qualitative information necessary for accounting and pre- audit procedures.

- Hold regular status meetings with the Finance Office Directors of all of the campuses to monitor progress, roadblocks, and find alternative courses of action.

- Maintain regular and close communication between management, external auditors, internal auditors, component units, consultants, as well as regulatory agencies to seek a leaner overall process.

Consequently, the potential impact of delayed reporting has decreased and management's ability to make assessments and decisions based on better information and sound business practices has increased.

The University already established a recurring process to collect and validate financial data aimed at producing monthly reporting that assists management in understanding performance metrics that ultimately enhance its ability to measure financial accounting productivity, performance, and financial reporting. Some of the reports that are being monthly produced include: Statement of Net Position, Statement of Revenues and Expenses, Cash Flow Statements, Liquidity Reporting, as well as Budget to Actual Financial Reports. To this end, the financial reporting specialist with the support of the Finance Offices of all campuses has been gathering, processing, and developing financial models to prepare and analyze this financial information.

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