Audited Financial Statements And Reports And Schedule Required By The Uniform Guidance

University of Puerto Rico
Year Ended June 30, 2019
With Reports of Independent Auditors

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University of Puerto Rico

Audited Financial Statements and
Reports and Schedule Required by the Uniform Guidance

Year Ended June 30, 2019

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Financial Statements

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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 years ended June 30, 2019 and 2018, 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 audits. We 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. (collectively, the "Component Units"), which represent 100% of the aggregate discretely presented component units, as of June 30, 2019 and 2018. 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. The financial statements of the Component Units were not audited in accordance with *Government Auditing Standards*. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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.

Change in Accounting for Postretirement Benefits Other than Pensions

As discussed in Note 1 to the financial statements, the University adopted the provisions under GASB Statement No. 75, Accounting and Financial Reporting for Postretirement Benefits Other than Pensions, as of July 1, 2017. 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 4-53, schedule of changes in the University's net pension liability and related ratios on page 154, schedule of University's contributions- pension plan on page 155, and the schedule of changes in the University's total OPEB liability and related ratios on page 159 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 Financial 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 160 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information on page 160 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 26, 2020, 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 's internal control over financial reporting and compliance.

Ernst & Young LLP

March 26, 2020

Stamp No. E401113
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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 unit. 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. One of the component units, despite being legally separate from the University, is so integrated with the University that it is in substance part of the University. This component unit is blended with the University.

Blended Component Unit: Desarrollos Universitarios, Inc. ("DUI"), a blended component unit, although legally separate, is reported as if it was part of the University because its debt is expected to be repaid entirely or almost entirely with resources of the University.

DUI is 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.

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 unit (hereafter referred as the "University") for the years ended June 30, 2019 and 2018. 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, 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. As of June 30, 2018, the University had total assets of $1.44 billion, total deferred outflows of resources of $919.8 million, total liabilities of $4.11 billion, total deferred inflows of resources of $126.3 million and net deficit of $1.87 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. The net pension liability which amounted to approximately $3.02 billion, $2.97 billion and $2.01 billion as of June 30, 2019, 2018 and 2017, respectively, increased by approximately $55.9 million or 2% in fiscal year 2019 and by approximately $961.5 million or 48% in fiscal year 2018, when compared with the prior year balances. The increases in the net pension liability mainly resulted from the decreases in the discount rates used to calculate the total pension liability, which amounted to 3.81%, 3.92% and 5.89% in fiscal years 2019, 2018 and 2017, respectively.

The total OPEB liability which amounted to approximately $226.8 million, $232.1 million and $14.2 million as of June 30, 2019, 2018 and 2017, respectively, decreased by approximately $5.3 million or 2% in fiscal year 2019, and increased by approximately $217.9 million in fiscal year 2018, when compared to prior year balances. As further explained in the section "Overview of the Basic Financial Statements", as of July 1, 2017, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) ("GASB Statement No. 75) which establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB. At transition, the impact of GASB Statement No. 75 decreased the net position as of July 1, 2017 by approximately $205.8 million, recognized a deferred outflow of resources for the OPEB employer's contributions made after the June 30, 2016 measurement date of approximately $9.9 million and increased the total OPEB liability by approximately $215.7 million.

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 $646.6 million, $918.1 million and $220.2 million as of June 30, 2019, 2018 and 2017, respectively, decreased by approximately $271.5 million in fiscal year 2019, and increased by approximately $697.9 million in fiscal year 2018, when compared to prior year balances. Deferred inflows of resources related to pension and OPEB activities which amounted to $45.6 million, $126.3 million and $172.9 million as of June 30, 2019, 2018 and 2017, respectively, decreased by approximately $80.7 million in fiscal year 2019, and by approximately $46.6 million in fiscal year 2018. 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.

The University's net deficit position increased by approximately $68.9 million or 4% in fiscal year 2019 and by approximately $499.6 million or 36% in fiscal year 2018, when compared to prior year balances. In fiscal year 2019, the operating loss which amounted to $1.04 billion exceeded by approximately $69.0 million the total nonoperating revenues, net which amounted to $966.6 million. In fiscal year 2018, the operating loss which amounted to $1.20 billion exceeded by approximately $294.0 million the total nonoperating revenues, net which amounted to $909.2 million. In fiscal year 2017, total nonoperating revenues, net which amounted to $1.11 billion exceeded by approximately $128.4 million the operating loss which amounted to $984.8 million.

In fiscal year 2019, nonoperating revenues, net increased by approximately $57.4 million or 6% and in fiscal year 2018, nonoperating revenues, net decreased by approximately $204.0 million or 18%, when compared to prior year balances. 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, as further explained in section "Analysis of Net Position and Changes in Net Position". In fiscal year 2019, the Commonwealth appropriations and Federal Pell Grant program revenues which amounted to approximately $695.7 million and $180.4 million, respectively, decreased by approximately $37.4 million or 5% and by approximately $6.9 million or 4%, respectively, when compared to 2018 balances of approximately $733.1 million and $187.3 million, respectively, mainly as a result of the decrease of approximately $44.1 million in the Commonwealth formula appropriations, as further explained below. In fiscal year 2018, the Commonwealth appropriations and Federal Pell Grant program revenues which decreased by approximately $201.3 million or 22% and $2.1 million or 1%, respectively, when compared to the 2017 balances of approximately $934.4 million and $189.4 million, respectively, mainly as a result of the decrease of approximately $202.7 million in the Commonwealth formula appropriations. In addition, in fiscal year 2018, the University recognized an impairment loss on capital assets of approximately $16.3 million as a result of the damages caused by the passage of Hurricanes Maria and Irma through the Island of Puerto Rico in September 2017.

The decrease in the net operating loss of approximately $167.6 million or 14% in fiscal year 2019 was mainly caused by the increase in operating revenues of approximately $98.9 million and the decrease in operating expenses of approximately $68.7 million. The increases in operating revenues are mainly related to the increases in the Federal grants and contract, the tuitions and fees, mainly as a result of the increases in the tuition costs, and the proceeds of approximately $33.8 million received from the insurance company to cover the damages caused to the University by passage of the hurricanes in Puerto Rico, included as other operating revenues in the statements of revenues, expenses and changes in net position. The decreases in operating expenses are mainly related to the decreases in the expenses of scholarships and fellowships, salaries and benefits, and an impairment loss on capital assets of approximately $16.3 million recorded in 2018 as a result of the damages caused to the University by the passage of Hurricanes Maria and Irma through the Island of Puerto Rico in September 2017, which effect was partially offset by the increase in the pension cost of approximately $22.4 million. As a result of the increase in the tuition costs, a lesser amount in the Federal Pell Grant program was available to cover student aids other than tuitions, reducing the expense related to scholarships and fellowships.

The increase in the net operating loss of approximately $218.4 million in fiscal year 2018 was mainly caused by the increase in the pension cost. In fiscal years 2018 and 2017, the University recognized a pension cost of approximately $309.8 million and $43.5 million, respectively, which caused an increase in benefits of approximately $266.3 million in fiscal year 2018.

The University's cash position amounted to approximately $317.1 million, $264.3 million and $313.4 million as of June 30, 2019, 2018, and 2017, respectively, an increase of approximately $52.8 million or 20% in fiscal year 2019, and a decrease of approximately $49.1 million or 16% in fiscal year 2018.

The increase in the University's cash position of approximately $52.8 million or 20% in fiscal year 2019 mainly resulted from the excess of the net cash provided by noncapital financing activities which amounted to $886.3 million and the net cash provided by the investing activities which amounted to $14.0 million over the net cash used in operating activities which amounted to $774.5 million and the net cash used in capital and related financing activities which amounted to $73.0 million. The net cash used in operating activities decreased by approximately $107.4 million or 12%, when compared with the prior year balance of $881.9 million mainly as a result of the increases in the governmental grants and contracts (mainly Federal grants and contracts) of approximately $44.1 million, in the tuitions and fees of approximately $22.5 million, and in the insurance proceeds received to partially cover the University's damages caused by the hurricanes of approximately $28.7 million, and a decrease in salaries paid of approximately $15.4 million and the decrease in the payments of scholarships and fellowships of approximately $39.1 million, which effects were partially offset by the increases in the payments to suppliers and utilities of approximately $32.8 million and for benefits of approximately $12.5 million. The increase in tuitions and fees mainly resulted from the increases in the tuition costs and in the related fees implemented in fiscal year 2019. The decrease in scholarships and fellowships payments mainly resulted from a lesser amount in the Federal Pell Grant program was available to cover student aids other than tuitions because of the increase in the tuition costs. The net cash used in operating activities in fiscal year 2019 was partially offset by cash advances received from Commonwealth grants of approximately $20.0 million for tutorial and training services to public employees for which the University has not rendered those services as of June 30, 2019, and approximately $33.8 million of insurance proceeds received to partially cover the University's damages caused by the hurricanes, which proceeds are now committed to future permanent works projects to be funded by the Federal Emergency Management Agency (FEMA) after June 30, 2019. The net cash provided by noncapital financing activities decreased by approximately $41.7 million or 4% mainly as a result the decrease in the Commonwealth's appropriations. In accordance with the Commonwealth Budget for the fiscal year 2019 certified by the Oversight Board of PROMESA, the Commonwealth formula amounted to $587.1 million, a decrease of approximately $44.1 million when compared with the Commonwealth's formula appropriation of $631.2 million for 2018.

The decrease in the University's cash position of approximately $49.1 million or 16% in 2018 mainly resulted from the excess of the net cash used in the operating activities which amounted to $881.9 million and the net cash used in the capital and related financing activities which amounted to $93.6 million over the net cash provided by the noncapital financing activities which amounted to $928.0 million. The decrease in the University's cash position was mainly caused by the decrease in the Commonwealth's appropriations. In accordance with the Commonwealth Budget for the fiscal year 2018 certified by the Oversight Board of PROMESA, the Commonwealth formula amounted to $631.2 million, a decrease of approximately $202.7 million when compared with the Commonwealth's formula appropriation of $833.9 million for 2017. In addition, in fiscal year 2018, the University made an additional payment of about $20 million to the trustee of the University System Revenue Bonds corresponding to unremitted deposits for the fiscal year 2017.

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, 2019, 2018 and 2017 follows:

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

	June 30		
	2019	2018	2017 *(As Previously Reported)*
Assets:			
Current assets:			
Cash and cash equivalents	$ 315,038	$ 255,302	$ 304,138
Investments	61,551	67,266	45,436
Accounts receivable, net	17,102	14,682	17,001
Due from Federal Government	42,282	37,616	33,584
Due from related parties, net	20,218	16,165	12,972
Other assets	4,697	5,665	4,663
Total current assets	460,888	396,696	417,794
Noncurrent assets:			
Investments	204,521	205,425	199,523
Capital assets, net	810,368	823,916	866,457
Other assets	10,920	14,453	14,985
Total noncurrent assets	1,025,809	1,043,794	1,080,965
Total assets	1,486,697	1,440,490	1,498,759
Deferred outflows of resources	648,044	919,784	222,111
Total assets and deferred outflows of resources	2,134,741	2,360,274	1,720,870
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	88,193	100,365	82,007
Unearned revenue	29,021	10,000	–
Long-term debt	26,995	102,101	100,861
Other long-term liabilities	26,145	33,368	27,442
Total current liabilities	170,354	245,834	210,310
Non-current liabilities, net of current portion:			
Long-term debt	410,699	439,319	466,700
Other long-term liabilities:			
Net pension liability	3,024,133	2,968,233	2,006,703
OPEB liability	226,844	232,115	14,153
Other liabilities	200,262	222,794	224,569
Total noncurrent liabilities	3,861,938	3,862,461	2,712,125
Total liabilities	4,032,292	4,108,295	2,922,435
Total deferred inflows of resources	45,649	126,312	172,913
Total liabilities and deferred inflows of resources	4,077,941	4,234,607	3,095,348
Net position (deficit):			
Net investment in capital assets	395,920	382,646	390,426
Restricted:			
Nonexpendable	123,300	118,307	115,180
Expendable	67,185	78,678	59,049
Unrestricted (deficit)	(2,529,605)	(2,453,964)	(1,939,133)
Total net position (deficit)	$ (1,943,200)	$ (1,874,333)	$ (1,374,478)

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

	Years Ended June 30		
	2019	**2018**	**2017**
			(As Previously Reported)
Operating revenues:			
Tuition and fees, net	$ 80,518	$ 53,443	$ 47,666
Governmental grants and contracts, net	132,686	98,241	96,541
Patient services, net	73,835	68,198	75,801
Other operating revenues, net	65,442	33,714	42,561
Total operating revenues	352,481	253,596	262,569
Operating expenses:			
Salaries	560,158	574,528	609,820
Benefits:			
Pension cost and OPEB expense	333,145	320,807	58,877
Other benefits	110,919	130,785	146,977
Scholarships and fellowships	147,724	186,843	193,434
Supplies and other services and utilities	185,205	161,977	181,630
Impairment loss on capital assets	–	16,348	–
Other operating expenses	50,997	65,549	56,625
Total operating expenses	1,388,148	1,456,837	1,247,363
Operating loss	(1,035,667)	(1,203,241)	(984,794)
Nonoperating revenues (expenses):			
Commonwealth and other appropriations	695,711	733,099	934,418
Federal Pell Grant program	180,361	187,272	189,364
Gain on settlement of governmental bank liabilities	87,316	–	–
Net other nonoperating revenues (expenses)	3,255	(11,190)	(10,631)
Net nonoperating revenues	966,643	909,181	1,113,151
(Loss) income before other revenues	(69,024)	(294,060)	128,357
Additions to term and permanent endowments	157	15	9
Change in net position	(68,867)	(294,045)	128,366
Net position (deficit):			
Beginning of year	(1,874,333)	(1,374,478)	(1,502,844)
Cumulative effect of change in accounting for OPEB expense	–	(205,810)	–
End of year	$ (1,943,200)	$ (1,874,333)	$ (1,374,478)

Condensed Statements of Cash Flows (In thousands)

	Years Ended June 30		
	2019	2018	2017
Net cash used in operating activities	$ (774,504)	$ (881,905)	$ (965,417)
Net cash provided by noncapital financing activities	886,305	927,959	1,135,268
Net cash used in capital and related financing activities	(73,001)	(93,619)	(45,695)
Net cash provided by (used in) investing activities	13,991	(1,513)	(2,698)
Net change in cash and cash equivalents	52,791	(49,078)	121,458
Cash and cash equivalents:			
Beginning of year	264,280	313,358	191,900
End of year	$ 317,071	$ 264,280	$ 313,358

Refer to the next section "Overview of the Basic Financial Statements" - *New Accounting Standards Adopted*, for the changes in the financial statements as required by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB).

In addition, 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 has incurred recurring deficits, has a negative financial condition, has experienced further deterioration of its economic condition, has not been able to access the credit markets, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) which was signed by the U.S. President on June 30, 2016.

PROMESA grants the Commonwealth and its component units 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.

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. 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 contributed to significant budget deficits during the past several years, which deficits the Commonwealth financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. Since June 30, 2014, the principal rating agencies have contributed to lower 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 reflects a net position deficit/fund balance deficit of approximately $70.3 billion as of June 30, 2016 (the most recent audited financial information). The Commonwealth's General Fund shown a fund balance (deficit) of approximately $1.2 billion as of June 30, 2016.

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 2016 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 $2.53 billion and $1.94 billion, respectively, as of June 30, 2019. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other revenues and depreciation, interest and other expenses) during fiscal years 2019, 2018 and 2017 of $1.04 billion, $1.20 billion and $984.8 million, 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 highly dependent on the Commonwealth appropriations to finance its operations and had historically relied on the GDB for liquidity. Approximately 54% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other's appropriations which amounted to approximately $695.7 million, $733.1 million and $934.4 million for the years ended June 30, 2019, 2018 and 2017, 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-based appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula-based appropriations of the University amounted to $587.1 million and $631.2 million, respectively, for the years ended June 30, 2019 and 2018, respectively, a decrease of $246.8 million or 29.6% when compared the 2019 Commonwealth's formula appropriation with the Commonwealth's formula appropriation of $833.9 million for fiscal year 2017. The 2019 Commonwealth Fiscal Plan for fiscal years 2019 to 2024 continues to reduce the general appropriations to the University over a five-year period with the expectation that the University will become more self-sufficient and develop more diverse and resilient revenue streams outlined in the 2019 University Fiscal Plan for fiscal years 2019 to 2024. The Commonwealth approved formula appropriations are $501.1 million for 2020, $430.1 million for 2021, $407.1 million for 2022 and $383.1 million for 2023. No further cuts are expected after fiscal year 2023 and appropriations are indexed to inflation in fiscal year 2024 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 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). The Trustee on behalf of DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

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 eleven times and the new Compliance Period is May 29, 2020. Pursuant to the letter agreement and the eleven 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.

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, 2019, the University was not in compliance with the following covenants: provide its audited financial statements not later than six months after the end of each fiscal year. Also, 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 each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with the requirements of Rule 15c2-12 ("Continuing Disclosures"), as amended, promulgated by the Securities and Exchange Commission (the SEC).

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, 2019. The University was in compliance with various program requirements for the year ended June 30, 2019.

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

On June 5, 2019, the Oversight Board of PROMESA certified its own fiscal plan for the University for the fiscal years 2019 to 2024 (the UPR 2019 Fiscal Plan). The UPR 2019 Fiscal Plan maintains the University's existing operational model of eleven campuses and includes the approved projected reductions in the Commonwealth's formula appropriations. The Commonwealth's approved formula appropriations will range from $501 million in fiscal year 2020 to $383 million in fiscal year 2023. No further cuts are expected after fiscal year 2023 and appropriations are indexed to inflation in fiscal year 2024 and beyond. Below are certain other key terms of the certified fiscal plan:

- Operational efficiencies: a 10% decrease in total operating expenditures between fiscal years 2019 to 2024. 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 12,800 employees in fiscal year 2018 to 10,300 employees in fiscal year 2024.
  - Centralized procurement efforts and contract negotiations.
  - Benefits adjustments: eliminate the Christmas bonus for all employees starting in fiscal year 2019; 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 starting in fiscal year 2020; and reduce pay out of non-payroll compensation (e.g. 15-day liquidation of sick days, union charges) starting in fiscal year 2020.

- Revenue enhancement:
  - 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 2019 to 2024 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 $115 per credit in fiscal year 2019; $124 per credit in fiscal year 2020; $134 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 the Puerto Rico inflation (estimated to be 1.50% 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 2019 and then index to average public tuition increases over past decade (approximately 3.1%) starting in fiscal year 2020.

- Pension reform: PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. Accordingly, the UPR 2019 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: continue with its current defined benefit plan and return to making the full actuarially required contribution of about $160 million per year. 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 $60 million per year, likely through faculty reduction, significant consolidation, or tuition increases.
    - Option 2: 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 $43 million per year, again faculty reduction, significant consolidation, or tuition increases.
    - Option 3: 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 3 is the most responsible course of action for the University. Otherwise, the University will have to find significant additional savings or revenues from areas that are critical to its core mission (e.g., further tuition increases, campus closures, faculty reduction) in order to avoid operating at a deficit and maintain the solvency of its retirement system.

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 2019 Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of income level, have access. The University will expand this internal scholarship fund expenditures from $9 million in fiscal year 2019 to $14 million in fiscal year 2020.

In addition, the Commonwealth, in collaboration with the Oversight Board, and as certified in the Commonwealth's fiscal plan dated May 9, 2019, 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 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 has not yet commenced operations. 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.

With the UPR 2019 Fiscal Plan measures, including the reduction in the Commonwealth's appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2020 through fiscal year 2024.

The gradual increases in the undergraduate student cost and in the graduate student average annual tuition started with fiscal year 2019. The University is committed to make necessary reforms to its pension system.

There is no certainty that the Certified University Fiscal Plan, as 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 the substantial doubt about its ability to continue as a going concern has been fully alleviated.

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 Unit. 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 schedules of changes in sinking fund reserves.

New Accounting Standards Adopted

As of July 1, 2018, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB Statement No. 83).
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB Statement No. 88).

GASB Statement No. 83 establishes standards of accounting and financial reporting requirements, for legally enforceable liabilities associated with the retirement of certain tangible capital assets. Under this standard, the University is required to recognize a liability for the future legal obligations needed to retire certain tangible capital assets. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB Statement No. 88 resulted in minimal changes in disclosure and presentation of notes 11 and 12 to financial statements.

As of July 1, 2017, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* (GASB Statement No. 75).
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB Statement No. 81).
- GASB Statement No. 85, *Omnibus 2017* (GASB Statement No. 85).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB Statement No. 86.

GASB Statement No. 75 establishes standards of accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*.

At transition, the impact of GASB Statement No. 75 decreased the net position as of July 1, 2017 by approximately $205.8 million, recognized a deferred outflow of resources for the OPEB employer's contributions made after the June 30, 2016 measurement date of approximately $9.9 million and increased the total OPEB liability by approximately $215.7 million. At transition, the effect of deferred outflows of resources and deferred inflows of resources from other OPEB activities as required by GASB Statement No. 75 was not included because it was impracticable to determine them.

GASB Statement No. 81, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB Statement No. 81 also provides expanded guidance for circumstances in which the government holds the assets. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 85 addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 86 establishes standards of accounting and financial reporting requirements, for in-substance defeasance of debt transactions in which cash and other monetary assets acquired with only existing resources-that is, resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of future repayment of outstanding debt. The adoption of this statement had no impact on the University's financial statements.

Analysis of Net Position and Changes in Net Position

Statements of Net Position (Deficit)

Assets

Total assets amounted to $1.49 billion, $1.44 billion and $1.50 billion as of June 30, 2019, 2018 and 2017, respectively. Total assets increased by approximately $46.2 million or 3% in 2019 and decreased by approximately $58.3 million or 4% in 2018.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. 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. As of

June 30, 2018, cash and cash equivalents, investments and accounts receivable, including due from related parties, comprise approximately 64%, 17% 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 at June 30, 2019, 2018, and 2017) amounted to $317.1 million, $264.3 million and $313.4 million at June 30, 2019, 2018 and 2017, respectively, an increase of approximately $52.8 million or 20% in fiscal year 2019, and a decrease of approximately $49.1 million or 16% in fiscal year 2018.

The increase in the University's cash position of approximately $52.8 million or 20% in fiscal year 2019 mainly resulted from the excess of the net cash provided by noncapital financing activities which amounted to $886.3 million and the net cash provided by the investing activities which amounted to $14.0 million over the net cash used in operating activities which amounted to $774.5 million and the net cash used in capital and related financing activities which amounted to $73.0 million. The net cash used in operating activities decreased by approximately $107.4 million or 12%, when compared with the prior year balance of $881.9 million mainly as a result of the increases in the governmental grants and contracts (mainly Federal grants and contracts) of approximately $44.1 million, in the tuitions and fees of approximately $22.5 million, and in the insurance proceeds received to partially cover the University's damages caused by the hurricanes of approximately $28.7 million, a decrease in salaries paid of approximately $15.4 million and the decrease in the payments of scholarships and fellowships of approximately $39.1 million, which effects were partially offset by the increases in the payments to suppliers and utilities of approximately $32.8 million and for benefits of approximately $12.5 million. The increase in tuitions and fees mainly resulted from the increases in the tuition costs and in the related fees implemented in fiscal year 2019. The decrease in scholarships and fellowships payments mainly resulted from a lesser amount in the Federal Pell Grant program was available to cover student aids other than tuitions because of the increase in the tuition costs. The net cash used in operating activities in fiscal year 2019 was partially offset by cash advances received from Commonwealth grants of approximately $20.0 million for tutorial and training services to public employees for which the University has not rendered those services as of June 30, 2019, and approximately $33.8 million of insurance proceeds received to partially cover the University's damages caused by the hurricanes, which proceeds are now committed to future permanent works projects to be funded by the Federal Emergency Management Agency (FEMA) after June 30, 2019. The net cash provided by noncapital financing activities decreased by approximately $41.7 million or 4% mainly as a result the decrease in the Commonwealth's appropriations. In accordance with the Commonwealth Budget for the fiscal year 2019 certified by the Oversight Board of PROMESA, the Commonwealth formula amounted to $587.1 million, a decrease of approximately $44.1 million when compared with the Commonwealth's formula appropriation of $631.2 million for 2018.

The decrease in the University's cash position of approximately $49.1 million or 16% in 2018 mainly resulted from the excess of the net cash used in the operating activities which amounted to $881.9 million and the net cash used in the capital and related financing activities which amounted to $93.6 million over the net cash provided by the noncapital financing activities which amounted to $928.0 million. The net cash provided by the noncapital financing activities in 2018 decreased by approximately $207.3 million or 18% when compared with the prior year balance and includes the collected Commonwealth appropriations which amounted to $733.1 million and collected revenues from Federal Pell Grant program which amounted to $187.3 million. In accordance with the Commonwealth Budget for the fiscal year 2018 certified by the

Oversight Board of PROMESA, the Commonwealth formula amounted to $631.2 million, a decrease of approximately $202.7 million when compared with the Commonwealth's formula appropriation of $833.9 million for 2017. The net cash used in the operating activities decreased by approximately $83.5 million from $965.4 million in 2017 mainly as a result of the decrease in the payments to employees and to suppliers. Salaries paid to employees amounted to $575.6 million in fiscal year 2018 and $610.1 million in fiscal year 2017, a decrease of approximately $34.5 million or 6%. Payments to suppliers amounted to $123.7 million in fiscal year 2018 and $153.6 million in fiscal year 2017, a decrease of approximately $29.9 million or 19%. The net cash used in the capital and related financing activities increased by $47.9 million from $45.7 million in 2017 to $93.6 million in 2018 mainly as a result of the change in the deposits with the trustees. In 2018, the University made an additional payment of about $20 million to the trustee of the University System Revenue Bonds corresponding to unremitted deposits for the fiscal year 2017. In addition, purchases of capital assets increased by approximately $3.1 million in 2018.

For a more detailed information of the changes in cash and cash equivalents, refer to the University's statements of cash flows for the years ended June 30, 2019 and 2018.

Total investments (current and noncurrent assets) amounted to $266.1 million, $272.7 million and $245.0 million at June 30, 2019, 2018 and 2017, respectively. The decrease of approximately $6.6 million or 2% in 2019 mainly resulted from a decrease of approximately $10.7 million in the restricted investments of the University's Healthcare Deferred Compensation Plan because of withdrawals of funds of approximately $11.3 million, and a decrease of approximately $6.0 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; which effects were partially offset by the increase of approximately $10.1 million in the restricted investments of the permanent endowment funds mainly as a result of the increase in the net appreciation in the fair value of such investments of approximately $3.4 million and the purchase of a restricted U.S agency note for approximately $6.0 million with funds deposited in a money market fund classified as a cash equivalent. The increase of approximately $27.7 million or 11% in 2018 mainly resulted from the increase of approximately $21.8 million in the restricted investments of the sinking funds used to pay the debt service payment of the University and DUI's bonds payable as a result of the payment of $20.0 million made by the University on September 1, 2017 of the deposits corresponding to fiscal year 2017. In fiscal year 2017, the University suspended the monthly payments to the trustee for the University of Puerto Rico System Revenue Bonds from July 2016 to May 2017 in compliance with EO 31. On June 29, 2017, the University entered into a letter agreement with the trustee and paid $20 million of the deposits corresponding to fiscal year 2017 on June 30, 2017 and $20 million on September 1, 2017. In addition, the increase in investment in 2018 due to the increase of approximately $4.1 million in the restricted investments in the permanent endowment funds and the increase of approximately $2.1 million in the restricted investments of the University's Healthcare Deferred Compensation Plan, mainly as a result of the increase in the fair value such investments.

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 $7.1 million, $93.5 million and $92.1 million as of June 30, 2019, 2018 and 2017, respectively. 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, 2019, 2018 and 2017, the entire balance of the deposits held with GDB was considered not realizable.

Impairment losses on deposits held with the GDB were recorded in the University's basic financial statements for the years ended June 30, 2016 and 2015 of approximately $69.8 million and $21.7 million, respectively, based on an evaluation of the availability and recoverability of such funds at the corresponding year-end. Deposits held with GDB increased by approximately $964,000, $1,330,000 and $672,000 in fiscal years 2019, 2018 and 2017, respectively, for capitalized interest which collection was considered improbable. Thus, related interest income was not recorded in fiscal years 2019, 2018 and 2017.

As explained in the Liabilities Section, on November 29, 2018, 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.

Accounts receivable, net, amounted to $17.0 million, $14.7 million and $17.0 million at June 30, 2019, 2018 and 2017, 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 increase of approximately $2.3 million or 15% in 2019 mainly resulted from an increase in student tuition and fee and other accounts receivable of approximately $2.5 million. The decrease of approximately $2.3 million or 14% in 2018 mainly resulted from a decrease in due from medical plans and other accounts receivable of approxiamtely $2.0 million or 16%. Gross accounts receivable amounted to $156.2 million, $145.1 million, and $142.0 million at June 30, 2019, 2018 and 2017, respectively. The allowance for doubtful accounts amounted to $139.1 million, $130.4 million, and $125.0 million at June 30, 2019, 2018 and 2017, respectively. The increases in the allowance for doubtful accounts in 2019 and in 2018 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 $42.3 million, $37.6 million and $33.6 million at June 30, 2019, 2018 and 2017, 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 increased by approximately $4.7 million or 12% in 2019 and by approximately $4.0 million or 12% in 2018.

Due from related parties, net amounted to $20.2 million, $16.2 million and $13.0 million at June 30, 2019, 2018 and 2017, 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 2019 and 2018, these accounts increased by approximately $4.0 million or 25% and by approximately $3.2 million or 25%, respectively, mainly as a result of advances given to the University's Retirement System of approximately $5.0 million and $3.0 million in 2019 and 2018, respectively, as explained below. Gross related party accounts receivable amounted to $127.7 million, $122.9 million and $114.4 million at June 30, 2019, 2018 and 2017, respectively. The allowance for these doubtful accounts amounted to $107.5 million, $106.7 million and $101.5 million at June 30, 2019, 2018 and 2017, respectively. The increases in the allowance for doubtful accounts in 2019 and 2018 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 $17.5 million, $18.1 million and $15.8 million at June 30, 2019, 2018 and 2017, 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 $2.3 million, $2.9 million and $2.4 million at June 30, 2019, 2018 and 2017, 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 $49.4 million, $46.2 million and $44.7 million at June 30, 2019, 2018 and 2017, 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 $5.4 million, $5.7 million and $5.0 million at June 30, 2019, 2018 and 2017, respectively, for unremitted distributions of income to be received by the University under the Gambling Law that in each year were collected at the beginning of the next fiscal year. 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 $3.4 million at June 30, 2019 and to $3.6 million at June 30, 2018 and 2017, 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 approximately $1.2 million in 2018 and in 2019, and $2.0 million in 2020 of these accounts receivable as of June 30, 2017, 2018 and 2019.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital"), a discretely presented component unit of the University, which amounted to $24.0 million, $22.8 million and $21.8 million at June 30, 2019, 2018 and 2017, 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 $5.1 million, $3.0 million and $53,000 at June 30, 2019, 2018 and 2017, respectively, which resulted from unpaid advances of approximately $5.0 million in 2019 and of $3.0 million in 2018 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 November 2018, the University collected the whole amount due from the Retirement System at June 30, 2018. The amount due by the Retirement System as of June 30, 2019 has not yet been collected.

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 depreciation and amortization, amounted to $810.4 million, $823.9 million and $866.5 million at June 30, 2019, 2018 and 2017, respectively. Capital assets decreased by approximately $13.5 million or 2% in 2019 and by approximately $42.6 million or 5% in 2018. The decreases in both years mainly resulted from the depreciation and amortization expense of approximately $43.9 million in 2019 and of $44.9 million in 2018, and the capital asset retirements of approximately $454,000 in 2019 and of $21.3 million in 2018, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to approximately $30.8 million in 2019 and $23.6 million in 2018. Increases in the retirements in 2018 and in the additions to capital assets in 2019 and 2018 are related to the damages caused by the passage of Hurricanes Irma and Maria through the Island of Puerto Rico in September 2017.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses. Some of the University's eleven campuses were more affected than others, but all were impacted in some way. In fiscal year 2018, the University recognized an impairment loss on capital assets of approximately $16.3 million as a result of the damages caused to the University by the passage of Hurricanes Maria and Irma.

Noncurrent other assets amounted to $10.9 million, $14.5 million and $15.0 million at June 30, 2019, 2018 and 2017, 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 $648.0 million, $919.8 million and $222.1 million at June 30, 2019, 2018 and 2017, respectively. The decrease of approximately $271.8 million in 2019 mainly resulted from recognition of beginning deferred outflows of resources related to changes in assumptions and other inputs as pension expense. The increase of approximately $697.7 million in 2018 mainly resulted from changes in the deferred outflows of resources for the pension plan employer's contributions made subsequent to the measure date, from pension activities related to changes in assumptions and other input and from net difference between projected and actual earnings on plan investments. Deferred outflows of resources also include the deferred refunding loss on the University' revenue bonds of $1.4 million, $1.7 million and $1.9 million at June 30, 2019, 2018 and 2017, respectively, which decreased by the amortization expense of approximately $300,000 each year.

Liabilities

Total liabilities amounted to $4.03 billion, $4.11 billion and $2.92 billion at June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $76.0 million or 2% in 2019 and an increase of approximately $1.19 billion in 2018. The decrease in 2019 mainly resulted from the offset of the credit facilities with the GDB of approximately $76.4 million plus accrued interest payable of approximately $10.9 million for an aggregated amount of $87.3 million, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB. The net pension liability which balance amounted to $3.02 billion, $2.97 billion and $2.01 billion at June 30, 2019, 2018 and 2017, respectively, an increase of approximately $55.9 million in 2019 and of $961.5 million in 2018. As further explained below, the increase in the net pension liability mainly resulted from the decrease in the discount rates used to measure the total pension liability. In addition, the total OPEB liability amounted to $226.8 million, $232.1 million and $14.2 million as of June 30, 2019, 2018 and 2017, respectively. As further explained below, the increase of approximately $217.9 million in the total OPEB liability in 2018 mainly resulted from the effect of the adoption of GASB Statement No. 75.

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 $88.2 million, $100.4 million and $82.0 million at June 30, 2019, 2018 and 2017, respectively. Accounts payable and accrued liabilities decreased by approximately $12.2 million or 12% in 2019 and increased by approximately $18.4 million or 22% in 2018. The decrease in 2019 mainly resulted for the decrease of approximately $9.8 million in accrued interest payable mainly related to the offset of approximately $10.9 million of accrued interest payable on the credit facilities with the GDB, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB; and, the decrease of approximately $7.0 million in the accounts payable to the University's Retirement System because of the University's payment of $10.0 million related to additional contributions for fiscal years 2018 and 2017 approved by the Governing Board that were paid in November 2018; which effects were partially offset by the accrual of approximately $4.8 million 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 2019 billed by the ERS to the University corresponding to certain retirees of a unit of the University, who are members of the ERS. The increase in 2018 mainly resulted for the increase of approximately $16.3 million in the accounts payable to suppliers; and the increase of approximately $4.6 million in the accrued interest payable on GDB credit facilities because the University stopped the interest payment since fiscal year 2017, as further explained below. In addition, accounts payable to the University's Retirement System increased by approximately $1.3 million mainly as a result of an unpaid additional contribution of approximately $3.7 million for the fiscal year 2018 approved by the Governing Board.

Unearned revenues amounted to $29.0 million and $10.0 million at June 30, 2019 and 2018, respectively. No such liability was outstanding as of June 30, 2017. Unearned revenues include cash advances received from Commonwealth grants of $20.0 million 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. In fiscal year 2019, the University commenced to offer the trainings and seminars to public employees and realized a revenue of approximately $1.0 million for those services rendered.

Total long-term debt obligations (current and noncurrent liabilities) amounted to $437.7 million, $541.4 million and $567.6 million at June 30, 2019, 2018 and 2017, respectively. The decreases of approximately $103.7 million or 19% in 2019 and of $26.2 million or 5% in 2018 mainly resulted the offset of the credit facilities with the GDB of approximately $76.4 million plus accrued interest payable of approximately $10.9 million for an aggregated amount of $87.3 million, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB in 2019; from principal paid on long-term debt of approximately $25.7 million in 2019 and of $24.5 million in 2018; and the amortization of bond premium of approximately $1.6 million in 2019 and of $1.7 million in 2018.

Long-term debt obligations include the University's revenue bonds and the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds) which amounted to $378.7 million and $59.0 million as of June 30, 2019, $403.4 million and $61.6 million as of June 30, 2018, and $427.1 million and $64.0 million as of June 30, 2017, respectively. The decreases in 2019 and 2018 mainly resulted from the principal repayments of approximately $23.1 million and $22.0 million in the University's revenue bonds and of approximately $2.6 million and $2.5 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).

The University had two credit facilities with the GDB, a term loan originally used for working capital purposes and a $75 million non-revolving line of credit with the GDB used complete certain construction projects of the University's Program for Permanent Improvements. The term loan was collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. The University had not made the monthly payments of this term loan since May 2016. The $75.0 million line of credit expired on January 31, 2016 and the University had not made the monthly interest payments of this line of credit since September 2016. The balances outstanding under the term loan and the $75 million line of credit with the GDB amounted to $48.3 million and $28.1 million, respectively, at June 30, 2018 and 2017. Accrued interest payable on the credit facilities with the GDB amounted to approximately $9.7 million and $5.0 million, at June 30, 2018 and 2017, respectively.

As explained below, on November 29, 2018, the above notes payable to the GDB amounting to approximately $76.4 million and corresponding accrued interest amounting to approximately $10.9 million were fully offset, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB, and such credit facilities were extinguished. As a result, 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.

On May 15, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Government Development Bank for Puerto Rico (GDB) entered into a Restructuring Support Agreement (the "RSA") with a significant portion of the GDB's creditors. The parties to the RSA agreed to undertake a financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). On November 6, 2018, the Qualifying Modification was approved by the Federal Court. On November 29, 2019, the FAFAA and the GDB announced the consummation of the Qualifying Modification.

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"), claims on account of deposits held by the Commonwealth and other public entities, including the University, will be exchanged for interest in the Public Entity Deed of Trust created pursuant to the GDB Restructuring Act. Specifically, pursuant to the GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the University (each a "Non-Municipal Government Entity") and the GDB will be determined by applying the outstanding balance of any deposits held at GDB in a Non- Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the GDB or of any bond or note of such Non-Municipal Government Entity held by the GDB as of such date. Those Non-Municipal Government Entities having net claims against the GDB, after giving effect to the foregoing adjustment, including the University, will receive their pro rata share of interests in the Public Entity Trust (PET), which will be deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification, on November 29, 2018, the credit facilities the University owed to the GDB (approximately $76.4 million in principal plus accrued interest of $10.9 million for a total amount of $87.3 million, as of November 29, 2018) were fully offset on a dollar-for-dollar basis by the amount of the University's deposits held at the GDB (approximately $94.4 million, including accrued interest, as of November 29, 2018) and such credit facilities were extinguished. The remainder of the University's recovery on account of its deposits at the GDB (approximately $7.1 million) will depend upon the recovery received by the Public Entity Trust on account of the PET Assets.

Net pension liability amounted to $3.02 billion, $2.97 billion and $2.01 billion at June 30, 2019, 2018 and 2017, respectively, an increase of approximately $55.9 million or 2% in 2019 and of $961.5 million or 50% in fiscal year 2018. As permitted by GASB, the University's net pension liability as of June 30, 2019, 2018 and 2017 were measured as of June 30, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, respectively, and assuming no liability gains and losses. The increase in the net pension liability mainly resulted from the decreases in the discount rates used to measure the total pension liability, which amounted to 3.81%, 3.92% and 5.89% in fiscal years 2019, 2018 and 2017, respectively.

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 2019 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, 2033. 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, 2033 and the applicable municipal bond index rate of 2.98%, 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, 2018, was applied to all periods of projected benefit payments after June 30, 2033. The SEIR of 3.81% 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, 2018.

In fiscal year 2018, the SEIR at June 30, 2017 was 3.92% 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, 2032 and the applicable municipal bond index rate of 3.13% as of June 30, 2017 applied to all periods of projected benefit payments after June 30, 2032. 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 2018 through 2023, and the five-year average of those contributions thereafter.

In fiscal year 2017, the SEIR at June 30, 2016 was 5.89% based on the long-term expected rate of return on pension plan investments of 7.75% applied to all periods of projected benefit payments through June 30, 2045 and the applicable municipal bond index rate of 3.01% as of June 30, 2016 applied to all periods of projected benefit payments after June 30, 2045. The projection of cash flows used to determine the discount rate for fiscal year 2017 assumed that plan member contributions will be made at the current contribution rate and that the Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Beginning on June 30, 2015, the contribution rates reflect amortization of the Retirement System's unfunded actuarial accrued liability over a closed 40 – year period from that date as established by Certification No. 146 (2014-2015) of the Governing Board issued on June 4, 2015.

The total OPEB liability amounted to amounted to $226.8 million, $232.1 million and $14.2 million as of June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $5.3 million or 2% in 2019 and an increase of approximately $217.9 million in 2018. As further explained in the section "Overview of the Basic Financial Statements", in fiscal year 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) ("GASB Statement No. 75) which establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB. At transition, the impact of GASB Statement No. 75 decreased the net position as of July 1, 2017 by approximately $205.8 million, recognized a deferred outflow of resources for the OPEB employer's contributions made after the June 30, 2016 measurement date of approximately $9.9 million and increased the total OPEB liability by approximately $215.7 million. As permitted by GASB, the University's unfunded total OPEB liability (TOL) as of June 30, 2019 and 2018 were measured at June 30, 2018 and 2017, respectively, by actuarial valuations as of those dates. The discount rates used to calculate the total OPEB liability amounted to 2.98%, 3.13% and 2.71% in fiscal years 2019, 2018 and 2017, respectively.

Total other long-term debt liabilities (current and noncurrent liabilities) amounted to $226.4 million, $256.2 million and $252.0 million at June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $29.8 million or 12% in 2019 and an increase of approximately $4.2 million or 2% in 2018. 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 $132.0 million, $145.1 million and $145.7 million at June 30, 2019, 2018 and 2017, respectively, a decrease approximately $13.1 million or 9% in 2019 and of $569,000 in 2018. Changes in compensated absences are mainly related to 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 $84.4 million, $95.1 million and $93.0 million at June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $10.7 million or 11% in 2019 and an increase of approximately $2.1 million or 2% in 2018. The decrease in 2019 mainly resulted from the participants' withdrawals of approximately $11.6 million and the increase in 2018 mainly resulted from participants' contributions of approximately $3.1 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.

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation. On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company ("Voya") as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint sought relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. As a result of a mediation process, in December 2018, the University and VOYA signed a settlement agreement, subject to the court approval, to dismiss the claim with prejudice without costs or attorneys' fees. Among other agreements, the University rescinded the resolution that terminated VOYA as trustee. On January 30, 2019, the U.S District Court for the Puerto Rico District approved the settlement agreement.

Claims liability amounted to $10.0 million, $16.0 million and $13.3 million at June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $6.0 million or 37% in 2019 and an increase of approximately $2.7 million or 20% in 2018. The decrease in 2019 mainly resulted from the settlements of two claims in which the University paid an aggregated amount of approximately $4.1 million in 2019. The increase in 2018 mainly came from the increase in the accrual of claims liability other than medical malpractice. The accrual at June 30, 2018, included approximately $2.3 million for the claim of the Plaza Universitaria Project's general contractor submitted in October 2003 against the University and DUI for extended overhead (field and main office). On September 10, 2018, the Plaza Universitaria Project's general contractor, the University and DUI signed a settlement agreement in which the University and DUI committed to paid $2,300,000 and $1,550,000, respectively, for a total consideration of $3,850,000. On

September 11, 2018, the Puerto Rico First Court of Instance approved the settlement agreement. In November 2018, the University and DUI made the corresponding payments to the Plaza Universitaria Project's general contractor.

In September 2017, the University received from the U.S. Department of Justice a Claim Letter/Notice of Intent to File Suit on behalf of the National Science Foundation ("NSF"), the National Aeronautics and Space Administration and the United States Department of Energy to take action in the Federal Court against the University for violations of the False Claims Act as a result of an examination of federal grants received by two units of the University. The claim sought treble damages amounted to approximately $5.6 million, including $300,000 for penalties. At June 30, 2018, the University accrued approximately $1.8 million for this claim. On September 27, 2018, the University settled this claim with the federal agencies for approximately $1,773,000. On November 20, 2018, the University paid this claim.

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 $1,261,000. At June 30, 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 $45.6 million, $126.3 million and $172.9 million at June 30, 2019, 2018 and 2017, respectively. The decrease of approximately $80.7 million in 2019 mainly resulted from recognition of beginning deferred inflows of resources related to changes in assumptions and other inputs as pension expense. The decrease of approximately $46.6 million in 2018 mainly resulted from changes in the deferred inflows of resources from pension activities related to differences between expected and actual experience, net differences between projected and actual earnings on plan investments and changes in assumptions and other input.

Net Position (Deficit)

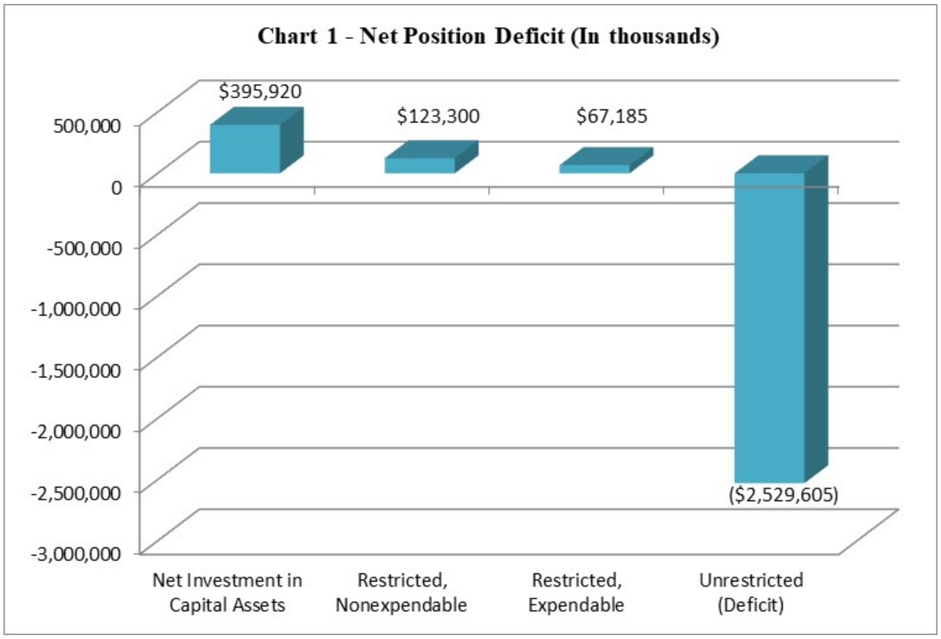
Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to a deficit of $1.94 billion, $1.87 billion and $1.37 billion at June 30, 2019, 2018 and 2017, respectively.

The change in the net position amounted to an increase of approximately $68.9 million and of $294.0 million in the net deficit position for the years ended June 30, 2019 and 2018, respectively.

In fiscal year 2018, the University's net deficit position, at beginning of year, increased by approximately $205.8 million and reached a deficit position of $1.58 billion, when compared to the previously reported net deficit position of $1.37 billion as of June 30, 2017, as a result of the cumulative effect for a change in accounting for OPEB expense for the adoption of GASB Statement No. 75.

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, 2019 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 76% 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 $352.5 million, $253.6 million and $262.6 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $98.9 million or 39% in 2019 and a decrease of approximately $9.0 million or 3% in 2018. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in-patient services revenues.

Tuitions and fees, net amounted to $80.5 million, $53.4 million, and $47.7 million for the years ended June 30, 2019, 2018, and 2017, respectively, an increase of approximately $27.1 million or 51% in 2019 and of $5.8 million or 12% in 2018. Gross tuitions and fees increased by approximately $77.9 million or 75%, from $104.4 million in 2018 to $182.3 million in 2019 and decreased by approximately $4.0 million or 4% in 2018, from $108.4 million in 2017. In 2019, the University started to gradually increase the tuitions cost and fees in accordance with its certified fiscal plan as follows: the undergraduate student cost per credit from $57 in 2018 to $115 in 2019 and the graduate student average annual tuition from $3,699 in 2018 to $6,385 in 2018. In addition, the student body decreased by 4,201 students in 2018, from 59,262 students for fiscal year 2017 to 55,061 students for fiscal year 2018 and decreased 121 students in 2019 to reach 54,940 students. This reduction in the student body was mainly caused for the effects of the passage of the 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 scholarship allowances and the provision for doubtful accounts. Scholarship allowances amounted to $103.9 million, $53.0 million, and $57.9 million for the fiscal years 2019, 2018, and 2017, respectively, an increase of approximately $50.9 million or 96% in 2019 and a decrease of approximately $4.9 million or 8% in 2018. The increase in the scholarship allowances in 2019 mainly resulted from the increase in tuitions costs of eligible participants to Federal Pell Grant program and the decrease in the scholarship allowances in 2018 mainly resulted from the decrease in eligible participants to Federal Pell Grant program. The provision for doubtful accounts amounted to approximately a credit of $2.1 million in 2019, a credit of $2.0 million in 2018, and a provision of $2.9 million in 2017. Refer to the Going Concern section for future increases in tuitions and related fees included in the University fiscal plan for the fiscal years 2020 to 2023.

Revenues from governmental grants and contracts, net amounted to $132.7 million, $98.2 million, and $96.5 million for the years ended June 30, 2019, 2018, and 2017, respectively, an increase of approximately $34.5 million or 35% in 2019 and of approximately $1.7 million or 2% in 2018. Gross revenues from governmental grants and contracts increased by approximately $32.1 million or 31%, from $104.1 million in 2018 to $136.2 million in 2019 and decreased by approximately $5.6 million or 5% in 2018, from $109.7 million in 2017. The increase in 2019 mainly resulted from the Federal grants and contracts which increased by approximately $31.7 million related to the research and development grants and contracts; and other disaster grants for public assistance from the U.S. Department of Homeland Security (presidentially declared disasters) as a result of the damages caused by the hurricanes to the University in September 2017. The increase in 2018 mainly resulted from a decrease of approximately $7.3 million in the provision for doubtful accounts which effect was partially offset by a decrease of approximately $5.6 million in revenues from these grants and contracts. The provision for doubtful accounts for these accounts amounted to approximately $3.5 million and $5.9 million, and $13.2 million in 2019, 2018, and 2017, respectively.

Net patient services revenue and other amounted to $73.8 million, $68.2 million and $75.8 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $5.6 million or 8% in 2019 and a decrease of approximately $7.6 million or 10% in 2018. Patient service revenue depends on medical services, including laboratories, rendered by the University's Medical Sciences Campus faculty members. In fiscal year 2018, patient services were affected by the passages of two hurricanes through the island of Puerto Rico in September 2017; and in fiscal year 2019, these services were stabilized and additional services, mainly radiology services, were provided. The provision for doubtful accounts for these accounts increased by approximately $3.6 million in 2019, from a provision for doubtful accounts of $4.6 million in 2018 to a provision for doubtful accounts of $8.2 million in 2019. In fiscal year 2017, the provision for these accounts resulted in a credit to the provision for doubtful accounts of approximately $23,000.

Other nonoperating revenues, net amounted to $65.4 million, $33.7 million and $42.6 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $31.7 million or 94% in 2019 and a decrease of $9.0 million or 3% in 2018. Other nonoperating revenues include the proceeds of approximately $33.8 million and $5.0 million received from the insurance company in fiscal years 2019 and 2018, respectively, to partially cover the damages caused to the University by passage of the hurricanes in Puerto Rico.

Non-operating Revenues, Net

Total non-operating revenues, net amounted to $966.6 million, $909.2 million and $1.11 billion for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $57.4 million or 6% in 2019 and a decrease of approximately $204.0 million or 18% in 2018. Fiscal year 2019 amount includes a noncash revenue of approximately $87.3 million related a recovered amount on impaired deposits with the GDB 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.

The Commonwealth and other appropriations amounted to $695.7 million, $733.1 million and $934.4 million for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $37.4 million or 5% in 2019 and of $201.3 million or 22% in 2018.

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-based appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula-based appropriations of the University amounted to $587.1 million and $631.2 million, respectively, for the years ended June 30, 2019 and 2018, respectively, a decrease of $246.8 million or 29.6% when compared the 2019 Commonwealth's formula appropriation with the Commonwealth's formula appropriation of $833.9 million for fiscal year 2017. The 2019 Commonwealth Fiscal Plan for fiscal years 2019 to 2024 continues to reduce the general appropriations to the University over a five-year period with the expectation that the University will become more self-sufficient and develop more diverse and resilient revenue streams outlined in the 2019 University Fiscal Plan for fiscal years 2019 to 2024. The Commonwealth approved formula appropriations are $501.1 million for 2020, $430.1 million for 2021, $407.1 million for 2022 and $383.1 million for 2023. No further cuts are expected after fiscal year 2023 and appropriations are indexed to inflation in fiscal year 2024 and beyond.

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 $42.0 million, $37.6 million and $39.0 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $4.4 million or 12% in 2019 and a decrease of approximately $1.4 million or 4% in 2018. In fiscal year 2019, the University commenced to receive funds from the Additional Lottery of the Commonwealth of approximately $3.2 million, as per Act No. 44, "Special Fund for Scholarships of the University of Puerto Rico" approved on January 22, 2018 and effective for fiscal years 2019 and thereafter.

Appropriations from the Commonwealth also include unremitted 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 which are payable upon demand. PRTC appropriations for the years ended June 30, 2019, 2018 and 2017 amounted to $66.5 million, $64.3 million and $61.5 million, respectively, an increase of approximately $2.2 million or 24% in 2019 and of $2.8 million or 5% in 2018.

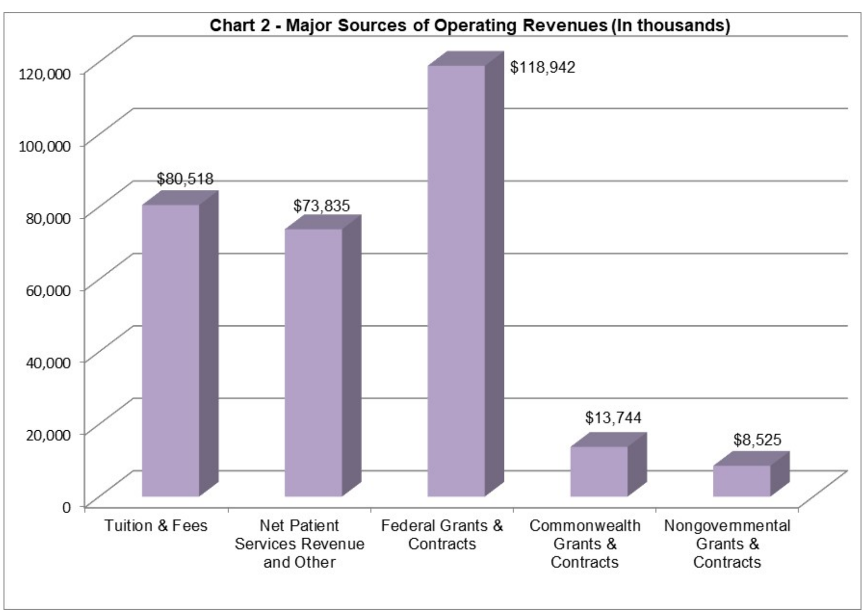
Federal Pell Grant program revenues amounted to $180.4 million, $187.3 million and $189.4 million in 2019, 2018 and 2017, respectively, a decrease of approximately $6.9 million or 4% in 2019 and of $2.1 million or 1% in 2018. The decreases in 2019 and 2018 were mainly due to a lower number of eligible participants caused by the emigration of students after the passage of hurricanes in Puerto Rico during September 2017.

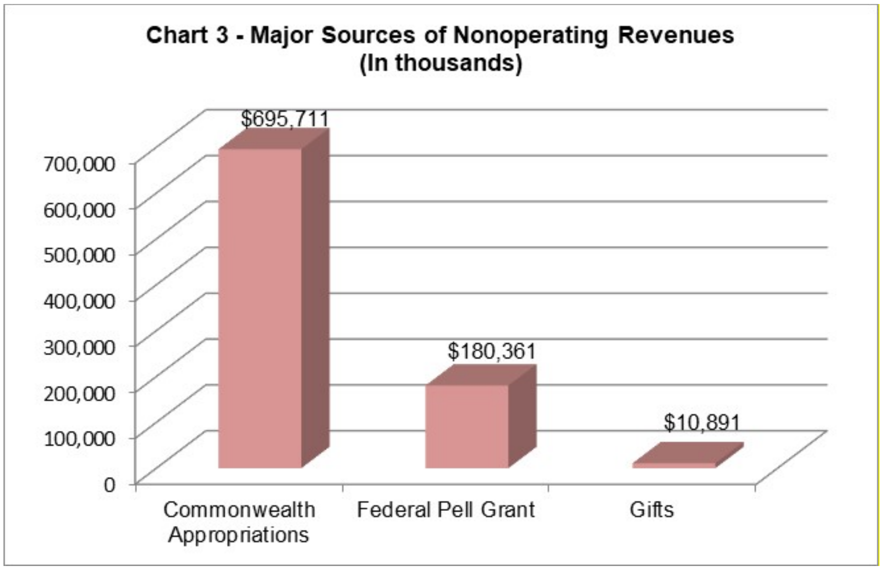
As explained before, on November 29, 2018, the University recorded a noncash revenue for a recovered amount on previously written off impaired deposits with the GDB of approximately $87.3 million as a nonoperating revenue in the statement of revenues, expenses and changes in net position for the year 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.

Other nonoperating revenues (expenses), net mainly includes the interest expense on capital assets-related debt and others which amounted to $22.2 million, $26.8 million and $28.0 million for the years ended June 30, 2019, 2018 and 2017, respectively. The decrease of interest expense of approximately $4.6 million in fiscal year 2019 and of approximately $1.2 million in fiscal year 2018 was related to the reduced principal balance on these debts, including the offset of the credit facilities with the GDB amounting to approximately $76.4 million and corresponding accrued interest amounting to approximately $10.9 million, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB, and such credit facilities were extinguished.

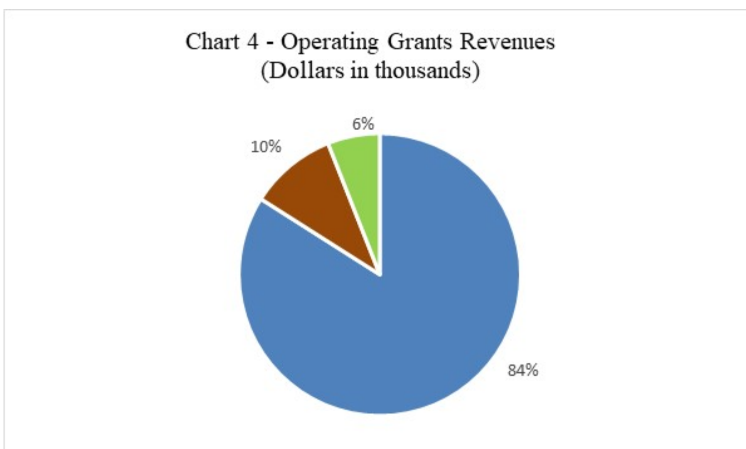
No capital appropriations were received in fiscal years 2019, 2018 and 2017.

The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2019:





Federal grants represent approximately 84% 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, 2019:



Federal	$	118,942	84%
Commonwealth		13,744	10%
Nongovernmental		8,525	6%
Total	$	141,211	100%

Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to $1.39 billion, $1.46 billion and $1.25 billion for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $68.7 million or 5% in 2019 and an increase of approximately $193.1 million or 15% in 2018. The changes in operating expenses are mainly related to the decreases in the expenses related to scholarships and fellowships and salaries and benefits, which effects were partially offset by the increases in the pension cost. Salaries and benefits are the most significant components of operating expenses.

Salaries amounted to $560.1 million, $574.5 million and $609.8 million for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $14.4 million or 3% in 2019 and of $35.3 million or 6% in 2018. In fiscal years 2019 and 2018, salaries of faculty personnel decreased by approximately $8.7 million or 2% and by approximately $20.1 million or 5%, respectively, and salaries of exempt staff decreased by approximately $5.7 million or 3% and by approximately $15.2 million or 6%, respectively, as a result of the headcount attrition.

Benefits amounted to $444.1 million, $451.6 million and $205.8 million for the years ended June 30, 2019, 2018 and 2017, respectively. In fiscal year 2019, benefits decreased by approximately $7.5 million, when compared to prior year balance, mainly as a result of the decrease in benefits other than pension cost and OPEB expense, which effect was partially offset by the increase in pension costs and OPEB expense. In fiscal year 2018, benefits increased by approximately $245.8 million or 119%, when compared with the prior year balance, mainly as a result of the increase in the pension cost. Benefits other than pension cost and OPEB expense amounted to $110.8 million, $130.8 million and $147.0 million for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $19.9 million or 15% in 2019 and of $16.2 million or 11% in 2018, when compared with the prior year balance. In fiscal year 2019, other benefits mainly decreased approximately as follows: decrease of $3.7 million in the medical plan insurance and decrease of $16.7 million in the estimate of compensated absences and related fringe benefits. In fiscal year 2018, other benefits mainly decreased approximately as follows: decrease of $6.3 million in the Christmas bonus, decrease of $9.7 million in the medical plan insurance and decrease of $3.4 million in payroll-related costs. In fiscal years 2019, 2018 and 2017, the University recognized pension cost and OPEB expense of approximately $333.1 million, $320.8 million and $58.9 million, respectively, 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.

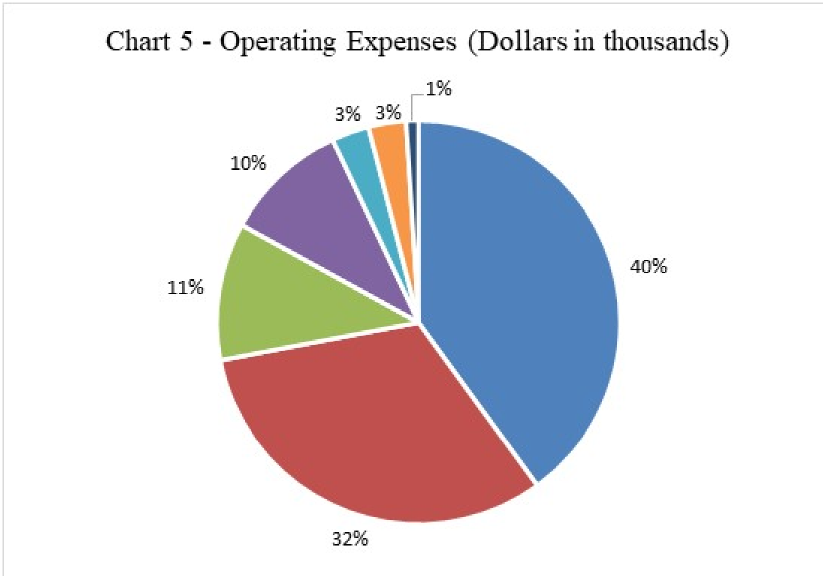
Scholarships and fellowships amounted to $147.7 million, $186.8 million and $193.4 million for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $39.1 million or 21% in 2019 and of $6.6 million in 2018. In fiscal year 2019, the decrease in scholarships and fellowships mainly resulted from a lesser amount of approximately $51.8 million in the Federal Pell Grant program was available to cover student aids other than tuitions because of the increase in the tuition costs; and a lower number of eligible participants in the Federal Pell Grant program; which effects were partially offset by financial aids granted to students from the new internal Scholarship Fund approved by the Governing Board of the University of $9.0 million for fiscal year 2019; and by financial aids granted to students from new funds received from the Additional Lottery of the Commonwealth of approximately $3.2 million, as per Act No. 44, "Special Fund for Scholarships of the University of Puerto Rico" approved on January 22, 2018 and effective for fiscal years 2019 and thereafter. In fiscal year 2018, the decrease in scholarships and fellowships mainly resulted from a lower number of eligible participants in the Federal Pell Grant program.

Supplies and other services and utilities amounted to $185.2 million, $162.0 million and $181.6 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $23.2 million or 14% in 2019 and a decrease of approximately $19.6 million or 11% in 2018. The increase in 2019 mainly resulted from the increases in professional services (approximately $7.4 million), maintenance expense (approximately $5.5 million), insurance premium cost of the commercial property and fine arts insurance policies (approximately $4.3 million), supplies (approximately $4.9`million) and utilities (electricity and water) (of approximately $4.1 million) as a result of the effects of the damages caused by passage of the hurricanes in Puerto Rico, higher electricity costs and professional services contracted to improve the University' systems and financial reporting to outside parties. The decrease in 2018 mainly resulted from the decreases in professional services (approximately $5.1 million), maintenance expense (approximately $3.0 million), supplies (approximately $2.4 million) and utilities (electricity and water) as a result of strict control cost measures taken by management of the University. Utilities amounted to $41.7 million, $37.6 million and $38.9 million for the years ended June 30, 2019, 2018 and 2017, respectively, an increase of approximately $4.1 million or 11% in 2019 and a decrease of approximately $1.3 million or 3% in 2018.

The University recognized an impairment loss on capital assets of approximately $16.3 million in fiscal year 2018 as a result of the damages caused to the University by the passage of Hurricanes Maria and Irma through the Island of Puerto Rico.

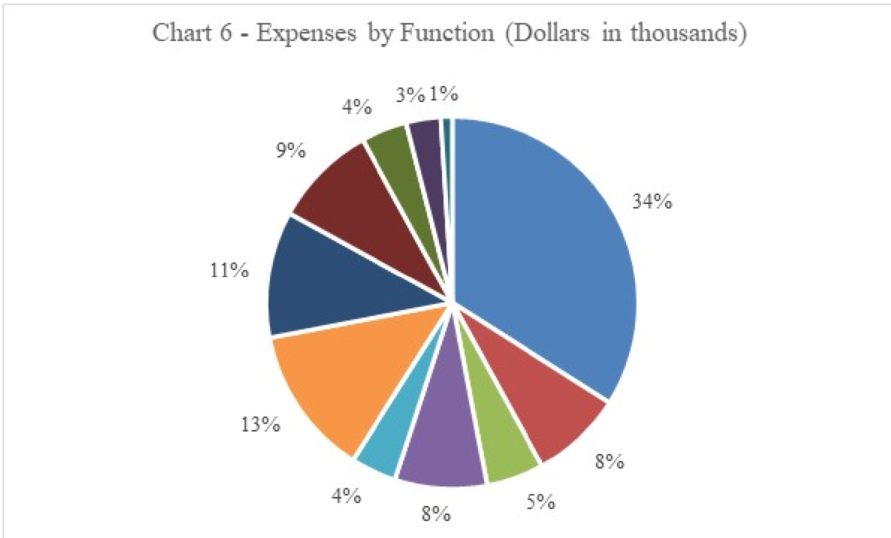
Other expenses amounted to $51.0 million, $65.5 million and $56.6 million for the years ended June 30, 2019, 2018 and 2017, respectively, a decrease of approximately $14.5 million or 22% in 2019 and an increase of approximately $8.9 million or 16% in 2018. The decrease in 2019 mainly resulted from a reduction in expenses of approximately $4.7 million related to legal claims and a claim payable to federal agencies and the decrease in losses incurred in other assets of approximately $5.0 million. The increase in 2018 mainly resulted from a reduction in expenses of approximately $11.3 million related to legal claims and a claim payable to federal agencies in 2017. Claims liability as of June 30, 2017 and 2016 included the claim of the Plaza Universitaria Project's general contractor of approximately $2.3 million and $6.3 million, respectively, and a claim with the federal agencies of approximately $1.8 million and $5.6 million, respectively. The decrease in 2017 mainly resulted for the settlements of both claims for a lower amount in September 2018. Depreciation and amortization expense amounted to $43.9 million, $44.9 million and $49.1 million for the years ended June 30, 2019 2018 and 2017, respectively, a decrease of approximately $1.0 million or 2% in 2019 and of approximately $4.2 million or 9% in 2018.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2019:



Salaries	$	560,158	40%
Benefits		444,064	32%
Scholarships and fellowships		147,724	11%
Supplies and other services		143,508	10%
Utilities		41,697	3%
Depreciation and amortization		43,884	3%
Other expenditures		7,113	1%
Total	$	1,388,148	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, 2019:



Instruction	$	468,185	34%
Research		109,815	8%
Public service		71,787	5%
Academic support		105,774	8%
Student services		53,682	4%
Institutional support		179,153	13%
Operations and maintenance		160,286	11%
Student aid		132,913	9%
Patient services		61,457	4%
Depreciation and amortization		43,884	3%
Others		1,212	1%
Total	$	1,388,148	100%

Operating Loss and Net Change in Net Position (Deficit)

For the year ended June 30, 2019, the University reported an operating loss of $1.04 billion. After adding nonoperating revenues, net of $966.6 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.

For the year ended June 30, 2018, the University reported an operating loss of $1.20 billion. After adding nonoperating revenues, net of $909.2 million, primarily from the Commonwealth's appropriations and Federal Pell Grant program, the net deficit position increased by $294.0 million for the year ended June 30, 2018 or 21% from the prior year net deficit position.

For the year ended June 30, 2017, the University reported an operating loss of $984.8 million. After adding nonoperating revenues, net of $1.11 billion, primarily from the Commonwealth's appropriations and Federal Pell Grant program, the net deficit position decreased by $128.4 million for the year ended June 30, 2017 or 9% from the prior year net deficit position.

The decrease in the net operating loss of approximately $167.6 million or 14% in fiscal year 2019 was mainly caused by the increase in operating revenues of approximately $98.9 million and the decrease in operating expenses of approximately $68.7 million. The increase in operating revenues are mainly related to the increases in the Federal grants and contract, the tuitions and fees, mainly as a result of the increases in the tuition costs, and the proceed of approximately $33.8 million and $5.0 million received from the insurance company in fiscal year 2019 and 2018, respectively, to cover the damages caused by passage of the hurricanes in Puerto Rico included as other operating revenues in the statements of revenues, expenses and changes in net position. The decrease in operating expenses are mainly related to the decreases in the expenses related to scholarships and fellowships, salaries and benefits, and an impairment loss on capital assets of approximately $16.3 million as a result of the damages caused by the passage of Hurricanes Maria and Irma through the Island of Puerto Rico in September 2017, which effect was partially offset by the increase in the pension cost of approximately $15.1 million. As a result of the increase in the tuition costs, a lesser amount in the Federal Pell Grant program was available to cover student aids other than tuitions.

The increase in the net operating loss in fiscal year 2018 was mainly caused by the increase in the pension cost. In fiscal years 2018 and 2017, the University recognized a pension cost of approximately $304.7 million and $42.7 million, respectively, which caused an increase in benefits of approximately $262.0 million in 2018, in accordance with GASB Statement No. 68.

In fiscal year 2019, nonoperating revenues, net increased by approximately $57.4 million or 6%, when compared to prior year balance. As previously discussed, 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. In fiscal year 2019, the Commonwealth appropriations and Federal Pell Grant program revenues which amounted to approximately $695.7 million and $180.4 million, respectively, decreased by approximately $37.4 million or 5% and $6.9 million or 4%, respectively, when compared to 2018 balances of $733.1 million and $187.3 million, respectively, mainly as a result of the decrease of approximately $44.1 million in the Commonwealth formula appropriations

In fiscal year 2018, nonoperating revenues, net decreased by approximately $204.0 million or 18%, when compared to prior year balance mainly because of the decrease of approximately $202.7 million in the Commonwealth's formula appropriation.

Cumulative Effect of Change in Accounting for OPEB Costs

The overall change to net position as of July 1, 2017 due to the adoption of GASB Statement No. 75 was a decrease of approximately $205.8 million.

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

Starting in in fiscal year 2020, the Molecular Sciences Research Center, Inc. ("MSRC") functions as a separated component unit of the University. Previously, this component unit operated as a division of the University. MSCR 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"). 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 new research space design paradigm features standardization, flexibility and adaptability, systems integration, and ease of sharing equipment and human resources.

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 contribute $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 75% of the University $10.0 million investment for up to fifteen years.

On December 12, 2019, the University received $1,000,000 from the UPRPS as a recapture of the University's investment in the parking facilities operated by UPRPS.

On December 28, 2019, the first of many earthquakes shook Puerto Rico and its residents, which main effects were registered in the southwestern part of the island of Puerto Rico. Puerto Rico has a long history of earthquakes, although large events are rare. It sits at the edge of the Caribbean tectonic plate, where that plate is colliding with the North American plate. Such tectonic boundaries host the vast majority of the world's quakes. Damages to the University's premises were considered minimal. Administrative and academic functions at all areas and units that comprise the University System continued to function uninterrupted during and after the earthquakes. The aftershocks are not expected to stop anytime soon.

On March 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island. On March 15, 2020, the Governor issued an executive order enacting an island-wide lock-down by ordering a 9 p.m. to 5 a.m. curfew that will run through month's end, and ordered all non-essential businesses be closed through March 30. Public and private schools and universities, including the University of Puerto Rico, have temporarily limited access to their facilities in accordance with such executive order.

Because of the early stage of this virus, at this moment, the University is not in a position to provide an estimate of any potential negative impact on its financial statements. 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, in order to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

Refer to the Going Concern section and Capital Assets and Debt Administration section for the extension of the compliance period until May 29, 2020 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.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $13.5 million or 2% in 2019**

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, 2019, 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 $13.5 million or 2%, from $823.9 million at June 30, 2018 to $810.4 million at June 30, 2019. The decrease in 2019 mainly resulted from the depreciation and amortization expense of approximately $43.9 million and the capital asset dispositions of approximately $454,000, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to approximately $30.8 million.

Construction commitments at June 30, 2019, entered into by the University, amounted to approximately $61.8 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 $103.7 million or 19% in 2019**

The decrease in 2019 mainly resulted from the offset of the credit facilities with the GDB of approximately $76.4 million plus accrued interest payable of approximately $10.9 million for an aggregated amount of $87.3 million, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB and principal paid on long-term debt obligations of approximately $24.5 million.

Long-term debt obligations include the University's revenue bonds which amounted to approximately $378.7 million as of June 30, 2019. 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 $59.0 million as of June 30, 2019. 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, 2019, 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, 2019, the University was not in compliance with the following covenants: provide its audited financial statements not later than six months after the end of each fiscal year. Also, 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 each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with the requirements of Rule 15c2-12 ("Continuing Disclosures"), as amended, promulgated by the Securities and Exchange Commission (the SEC). In addition, the Trust Agreement required the University to comply with other covenants. At June 30, 2019, the University was not in compliance with the following covenants: provide its audited financial statements not later than six months after the end of each fiscal year. Also, 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 each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with the requirements of Rule 15c2-12 ("Continuing Disclosures"), as amended, promulgated by the Securities and Exchange Commission (the SEC).

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 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 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 eleven times and the new Compliance Period is May 29, 2020. Pursuant to the letter agreement and the eleven 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 governing the Series P and Q Bonds 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 January 25, 2019; $2.9 million on or before February 25, 2019; $2.9 million on or before March 25, 2019; $2.9 million on or before April 25, 2019; $2.9 million on or before May 25, 2019; and $1,069,000.28 on or before June 25, 2019;

- in consideration for extending the Compliance Period until November 30, 2019, the University transferred to the Trustee the following monthly payments: $3,650,000 on or before July 25, 2019; $3,650,000 on or before August 25, 2019; $3,650,000 on or before September 25, 2019; $3,650,000 on or before October 25, 2019; and $3,603,997.30 on or before November 25, 2019; and

- in consideration for extending the Compliance Period until May 29, 2020, the University agreed to transfer to the Trustee the following monthly payments: $3,650,000 on or before December 31, 2019; $3,650,000 on or before January 31, 2020; $3,650,000 on or before February 28, 2020; $3,650,000 on or before March 31, 2020; $3,650,000 on or before April 30, 2020; and $3,650,000 on or before May 25, 2020, less a credit for any amount as of April 25, 2020 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of $72,322,250.

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 $1,000,000 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.

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 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 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 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. There have not been any significant developments on this action beyond the filing. If the current situation persists, DUI's management believes available cash reserves will be exhausted within the next six to twelve months.

The University had two credit facilities with the GDB, a term loan originally used for working capital purposes and a $75 million non-revolving line of credit with the GDB used complete certain construction projects of the University's Program for Permanent Improvements. The term loan was collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. The University had not made the monthly payments of this term loan since May 2016. The $75.0 million line of credit expired on January 31, 2016 and the University had not made the monthly interest payments of this line of credit since September 2016. The $75.0 million line of credit expired on January 31, 2016 and the University had not made the monthly interest payments of this line of credit since September 2016. The balances outstanding under the term loan and the $75 million line of credit with the GDB amounted to $48.3 million and $28.1 million, respectively, at June 30, 2019. Accrued interest payable on the credit facilities with the GDB amounted to approximately $9.7 million at June 30, 2018.

As explained below, on November 29, 2018, the above notes payable to the GDB amounting to approximately $76.4 million and corresponding accrued interest amounting to approximately $10.9 million were fully offset, on a dollar-for dollar basis, by the amount of the University's deposits at the GDB, and such credit facilities were extinguished. As a result, 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.

On May 15, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Government Development Bank for Puerto Rico (GDB) entered into a Restructuring Support Agreement (the "RSA") with a significant portion of the GDB's creditors. The parties to the RSA agreed to undertake a financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). On November 6, 2018, the Qualifying Modification was approved by the Federal Court. On November 29, 2019, the FAFAA and the GDB announced the consummation of the Qualifying Modification.

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"), claims on account of deposits held by the Commonwealth and other public entities, including the University, will be exchanged for interest in the Public Entity Deed of Trust created pursuant to the GDB Restructuring Act. Specifically, pursuant to the

GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the University (each a "Non-Municipal Government Entity") and the GDB will be determined by applying the outstanding balance of any deposits held at GDB in a Non- Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the GDB or of any bond or note of such Non-Municipal Government Entity held by the GDB as of such date. Those Non-Municipal Government Entities having net claims against the GDB, after giving effect to the foregoing adjustment, including the University, will receive their pro rata share of interests in the Public Entity Trust (PET), which will be deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification, on November 29, 2018, the credit facilities the University owed to the GDB (approximately $76,406,000 in principal plus accrued interest of $10,911,000 for a total amount of $87,316,000, as of November 29, 2018) were fully offset on a dollar-for-dollar basis by the amount of the University's deposits held at the GDB (approximately $94,442,000, including accrued interest, as of November 29, 2018) and such credit facilities were extinguished. The remainder of the University's recovery on account of its deposits at the GDB (approximately $7,125,000) will depend upon the recovery received by the Public Entity Trust on account of the PET Assets.

Refer to Notes 2, 8, 10, 11, 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 54% of the University's total revenues (operating and nonoperating revenues, net) are derived from the Commonwealth's appropriations which amounted to approximately $695.7 million for the year ended June 30, 2019. 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 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island. On March 15, 2020, the Governor issued an executive order enacting an island-wide lock-down by ordering a 9 p.m. to 5 a.m. curfew that will run through month's end, and ordered all non-essential businesses be closed through March 30. Public and private schools and universities, including the University of Puerto Rico, have temporarily limited access to their facilities in accordance with such executive order.

Because of the early stage of this virus, at this moment, the University is not in a position to provide an estimate of any potential negative impact on its financial statements. 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, in order to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

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)
Statements of Net Position (Deficit)
As of June 30, 2019 and 2018 (In thousands)

	2019		2018	
	Primary Government	Component Units	Primary Government	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 281,240	$ 18,433	$ 234,109	$ 17,126
Restricted cash and cash equivalents	33,798	–	21,193	–
Restricted investments at fair value deposited with trustees and others	61,551	–	67,266	–
Accounts receivable, net	17,102	11,977	14,682	12,281
Due from Federal Government	42,282	674	37,616	726
Due from related parties, net	20,218	11,571	16,165	11,512
Inventories	1,573	645	2,792	747
Other assets	3,124	614	2,873	480
Total current assets	460,888	43,914	396,696	42,872
Noncurrent assets:				
Restricted cash and cash equivalents	2,033	–	8,978	–
Restricted investments at fair value:				
Endowment funds	117,381	–	107,549	–
Healthcare Deferred Compensation Plan	84,417	–	95,068	–
Other long-term investments at fair value	2,723	–	2,808	–
Due from Commonwealth of Puerto Rico	–	262	–	251
Notes receivable, net	8,646	–	5,115	–
Capital assets:				
Land and other nondepreciable assets	84,477	1,629	65,506	1,365
Depreciable assets (net of accumulated depreciation and amortization)	725,891	10,362	758,410	9,391
Other assets	241	–	360	–
Total noncurrent assets	1,025,809	12,253	1,043,794	11,007
Total assets	1,486,697	56,167	1,440,490	53,879
Deferred outflows of resources:				
Deferred outflows from pension activities	631,890	–	904,320	–
Deferred outflows from OPEB activities	14,738	–	13,792	–
Deferred refunding loss	1,416	–	1,672	–
Total deferred outflows of resources	648,044	–	919,784	–
Total assets and deferred outflows of resources	2,134,741	56,167	2,360,274	53,879
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	88,193	5,019	100,365	6,029
Unearned revenue-cash advance from governmental grant	29,021	–	10,000	–
Current portion of long-term debt:				
Notes payable	–	2,518	76,406	2,447
Bonds payable	26,995	–	25,695	–
Due to University of Puerto Rico	–	23,440	–	24,048
Other current liabilities:				
Claims liability	2,373	–	5,255	–
Compensated absences	23,772	837	28,113	805
Total current liabilities	170,354	31,814	245,834	33,329
Noncurrent liabilities:				
Long-term debt, net of current portion:				
Notes payable	–	13,097	–	15,676
Bonds payable	410,699	–	439,319	–
Other long-term liabilities, net of current portion:				
Deferred compensation plan	84,417	–	95,068	–
Claims liability	7,615	1,746	10,705	1,664
Compensated absences	108,230	–	117,021	–
Net pension liability	3,024,133	–	2,968,233	–
Other postemployment benefit (OPEB) liability	226,844	–	232,115	–
Total noncurrent liabilities	3,861,938	14,843	3,862,461	17,340
Total liabilities	4,032,292	46,657	4,108,295	50,669
Deferred inflows of resources:				
Deferred inflows from pension activities	43,203	–	126,312	–
Deferred inflows from OPEB activities	2,446	–	–	–
Total deferred inflows of resources	45,649	–	126,312	–
Total liabilities and deferred inflows of resources	4,077,941	46,657	4,234,607	50,669
Net position (deficit)				
Net investment in capital assets	395,920	294	382,646	264
Restricted, nonexpendable:				
Scholarships and fellowships	43,503	–	44,991	–
Research	52,311	–	49,470	–
Other	27,486	–	23,846	–
Restricted, expendable:				
Loans	12,375	–	8,255	–
Capital projects	6,279	–	15,903	–
Debt service	48,531	–	54,520	–
Unrestricted (deficit)	(2,529,605)	9,216	(2,453,964)	2,946
Total net position (deficit)	$ (1,943,200)	$ 9,510	$ (1,874,333)	$ 3,210

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Position (Deficit)
For the Years Ended June 30, 2019 and 2018 (In thousands)

	2019		2018	
	Primary Government	Component Units	Primary Government	Component Units
Revenues				
Operating revenues:				
Tuitions and fees (net of scholarship allowances and others of $101,841 in 2019 and $50,999 in 2018)	$ 80,518	$ –	$ 53,443	$ –
Net patient services revenue and other (net of provision for allowances of $15,954 in 2019 and $11,330 in 2018)	73,835	49,872	68,198	48,136
Federal grants and contracts (net of provision for allowances of $1,545 in 2019 and $2,112 in 2018)	118,942	–	87,190	–
Commonwealth grants and contracts (net of provision for allowances of $1,964 in 2019 and $3,774 in 2018)	13,744	–	11,051	–
Nongovernmental grants and contracts (net of provision for allowances of $502 in 2019 and $2,340 in 2018)	8,525	–	7,400	–
Sales and services of educational departments	11,251	–	10,082	–
Auxiliary enterprises (net of provision for allowances of $71 in 2019 and $278 in 2018)	1,614	–	1,381	–
Other operating revenues	44,052	5,165	14,851	3,635
Total operating revenues	352,481	55,037	253,596	51,771
Operating expenses:				
Salaries:				
Faculty	341,682	–	350,422	–
Exempt staff	217,746	4,627	223,496	4,742
Nonexempt wages	730	10,498	610	10,573
Benefits:				
Pension cost (see Note 14)	324,975	–	309,845	–
OPEB expense (see Note 15)	8,170	–	10,962	–
Other benefits	110,919	2,939	130,785	2,952
Scholarships and fellowships	147,724	–	186,843	–
Supplies and other services	143,508	24,124	124,399	23,339
Utilities	41,697	2,709	37,578	2,706
Depreciation and amortization	43,884	2,282	44,898	2,393
Impairment loss on capital assets (Note 9)	–	–	16,348	–
Other expenses	7,113	938	20,651	800
Total operating expenses	1,388,148	48,117	1,456,837	47,505
Operating income (loss)	(1,035,667)	6,920	(1,203,241)	4,266
Nonoperating revenues (expenses):				
Commonwealth and other appropriations	695,711	–	733,099	–
Federal Pell Grant program	180,361	–	187,272	–
Gifts	10,891	–	6,475	–
Net investment income	15,383	3	7,582	3
Gain on settlement of governmental bank liabilities (note 5)	87,316	–	–	–
Interest on capital assets - related debt	(21,419)	(623)	(23,868)	(629)
Interest on notes payable	(785)	–	(2,936)	–
Other nonoperating (expenses) revenues, net	(815)	–	1,557	–
Net nonoperating revenues (expenses)	966,643	(620)	909,181	(626)
(Loss) income before other revenues	(69,024)	6,300	(294,060)	3,640
Additions to term and permanent endowments	157	–	15	–
Change in net position	(68,867)	6,300	(294,045)	3,640
Net position (deficit):				
Beginning net position (deficit)	(1,874,333)	3,210	(1,580,288)	(430)
End of year	$ (1,943,200)	$ 9,510	$ (1,874,333)	$ 3,210

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018 (In thousands)

	Primary Government For the Years Ended June 30 2019	2018
Cash flows from operating activities		
Tuition and fees	$ 75,557	$ 53,087
Grants and contracts	157,513	113,366
Patient services	73,209	69,809
Payments to employees	(560,133)	(575,573)
Payments for benefits	(232,097)	(219,627)
Payments for scholarships and fellowships	(147,724)	(186,843)
Payments to suppliers	(152,334)	(123,702)
Payments for utilities	(41,696)	(37,575)
Collection of loans, net of loans issued to students	212	276
Auxiliary enterprises	1,640	1,653
Proceeds from insurance company related to damages caused by hurricanes	33,750	5,000
Sales and services educational departments and others	17,599	18,224
Net cash used in operating activities	(774,504)	(881,905)
Cash flows from noncapital financing activities		
Commonwealth and other appropriations	695,711	733,099
Federal Pell Grant program	180,361	187,272
Endowment gifts	157	15
Federal direct student loan program receipts	63,391	56,652
Federal direct student loan program disbursements	(63,391)	(57,110)
Gifts and grants for other than capital purposes	10,890	6,475
Other non-operating receipts (disbursements)	(814)	1,556
Net cash provided by noncapital financing activities	886,305	927,959
Cash flows from capital and related financing activities		
Purchases of capital assets	(30,790)	(23,604)
Principal paid on capital debt	(25,695)	(24,455)
Interest paid on capital debt	(22,487)	(23,729)
Decrease (increase) in deposits with trustees and others	5,971	(21,831)
Net cash used in capital and related financing activities	(73,001)	(93,619)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	47,943	27,125
Purchases of investments	(41,868)	(30,484)
Collections of interest and dividend income on investments	9,832	4,970
Advances to the University of Puerto Rico Retirement System	(5,000)	(3,000)
Repayments of advances to the University of Puerto Rico Retirement System	2,956	25
Other receipts (disbursements)	128	(149)
Net cash provided by (used in) investing activities	13,991	(1,513)
Net change in cash and cash equivalents	52,791	(49,078)
Cash and cash equivalents:		
Beginning of year	264,280	313,358
End of year	$ 317,071	$ 264,280

(Continued)

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows (continued)
For the Years Ended June 30, 2019 and 2018 (In thousands)

	Primary Government For the Years Ended June 30 2019	2018
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (1,035,667)	$ (1,203,241)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	43,884	44,898
Provision for doubtful accounts	10,277	11,786
Impairment loss on capital assets	–	16,348
Changes in operating assets and liabilities and deferred outflows and inflows of resources:		
Decrease (increase) in:		
Grants and contracts receivables	(18,970)	(9,345)
Prepaid expenses, inventories and other	(3,379)	(793)
Deferred outflows of resources from pension activities	272,430	(684,152)
Deferred outflows of resources from OPEB activities	(946)	(3,209)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,728)	16,431
Unearned revenue	19,021	10,000
Accrued salaries, wages, benefits and other liabilities	(29,392)	2,874
Net pension liability	55,900	961,530
OPEB liability	(5,271)	1,569
Deferred inflows of resources from pension activities	(83,109)	(46,601)
Deferred inflows of resources from OPEB activities	2,446	–
Net cash used in operating activities	$ (774,504)	$ (881,905)
Supplemental schedule of noncash investing, capital and financing activities		
Change in fair value of investments	$ 5,452	$ 2,542
Amortization of:		
Bonds premiums, net of discounts	$ 1,625	$ 1,686
Deferred refunding loss	$ 257	$ 271
Offset of impaired investments in deposits with governmental bank against its notes payable and corresponding accrued interest	$ 87,316	$ –

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 unit (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. One of the component units, despite being legally separate from the University, is so integrated with the University that it is in substance part of the University. This component unit is blended with the University.

Blended Component Unit: The following component unit, although legally separate, is reported as if it was part of the University because its debt is 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 for fiscal years 2018 and before can be obtained directly by contacting DUI's administrative offices.

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

Reporting Entity (continued)

Desarrollos Universitarios, Inc. (continued)

Condensed financial information as of June 30, 2019 and 2018 and for the fiscal years then ended for DUI is as follows (expressed in thousands):

	2019	2018
Statements of net position as of June 30		
Current assets:		
Cash and cash equivalents	$ 1,256	$ 1,196
Restricted investments at fair value deposited with trustee	15,740	15,164
Internal balance- net investment in direct financing lease, current portion	2,516	2,355
Due from the University of Puerto Rico	2,658	1,674
Other assets	13	15
Total current assets	22,183	20,404
Noncurrent assets:		
Restricted cash and cash equivalents	154	2,445
Internal balance- net investment in direct financing lease, net of current portion	47,294	49,809
Other assets	213	226
Total noncurrent assets	47,661	52,480
Total assets	$ 69,844	$ 72,884
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,003	$ 3,511
Current portion of long-term debt bonds payable	2,725	2,580
Compensated absences	12	11
Total current liabilities	4,740	6,102
Noncurrent liabilities- long-term debt, net of current portion of bonds payable	56,297	59,010
Total liabilities	$ 61,037	$ 65,112
Net position:		
Restricted expendable:		
Capital project	$ 3,155	$ 3,589
Debt service	8,373	7,927
Unrestricted deficit	(2,721)	(3,744)
Total net position	$ 8,807	$ 7,772

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

Reporting Entity (continued)

Desarrollos Universitarios, Inc. (continued)

	2019	2018
Statements of revenues, expenses and changes in net position for the years ended June 30		
Operating revenues	$ 3,484	$ 3,543
Operating expenses	(3,245)	(3,405)
Operating income	239	138
Non operating revenues (expenses):		
Interest on capital assets - related debt	(3,087)	(3,180)
Interest income from internal balance investment in direct financing lease	3,344	3,378
Net investing income	539	502
Net nonoperating revenues	796	700
Change in net position	1,035	838
Net position:		
Beginning of year	7,772	6,934
End of year	$ 8,807	$ 7,772
Statements of cash flows for the years ended June 30		
Net cash (used in) provided by operating activities	$ (2,130)	$ 117
Net cash provided by noncapital financing activities	–	–
Net cash used in capital and related financing activities	(6,202)	(6,141)
Net cash provided by investing activities	6,101	6,062
Net change in cash and cash equivalents	(2,231)	38
Cash and cash equivalents:		
Beginning of year	3,641	3,603
End of year	$ 1,410	$ 3,641

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 June 30, 2019 and 2018.

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.

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).

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

Investments (continued)

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 unpaid 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 $5,000 ($1,000 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. Impairment charges amounted to approximately $16,348,000 for the year ended June 30, 2018. No impairment loss was incurred in fiscal year 2019.

Debt Premiums/Discounts, Debt Issuance Costs and Deferred Loss on Debt Refunding

Premium and discounts incurred in the issuance of bonds are deferred and amortized using the effective interest method. DUI amortize bond premium and/or discount using a method which approximates the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Debt issuance costs are recognized as expense in the period incurred.

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 term 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.

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.

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

Classification of Net Position (continued)

- *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.

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.

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

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.

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.

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

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.

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.

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

New Accounting Standards Adopted

As of July 1, 2018, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB Statement No. 83).
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB Statement No. 88).

GASB Statement No. 83 establishes standards of accounting and financial reporting requirements, for legally enforceable liabilities associated with the retirement of certain tangible capital assets. Under this standard, the University is required to recognize a liability for the future legal obligations needed to retire certain tangible capital assets. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB Statement No. 88 resulted in minimal changes in disclosure and presentation of notes 11 and 12.

As of July 1, 2017, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB Statement No. 75).
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB Statement No. 81).
- GASB Statement No. 85, *Omnibus 2017* (GASB Statement No. 85).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB Statement No. 86.

GASB Statement No. 75 establishes standards of accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. It replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended,* and GASB Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans.*

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

New Accounting Standards Adopted (continued)

At transition, the impact of GASB Statement No. 75 decreased the net position as of July 1, 2017 by approximately $205.8 million, recognized a deferred outflow of resources for the OPEB employer's contributions made after the June 30, 2016 measurement date of approximately $9.9 million and increased the total OPEB liability by approximately $215.7 million. At transition, the effect of deferred outflows of resources and deferred inflows of resources from other OPEB activities as required by GASB Statement No. 75 was not included because it was impracticable to determine them.

GASB Statement No. 81, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB Statement No. 81 also provides expanded guidance for circumstances in which the government holds the assets. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 85 addresses practice issues that were identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 86 establishes standards of accounting and financial reporting requirements, for in-substance defeasance of debt transactions in which cash and other monetary assets acquired with only existing resources that is, resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of future repayment of outstanding debt. The adoption of this statement had no impact on the University's financial statements.

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, 2018, 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, 2019, 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, 2019, 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.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

- 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, 2018, 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, 2020, 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: 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, 2020; 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, 2020; 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, 2020.

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.

The Commonwealth Going Concern

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

The Commonwealth has incurred recurring deficits, has a negative financial condition, has experienced further deterioration of its economic condition, has not been able to access the credit markets, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) which was signed by the U.S. President on June 30, 2016.

2. Going Concern (continued)

The Commonwealth Going Concern (continued)

PROMESA grants the Commonwealth and its component units 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.

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. 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 contributed to significant budget deficits during the past several years, which deficits the Commonwealth financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. Since June 30, 2014, the principal rating agencies have contributed to lower 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 reflects a net position deficit/fund balance deficit of approximately $70.3 billion as of June 30, 2016 (the most recent audited financial information). The Commonwealth's General Fund shown a fund balance (deficit) of approximately $1.2 billion as of June 30, 2016.

2. Going Concern (continued)

The Commonwealth Going Concern (continued)

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 2016 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 $2.53 billion and $1.94 billion, respectively, as of June 30, 2019. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other revenues and depreciation, interest and other expenses) during fiscal years 2019, 2018 and 2017 of $1.04 billion, $1.20 billion and $984.8 million, 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 highly dependent on the Commonwealth appropriations to finance its operations and had historically relied on the GDB for liquidity. Approximately 54% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other's appropriations which amounted to approximately $695.7 million, $733.1 million and $934.4 million for the years ended June 30, 2019, 2018 and 2017, 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.

2. Going Concern (continued)

The University Going Concern (continued)

Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth formula-based appropriations of the University. In accordance with the Commonwealth Budget for the fiscal years 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth formula-based appropriations of the University amounted to $587.1 million and $631.2 million, respectively, for the years ended June 30, 2019 and 2018, respectively, a decrease of $246.8 million or 29.6% when compared the 2019 Commonwealth's formula appropriation with the Commonwealth's formula appropriation of $833.9 million for fiscal year 2017. The 2019 Commonwealth Fiscal Plan for fiscal years 2019 to 2024 continues to reduce the general appropriations to the University over a five-year period with the expectation that the University will become more self-sufficient and develop more diverse and resilient revenue streams outlined in the 2019 University Fiscal Plan for fiscal years 2019 to 2024. The Commonwealth approved formula appropriations are $501.1 million for 2020, $430.1 million for 2021, $407.1 million for 2022 and $383.1 million for 2023. No further cuts are expected after fiscal year 2023 and appropriations are indexed to inflation in fiscal year 2024 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 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). The Trustee on behalf of DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

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 eleven times and the new Compliance Period is May 29, 2020. Pursuant to the letter agreement and the eleven 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.

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, 2019, the University was not in compliance with the following covenants: provide its audited financial statements not later than six months after the end of each fiscal year. Also, 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 each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with the requirements of Rule 15c2-12 ("Continuing Disclosures"), as amended, promulgated by the Securities and Exchange Commission (the SEC).

2. Going Concern (continued)

The University Going Concern (continued)

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, 2019. The University was in compliance with various program requirements for the year ended June 30, 2019.

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

On June 5, 2019, the Oversight Board of PROMESA certified its own fiscal plan for the University for the fiscal years 2019 to 2024 (the UPR 2019 Fiscal Plan). The UPR 2019 Fiscal Plan maintains the University's existing operational model of eleven campuses and includes the approved projected reductions in the Commonwealth's formula appropriations. The Commonwealth's approved formula appropriations will range from $501 million in fiscal year 2020 to $383 million in fiscal year 2023. No further cuts are expected after fiscal year 2023 and appropriations are indexed to inflation in fiscal year 2024 and beyond. Below are certain other key terms of the certified fiscal plan:

- Operational efficiencies: a 10% decrease in total operating expenditures between fiscal years 2019 to 2024. 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 12,800 employees in fiscal year 2018 to 10,300 employees in fiscal year 2024.
  - Centralized procurement efforts and contract negotiations.
  - Benefits adjustments: eliminate the Christmas bonus for all employees starting in fiscal year 2019; 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 starting in fiscal year 2020; and reduce pay out of non-payroll compensation (e.g. 15-day liquidation of sick days, union charges) starting in fiscal year 2020.

- Revenue enhancement:
  - 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 2019 to 2024 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 $115 per credit in fiscal year 2019; $124 per credit in fiscal year 2020; $134 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 the Puerto Rico inflation (estimated to be 1.50% 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.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

- Increase cost per credit for graduate programs to be more in line with Puerto Rico and United States of America benchmarks in fiscal year 2019 and then index to average public tuition increases over past decade (approximately 3.1%) starting in fiscal year 2020.

- Pension reform: PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. Accordingly, the UPR 2019 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: continue with its current defined benefit plan and return to making the full actuarially required contribution of about $160 million per year. 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 $60 million per year, likely through faculty reduction, significant consolidation, or tuition increases.
    - Option 2: 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 $43 million per year, again faculty reduction, significant consolidation, or tuition increases.
    - Option 3: 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 3 is the most responsible course of action for the University. Otherwise, the University will have to find significant additional savings or revenues from areas that are critical to its core mission (e.g., further tuition increases, campus closures, faculty reduction) in order to avoid operating at a deficit and maintain the solvency of its retirement system.

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 2019 Commonwealth Fiscal Plan outline measures related to scholarship programs designed to ensure all students, regardless of income level, have access. The University will expand this internal scholarship fund expenditures from $9 million in fiscal year 2019 to $14 million in fiscal year 2020.

In addition, the Commonwealth, in collaboration with the Oversight Board, and as certified in the Commonwealth's fiscal plan dated May 9, 2019, 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 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 has not yet commenced operations. 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.

With the UPR 2019 Fiscal Plan measures, including the reduction in the Commonwealth's appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2020 through fiscal year 2024.

The gradual increases in the undergraduate student cost and in the graduate student average annual tuition started with fiscal year 2019. The University is committed to make necessary reforms to its pension system.

There is no certainty that the Certified University Fiscal Plan, as 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 the substantial doubt about 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 (deficit) of the discretely presented component units as of June 30, 2019 and 2018 (expressed in thousands):

	2019				2018			
	SMU	UPRPS	MCC	Total	SMU	UPRPS	MCC	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 15,745	$ 2,372	$ 316	$ 18,433	$ 15,066	$ 1,812	$ 248	$ 17,126
Accounts receivable, net	11,609	34	334	11,977	11,852	10	419	12,281
Due from Federal Government, net	674	–	–	674	726	–	–	726
Due from the University of Puerto Rico	10,627	944	–	11,571	10,659	853	–	11,512
Inventories	645	–	–	645	747	–	–	747
Other assets	497	26	91	614	378	16	86	480
Total current assets	39,797	3,376	741	43,914	39,428	2,691	753	42,872
Noncurrent assets:								
Due from Commonwealth of Puerto Rico	262	–	–	262	251	–	–	251
Capital assets:								
Other nondepreciable assets	1,629	–	–	1,629	1,365	–	–	1,365
Depreciable assets (net of accumulated depreciation and amortization)	10,068	103	191	10,362	9,127	114	150	9,391
Total noncurrent assets	11,959	103	191	12,253	10,743	114	150	11,007
Total assets	51,756	3,479	932	56,167	50,171	2,805	903	53,879
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	4,932	48	39	5,019	5,922	57	50	6,029
Current portion of long-term debt - notes payable	2,518	–	–	2,518	2,447	–	–	2,447
Due to University of Puerto Rico	23,440	–	–	23,440	24,048	–	–	24,048
Other current liabilities - compensated absences	819	18	–	837	805	–	–	805
Total current liabilities	31,709	66	39	31,814	33,222	57	50	33,329
Noncurrent liabilities:								
Long-term debt, net of current portion - notes payable	13,097	–	–	13,097	15,676	–	–	15,676
Other long-term liabilities - claims liability	1,746	–	–	1,746	1,664	–	–	1,664
Total noncurrent liabilities	14,843	–	–	14,843	17,340	–	–	17,340
Total liabilities	46,552	66	39	46,657	50,562	57	50	50,669
Net position (deficit)								
Net investment in capital assets	–	103	191	294	–	114	150	264
Unrestricted (deficit)	5,204	3,310	702	9,216	(391)	2,634	703	2,946
Total net position (deficit)	$ 5,204	$ 3,413	$ 893	$ 9,510	$ (391)	$ 2,748	$ 853	$ 3,210

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 (deficit) of the discretely presented component units for the years ended June 30, 2019 and 2018 (expressed in thousands):

	2019				2018			
	SMU	UPRPS	MCC	Total	SMU	UPRPS	MCC	Total
Revenues								
Operating revenues:								
Net patient services revenue and other (net of provision for allowances of $7,694 in 2019 and $6,688 in 2018)	$ 49,872	$ –	$ –	$ 49,872	$ 48,136	$ –	$ –	$ 48,136
Other operating revenues	2,874	1,606	685	5,165	1,514	1,433	688	3,635
Total operating revenues	52,746	1,606	685	55,037	49,650	1,433	688	51,771
Operating expenses:								
Salaries:								
Exempt staff	4,627	–	–	4,627	4,742	–	–	4,742
Nonexempt wages	10,013	312	173	10,498	10,063	319	191	10,573
Benefits	2,820	86	33	2,939	2,820	101	31	2,952
Supplies and other services	23,231	476	417	24,124	22,418	501	420	23,339
Utilities	2,682	24	3	2,709	2,689	16	1	2,706
Depreciation and amortization	2,239	24	19	2,282	2,357	21	15	2,393
Other expenses	916	22	–	938	764	35	1	800
Total operating expenses	46,528	944	645	48,117	45,853	993	659	47,505
Operating income	6,218	662	40	6,920	3,797	440	29	4,266
Nonoperating revenues (expenses):								
Net investment income	–	3	–	3	–	3	–	3
Interest on capital assets - related debt	(623)	–	–	(623)	(629)	–	–	(629)
Net nonoperating revenues (expenses)	(623)	3	–	(620)	(629)	3	–	(626)
Change in net position	5,595	665	40	6,300	3,168	443	29	3,640
Net position (deficit):								
Beginning net position (deficit)	(391)	2,748	853	3,210	(3,559)	2,305	824	(430)
End of year	$ 5,204	$ 3,413	$ 893	$ 9,510	$ (391)	$ 2,748	$ 853	$ 3,210

4. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2019 and 2018 consisted of the following (expressed in thousands):

	2019			2018		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
The University Only:						
Cash on hand	$ 198	$ –	$ 198	$ 132	$ –	$ 132
Due from commercial banks in Puerto Rico	37,802	1,508	39,310	11,986	1,067	13,053
Total cash on hand and due from commercial banks	38,000	1,508	39,508	12,118	1,067	13,185
Cash equivalents:						
Deposit accounts with:						
Commercial banks in Puerto Rico	87,207	30,863	118,070	69,828	24,392	94,220
Commercial banks in USA	736	–	736	439	–	439
U.S. Tresury bills	154,041	–	154,041	150,528	–	150,528
Money market funds	–	3,306	3,306	–	2,267	2,267
Total cash equivalents	241,984	34,169	276,153	220,795	26,659	247,454
Total University's cash and cash equivalents	279,984	35,677	315,661	232,913	27,726	260,639
DUI:						
Cash on hand	10	–	10	25	–	25
Due from commercial banks in Puerto Rico	1,246	154	1,400	1,171	2,445	3,616
Total cash on hand and due from commercial banks	1,256	154	1,410	1,196	2,445	3,641
Total DUI cash and cash equivalents	$ 281,240	$ 35,831	$ 317,071	$ 234,109	$ 30,171	$ 264,280
Current portion	$ 281,240	$ 33,798	$ 315,038	$ 234,109	$ 21,193	$ 255,302
Noncurrent portion	–	2,033	2,033	–	8,978	8,978
Total	$ 281,240	$ 35,831	$ 317,071	$ 234,109	$ 30,171	$ 264,280

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 its discretely presented component units 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 $4,042,000 and $2,706,000 at June 30, 2019 and 2018, respectively, are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents of the University's permanent endowment funds amounted to approximately $3,887,000 and $8,648,000 as of June 30, 2019 and 2018, respectively (refer to Note 5). Other restricted cash equivalents amounted to approximately $31,790,000 and $19,078,000 as of June 30, 2019 and 2018, respectively, and mainly include approximately $29,021,000 and $10,000,000 of cash advances from Commonwealth's grants and contracts, and $344,000 and $7,050,000 of funds held in the construction fund mainly for the Molecular Sciences Building, respectively.

4. Cash and Cash Equivalents (continued)

The University Only (continued)

As of June 30, 2019, the proceeds from the insurance company of approximately $34,051,000 (including earned interest income) related to damages caused by the hurricanes and received in fiscal year 2019, are committed to future permanent works projects funding by the Federal Emergency Management Agency (FEMA).

As of June 30, 2019 and 2018, the University's cash deposited in the banks amounted to approximately $326,696,000 and $269,831,000, respectively.

Blended Component Unit's Cash and Cash Equivalents

DUI's cash and cash equivalents as of June 30, 2019 and 2018 amounted to approximately $1,410,000 and $3,641,000, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. These deposits are insured up to $250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is uncollateralized. As of June 30, 2019 and 2018, DUI's cash deposited in the banks amounted to approximately $1,518,000 and $3,917,000, respectively. DUI's uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $1,268,000 and $3,667,000 as of June 30, 2019 and 2018, respectively.

Discretely Presented Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2019 and 2018, amounted to approximately $18,433,000 and $17,126,000, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2019 and 2018, the discretely presented component units' cash deposited in the banks amounted to approximately $19,453,000 and $17,976,000, respectively. The discretely presented component units' uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $211,000 and $135,000 as of June 30, 2019 and 2018.

5. Investments

The University's investments held at June 30, 2019, 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	$ 18,028	$ –	$ –	$ –	$ –	$ –	$ 18,028
U.S. Treasury bonds	3	–	–	–	–	–	3
U.S. sponsored agencies bonds and notes	5,089	–	–	–	–	–	5,089
U.S. municipal bonds	–	–	–	–	–	2,552	2,552
Mortgage-backed securities	27,867	–	–	–	–	–	27,867
Asset-backed securities	4,874	–	–	–	–	–	4,874
Corporate bonds	16,595	–	–	–	–	–	16,595
Common stock and convertibles	45,025	–	84	–	–	–	45,109
External investment pools	–	–	16,983	–	–	171	17,154
Nonparticipating guaranteed investment contracts	–	–	67,290	–	–	–	67,290
Certificates of deposit	153	–	–	–	5	–	158
Money market funds and others	3	45,550	60	–	–	–	45,613
Total University's investments	117,637	45,550	84,417	–	5	2,723	250,332
DUI:							
U.S. sponsored agency notes	–	5,848	–	–	–	–	5,848
Money market funds	–	6,737	–	3,155	–	–	9,892
Total DUI's Investments	–	12,585	–	3,155	–	–	15,740
Total Primary Government	$ 117,637	$ 58,135	$ 84,417	$ 3,155	$ 5	$ 2,723	$ 266,072
Current portion	$ 256	$ 58,135	$ –	$ 3,155	$ 5	$ –	$ 61,551
Noncurrent portion	117,381	–	84,417	–	–	2,723	204,521
Total	$ 117,637	$ 58,135	$ 84,417	$ 3,155	$ 5	$ 2,723	$ 266,072

The University's investments held at June 30, 2018, 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	$ 14,973	$ –	$ –	$ –	$ –	$ –	$ 14,973
U.S. sponsored agencies bonds and notes	3,396	–	–	–	–	–	3,396
U.S. municipal bonds	–	–	–	–	–	2,640	2,640
Foreign government bonds	366	–	–	–	–	–	366
Mortgage-backed securities	22,899	–	–	–	–	–	22,899
Asset-backed securities	2,679	–	–	–	–	–	2,679
Corporate bonds	21,458	–	–	–	–	–	21,458
Common stock and convertibles	41,622	–	31	–	–	–	41,653
External investment pools	–	–	15,051	–	–	168	15,219
Nonparticipating guaranteed investment contracts	–	–	62,093	–	–	–	62,093
Certificates of deposit	153	–	–	–	5	–	158
Money market funds and others	3	52,097	17,893	–	–	–	69,993
Total University's Investments	107,549	52,097	95,068	–	5	2,808	257,527
DUI:							
U.S. sponsored agency notes	–	5,848	–	–	–	–	5,848
Money market funds	–	6,218	–	3,098	–	–	9,316
Total DUI's Investments	–	12,066	–	3,098	–	–	15,164
Total Primary Government	$ 107,549	$ 64,163	$ 95,068	$ 3,098	$ 5	$ 2,808	$ 272,691
Current portion	$ –	$ 64,163	$ –	$ 3,098	$ 5	$ –	$ 67,266
Noncurrent portion	107,549	–	95,068	–	–	2,808	205,425
Total	$ 107,549	$ 64,163	$ 95,068	$ 3,098	$ 5	$ 2,808	$ 272,691

5. Investments (continued)

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, 2019 and 2018 amounted to approximately $45,550,000 and $52,097,000, respectively, and consisted of money market funds.

DUI's funds held by trustee at June 30, 2019 and 2018 amounted to approximately $12,585,000 and $12,066,000, respectively, 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

DUI maintains a Construction Fund account held by trustee, related to the issuance of the AFICA bonds. As of June 30, 2019 and 2018, the account balance amounted to approximately $3,155,000 and $3,098,000, respectively, and consisted of a money market fund.

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2019 and 2018 amounted to approximately $117,637,000 and $107,549,000, respectively. 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.

5. Investments (continued)

Restricted Investments in Permanent Endowment Funds (continued)

As of June 30, 2019 and 2018, 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, 2019 and 2018, net appreciation of approximately $12,904,000 and $9,503,000, respectively, 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 $84,417,000 and $95,068,000 as of June 30, 2019 and 2018, respectively. 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 $67,290,000 and $62,093,000 as of June 30, 2019 and 2018, respectively, and a deposit in a suspense account at Voya of approximately $17,841,000 as of June 30, 2018. No such deposit in a suspense account at Voya was outstanding as of June 30, 2019.

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.

5. Investments (continued)

Credit Risk (continued)

As of June 30, 2019, 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-	B	Unrated	No Risk
U.S. Treasury bonds and notes	$ 18,031	$ –	$ –	$ –	$ –	$ –	$ –	$ 18,031
U.S. sponsored agencies bonds and notes	10,937	–	10,937	–	–	–	–	–
U.S. municipal bonds	2,552	–	1,626	153	637	136	–	–
Mortgage-backed securities	27,867	20,237	3,606	–	–	–	–	4,024
Asset-backed securities	4,874	4,874	–	–	–	–	–	–
Corporate bonds	16,595	2,925	4,399	9,271	–	–	–	–
Common stock and convertibles	45,109	–	–	–	–	–	45,109	–
External investment pools	17,154	–	–	–	–	–	17,154	–
Nonparticipating guaranteed investment contracts	67,290	–	–	67,290	–	–	–	–
Certificates of deposit	158	–	–	–	–	–	158	–
Money market funds	55,505	9,952	–	45,550	–	–	3	–
Total	$ 266,072	$ 37,988	$ 20,568	$ 122,264	$ 637	$ 136	$ 62,424	$ 22,055

As of June 30, 2018, 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-	B	Unrated	No Risk
U.S. Treasury bonds and notes	$ 14,973	$ –	$ –	$ –	$ –	$ –	$ –	$ 14,973
U.S. sponsored agencies bonds and notes	9,244	–	9,244	–	–	–	–	–
U.S. municipal bonds	2,640	140	1,595	151	631	123	–	–
Foreign government bonds	366	–	–	366	–	–	–	–
Mortgage-backed securities	22,899	17,876	3,397	–	–	–	–	1,626
Asset-backed securities	2,679	2,679	–	–	–	–	–	–
Corporate bonds	21,458	4,904	4,959	11,595	–	–	–	–
Common stock and convertibles	41,653	–	–	–	–	–	41,653	–
External investment pools	15,219	–	–	–	–	–	15,219	–
Nonparticipating guaranteed investment contracts	62,093	–	–	62,093	–	–	–	–
Certificates of deposit	158	–	–	–	–	–	158	–
Money market funds	79,309	61,465	–	17,841	–	–	3	–
Total	$ 272,691	$ 87,064	$ 19,195	$ 92,046	$ 631	$ 123	$ 57,033	$ 16,599

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, 2019 and 2018, are uninsured and uncollateralized. These deposits are exposed to custodial credit risk. At June 30, 2019, 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.

5. Investments (continued)

Recovered Amount on Previously Written Off Impaired Deposits and Impairment Loss on 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 and $93,477,000 as of June 30, 2019 and 2018, respectively. 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, 2019 and 2018, the entire balance of the deposits held with GDB was considered not realizable.

Impairment losses on deposits held with the GDB were recorded in the University's basic financial statements for the years ended June 30, 2016 and 2015 of approximately $69,807,000 and $21,668,000, respectively, based on an evaluation of the availability and recoverability of such funds at the corresponding year-end. Deposits held with GDB increased by approximately $964,000, $1,330,000 and $672,000 in fiscal years 2019, 2018 and 2017, respectively, for capitalized interest which collection was considered improbable. Thus, related interest income was not recorded in fiscal years 2019, 2018 and 2017.

As explained below, on November 29, 2018, the University recorded a noncash revenue for a recovered amount on previously written off impaired deposits with the GDB of approximately $87,316,000 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 ($87,316,000, including accrued interest payable of approximately $10,910,000), on a dollar-for dollar basis, by the amount of the University's deposits at the GDB.

On May 15, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Government Development Bank for Puerto Rico (GDB) entered into a Restructuring Support Agreement (the "RSA") with a significant portion of the GDB's creditors. The parties to the RSA agreed to undertake a financial restructuring of the GDB pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). On November 6, 2018, the Qualifying Modification was approved by the Federal Court. On November 29, 2019, the FAFAA and the GDB announced the consummation of the Qualifying Modification.

5. Investments (continued)

Recovered Amount on Previously Written Off Impaired Deposits and Impairment Loss on Deposits with Governmental Bank (continued)

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"), claims on account of deposits held by the Commonwealth and other public entities, including the University, will be exchanged for interest in the Public Entity Deed of Trust created pursuant to the GDB Restructuring Act. Specifically, pursuant to the GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the University (each a "Non-Municipal Government Entity") and the GDB will be determined by applying the outstanding balance of any deposits held at GDB in a Non- Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the GDB or of any bond or note of such Non-Municipal Government Entity held by the GDB as of such date. Those Non-Municipal Government Entities having net claims against the GDB, after giving effect to the foregoing adjustment, including the University, will receive their pro rata share of interests in the Public Entity Trust (PET), which will be deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB.

As a result of the Qualifying Modification, on November 29, 2018, the credit facilities the University owed to the GDB (approximately $76,406,000 in principal plus accrued interest of $10,911,000 for a total amount of $87,316,000, as of November 29, 2018) were fully offset on a dollar-for-dollar basis by the amount of the University's deposits held at the GDB (approximately $94,442,000, including accrued interest, as of November 29, 2018) and such facilities were extinguished. The remainder of the University's recovery on account of its deposits at the GDB (approximately $7,125,000) will depend upon the recovery received by the Public Entity Trust on account of the PET Assets.

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 $45,550,000) and the Voya Retirement Insurance and Annuity Company Fixed Account (a nonparticipating guaranteed investment contract) (approximately $67,290,000), represented 5% or more of the total investment portfolio at June 30, 2019.

At June 30, 2019 and 2018, the University had variable rate interest investments amounting to approximately $1,572,000 and $826,000, respectively.

5. Investments (continued)

Interest Rate Risk (continued)

The following table summarizes the type and maturity of investments held by the University at June 30, 2019 (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	$ 6,010	$ 4,618	$ 7,403	$ –	$ –	$ 18,031
U.S. sponsored agencies bonds and notes	5,848	3,352	1,737	–	–	10,937
U.S. municipal bonds	–	177	1,462	913	–	2,552
Mortgage-backed securities	–	5,075	12,073	10,719	–	27,867
Asset-backed securities	–	3,723	1,151	–	–	4,874
Corporate bonds	1,128	10,632	4,835	–	–	16,595
Certificates of deposit	158	–	–	–	–	158
Nonparticipating guaranteed investment contracts	–	67,290	–	–	–	67,290
External investment pools	4	823	74	–	16,253	17,154
Money market funds	55,505	–	–	–	–	55,505
Common stock and convertibles	–	–	–	–	45,109	45,109
Total	$ 68,653	$ 95,690	$ 28,735	$ 11,632	$ 61,362	$ 266,072

The following table summarizes the type and maturity of investments held by the University at June 30, 2018 (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	$ –	$ 2,854	$ 12,119	$ –	$ –	$ 14,973
U.S. sponsored agencies bonds and notes	5,848	3,037	359	–	–	9,244
U.S. municipal bonds	125	–	1,321	1,194	–	2,640
Foreign government bonds	366	–	–	–	–	366
Mortgage-backed securities	–	3,408	10,605	8,886	–	22,899
Asset-backed securities	–	1,588	1,091	–	–	2,679
Corporate bonds	1,719	15,109	4,630	–	–	21,458
Certificates of deposit	158	–	–	–	–	158
Nonparticipating guaranteed investment contracts	–	62,093	–	–	–	62,093
External investment pools	4	582	69	–	14,564	15,219
Money market funds	79,309	–	–	–	–	79,309
Common stock and convertibles	–	–	–	–	41,653	41,653
Total	$ 87,529	$ 88,671	$ 30,194	$ 10,080	$ 56,217	$ 272,691

5. Investments (continued)

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 $122,953,000 and $141,560,000 as of June 30, 2019 and 2018, respectively, are not classified in the fair value hierarchy below because they are carried at cost.

The following is a summary of the fair value hierarchy of the fair value of investments of the University as of June 30, 2019 and 2018 (expressed in thousands):

	2019			2018		
		Fair Value Measurements Using			Fair Value Measurements Using	
Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Imputs (Level 2)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Imputs (Level 2)
U.S. Treasury notes and bonds	$ 18,031	$ 18,031	$ –	$ 14,973	$ 14,973	$ –
U.S. sponsored agencies bonds and notes	10,937	–	10,937	9,244	–	9,244
U.S. municipal bonds	2,552	–	2,552	2,640	–	2,640
Foreign government bonds	–	–	–	366	–	366
Mortgage-backed securities	27,867	–	27,867	22,899	–	22,899
Asset-backed securities	4,874	–	4,874	2,679	–	2,679
Corporate bonds	16,595	–	16,595	21,458	–	21,458
Common stock and convertibles	45,109	45,109	–	41,653	41,653	–
External investment pools	17,154	17,154	–	15,219	–	15,219
Total Investments by Fair Value Level	$ 143,119	$ 80,294	$ 62,825	$ 131,131	$ 56,626	$ 74,505

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, 2019 and 2018 are as follows (expressed in thousands):

	2019			2018		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
Due from medical plans	$ 124,415	$ (116,217)	$ 8,198	$ 116,226	$ (107,932)	$ 8,294
Student tuition and fees	13,099	(8,918)	4,181	10,427	(7,823)	2,604
Other	18,685	(13,962)	4,723	18,489	(14,705)	3,784
Total accounts receivable	156,199	(139,097)	17,102	145,142	(130,460)	14,682
Due from Federal Government	42,282	–	42,282	37,616	–	37,616
Due from related parties (see Note 7)	127,674	(107,456)	20,218	122,880	(106,715)	16,165
Total	$ 326,155	$ (246,553)	$ 79,602	$ 305,638	$ (237,175)	$ 68,463

Component Units

The Component Units' accounts receivable, net of allowance for doubtful accounts as of June 30, 2019 and 2018 are as follows (expressed in thousands):

	2019			2018		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
The Hospital:						
Patient accounts	$ 35,251	$ (24,283)	$ 10,968	$ 28,435	$ (17,444)	$ 10,991
Others	641	–	641	861	–	861
Total the Hospital	35,892	(24,283)	11,609	29,296	(17,444)	11,852
UPRPS - others	34	–	34	10	–	10
MCC - others	345	(11)	334	430	(11)	419
Total	36,271	(24,294)	11,977	29,736	(17,455)	12,281
Due from Federal Government - The Hospital	674	–	674	726	–	726
Total	$ 36,945	$ (24,294)	$ 12,651	$ 30,462	$ (17,455)	$ 13,007

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, 2019 and 2018 are as follows (expressed in thousands):

	2019			2018		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
Due from Commonwealth's:						
Agencies	$ 28,607	$ (25,185)	$ 3,422	$ 29,727	$ (24,905)	$ 4,822
Due from Commonwealth's Component Units	66,353	(56,942)	9,411	63,531	(56,691)	6,840
Municipalities	3,614	(3,121)	493	3,747	(3,067)	680
Due from Servicios Médicos Universitarios, Inc.	24,028	(22,208)	1,820	22,846	(22,052)	794
Due from the University Retirement System	5,072	–	5,072	3,029	–	3,029
Total	$ 127,674	$ (107,456)	$ 20,218	$ 122,880	$ (106,715)	$ 16,165

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 $17,485,000 and $18,097,000 at June 30, 2019 and 2018, 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 approximately $2,313,000 and $2,878,000 at June 30, 2019 and 2018, respectively, 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 $587,136,000 and $631,210,000 for the years ended June 30, 2019 and 2018, respectively. In accordance with the Commonwealth Budget for the fiscal years 2019 and 2018 certified by the Oversight Board of PROMESA, the Commonwealth formula was reduced by approximately $44.1 million and $202.7 million, respectively.

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 $42,035,000 and $37,587,000 for the years ended June 30, 2019 and 2018, respectively.

All Commonwealth formula and other appropriations for the fiscal years 2019 and 2018 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 $49,449,000 and $46,171,000 as of June 30, 2019 and 2018, respectively. 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 $5,401,000 and $5,677,000 at June 30, 2019 and 2018, respectively. 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, 2019 and 2018 was collected in July 2019 and 2018, respectively. PRTC appropriations (nonoperating revenues) for the years ended June 30, 2019 and 2018, amounted to approximately $66,540,000 and $64,302,000, respectively, 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 $3,371,000 and $3,569,000 at June 30, 2019 and 2018, respectively. These accounts receivable mainly come from unpaid charges of salaries, fringe benefits and other expenses incurred in fiscal years 2017, 2018 and 2019 by certain professors of the Medical Science Campus of the University for Cancer research and investigations provided to the CCCUPR. The University collected approximately $1.2 million in fiscal year 2019 and $2.0 million in fiscal year 2020 of these accounts receivable as of June 30, 2019 and 2018.

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 $5,072,000 and $3,029,000 as of June 30, 2019 and 2018, respectively, 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, 2018 was collected in November 2018. The amount due by the Retirement System as of June 30, 2019 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, 2019 and 2018 (expressed in thousands):

	2019	2018
Due to:		
Commonwealth and its component units:		
Puerto Rico Medical Service Adminitration ("PRMSA")	$ 15,507	$ 14,925
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS")	4,838	-
Puerto Rico Electric Power Authority ("PREPA")	4,147	6,295
Puerto Rico Aqueduct and Sewer Authority ("PRASA")	666	1,602
Others	2,854	2,817
Servicios Médicos Universitarios, Inc.	10,627	10,659
University's Retirement System	3,230	10,244
University of Puerto Rico Parking System	944	853
Total	$ 42,813	$ 47,395

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, 2019 come from the PayGo charge for fiscal year 2019 billed by the ERS to the University corresponding to certain retirees of a unit of the University, who are members of the ERS. The PayGo charge for fiscal year 2018 of approximately $5,103,000 was paid by the University in the corresponding fiscal year. The PayGo charge for fiscal year 2019 has not been paid. 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 UPRPS come from construction costs of certain University's parking facilities paid by the UPRPS on behalf of the University.

Due to the University's Retirement System at June 30, 2019 mainly resulted for unpaid medical insurance contributions to retirees (other post-employment benefits) of approximately $3.0 million that were paid in fiscal year 2020. Due to the University's Retirement System at June 30, 2018 mainly resulted for an unpaid additional pension contribution approved by the Governing Board of the University of approximately $3.7 million and $6.3 million for the years ended June 30, 2018 and 2017, respectively, for a total additional pension contribution of $10.0 million to the University's Retirement System that were paid to the University's Retirement System in November 2018.

7. Related-Party Transactions (continued)

Other Related-Party Transactions (continued)

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

8. Interfund Balances and Transactions

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.

8. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

Also, DUI maintains 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.

The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2019 and 2018 on this capital lease was approximately $49,810,000 and $52,164,000, respectively. The effective interest rate was 6.54% and 6.19 % at June 30, 2019 and 2018, respectively.

The activity of the principal balance of the capital lease obligation for the years ended June 30, 2019 and 2018 is as follows (expressed in thousands):

	2019	2018
Beginning Balance	$ 52,164	$ 55,594
Additions	–	–
Reductions	(2,354)	(3,430)
Ending Balance	49,810	52,164
Less current portion	2,516	2,355
Total noncurrent portion	$ 47,294	$ 49,809

During the years ended June 30, 2019 and 2018, the University paid approximately $5,699,000 each year 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.

As disclosed in Note 13, the settlement agreement executed in September 2018 in connection with the litigation with the Project's general contractor resulted in the reversal of approximately $1,109,000 accounts payable in connection with the construction of the Project. The amount reversed represents the excess over the amount due as finally agreed. This reversal reduced the principal balance of the University's capital lease obligation and the DUI's investment in the direct financing lease at June 30, 2018 and prospectively increases the effective interest rate to 6.54%.

8. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

At June 30, 2019, the future minimum lease payments under the capital lease are as follows (expressed in thousands):

Year Ending June 30,	Amount
2020	$ 5,701
2021	5,697
2022	5,701
2023	5,697
2024	5,701
2025-2029	28,498
2030-2034 [(1)]	17,102
Total future minimum lease payments	74,097
Less amounts representing interest costs	(24,287)
Present value of minimum lease payments	$ 49,810

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

Other Transactions

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 receive a monthly fixed management fee, which is subject to automatic annual increases reflecting increases in the Consumer Price Index. The fixed management fee was $75,000 per month for the years ended June 30, 2019 and 2018. DUI also receive a reimbursable expenditures fee to cover expenditures incurred in operating and maintaining Plaza Universitaria facilities, at actual cost, and is not to be used to pay expenses that should otherwise be covered by the fixed management fee. The amount to be paid is 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.

8. Interfund Balances and Transactions (continued)

Other Transactions (continued)

DUI's responsibilities under the Management Agreement also include the rental and related income derived from the student dormitory and commercial facilities, as well as the parking operation. Accordingly, DUI only act 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 maintain separate cash accounts for such concepts, and periodically transfers 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 $2,467,000 and $1,947,000 for the years ended June 30, 2019 and 2018, respectively. DUI remitted approximately $619,000 and $1,765,000 to the University during the years ended June 30, 2019 and 2018, respectively, for amounts collected from student dormitories and commercial facilities and parking operations. In addition, and as further described below, during fiscal year 2019, DUI applied an additional $1,892,000 in similar collections 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 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 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 and DUI has 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. There have been any significant developments on this action beyond the filing. If the current situation persists, DUI's management believes available cash reserves will be exhausted within the next six to twelve months.

Net amount due by the University under the operations and management agreement amounted to approximately $2,658,000 and $1,674,000 as of June 30, 2019 and 2018, respectively.

8. Interfund Balances and Transactions (continued)

Other Transactions (continued)

During the years ended June 30, 2019 and 2018, the University incurred the following expenditures under the operations and management agreement (expressed in thousands):

	2019	2018
Fixed management fee	$ 900	$ 900
Reimbursable expenditures fee	2,584	2,643
Total	$ 3,484	$ 3,543

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 years ended June 30, 2019 and 2018 are as follows (expressed in thousands):

	2019				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	15,890	18,971	–	–	34,861
	65,506	18,971	–	–	84,477
Other capital assets:					
Land improvements	43,858	–	–	–	43,858
Buildings, fixed equipment, improvements and infrastructure	1,096,706	220	–	–	1,096,926
Equipment, software and library materials	322,927	11,599	–	(5,442)	329,084
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,562,980	11,819	–	(5,442)	1,569,357
Less accumulated depreciation and amortization for:					
Land improvements	(27,241)	(1,383)	–	–	(28,624)
Buildings, fixed equipment, improvements and infrastructure	(472,364)	(26,338)	–	–	(498,702)
Equipment, software and library materials	(271,509)	(13,459)	–	4,988	(279,980)
Building and equipment under capital lease	(33,456)	(2,704)	–	–	(36,160)
	(804,570)	(43,884)	–	4,988	(843,466)
Other capital assets, net of accumulated depreciation	758,410	(32,065)	–	(454)	725,891
Capital assets, net	$ 823,916	$ (13,094)	$ –	$ (454)	$ 810,368

9. Capital Assets (continued)

	2018				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	10,127	10,895	(5,132)	–	15,890
	59,743	10,895	(5,132)	–	65,506
Other capital assets:					
Land improvements	39,572	–	4,866	(580)	43,858
Buildings, fixed equipment, improvements and infrastructure	1,133,929	1,793	–	(39,016)	1,096,706
Equipment, software and library materials	326,985	10,917	266	(15,241)	322,927
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,599,975	12,710	5,132	(54,837)	1,562,980
Less accumulated depreciation and amortization for:					
Land improvements	(26,386)	(1,319)	–	464	(27,241)
Buildings, fixed equipment, improvements and infrastructure	(468,381)	(26,511)	–	22,528	(472,364)
Equipment, software and library materials	(267,748)	(14,358)	–	10,597	(271,509)
Building and equipment under capital lease	(30,746)	(2,710)	–	–	(33,456)
	(793,261)	(44,898)	–	33,589	(804,570)
Other capital assets, net of accumulated depreciation	806,714	(32,188)	5,132	(21,248)	758,410
Capital assets, net	$ 866,457	$ (21,293)	$ –	$ (21,248)	$ 823,916

As of June 30, 2019 and 2018, the carrying value of the University's assets recorded under capital leases amounted to approximately $63,329,000 and $66,033,000, respectively. Amortization expense on these assets amounted to approximately $2,704,000 and $2,710,000 in 2019 and 2018, respectively.

In fiscal years 2019 and 2018, no interest was capitalized because all additions to construction in progress were financing with operating funds.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, homes and businesses. Heavy rain and strong wings form Hurricane Maria caused mudslides, flooding and accumulation of vegetative debris throughout the island of Puerto Rico.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

9. Capital Assets (continued)

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. Over 600 of the University's buildings were damaged as a direct result of the Hurricane Maria. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process. At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System.

As a result of the damages caused by Hurricanes Irma and Maria, the University recorded an impairment charge on capital assets of approximately $16,348,000 for the year ended June 30, 2018.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Part of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate lost limit of $100 million each. On September 28, 2018, the University's insurance company was intervened by the Puerto Rico Insurance Commissioner for insolvency under a "rehabilitation order" before the Court of First Instance, Superior Court of San Juan. The order designates the Puerto Rico Insurance Commissioner, as "rehabilitator" and orders him to take possession of the insurer's assets, in protection of the interests of the policyholders with claims, creditors of the insurer and the public in general. On November 8, 2018, the University settled this claim with the insurance company for a total consideration of $50.0 million. On November 15, 2018, the insurance company's businesses were sold to third parties and it is in the process of its liquidation. Presently, the University has only received proceeds from the insurance company of approximately $38.8 million (of which approximately $33.8 million and $5.0 million were collected in fiscal years 2019 and 2018, respectively) and funds from FEMA of approximately $5.5 million (of which approximately $4.5 million and $1.0 million were collected in fiscal years 2019 and 2018, respectively) for these natural disasters. Amounts collected from the insurance company and from FEMA in fiscal years 2019 and 2018 are included as other operating revenues and as federal grants and contracts, respectively, in the statements of revenues, expenses and changes in net position.

9. Capital Assets (continued)

Component Units

Changes in the Component Units' capital assets for the years ended June 30, 2019 and 2018 are as follows (expressed in thousands):

2019	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,365	$ 264	$ –	$ –	$ 1,629
	1,365	264	–	–	1,629
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	7,667	1,236	–	(13)	8,890
Equipment, software and library materials	26,748	2,030	–	–	28,778
	34,415	3,266	–	(13)	37,668
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(4,695)	(650)	–	–	(5,345)
Equipment, software and library materials	(20,329)	(1,632)	–	–	(21,961)
	(25,024)	(2,282)	–	–	(27,306)
Other capital assets, net of accumulated depreciation	9,391	984	–	(13)	10,362
Capital assets, net	$ 10,756	$ 1,248	$ –	$ (13)	$ 11,991

2018	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,071	$ 294	$ –	$ –	$ 1,365
	1,071	294	–	–	1,365
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	7,139	528	–	–	7,667
Equipment, software and library materials	24,228	2,520	–	–	26,748
	31,367	3,048	–	–	34,415
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(4,006)	(689)	–	–	(4,695)
Equipment, software and library materials	(18,626)	(1,703)	–	–	(20,329)
	(22,632)	(2,392)	–	–	(25,024)
Other capital assets, net of accumulated depreciation	8,735	656	–	–	9,391
Capital assets, net	$ 9,806	$ 950	$ –	$ –	$ 10,756

10. Noncurrent Liabilities

Changes in the University's noncurrent liabilities for the years ended June 30, 2019 and 2018 are as follows (expressed in thousands):

2019	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Notes payable (1)	$ 76,406	$ –	$ –	$ (76,406)	$ –	$ –	$ –
Bonds payable	403,424	–	(23,115)	(1,637)	378,672	24,270	354,402
Total University's long-term debt	479,830	–	(23,115)	(78,043)	378,672	24,270	354,402
DUI's long-term debt- bonds payable	61,590	–	(2,580)	12	59,022	2,725	56,297
Total long-term debt	$ 541,420	$ –	$ (25,695)	$ (78,031)	$ 437,694	$ 26,995	$ 410,699
The University's other long-term liabilities							
Deferred compensation payable (see note 5)	$ 95,068	$ –	$ –	$ (10,651)	$ 84,417	$ –	$ 84,417
Claims liability (2)	15,960	–	(6,287)	315	9,988	2,373	7,615
Compensated absences	145,123	–	(18,924)	5,791	131,990	23,760	108,230
Net pension liability	2,968,233	–	–	55,900	3,024,133	–	3,024,133
OPEB obligation	232,115	–	(12,885)	7,614	226,844	–	226,844
Total University's other long-term liabilities	3,456,499	-	(38,096)	58,969	3,477,372	26,133	3,451,239
DUI's other long-term liabilities- compensated absences	11	–	–	1	12	12	–
Total other long-term liabilities	$ 3,456,510	$ –	$ (38,096)	$ 58,970	$ 3,477,384	$ 26,145	$ 3,451,239

(1) Includes the offset of the credit facilities with the GDB, on a dollar-for dollar basis, by the amount of the University's deposits held at the GDB. See Note 5.
(2) Includes a claim liability with federal agencies of approximately $1,261,000 at June 30, 2019. See Note 13.

2018	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Notes payable	$ 76,406	$ –	$ –	$ –	$ 76,406	$ 76,406	$ –
Bonds payable	427,132	–	(22,010)	(1,698)	403,424	23,115	380,309
Total University's long-term debt	503,538	–	(22,010)	(1,698)	479,830	99,521	380,309
DUI's long-term debt- bonds payable	64,023	–	(2,445)	12	61,590	2,580	59,010
Total long-term debt	$ 567,561	$ –	$ (24,455)	$ (1,686)	$ 541,420	$ 102,101	$ 439,319
The University's other long-term liabilities							
Deferred compensation payable (see note 5)	$ 93,011	$ –	$ –	$ 2,057	$ 95,068	$ –	$ 95,068
Claims liability (1)	13,297	–	(600)	3,263	15,960	5,255	10,705
Compensated absences	145,703	–	(14,171)	13,591	145,123	28,102	117,021
Net pension liability	2,006,703	–	–	961,530	2,968,233	–	2,968,233
OPEB obligation (2)	229,808	–	(10,119)	12,426	232,115	–	232,115
Total University's other long-term liabilities	2,488,522	-	(24,890)	992,867	3,456,499	33,357	3,423,142
DUI's other long-term liabilities- compensated absences	5	–	–	6	11	11	–
Total other long-term liabilities	$ 2,488,527	$ –	$ (24,890)	$ 992,873	$ 3,456,510	$ 33,368	$ 3,423,142

(1) Includes a claim liability with federal agencies of approximately $1,773,000 at June 30, 2018. See Note 13.
(2) The beginning balance of the OPEB obligation was increased by approximately $215,655,000 as a result of the adoption of GASB Statement No. 75.

Notes payable and bonds payable are further discussed in Notes 11 and 12, respectively. Claim liability, net pension liability and total OPEB liability are further discussed in Notes 13, 14, and 15, respectively.

11. Notes Payable

The University obtained a $125 million line of credit with the Government Development Bank for Puerto Rico (“GDB”), a public corporation of the Commonwealth, for working capital purposes. This line of credit was converted into a ten-year term loan in October 2011 payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan was collateralized by the University ‘s accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. This term loan was originally maturing on October 1, 2022 and bore interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (interest rate of 6.5% June 30, 2018). The University had not made the monthly payments of this term loan since May 2016. The balance outstanding of this term loan amounted to approximately $48,286,000 at June 30, 2018. Accrued interest payable of this term loan amounted to approximately $6,413,000 as of June 30, 2018.

In addition, the University had a $75.0 million non-revolving line of credit facility with the GDB to complete certain construction projects of the University’s Program for Permanent Improvements. This line of credit bore interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6.5% at June 30, 2018). The balance outstanding of this line of credit amounted to approximately $28,120,000 at June 30, 2018. Accrued interest payable of this line of credit amounted to approximately $3,256,000 as of June 30, 2018. This line of credit expired on January 31, 2016 and the University had not made the monthly interest payments of this line of credit since September 2016.

As explained in note 5, on November 29, 2018, the above notes payable to the GDB amounting to approximately $76,406,000 and corresponding accrued interest amounting to approximately $10,911,000 were fully offset, on a dollar-for dollar basis, by the amount of the University’s deposits at the GDB, and such facilities were extinguished. As a result, the University recorded a noncash revenue for a recovered amount on previously written off impaired deposits with the GDB of approximately $87,316,000 as a nonoperating revenue in the statement of revenues, expenses and changes in net position for the year ended June 30, 2019.

Notes Payable – Component Units

Servicios Médicos Universitarios, Inc. (the “Hospital”) has notes payable amounting to approximately $15,615,000 and $18,123,000 as of June 30, 2019 and 2018, respectively.

11. Notes Payable (continued)

Notes Payable – Component Units (continued)

A summary of the Hospital's notes payable at June 30, 2019 and 2018 follows (expressed in thousands):

	2019	2018
Term loan payable with GDB	$ 7,791	$ 9,291
Non-interest bearing notes payable to:		
Puerto Rico Aqueduct and Sewer Authority	–	90
Puerto Rico Electric Power Authority	7,082	7,681
Supplier	312	468
Term loans payable with a commercial bank	430	593
	15,615	18,123
Less: current portion	2,518	2,447
Noncurrent portion	$ 13,097	$ 15,676

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 6.50 % at June 30, 2019 and 2018), with a floor of 6% and a ceiling of 12%. The loan is guaranteed by the University.

The non-interest-bearing notes payable to Puerto Rico Aqueduct and Sewer Authority ("PRASA") and to Puerto Rico Electric Power Authority ("PREPA"), component units of the Commonwealth, resulted from trade accounts payable for utilities provided by PRASA and PREPA that were restructured into an unsecured, long-term debts. The PRASA note is payable in monthly installments of approximately $15,000 and matures on December 15, 2018. The PREPA note is payable in 230 monthly installments of approximately $50,000 and matures on March 28, 2031.

In June 2015, the Hospital entered into a term loan agreement with a commercial bank for a total amount of $410,000 for the acquisition of medical equipment. The term loan is payable in 60 monthly payments of approximately $7,900. The term loan is collateralized with the acquired medical equipment, mature on June 4, 2020 and bears interest per annum equal to 5.95%.

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.

11. Notes Payable (continued)

Notes Payable – Component Units (continued)

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%.

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 necessary 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; provisions The Hospital must comply with certain operating and financial covenants, among other requirements established in the loan agreements. At June 30, 2019 and 2018, the Hospital was in compliance with such covenants.

The activity of the principal balance of the long- term debt for the year ended June 30, 2019 and 2018 is as follows (expressed in thousands):

	2019	2018
Beginning Balance	$ 18,123	$ 20,184
Additions	–	425
Reductions	(2,508)	(2,486)
Ending Balance	$ 15,615	$ 18,123

The table below represents debt service payments on long-term debt as of June 30, 2019. 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, 2019 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
		(In thousands)	
2020	$ 2,518	$ 480	$ 2,998
2021	2,537	365	2,902
2022	2,537	246	2,783
2023	2,624	118	2,742
2024	1,318	10	1,328
2025-2029	3,000	–	3,000
2030-2031	1,081	–	1,081
	$ 15,615	$ 1,219	$ 16,834

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, 2019 and 2018, 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, 2019 and 2018 (dollars expressed in thousands):

Series	2019	2018	Annual Interest Rate (%)	Due Date June 30, 2019
P - Serial	$ 124,725	$ 140,715	5.00%	2020-2026
P - Term	47,645	47,645	5.00%	2027-2030
Q - Serial	60,915	68,040	5.00%	2020-2026
Q - Term	132,415	132,415	5.00%	2027-2036
	365,700	388,815		
Plus unamortized premium	12,972	14,609		
Total	$ 378,672	$ 403,424		

At June 30, 2019, the University's bonds payable require payments of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2020	$ 24,270	$ 18,285	$ 42,555
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 to 2029	119,565	45,328	164,893
2030 to 2034	80,140	19,041	99,181
2035 to 2036	31,885	2,411	34,296
	$ 365,700	$ 145,448	$ 511,148

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.

12. Bonds Payable (continued)

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, 2019 and 2018, consist of (dollars expressed in thousands):

Description	Interest Rate	Maturity	2019	2018
Serial Bonds	5.63%	July 1, 2018	$ –	$ 2,580
Serial Bonds	5.63%	July 1, 2019	2,725	2,725
Serial Bonds	5.00%	July 1, 2020	2,880	2,880
Serial Bonds	5.00%	July 1, 2021	3,020	3,020
Serial Bonds	5.00%	July 1, 2033	50,520	50,520
Total			59,145	61,725
Less unamortized discount			(123)	(135)
Total			$ 59,022	$ 61,590

At June 30, 2019, 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
2020	$ 2,725	$ 2,898	$ 5,623
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 to 2029	19,335	8,681	28,016
2030 to 2034	24,680	3,204	27,884
	$ 59,145	$ 24,865	$ 84,010

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.

12. Bonds Payable (continued)

Blended Component Unit's Bonds (continued)

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 years ended June 30, 2019 and 2018 (dollars expressed in thousands):

	2019	2018
Pledged Revenues:		
Tuition and other fees (1)	$ 160,704	$ 87,477
Student fees	5,185	5,257
Rental and other charges received for the right of use and occupancy of the facilities in the University system	1,807	2,039
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	1,751	944
Funds paid to the University in respect to overhead allowance on federal research projects	16,288	13,010
Other income (2)	25,203	25,202
Total Pledged Revenues	210,938	133,929
Sinking Fund Reserve Interest	1,192	601
Total Pledged Revenues Plus Interest	$ 212,130	$ 134,530
Aggregate Debt Service:		
Principal and Interest Requirement	$ 42,556	$ 42,551
Senior Debt Service Coverage Ratio	4.98	3.16
DUI's AFICA Bonds (Subordinate to the University's Bonds)	$ 4,627	$ 5,633
Aggregate Debt Service	$ 47,183	$ 48,184
Total Debt Service Ratio	4.50	2.79

(1) In fiscal year 2019, the University increased the undergraduate student cost per credit from $57 in fiscal year 2018 to $115 in fiscal year 2019, and the graduate student average annual tuition from $3,699 in fiscal year 2018 to $6,382 in fiscal year 2019.
(2) Includes $25 million of PRTC appropriations under the Gambling Law (slot machines and others) in fiscal years 2019 and 2018.

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, 2019 and 2018, 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:

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- *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.

- *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, 2019, the University was not in compliance with the following covenants: provide its audited financial statements not later than six months after the end of each fiscal year. Also, 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 each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with the requirements of Rule 15c2-12 ("Continuing Disclosures"), as amended, promulgated by the Securities and Exchange Commission (the SEC).

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

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;
- 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 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 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 eleven times and the new Compliance Period is May 29,2020. Pursuant to the letter agreement and the eleven 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 governing the Series P and Q Bonds 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 January 25, 2019; $2.9 million on or before February 25, 2019; $2.9 million on or before March 25, 2019; $2.9 million on or before April 25, 2019; $2.9 million on or before May 25, 2019; and $1,069,000.28 on or before June 25, 2019;

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- in consideration for extending the Compliance Period until November 30, 2019, the University transferred to the Trustee the following monthly payments: $3,650,000 on or before July 25, 2019; $3,650,000 on or before August 25, 2019; $3,650,000 on or before September 25, 2019; $3,650,000 on or before October 25, 2019; and $3,603,997.30 on or before November 25, 2019; and

- in consideration for extending the Compliance Period until May 29, 2020, the University agreed to transfer to the Trustee the following monthly payments: $3,650,000 on or before December 31, 2019; $3,650,000 on or before January 31, 2020; $3,650,000 on or before February 28, 2020; $3,650,000 on or before March 31, 2020; $3,650,000 on or before April 30, 2020; and $3,650,000 on or before May 25, 2020, less a credit for any amount as of April 25, 2020 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of $72,322,250.

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 $1,000,000 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.

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.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- *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, 2018.

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.

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.

12. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

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). The Trustee on behalf of DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA 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 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 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 and DUI have not reached an agreement regarding this matter.

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 years ended June 30, 2019 and 2018 were (expressed in thousands):

	2019	2018
Claims payable - July 1	$ 8,225	$ 8,175
Incurred claims and changes in estimates	(504)	328
Payments for claims and adjustments expenses	(957)	(278)
Claims payable - June 30	$ 6,764	$ 8,225

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, 2019 and 2018, 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.

13. Commitments and Contingent Liabilities (continued)

Claims Liability (continued)

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 $1,963,000 and $5,962,000 as of June 30, 2019 and 2018, respectively, to cover claims and lawsuits that may be assessed against the University. The accrual at June 30, 2018, includes approximately $2.3 million for the claim of the Plaza Universitaria Project's general contractor submitted in October 2003 against the University and DUI for extended overhead (field and main office). On September 10, 2018, the Plaza Universitaria Project's general contractor, the University and DUI signed a settlement agreement in which the University and DUI committed to paid $2,300,000 and $1,550,000, respectively, for a total consideration of $3,850,000. On September 11, 2018, the Puerto Rico First Court of Instance approved the settlement agreement. In November 2018, the University and DUI made the corresponding payments to the Plaza Universitaria Project's general contractor. The University continues to carry commercial insurance for these risks of loss.

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, 2019. The University was in compliance with various program requirements for the year ended June 30, 2019.

13. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

In September 2017, the University received from the U.S. Department of Justice a Claim Letter/Notice of Intent to File Suit on behalf of the National Science Foundation ("NSF"), the National Aeronautics and Space Administration and the United States Department of Energy to take action in the Federal Court against the University for violations of the False Claims Act as a result of an examination of federal grants received by two units of the University. The claim sought treble damages amounted to approximately $5.6 million, including $300,000 for penalties. At June 30, 2018, the University accrued approximately $1.8 million for this claim. On September 27, 2018, the University settled this claim with the federal agencies for approximately $1,773,000. On November 20, 2018, the University paid this claim.

As a result of the examination of federal awards explained above, effective April 23, 2012, the NSF suspended the federal awards for research and development in the two involved units of the University because the University had not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF did not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the Suspension Status continued with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the two involved units of the University.

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, 2019, the University accrued approximately $1.3 million for this claim.

13. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

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, 2019 and 2018, will not be material to the University's financial statements.

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. In addition, the MSCHE requests a monitoring report due, March 16, 2020, in lieu of the show cause report due September 1, 2019, demonstrating further evidence of sustainability of implemented corrective measures, including but not limited to: (1) improvements in the University's annual closing processes and implementation of effective monitoring controls over financial information (Standard VI); (2) the development of multi-year financial plans for the University that produce balanced budgets, including appropriate revenue assumptions (Standard VI); (3) management of financial reporting that provides for reliable financial data at the institutional level (Standard VI); (4) submission of the 2019 annual audits (Standard VI); and (5) the planning and implementation of restructuring for sustainability (Standard VI). The MSCHE noted that a teach-out plan will no longer be required. MSCHE will direct a follow-up team visit following submission of the monitoring report.

13. Commitments and Contingent Liabilities (continued)

Construction Commitments

Construction commitments at June 30, 2019 and 2018, entered by the University, amounted to approximately $61.8 million and $67.8 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 $1,730,000 and $1,756,000 in fiscal years 2019 and 2018, respectively.

At June 30, 2019, the minimum annual future rental are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2020	$ 846
2021	846
2022	846
2023	846
2024	474
	$ 3,858

Servicios Médicos Universitarios, Inc. (the "Hospital") is obligated under the terms and conditions of various non-cancelable long-term operating lease agreements for equipment which expire in fiscal year 2020. Aggregate rent expense was approximately $24,000 and $21,000 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, the minimum annual future rentals, without considering renewal options, is approximately $24,000 due in fiscal year ending June 30, 2020.

In addition, 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 years ended June 30, 2019 and 2018 amounted to approximately $528,000 and $537,000, respectively. At June 30, 2019, total future minimum rental income on operating leases, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2020	$ 325
2021	325
	$ 650

13. Commitments and Contingent Liabilities (continued)

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 $7,791,000 and $9,291,000 at June 30, 2019 and 2018, respectively, which matures on June 30, 2025. See Note 11.

Blended Component Unit

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

In October 2003, the Plaza Universitaria Project's general contractor submitted a claim for extended overhead (field and main office) and subsequently a Proposal for Settlement for an amount exceeding $10 million. On October 24, 2017, the Puerto Rico First Court of Instance issued a partial declaratory judgement ordering DUI to pay the retainage amount under the construction contract of about $1.6 million, plus interest, to the Plaza Universitaria Project's general contractor. DUI appealed this partial declaratory judgement. On September 10, 2018, the Plaza Universitaria Project's general contractor, the University and DUI signed a settlement agreement in which the University and DUI committed to pay $2,300,000 and $1,550,000, respectively, for a total consideration of $3,850,000. On September 11, 2018, the Puerto Rico First Court of Instance approved the settlement agreement. Upon execution of the settlement agreement, the parties released one another from all claims, past, present and future, or other courses of action related to the instant case. In November 2018, the University and DUI made the corresponding payments to the Plaza Universitaria Project's general contractor.

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 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 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 and DUI have not reached an agreement regarding this matter.

13. Commitments and Contingent Liabilities (continued)

Blended Component Unit (continued)

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. There have not been any significant developments on this action beyond the filing. If the current situation persists, DUI's management believes available cash reserves will be exhausted within the next six to twelve months.

Discretely Presented Component Unit

Since inception, 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 years ended June 30, 2019 and 2018, respectively, and has recorded an accrual of approximately $1,746,000 and $1,663,000 as of June 30, 2019 and 2018, respectively, 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 unit 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.

14. University of Puerto Rico Retirement System (continued)

Plan Description and Membership (continued)

As of June 30, 2018 and 2017, the latest published information, membership in the Retirement System consisted of the following:

	2018	2017
Retirees and beneficiaries currently receiving benefits	8,816	8,598
Terminated plan participants entitled to but not yet receiving benefits	469	457
Terminated non-vested plan participants entitled to return of their contributions	7,748	8,372
Current participating employees	9,635	10,204
Total membership	26,668	27,631

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.

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 Acknowledgment 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 to 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 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.

14. University of Puerto Rico Retirement System (continued)

Funding Policy (continued)

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.

For the years ended June 30, 2019 and 2018, the average active employee contribution rate was 8.8% and 9.1%, respectively, of annual pay, and the University's average contribution rate was 28.2% and 20.1%, respectively, 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 15.3% and 16.3% of covered-employee payroll in 2019 and 2018, respectively. The University's contributions to the Retirement System amounted to approximately $74,805,000 and $73,249,000 for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018 were measured as of June 30, 2018 and 2017, 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, 2018 and 2017, respectively, and assuming no liability gains and losses. The components of the employer's net pension liability as of June 30, 2019 and 2018 was as follows (dollars in thousands):

	2019	2018
Total pension liability	$ 4,432,509	$ 4,359,733
Plan's fiduciary net position	1,408,376	1,391,500
Employer's net pension liability	$ 3,024,133	$ 2,968,233
Plan's fiduciary net position as a percentage of the total pension liability	31.77%	31.92%

14. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

Changes in the net pension liability for the years ended June 30, 2019 and 2018 is as follows (in thousands):

	2019			2018		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at beginning of year	$ 4,359,733	$ 1,391,500	$ 2,968,233	$ 3,339,371	$ 1,332,668	$ 2,006,703
Changes for the year:						
Service cost	74,827	–	74,827	52,000	–	52,000
Interest	167,015	–	167,015	191,144	–	191,144
Benefit changes	–	–	–	–	–	–
Difference between expected and actual experience	(2,678)	–	(2,678)	(24,376)	–	(24,376)
Changes in assumptions or other inputs	31,859	–	31,859	989,905	–	989,905
Contributions - employer	–	73,360	(73,360)	–	79,491	(79,491)
Contributions - employee	–	35,864	(35,864)	–	39,042	(39,042)
Net investment income	–	110,357	(110,357)	–	132,950	(132,950)
Benefit payments, including refunds of employee contributions	(198,247)	(198,247)	–	(188,311)	(188,311)	–
Administrative expenses and others	–	(4,458)	4,458	–	(4,340)	4,340
Net changes	72,776	16,876	55,900	1,020,362	58,832	961,530
Balance at end of year	$ 4,432,509	$ 1,408,376	$ 3,024,133	$ 4,359,733	$ 1,391,500	$ 2,968,233

For the years ended June 30, 2019 and 2018, the University recognized pension expense of approximately $320,137,000 and $304,742,000, respectively.

As of June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources from pension activities as follows (in thousands):

	2019		2018	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 74,805	$ –	$ 73,249	$ –
Differences between expected and actual experience	–	29,974	–	112,645
Changes in assumptions or other inputs	557,085	–	831,071	–
Net difference between projected and actual earnings on plan investments	–	13,229	–	13,667
Total	$ 631,890	$ 43,203	$ 904,320	$ 126,312

Deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date which amounted to $74,805,000 and $73,249,000 as of June 30, 2019 and 2018, respectively, is recognized as a reduction of the net pension liability in the year ending June 30, 2020 and 2019, respectively.

14. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities at June 30, 2019 will be recognized in the pension expense (credit) as follows (in thousands):

Year Ending June 30:		
2020	$	279,952
2021		242,129
2022		(4,281)
2023		(3,918)
Total	$	513,882

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total pension liability at June 30, 2019 and 2018 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

	2019	2018
Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Actuarial Accrued Liability	Level percentage of payroll, closed 30-year period	Level percentage of payroll, closed 30-year period
Remaining Amortization Period	27 years	28 years
Asset Valuation Method	5-year smoothed market	5-year smoothed market
Inflation	2.50% per year	2.50% per year
Projected Salary Increases	2.50% per year and wage growth of 0.25%, including inflation	2.50% per year and wage growth of 0.25%, including inflation
Investment Rate of Return	6.75% per annum, compounded anually, net of investment expenses, including inflation	6.75% per annum, compounded anually, net of investment expenses, including inflation
Municipal Bond Index	2.98%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	3.13%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount Rate	3.81% per annum, compounded annually	3.92% per annum, compounded annually

The mortality tables used in the June 30, 2018 and 2017 actuarial valuations were as follows:

- 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 in 2017 and using scale MP-2019 in 2018.

- 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 in 2017 and using scale MP-2019 in 2018.

14. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions (continued)

- 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 in 2017 and using scale MP-2019 in 2018.

Changes in the mortality tables and other actuarial assumptions for the June 30, 2019 and 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.

Changes of Actuarial Assumptions

In 2018, the mortality projection scale was changed from MP-2017 to MP-2019. In addition, in 2018, the discount rate decreased from 3.92% to $3.81%.

In 2017 and later, rates of mortality were changed to the RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017 for retired healthy pensioners. Rates of mortality for the period after disability retirement are according to the RP-2014 Disabled Retiree Mortality Table with rates adjusted by 93.4% for males and by 94.3% for females, projected to 2019 using scale MP-2017. Also, in 2017 and later, rates of withdrawal, retirement, disability and salary increase were adjusted to more closely reflect actual experience. In addition, in 2017, 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 2018 through 2023, and the five-year average of those contributions thereafter.

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.

14. University of Puerto Rico Retirement System (continued)

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 as of June 30, 2019 and 2018 are summarized in the following table:

Asset Class	Target Allocation	2019 Long-term Expected Real Rate of Return	2018 Long-term Expected Real Rate of Return
Broad U.S. equity	32.0%	6.27%	6.27%
Global ex U.S. equity	24.0%	6.96%	6.96%
Domestic fixed	30.0%	0.82%	0.82%
High Yield	7.5%	3.04%	3.04%
Real Estate	5.0%	4.84%	4.84%
Private Equity	1.5%	10.51%	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 2019 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, 2033. 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, 2033 and the applicable municipal bond index rate of 2.98%, 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, 2018, was applied to all periods of projected benefit payments after June 30, 2033. The SEIR of 3.81% 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, 2018.

The SEIR at June 30, 2017 was 3.92% 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, 2032 and the applicable municipal bond index rate of 3.13% as of June 30, 2017 applied to all periods of projected benefit payments after June 30, 2032. 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 2018 through 2023, and the five-year average of those contributions thereafter.

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

The following presents the net pension liability at June 30, 2019 and 2018 calculated using the discount rate of 3.81% and 3.92%, respectively, 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 in thousands):

2019			2018		
1% decrease (2.81%)	Current discount rate (3.81%)	1% increase (4.81%)	1% decrease (2.92%)	Current discount rate (3.92%)	1% increase (4.92%)
$ 3,239,433	$ 3,024,133	$ 2,856,317	$ 3,557,719	$ 2,968,233	$ 2,480,136

14. University of Puerto Rico Retirement System (continued)

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 employer 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.

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 $4,838,000 and $5,103,000 in fiscal years 2019 and 2018, respectively. The PayGo charge for fiscal year 2018 was paid in the corresponding year and the PayGo charge for fiscal year 2019 has 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, 2019.

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.

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

Program Description and Membership (continued)

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.
- Tuition Remission: Tuition fees for classes at the University were waived for life after retirement until June 30, 2018. In fiscal year 2019, the tuition remission provision was eliminated.

At June 30, 2018 and 2017, the dates of the most recent actuarial valuations, membership in the OPEB Program consisted of the following:

	2018	2017
Retirees and beneficiaries currently receiving benefits	6,785	8,550
Current participating employees	9,635	10,204
Total membership	16,420	18,754

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 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, 2019 and 2018 of approximately $226,844,000 and $232,115,000, respectively, were measured at June 30, 2018 and 2017, respectively, by actuarial valuations as of those dates.

In fiscal year 2019, an expected TOL was determined as of June 30, 2018 using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, June 30, 2017, 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, 2018, 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, 2018 is determined after any changes in benefit terms. The difference between this result and the TOL as of June 30, 2018, before benefit changes, is reflected as change in benefit terms gain or loss for the year. Finally, the actual TOL as of June 30, 2018 is determined after any assumption changes. The difference between this result and the TOL as of June 30, 2018, before assumption changes, is reflected as an assumption change gain or loss for the year.

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

Total OPEB Liability (continued)

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.

Changes in the total OPEB liability for the year ended June 30, 2019 and 2018 are as follows (in thousands):

	2019	2018
Balance at beginning of year	$ 232,115	$ 229,808
Changes for the year:		
Service cost	3,945	4,560
Interest	7,064	6,091
Benefit changes	(3,097)	–
Difference between expected and actual experience	(2,978)	–
Changes in assumptions or other inputs	2,680	1,775
Benefit payments	(12,885)	(10,119)
Net changes	(5,271)	2,307
Balance at end of year	$ 226,844	$ 232,115

For the year ended June 30, 2019 and 2018, the University recognized OPEB expense of approximately $8,170,000 and $10,962,000, respectively.

As of June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources from OPEB activities as follows (in thousands):

	2019		2018	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 11,384	$ –	$ 12,328	$ –
Differences between expected and actual experience	–	2,446	–	–
Changes in assumptions or other inputs	3,354	–	1,464	–
Total	$ 14,738	$ 2,446	$ 13,792	$ –

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

Total OPEB Liability (continued)

Deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date which amounted to $11,384,000 and $12,328,000 as of June 30, 2019 and 2018, respectively are recognized as a reduction of the total OPEB liability in the years ending June 30, 2020 and 2019, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources from OPEB activities at June 30, 2019 will be recognized in the OPEB expense as follows (in thousands):

Year Ending June 30:		
2020	$	258
2021		258
2022		258
2023		165
2024		(31)
Total	$	908

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability at June 30, 2019 and 2018 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

	2019	2018
Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2018	June 30, 2017
Percentage Electing to Receive:		
Medical Subsidy	85% (applied to current and future retirees)	85% (applied to current and future retirees)
Tuition Remission	Not applicable	0.7%
Tuition Remission	Not applicable	$1,200 per retiree in fiscal 2018, increasing in accordance with the University fiscal plan certified by the Oversight Board of PROMESA as follows: 4.0% in fiscal year 2019; 4.3% in fiscal year 2020; 4.2% in fiscal year 2021; 8.0% in fiscal year 2022; 3.7% in fiscal year 2023; and 4.0% thereafter
Inflation	2.50%	2.50%
Payroll Growth	Not applicable	Not applicable
Salary Increases	Not applicable	Not applicable
Discount Rate -Municipal Bond Index	2.98%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	3.13%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index

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

Actuarial Methods and Assumptions (continued)

The mortality tables used in the June 30, 2018 and 2017 actuarial valuations were as follows:

- Mortality for Healthy Participants - 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 in 2017 and using scale MP-2019 in 2018.
- Mortality for Disabled Participants - 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 in 2017 and using scale MP-2019 in 2018.

The mortality assumption matched that used by the University’s Retirement System based on an experience study of economic and demographic experience for the University Retirement System for the five-year-period ended June 30, 2017 performed by an independent consultant.

Changes of Actuarial Assumptions

In 2018, 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 2017, 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 of Benefit Terms

In 2018, the tuition remission provision has been eliminated.

In 2017, 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, 2019 and 2018 calculated using the discount rate of 2.98% and 3.13%, respectively, 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 in thousands):

2019			2018		
1% decrease (1.98%)	Current discount rate (2.98%)	1% increase (3.98%)	1% decrease (2.13%)	Current discount rate (3.13%)	1% increase (4.13%)
$ 257,464	$ 226,844	$ 201,514	$ 263,673	$ 232,115	$ 206,040

16. Functional Information

The University's operating expenses by functional classification during the years ended June 30, 2019 and 2018 were as follows (expressed in thousands):

	2019						
Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and Other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 455,005	$ 2,634	$ 10,175	$ 180	$ –	$ 191	$ 468,185
Research	69,042	12,782	23,349	612	–	4,030	109,815
Public service	58,182	1,344	10,844	571	–	846	71,787
Academic support	87,973	1,863	15,871	21	–	46	105,774
Student services	47,067	389	6,224	2	–	–	53,682
Institutional support	142,147	350	33,360	1,945	–	1,351	179,153
Operations and maintenance	83,365	60	38,693	38,168	–	–	160,286
Student aid	3,840	128,250	623	–	–	200	132,913
Independent operations	49	3	38	–	–	–	90
Patient service	57,492	13	3,577	194	–	181	61,457
Auxiliary enterprises	60	36	754	4	–	268	1,122
Depreciation and amortization	–	–	–	–	43,884	–	43,884
	$ 1,004,222	$ 147,724	$ 143,508	$ 41,697	$ 43,884	$ 7,113	$ 1,388,148

	2018						
Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and Other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 463,286	$ 2,408	$ 8,441	$ 120	$ –	$ 2,662	$ 476,917
Research	67,936	11,506	22,703	318	–	17,899	120,362
Public service	60,647	982	11,165	522	–	1,424	74,740
Academic support	81,745	2,443	14,705	33	–	1,038	99,964
Student services	48,727	339	7,027	2	–	629	56,724
Institutional support	158,564	219	22,908	1,679	–	8,568	191,938
Operations and maintenance	85,798	32	32,185	34,662	–	3,224	155,901
Student aid	3,734	168,862	651	–	–	1,044	174,291
Independent operations	72	2	35	–	–	–	109
Patient service	55,559	18	3,397	240	–	511	59,725
Auxiliary enterprises	52	32	1,182	2	–	–	1,268
Depreciation and amortization	–	–	–	–	44,898	–	44,898
	$ 1,026,120	$ 186,843	$ 124,399	$ 37,578	$ 44,898	$ 36,999	$ 1,456,837

17. University Only Financial Statements

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

Statements of Net Position (Deficit) as of June 30, 2019 and 2018
(In thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 279,984	$ 232,913
Restricted cash and cash equivalents	33,798	21,193
Restricted investments at fair value:		
Deposited with trustee and others	45,811	52,102
Accounts receivable, net	17,102	14,682
Due from Federal Government	42,282	37,616
Due from related parties, net	20,218	16,165
Inventories	1,573	2,792
Other assets	3,111	2,858
Total current assets	443,879	380,321
Noncurrent assets:		
Restricted cash and cash equivalents	1,879	6,533
Restricted investments at fair value:		
Endowment funds	117,381	107,549
Healthcare Deferred Compensation Plan	84,417	95,068
Other long-term investments at fair value	2,723	2,808
Notes receivable, net	8,646	5,115
Capital assets (net of accumulated depreciation and amortization):		
Land and other nondepreciable assets	84,477	65,506
Depreciable assets	725,891	758,410
Other assets	28	134
Total noncurrent assets	1,025,442	1,041,123
Total assets	1,469,321	1,421,444
Deferred outflows of resources:		
Deferred outflows from pension activities	631,890	904,320
Deferred outflows from OPEB activities	14,738	13,792
Deferred refunding loss	1,416	1,672
Total deferred outflows of resources	648,044	919,784
Total assets and deferred outflows of resources	2,117,365	2,341,228
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	88,848	98,528
Unearned revenue-cash advance from governmental grant	29,021	10,000
Current portion of long-term debt:		
Notes payable	–	76,406
Bonds payable	24,270	23,115
Internal balance - obligation under capital lease, current portion	2,516	2,355
Other current liabilities:		
Claims liability	2,373	5,255
Compensated absences	23,760	28,102
Total current liabilities	170,788	243,761
Noncurrent liabilities:		
Long-term debt, net of current portion:		
Bonds payable	354,402	380,309
Internal balance - obligation under capital lease, net of current portion	47,294	49,809
Other long-term liabilities:		
Deferred compensation plan	84,417	95,068
Claims liability	7,615	10,705
Compensated absences	108,230	117,021
Net pension liability	3,024,133	2,968,233
Other postemployment benefit (OPEB) liability	226,844	232,115
Total noncurrent liabilities	3,852,935	3,853,260
Total liabilities	4,023,723	4,097,021
Deferred inflows of resources:		
Deferred inflows from pension activities	43,203	126,312
Deferred inflows from OPEB activities	2,446	–
Total deferred inflows of resources	45,649	126,312
Total liabilities and deferred inflows of resources	4,069,372	4,223,333
Net position (deficit):		
Net investment in capital assets	395,920	382,646
Restricted, nonexpendable:		
Scholarships and fellowships	43,503	44,991
Research	52,311	49,470
Other	27,486	23,846
Restricted, expendable:		
Loans	12,375	8,255
Capital projects	3,124	12,314
Debt service	40,158	46,593
Unrestricted (deficit)	(2,526,884)	(2,450,220)
Total net position (deficit)	$ (1,952,007)	$ (1,882,105)

17. University Only Financial Statements (continued)

Statements of Revenues, Expenses and Changes in Net Position (Deficit) for the Years Ended June 30, 2019 and 2018 (In thousands)

Revenues	2019	2018
Operating revenues:		
Tuitions and fees (net of scholarship allowances and others of $101,841 in 2019 and $50,999 in 2018)	$ 80,518	$ 53,443
Net patient services revenue and other (net of provision for allowances of $8,260 in 2019 and $4,642 in 2018)	73,835	68,198
Federal grants and contracts (net of provision for allowances of $1,545 in 2019 and $2,112 in 2018)	118,942	87,190
Commonwealth grants and contracts (net of provision for allowances of $1,964 in 2019 and $3,774 in 2018)	13,744	11,051
Nongovernmental grants and contracts (net of provision for allowances of $502 in 2019 and $2,340 in 2018)	8,525	7,400
Sales and services of educational departments	11,251	10,082
Auxiliary enterprises (net of provision for allowances of $71 in 2019 and $278 in 2018)	1,614	1,381
Other operating revenues	44,052	14,851
Total operating revenues	352,481	253,596
Operating expenses:		
Salaries:		
Faculty	341,682	350,422
Exempt staff	217,746	223,496
Nonexempt wages	497	382
Benefits:		
Pension cost (see Note 14)	324,975	309,845
OPEB expense (see Note 15)	8,170	10,962
Other benefits	110,845	130,700
Scholarships and fellowships	147,724	186,843
Supplies and other services	144,396	125,126
Utilities	41,385	37,341
Depreciation and amortization	43,884	44,898
Impairment loss on capital assets (Note 9)	–	16,348
Other expenses	7,083	20,612
Total operating expenses	1,388,387	1,456,975
Operating loss	(1,035,906)	(1,203,379)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	695,711	733,099
Federal Pell Grant program	180,361	187,272
Gifts	10,891	6,475
Net investment income	14,844	7,080
Gain on settlement of governmental bank liabilities (note 5)	87,316	–
Interest on capital assets - related debt	(21,676)	(24,066)
Interest on notes payable	(785)	(2,936)
Other nonoperating (expenses) revenues, net	(815)	1,557
Net nonoperating revenues	965,847	908,481
Loss before other revenues	(70,059)	(294,898)
Additions to term and permanent endowments	157	15
Change in net position	(69,902)	(294,883)
Net position (deficit):		
Beginning net position (deficit)	(1,882,105)	(1,587,222)
End of year	$ (1,952,007)	$ (1,882,105)

17. University Only Financial Statements (continued)

Statements of Cash Flows for the Years Ended June 30, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities		
Tuition and fees	$ 75,557	$ 53,087
Grants and contracts	157,513	113,366
Patient services	73,209	69,809
Payments to employees	(559,900)	(575,345)
Payments for benefits	(232,024)	(219,547)
Payments for scholarships and fellowships	(147,724)	(186,843)
Payments to suppliers	(150,823)	(124,360)
Payments for utilities	(41,384)	(37,341)
Collections of loans, net of loans issued to students	213	276
Auxiliary enterprises	1,640	1,653
Proceeds from the insurance company related to damages caused by hurricane	33,750	5,000
Sales and services educational department and others	17,599	18,224
Net cash used in operating activities	(772,374)	(882,021)
Cash flows from noncapital financing activities		
Commonwealth and other appropriations	695,711	733,099
Federal Pell program	180,361	187,272
Endowment gifts	157	15
Federal direct student loan program receipts	63,391	56,652
Federal direct student loan program disbursements	(63,391)	(57,110)
Gifts and grants for other than capital purposes	10,890	6,475
Other non-operating receipts (disbursements)	(814)	1,556
Net cash provided by noncapital financing activities	886,305	927,959
Cash flows from capital and related financing activities		
Purchases of capital assets	(30,790)	(23,604)
Principal paid on capital debt and lease	(25,470)	(24,331)
Interest paid on capital debt and lease	(22,785)	(23,920)
Decrease (increase) in deposit with trustees and others	6,547	(21,323)
Net cash used in capital and related financing activities	(72,498)	(93,178)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	47,943	27,125
Purchases of investments	(41,868)	(30,484)
Collections of interest and dividend income on investments	9,558	4,458
Advances to the University of Puerto Rico (UPR) Retirement System	(5,000)	(3,000)
Collections of advances to the UPR Retirement System	2,956	25
Net cash provided by (used in) investing activities	13,589	(1,876)
Net change in cash and cash equivalents	55,022	(49,116)
Cash and cash equivalents:		
Beginning of year	260,639	309,755
End of year	$ 315,661	$ 260,639

17. University Only Financial Statements (continued)

Statements of Cash Flows for the Years Ended June 30, 2019 and 2018
(In thousands) (continued)

	2019	2018
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (1,035,906)	$ (1,203,379)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	43,884	44,898
Provision for doubtful accounts	10,277	11,786
Impairment loss on capital assets	–	16,348
Changes in operating assets and liabilities and deferred outflows and inflows of resources:		
Increase in:		
Grants and contracts receivables	(18,970)	(9,345)
Prepaid expenses, inventories and other	(2,460)	(722)
Deferred outflows of resources from pension activities	272,430	(684,152)
Deferred outflows of resources from OPEB activities	(946)	(3,209)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(189)	16,424
Unearned revenue	19,021	10,000
Accrued salaries, wages, benefits and other liabilities	(29,481)	2,832
Net pension liability	55,900	961,530
OPEB liability	(5,271)	1,569
Deferred inflows of resources from pension activities	(83,109)	(46,601)
Deferred inflows of resources from OPEB activities	2,446	–
Net cash used in operating activities	$ (772,374)	$ (882,021)
Supplemental schedule of noncash investing, capital and financing activities		
Unrealized gains on investments	$ 5,452	$ 2,542
Amortization of:		
Bonds premiums	$ 1,637	$ 1,698
Deferred refunding loss	$ 257	$ 271
Offset of impaired investments in deposits with governmental bank against its notes payable and corresponding accrued interest	$ 87,316	$ –

18. Subsequent Events

Starting in in fiscal year 2020, the Molecular Sciences Research Center, Inc. ("MSRC") functions as a separated component unit of the University. Previously, this component unit operated as a division of the University. MSCR 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"). 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 new research space design paradigm features standardization, flexibility and adaptability, systems integration, and ease of sharing equipment and human resources.

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 contribute $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 75% of the University $10.0 million investment for up to fifteen years.

On December 12, 2019, the University received $1,000,000 from the UPRPS as a recapture of the University's investment in the parking facilities operated by UPRPS.

On December 28, 2019, the first of many earthquakes shook Puerto Rico and its residents, which main effects were registered in the southwestern part of the island of Puerto Rico. Puerto Rico has a long history of earthquakes, although large events are rare. It sits at the edge of the Caribbean tectonic plate, where that plate is colliding with the North American plate. Such tectonic boundaries host the vast majority of the world's quakes. Damages to the University's premises were considered minimal. Administrative and academic functions at all areas and units that comprise the University System continued to function uninterrupted during and after the earthquakes. The aftershocks are not expected to stop anytime soon.

On March 12, 2020, the Governor of Puerto Rico declared a State of Emergency in response to the worldwide novel coronavirus, COVID-19, outbreak. Presently, Puerto Rico has a limited number of confirmed cases of COVID-19. The Puerto Rico government is taking immediate steps to slow the spread of the COVID-19 throughout the island. On March 15, 2020, the Governor issued an executive order enacting an island-wide lock-down by ordering a 9 p.m. to 5 a.m. curfew that will run through month's end, and ordered all non-essential businesses be closed through March 30. Public and private schools and universities, including the University of Puerto Rico, have temporarily limited access to their facilities in accordance with such executive order.

18. Subsequent Events (continued)

Because of the early stage of this virus, at this moment, the University is not in a position to provide an estimate of any potential negative impact on its financial statements. 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, in order to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

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

- Notes 2 and 12 for the extension of the compliance period until May 29, 2020 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.

Required Supplementary Information

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

	2019	2018	2017	2016	2015
Total Pension Liability:					
Service cost	$ 74,827	$ 52,000	$ 46,571	$ 48,107	$ 49,499
Interest	167,015	191,144	194,184	177,334	173,630
Changes in benefit terms	–	–	(14,671)	(45,209)	–
Differences between expected and actual experience	(2,678)	(24,376)	(4,733)	(323,974)	–
Changes in assumptions	31,859	989,905	160,911	32,269	(24,034)
Benefit payments, including refunds of member contributions	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Net change in total pension liability	72,776	1,020,362	199,648	(288,345)	29,932
Total pension liability, beginning	4,359,733	3,339,371	3,139,723	3,428,068	3,398,136
Total pension liability, ending (a)	$ 4,432,509	$ 4,359,733	$ 3,339,371	$ 3,139,723	$ 3,428,068
Fiduciary Net Position:					
Contributions - employer	$ 73,360	$ 79,491	$ 78,004	$ 88,251	$ 91,689
Contributions - member	35,864	39,042	38,640	35,594	37,900
Net investment income	110,357	132,950	59,009	76,684	206,595
Benefit payments	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Administrative expenses and others	(4,458)	(4,340)	(3,367)	(4,689)	(4,566)
Net change in plan net position	16,876	58,832	(10,328)	18,968	162,455
Fiduciary net position, beginning	1,391,500	1,332,668	1,342,996	1,324,028	1,161,573
Fiduciary net position, ending (b)	$ 1,408,376	$ 1,391,500	$ 1,332,668	$ 1,342,996	$ 1,324,028
Employer's Net Pension Liability - Ending (a) - (b)	$ 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	31.77%	31.92%	39.91%	42.77%	38.62%
Covered-Employee Payroll	$ 478,529	$ 488,775	$ 515,994	$ 516,226	$ 515,856
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	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 *(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)
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%
2009	64,072	72,605	(8,533)	577,227	12.58%

(1) The actuarially determined contribution for fiscal years 2018, 2017, 2016, 2015 and 2014 were determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 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, 2018, Required Contribution was established in the June 30, 2017 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 2018, 2017, 2014 and 2013, the University approved additional contributions to the Retirement System of approximately \$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 year 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.

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

	2018	2017	2016	2015	2014
Valuation date	June 30, 2017 (Lag)	June 30, 2016 (Lag)	June 30, 2015 (Lag)	June 30, 2014 (Lag)	June 30, 2013 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
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, open
Remaining amortization period	27 years- constant (open basis)	28 years- constant (open basis)	29 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	3.0% per year	3.0% per year	3.00% per year	3.00% per year	3.50% per year
Projected salary increases	3.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation	5.00% per year, including inflation
Investment rate of return	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	8.00% 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-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	RP-2000 Employee Mortality Table, projected to 2026 using Scale AA
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-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	RP-2000 Healthy Annuitant Mortality Table, projected to 2018 using Scale AA
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-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	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

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

	2013	2012	2011	2010	2009
Valuation date	June 30, 2013 (Lag)	June 30, 2012 (Lag)	June 30, 2011 (Lag)	June 30, 2010 (Lag)	June 30, 2009 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
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 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	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	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	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 Two Years*
(Dollars in thousands) (Unaudited)

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

Note to schedule:

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

In fiscal year 2019, an expected TOL was determined as of June 30, 2018 using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, June 30, 2017, 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, 2018, 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, 2018 is determined after any changes in benefit terms. The difference between this result and the TOL as of June 30, 2018, before benefit changes, is reflected as change in benefit terms gain or loss for the year. Finally, the actual TOL as of June 30, 2018 is determined after any assumption changes. The difference between this result and the TOL as of June 30, 2018, 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.

In fiscal year 2019, the tuition remission provision has been eliminated.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 for the payment of these benefits.

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

Other Financial Information

University of Puerto Rico
Schedules of Changes in the University's Sinking Fund Reserve
Years Ended June 30, 2019 and 2018 *(In thousands) (Unaudited)*

	2019			2018		
	Bond Service Account	Bond Reserve Account	Total	Bond Service Account	Bond Reserve Account	Total
Additions:						
Transfer from unrestricted current funds	$ 35,169	$ –	$ 35,169	$ 64,000	$ –	$ 64,000
Interest earned on investments	1,002	190	1,192	503	98	601
Total receipts	36,171	190	36,361	64,503	98	64,601
Deductions:						
Payments of bond interest	19,441	–	19,441	20,541	–	20,541
Payments of bond principal	23,115	–	23,115	22,010	–	22,010
Legal fees and related expenses	–	337	337	–	668	668
Total disbursements	42,556	337	42,893	42,551	668	43,219
Net increase (decrease) for the year	(6,385)	(147)	(6,532)	21,952	(570)	21,382
Balances at beginning of year	41,952	10,208	52,160	20,000	10,778	30,778
Balance at end of year	$ 35,567	$ 10,061	$ 45,628	$ 41,952	$ 10,208	$ 52,160

Note: The University's Sinking Fund assets as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Investments - Money market funds	$ 45,550	$ 52,097
Accrued interest receivable	78	63
Total	$ 45,628	$ 52,160

Report on Internal Control and on Compliance