Financial Statements, required Supplementary Information and Supplemental Schedules

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Year Ended June 30, 2022
With Report of Independent Auditors

Building a better working world

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

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Year Ended June 30, 2022

Contents

Building a better
working world

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Report of Independent Auditors

Governing Board
University of Puerto Rico

Report on the Audit of the Financial Statements

Opinions

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"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 at June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Molecular Sciences Research Center, Inc. as of and for the year ended June 30, 2022, which financial statements reflect total assets constituting .052%, total net position constituting .234% and total revenues constituting .003% of the related University's Primary Government totals as of and for the year then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Molecular Sciences Research Center, Inc. is based solely on the report of other auditors. In addition, 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., which represent 100% of the aggregate discretely presented component units, as of June 30, 2022. 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of Molecular Sciences Research Center, Inc., Servicios Médicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc. and Material Characterization Center, Inc. we're not audited in accordance with Governmental Auditing Standards.

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 of the Commonwealth of Puerto Rico (the Commonwealth) appropriations to finance its operations. The recurring losses from operations, net capital deficiency, and the fact that the University is still negotiating its debt, raises substantial doubt about the University's ability to continue as a going concern. Management's plan 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-56, schedule of changes in the University's net pension liability and related ratios on page 162, schedule of the University's contributions- pension plan on page 163, and the schedule of changes in the University's total postemployment benefits other than pensions (OPEB) liability and related rations on page 167 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 of America, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of changes in the university's sinking fund reserve but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University's internal control over financial reporting and compliance.

Ernst + Young LLP

March 27, 2023

Stamp No. E512401 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses. Starting in January 2021, UPRPS is the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities.

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 characterize materials chemically and physically from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University.

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

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

The following discussion presents an overview of the financial position and financial activities of the University and its blended component units (hereafter referred as the "University") for the years ended June 30, 2022 and 2021. 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, 2022, the University had total assets of $1.58 billion, total deferred outflows of resources of $244.7 million, total liabilities of $2.49 billion, total deferred inflows of resources of $1.08 billion and net deficit of $1.75 billion. As of June 30, 2021, the University had total assets of $1.44 billion, total deferred outflows of resources of $316.5 million, total liabilities of $3.71 billion, total deferred inflows of resources of $416.2 million and net deficit of $2.37 billion.

The most significant fluctuations in the statements of net position came from the changes in the net pension liability, the total other post-employment benefit (OPEB) liability and their related deferred outflows and inflows of resources and in the University's cash position. The net pension liability which amounted to approximately $1.53 billion and $2.72 billion as of June 30, 2022 and 2021, respectively, decreased by approximately $1.19 billion or 44% in fiscal year 2022. The decrease in the net pension liability in fiscal year 2022 mainly resulted from the increase in the discount rates used to calculate the total pension liability which amounted to 6.75% and 4.60% in fiscal years 2022 and 2021, respectively.

The total OPEB liability which amounted to approximately $250.4 million and $239.3 million as of June 30, 2022 and 2021, respectively, increased by approximately $11.1 million or 5% in fiscal year 2022. The increase in the total OPEB liability mainly resulted from the decrease in the discount rates used to calculate the total OPEB liability, which amounted to 2.18% and 2.66% in fiscal years 2022 and 2021, respectively.

Deferred outflows of resources mainly include those related to pension and OPEB activities. Deferred outflows of resources related to pension and OPEB activities which amounted to $243.9 million and $315.5 million as of June 30, 2022 and 2021, respectively, decreased by approximately $71.6 million in fiscal year 2022. Deferred inflows of resources related to pension, OPEB and lease activities which amounted to $1.08 billion and $416.2 million as of June 30, 2022 and 2021, respectively, increased by approximately $668.5 million in fiscal year 2022. The decrease in deferred outflows of resources mainly resulted from the decrease in the changes in assumptions and other inputs and the increase in inflows of resources mainly resulted from the increases in the changes in assumptions and other inputs, the net differences between projected and actual earnings on plan assets and the differences between expected and actual experience.

The University's net deficit position amounted to approximately $1.75 billion and $2.36 billion as of June 30, 2022 and 2021, respectively, a decrease of approximately $610.2 million or 26% in fiscal year 2022, when compared to the prior year balance deficit position.

In fiscal year 2022, the total net nonoperating revenues which amounted to $947.2 million, the additions to term and permanent endowment which amounted to $162.7 million and the capital grant contributions which amounted to $6.3 million, exceeded by approximately $610.2 million the operating loss which amounted to $506.0 million. The decrease in the net operating loss of approximately $442.1 million or 47% in fiscal year 2022 was caused by the decrease in total operating expenses of approximately $483.4 million or 36% and the decrease in total operating revenues of approximately $41.3 million or 11%.

In fiscal year 2021, the total net nonoperating revenues which amounted to $955.6 million exceeded by approximately $7.7 million the operating loss which amounted to $948.1 million. The decrease in the net operating loss of approximately $286.9 million or 23% in fiscal year 2021 was caused by the decrease in total operating expenses of approximately $168.2 million or 11% and the increase in total operating revenues of approximately $118.7 million or 43%.

Total operating revenues amounted to $351.5 million and $392.8 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $41.3 million or 11% in fiscal year 2022.

In fiscal year 2022, operating revenue from governmental and nongovernmental grants and contracts decreased from $222.7 million in fiscal year 2021 to $171.1 million in fiscal year 2022, a decrease of approximately $56.6 million or 25%. In fiscal year 2021, the University credited its provision to the allowance for doubtful accounts for governmental and nongovernmental grants and contracts by approximately $71.8 million because of the settlement agreements for collections of accounts receivable entered with three related parties, as explained in the Analysis of Net Position and Changes in Net Position-*Statements of Net Position (Deficit)-Assets* Section.

Total operating expenses amounted to approximately $857.5 million and $1.34 billion for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $483.4 million or 36% in fiscal year 2022. The decrease in operating expenses is mainly related to the decrease in benefits of pension cost. In fiscal year 2022, the University recognized pension credit of approximately $281.8 million, meanwhile in fiscal year 2021, it recognized a pension cost of approximately $270.1 million in accordance with GASB Statement No. 68, a decrease of approximately $551.9 million, mainly caused by the decrease in the net pension liability because of the increase in its discount rate, as explained in the Analysis of Net Position and Changes in Net Position-*Statements of Net Position (Deficit)-Liabilities* Section.

Scholarships and fellowships expense amounted to approximately $232.2 million and $185.1 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $47.1 million or 25% in fiscal year 2022 because of the student financial aids provided through the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") federal funds received of approximately $115.1 million and $64.9 million in fiscal years 2022 and 2021, respectively, which effect was partially offset with the reduction in student financial aids provided through Federal Pell Grant program which amounted to approximately $40.8 million and $57.9 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $17.1 million because of lesser participants eligible for Federal Pell Grant program as a result of the reduction in the University' student body because of the effects of the COVID-19 pandemic.

Total net non-operating revenues amounted to $947.2 million and $955.6 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $8.4 million or 1% in 2022. Commonwealth and other appropriations amounted to $520.6 million and $597.8 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $77.3 million or 13% in fiscal year 2022. Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended. These Commonwealth appropriations support the University's operational expenses. The Commonwealth appropriations for the operational expenses of the University amounted to $407.1 million and $501.1 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $94.0 million or 19%. Nonoperating federal grants from CARES Act and the Federal Emergency Management Agency (FEMA) amounted to $294.8 million and $183.0 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $111.8 million in 2022. The increase in nonoperating federal grants revenues in fiscal year 2022 is mainly related to the increase of approximately $119.2 million in the CARES Act federal funds received from several economic stimulus measures approved by the Federal Government to provide economic relief from the COVID-19 pandemic.

Additions to term and permanent endowments amounted to $162.7 million and $278 thousand for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $162.4 million in 2022. In fiscal year 2022, the University received from the Commonwealth $162.5 million for a new UPR Endowment

Fund for the benefit of the students of the University as required by Act No. 4 of 2022, "Law of the Scholarship Fund to Mitigate the Increase in Tuition Costs of the Fiscal Plan", as explained in the Analysis of Net Position and Changes in Net Position-*Statements of Net Position (Deficit)-Assets* Section.

Total cash and cash equivalents (current and noncurrent assets) (mainly deposit accounts in a commercial bank in Puerto Rico and money market funds in U.S. commercial banks, amounted to $398.6 million and $145.6 million at June 30, 2022 and 2021, respectively, an increase of approximately $253.0 million or 174% in fiscal year 2022.

The increase in the University's cash position of approximately $253.0 million in fiscal year 2022 resulted from the excess of the net cash provided by noncapital financing activities which amounted to $1.24 billion over the net cash used in operating activities which amounted to $854.1 million, the net cash used in capital and related financing activities which amounted to $76.1 million, and the net cash used in investing activities which amounted to $55.5 million. In fiscal year 2021, the University's cash position decreased by approximately $88.3 million or 38% mainly resulted from the deficiency of the net cash provided by noncapital financing activities which amounted to $843.8 million when compared with the net cash used in operating activities which amounted to $859.8 million, and the net cash used in capital and related financing activities which amounted to $72.4 million.

The University's unrestricted cash position amounted to approximately $193.8 million, $88.1 million, and $185.2 million as of June 30, 2022, 2021, and 2020, respectively, an increase of approximately $105.7 million or 120% in fiscal year 2022 and a decrease of $97.1 million or 52% in fiscal year 2021.

In fiscal year 2022, the University's unrestricted cash position mainly improved because of cash inflows received from various federal funds to help respond to the COVID-19 pandemic and the resulting economic disruption. The University collected about $93.6 million in prior year accounts receivable related to CARES Act funds, mainly granted for institutional support for lost revenues. In addition, the University collected about $58.0 million of prior year accounts receivable for unpaid contracted medical services from significant settlement agreements reached by the University with three related parties. See the Analysis of Net Position and Changes in Net Position-*Statements of Net Position (Deficit)-Assets* Section for further information.

The University's unrestricted cash position deteriorated from fiscal year 2019, a year before the COVID-19 pandemic, to fiscal year 2021, because of the significant reductions in the Commonwealth appropriations for the operational expenses of the University, the significant increase in the University's pension plan contributions and unbalanced budgets. In addition, the University's unrestricted cash position was exacerbated by the effects of the COVID-19 pandemic in fiscal years 2021 and 2020.

In addition, the University's restricted cash position mainly improved from approximately $57.5 million as of June 30, 2021 to $204.8 million as of June 30, 2022, an increase of approximately $147.3 million in fiscal year 2022. As explained in the Analysis of Net Position and Changes in Net Position-*Statements of Net Position (Deficit)-Assets* Section, the University's restricted cash and cash equivalents as of June 30, 2022 includes approximately $157.6 million from Commonwealth appropriations received for a new UPR Endowment Fund during fiscal year 2022. These Commonwealth appropriations amounted to approximately $162.5 million for the year ended June 30, 2022, of which $5.0 million were distributed through student scholarships.

Condensed financial statements for the University as of and for the years ended June 30, 2022 and 2021 follows:

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

	June 30	
	2022	**2021**
Assets:		
Current assets:		
Cash and cash equivalents	$ 233,930	$ 139,981
Investments	130,717	62,398
Accounts receivable, net	13,032	8,927
Due from Federal Government	49,034	134,363
Due from related parties, net	10,739	89,789
Other assets	3,562	4,332
Total current assets	441,014	439,790
Noncurrent assets:		
Cash and cash equivalents	164,699	5,632
Investments	203,335	227,405
Capital assets, net	750,326	762,690
Other assets	15,878	8,747
Total noncurrent assets	1,134,238	1,004,474
Total assets	1,575,252	1,444,264
Deferred outflows of resources	244,698	316,474
Total assets and deferred outflows of resources	1,819,950	1,760,738
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	97,083	82,922
Unearned revenue	35,227	46,384
Long-term debt	31,373	29,780
Other long-term liabilities	29,243	27,468
Total current liabilities	192,926	186,554
Non-current liabilities, net of current portion:		
Long-term debt	316,987	349,527
Other long-term liabilities:		
Net pension liability	1,530,764	2,722,976
OPEB liability	250,387	239,274
Other liabilities	198,405	210,545
Total noncurrent liabilities	2,296,543	3,522,322
Total liabilities	2,489,469	3,708,876
Total deferred inflows of resources	1,084,684	416,231
Total liabilities and deferred inflows of resources	3,574,153	4,125,107
Net position (deficit):		
Net investment in capital assets	424,263	406,174
Restricted:		
Nonexpendable	283,219	139,125
Expendable	67,536	68,885
Unrestricted (deficit)	(2,529,221)	(2,978,553)
Total net position (deficit)	$ (1,754,203)	$ (2,364,369)

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

	Years Ended June 30	
	2022	**2021**
Operating revenues:		
Tuition and fees, net	$ 78,400	$ 73,146
Governmental grants and contracts, net	160,340	201,368
Net patient services revenue and other	81,487	77,356
Other operating revenues, net	31,278	40,886
Total operating revenues	351,505	392,756
Operating expenses:		
Salaries	522,635	519,576
Benefits:		
Pension cost (credit) and OPEB expense	(266,880)	282,986
Other benefits	113,317	115,791
Scholarships and fellowships	232,152	185,092
Supplies and other services and utilities	195,602	183,410
Other operating expenses	60,692	54,023
Total operating expenses	857,518	1,340,878
Operating loss	(506,013)	(948,122)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	520,602	597,878
Federal grants:		
Federal Pell Grant program	149,826	163,776
CARES Act	294,111	174,939
Federal Emergency Management Agency (FEMA)	696	8,057
Net other nonoperating (expenses) revenues	(18,016)	10,943
Net nonoperating revenues	947,219	955,593
Income before other revenues	441,206	7,471
Other revenues:		
Capital grant contributions	6,308	–
Additions to term and permanent endowments	162,652	278
Total other revenues	168,960	278
Change in net position	610,166	7,749
Net position (deficit):		
Beginning of year	(2,364,369)	(2,372,118)
End of year	$ (1,754,203)	$ (2,364,369)

Condensed Statements of Cash Flows (In thousands)

	Years Ended June 30 2022	2021
Net cash used in operating activities	$ (854,063)	$ (859,856)
Net cash provided by noncapital financing activities	1,238,633	843,854
Net cash used in capital and related financing activities	(76,097)	(72,381)
Net cash (used in) provided by investing activities	(55,457)	62
Net change in cash and cash equivalents	253,016	(88,321)
Cash and cash equivalents:		
Beginning of year	145,613	233,934
End of year	$ 398,629	$ 145,613

In fiscal year 2022, the University adopted GASB Statement No. 87, *Leases* (GASB Statement No. 87) which establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Refer to next section "Overview of the Basic Financial Statements- *New Accounting Standards Adopted*, for changes in the financial statements as required by GASB Statement No. 87.

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 resulted in a decrease of appropriations which have significant adverse impacts on the University, given its reliance on the Commonwealth's appropriations and lack of available funding alternatives at reasonable interest rates.

The Commonwealth's Financial Condition

For many years the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

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

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

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

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico ("Act No. 53 of 2021") to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

Detailed information about the events that remediated the Commonwealth's financial condition and addressed its liabilities are disclosed in the notes of the Commonwealth's 2020 fiscal year audited basic financial statements.

The University Going Concern

The University's High Dependency to Commonwealth Appropriations

The University is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 40% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other appropriations which amounted to approximately $520.6 million, $597.9 million, and $589.9 million for the years ended June 30, 2022, 2021 and 2020, respectively.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended. These Commonwealth appropriations support the University's operational expenses. Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth appropriations for the operational expenses of the University. In accordance with the Commonwealth Budget for the fiscal years 2022, 2021, 2020, 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth appropriations for the operational expenses of the University amounted to $407.1 million, $501.1 million, $501.1 million, $587.1 million, and $631.2 million, respectively, a decrease of $426.8 million or 50.0% when compared the 2022 Commonwealth appropriations for the operational expenses of the University with the corresponding Commonwealth appropriations of $833.9 million for fiscal year 2017 and a cumulative decrease of approximately $1.54 billion for the five fiscal year period ended June 30, 2022.

Act No. 53 of 2021 fixed all the Commonwealth's appropriations for the University at $500 million in each of the five fiscal years from 2023 to 2027. For fiscal year 2023, the approved Commonwealth appropriations for the operational expenses of the University amounted to $441.2 million. After fiscal year 2027, the Commonwealth appropriations for the operational expenses of the University will be indexed to inflation.

The University's Deficit Position and Operating Losses

The University had an unrestricted deficit position and a total net deficit position of approximately $2.53 billion and $1.75 billion, respectively, as of June 30, 2022. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other nonoperating federal grants and other revenues and depreciation, interest, and other expenses and additions to term and permanent endowments) during fiscal years 2022, 2021 and 2020 of $506.0 million, $948.1 million, and $1.23 billion, respectively.

The University's Limited Ability to Raise Operating Revenues

The University has limited ability to raise operating revenues due to the economic and other related challenges of maintaining enrollment and increasing tuition. The University has seen a continuous decline trend in its student enrollment. The student body decreased from 61,747 students in academic year 2016-2017 to 46,810 students in academic year 2021-2022, a decrease of 14,937 students or 20% in the last five years. On a full-time equivalency, based on a course of 24 credits per academic year, the student body decreased from 58,633 students in academic year 2016-2017 to 43,535 students in academic year 2021-2022, a decrease of 15,098 students or 30% in the last five years. In addition, the University is experiencing a decrease in admission applications for the 2022-2023 academic year, when compared to previous years. This reduction in the student body was mainly caused for the effects of the COVID-19 pandemic and by the emigration of students after the passage of Hurricanes Maria and Irma through the Island of Puerto Rico during September 2017.

The University as a Covered Entity of the Oversight Board of PROMESA

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

The University's Standstill Agreement

On June 29, 2017, the University and the trustee for the University of Puerto Rico University System Refunding Bonds, Series P and Q (the UPR System Revenue Bonds) entered into a standstill agreement (the Standstill Agreement), pursuant to which the University agreed to transfer to a segregated account, for the benefit of the holders of the UPR System Revenue Bonds, certain amounts in respect of revenue pledged for the repayment of the UPR System Revenue Bonds on the condition that during the covered period of the Standstill Agreement the trustee would not institute, commence, or continue any legal proceeding against the University, the Commonwealth, or any of its agencies, instrumentalities, or municipalities thereof, to enforce rights related to UPR System Revenue Bonds. The Standstill Agreement has been subject to eighteen extensions. The latest extension is through May 31, 2023.

Pursuant to the Standstill Agreement, as extended, 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 13 to the financial statements, to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period.

The parties agree to use commercially reasonable efforts during the compliance period to arrive at a permanent resolution of the disputes which have given to the Standstill Agreement, as extended, prior to May 31, 2023.

The Trust Agreements governing the UPR revenue bonds and the DUI's AFICA bonds 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, 2022, the University was in compliance with a total debt service coverage ratio of 4.6 to 1.

Discussions with respect to a consensual restructuring of the University's bonds have occurred but have not been active in the last three years. 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 the outstanding UPR System Revenue Bonds.

Refer to Capital Assets and Debt Administration Section for certain violations to debt covenants, which in management opinion do not result in events of default, as defined, and further information regarding to the UPR System Revenue Bonds and the DUI AFICA Bonds.

The University's Campuses Heightened Cash Monitoring Payment Method

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 which negatively affect the University's liquidity risk. 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. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $208 million for the year ended June 30, 2022. The University was in compliance with various program requirements for the year ended June 30, 2022.

The University's Unrestricted Cash Position

The University's unrestricted cash position amounted to approximately $262.5 million (include cash and cash equivalents of $193.8 million and short-term investments of $68.7 million), $88.1 million, $185.2 million, and $281.4 million as of June 30, 2022, 2021, 2020 and 2019, respectively, an increase of $174.4 million in fiscal year 2022 or 198%, a decrease of $97.1 million or 52% in fiscal year 2021 and a decrease of $77.0 million or 42% in fiscal year 2020, for a total decrease of approximately $193.3 million or 69% when compared the University's unrestricted cash position as of June 30, 2021 with the University's unrestricted cash position as of June 30, 2019, a year before the COVID-19 pandemic.

In fiscal year 2022, the University's unrestricted cash position mainly improved because of cash inflows received from various federal funds to help respond to the COVID-19 pandemic and the resulting economic disruption. The University received about $93.6 million in collections of prior year accounts receivable related to CARES Act funds, mainly granted for institutional support for lost revenues (see Note 7 to the financial statements). In addition, the University received collections of about $58.0 million of prior year accounts receivable for unpaid contracted medical services from significant settlement agreements reached by the University with three related parties. Refer to the Asset section for additional information regarding the settlement agreements with the related parties.

The University's unrestricted cash position deteriorated from fiscal year 2019, a year before the COVID-19 pandemic, to fiscal year 2021, because of the significant reductions in the Commonwealth appropriations for the operational expenses of the University, the significant increase in the University's pension plan contributions and unbalanced budgets. In addition, the University's unrestricted cash position was exacerbated by the effects of the COVID-19 pandemic.

In fiscal year 2021, the University operated with an unbalanced budget of approximately $72 million (including $39 million additional contribution to the University's pension plan because the University did not freeze its current defined pension plan and did not progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans as established in the University's certified fiscal plan for fiscal year 2021 approved by the Oversight Board of PROMESA). The University's certified fiscal plan for fiscal year

2021 was balanced with actual unrestricted cash and cash equivalents at June 30, 2020 that were used to cover operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan. Employer's contributions to the University's defined pension plan increased from approximately $74.8 million in fiscal year 2019 to $160.9 million, and $160.0 million in fiscal years 2020 and 2021, respectively.

In fiscal year 2020, the decrease in the University's unrestricted cash position was mainly caused by the following: a decrease of $86.0 million, or 15%, in the Commonwealth appropriations for the operational expenses of the University, which amounted to approximately $501.1 million and $587.1 million for the years ended June 30, 2020 and 2019, respectively; a significant increase of $86.0 million, or 15%, in the University contributions to its pension plan, the University's Retirement System; and, the University's certified fiscal plan for fiscal year 2020 was balanced with actual unrestricted cash and cash equivalents of approximately $84.8 million at June 30, 2019 that were used to cover operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan.

The University's Bonds Credit Risk

The UPR System Revenue Bonds and the DUI AFICA Bonds are only currently rated "CC", with negative outlook, by Standard & Poor's Global Ratings (S&P). On July 20, 2021, Moody's Investors Service ("Moody's") withdrew the general obligation and related ratings of the Commonwealth of Puerto Rico, including all ratings on the Puerto Rico Aqueduct and Sewer Authority, the Puerto Rico Electric Power Authority, the Puerto Rico Building Authority, the Puerto Rico Highway and Transportation Authority, the University of Puerto Rico, including the DUI's AFICA Bonds, and other public corporations for business reasons. At the time of the withdrawal, Puerto Rico's general obligation rating was "Ca", and the outlook was negative. The Moody's withdrawal actions are not related to the current ongoing restructuring processes under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

An obligation rated "CC" by S&P is currently highly vulnerable to nonpayment. The "CC" rating is used when a default has not yet occurred, but S&P expects default to be a virtual certainty, regardless of the anticipated time to default. With this bond credit risk rating, the University lack of available funding alternatives at reasonable interest rates.

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. Consequently, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

The University Management Fiscal Plan

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

The Oversight Board of PROMESA recognizes that the University has made progress on implementing some measures for fiscal years 2022, 2021 and 2020, for example the University increased undergraduate and most graduate tuition costs. However, on other measures, the University is in the process to comply with previous fiscal plan requirements. For example, the University is in the process to: (1) reform its pension plan, (2) adjust benefits to sustainable levels, and (3) implement adjustment measures to capture the required procurement savings.

On May 27, 2021, the Oversight Board certified a new fiscal plan for the University for fiscal years 2022 to 2026 (the "UPR 2021 Fiscal Plan"). On March 24, 2022, the Governing Board of the University approved the University's Fiscal Plan for the fiscal years 2023 to 2027. However, the Oversight Board determined that it did not reflect a compliant budget for fiscal year 2023, as required by PROMESA. On June 30, 2022, the Oversight Board certified a new fiscal plan for the University for fiscal year 2023 (the "UPR 2022 Fiscal Plan".

The certified fiscal plans for the University include four core elements centered primarily on improving operations and increasing revenues, while maintaining student access and experience benefits from the improved university system:

- Operational efficiencies: The University's existing operational model, with eleven semiautonomous campuses, creates unnecessary complexity and drives higher costs. The UPR 2021 Fiscal Plan continues to identify personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty. The UPR 2021 Fiscal Plan calls for a 2% decrease in total operating disbursements between fiscal years 2023 and 2026. 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 academia needs. The fiscal plan mainly includes the following expense measures:
    - Attrition: lower overall headcount via means of attrition by reducing non-faculty and other administrative personnel, including trust and senior positions. Increase faculty in order to maintain the highest level of institutional quality.
    - Centralized procurement efforts and contract negotiations.
    - Benefits adjustments: reduce the employer monthly contribution to the medical insurance plans to $390 per month to each faculty members and to $125 per month to each non-faculty members plans, while keeping baseline contributions to employees with preexisting conditions; and reduce prospective pay out of non-payroll compensation (e.g., sick days, union charges).
- Revenue enhancement: The certified fiscal plans for the University aims to maximize opportunities to increase revenue from non-tuition sources: federal grants and awards, intellectual property and patent monetization, and ancillary service fees for providing training to external institutions.

- 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 dues 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 2023 to 2026 by offering tutorial and training services to the Puerto Rico Department of Education and other government agencies.

- Tuition sources:

  - Gradual increase in the undergraduate student cost as previously certified from $124 per credit in fiscal year 2021 to: $145 per credit in fiscal year 2022; and, $157 per credit in fiscal year 2023. After fiscal year 2023, tuition will be indexed to public 4-year tuition inflation (estimated to be 3.1% for fiscal year 2024).
  - Increase cost per credit for graduate programs to be more in line with Puerto Rico and United States of America benchmarks, indexing the increase first to the average public higher education tuition growth over the past decade (3.1%), then to the Puerto Rico inflation (1%).

- Pension reform: The University's pension fund faces significant challenges, with about 47% of liabilities unfunded as of June 30, 2022. PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. The UPR 2021 Fiscal Plan outlines options 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.

  Accordingly, the UPR 2021 Fiscal Plan requires the University to make full actuarially required contribution to its pension plan. The University's contributions to its pension plan amounted to $160.9 million in fiscal year 2020, $160.0 million in fiscal year 2021 and $161.6 million in fiscal year 2022. The Oversight Board of PROMESA offered the University the following options:

  - Option 1: freeze its current defined benefit plan and move to a defined contribution plan without cutting accrued benefits.
  - Option 2: freeze its current defined benefit plan, move to a defined contribution plan, and progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans. Eliminate $250 minimum benefit and $400 holiday bonus. This option does not require additional savings or revenue measures to this Fiscal Plan. This is the option presented in this fiscal plan.

  The Oversight Board of PROMESA strongly believes that Option 2 is the most responsible course of action for the University. If the University's pension plan remains in its current status and no measures are implemented, the University will need to find additional savings above what is presented in the certified fiscal plans to avoid operating at a deficit and maintain the solvency of its retirement system.

The University has already taken a significant step forward by certifying a plan for a pension plan reform, which includes a 30-year closed amortization and a level dollar funding contribution. In its plan, the University closes the plan to new members and moves them to a defined contribution plan. The University pension plan will be closed to new employees effective May 1, 2023. Vested and non-vested participants will continue to accrue benefits. In addition, the University's plan reduces future pension liability risk due to the closing of the pension plan, nonetheless; the University has not taken a decision over the options presented by the Oversight Board of PROMESA.

- Fiscal governance and controls: The University has been facing difficulties with maintaining an adequate central control and transparency of campus finances. The UPR 2021 Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures reported.

With the UPR 2021 and 2022 Fiscal Plans measures, including the reduction in the Government appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2023 through fiscal year 2026.

There is no certainty that the UPR 2022 Fiscal Plan or any subsequently certified fiscal plan for the University will be fully implemented or if implemented will ultimately provide the intended results. All these plans and measures, and the University's ability to reduce its deficit and to achieve a balanced budget in the future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. As such, management does not believe that its ability to continue as a going concern has been fully alleviated.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. A state of emergency remains in effect for the Commonwealth since it was declared by the Governor of Puerto Rico on March 12, 2020.

Although restrictions have been lifted for almost all businesses, the Commonwealth and the University continues to experience significant challenges due to COVID-19. The pandemic and economic disruption resulting from measures to contain it continue to impact projected revenues. The ultimate impact of the COVID-19 pandemic on the Commonwealth's economy cannot be determined at this time.

The University has adopted proactive measures, such as the implementation of web-based technology assisted teaching and learning tools for its current and future students, to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. During May 2021, the University received accreditation from MSCHE for over 11,500 online courses and intends to continue expanding its academic offering in virtual learning.

However, much of the self-generated revenue the University relies on to cover operating expenditures will remain at reduced levels due to the pandemic through the remainder of December 2022. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utilities. Also, due to lower enrollment, major campus generated inflows are likely to be affected and adjustments to campus operations will have to be put in place as life on campus adapts. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

The University has been awarded various federal funds to help respond to the pandemic and the resulting economic disruption. For amounts received under the various Federal Government economic stimulus measures for the years ended June 30, 2022 and 2021, refer to the *Analysis of Net Position and Changes in Net Position-Statements of Net Position (Deficit) - Net Non-operating Revenues Section*.

On January 30, 2023, the U.S. President Administration announced its intent to end the national emergency and public health emergency declarations on May 11, 2023, related to the COVID-19 pandemic. Millions of Americans have received free Covid tests, treatments and vaccines during the pandemic, and not all of that will continue to be free once the emergency is over. The White House wants to keep the emergency in place for several more months so hospitals, health care providers and health officials can prepare for a host of changes when it ends, officials said.

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

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

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

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

New Accounting Standards Adopted

As of July 1, 2021, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 87, *Leases* (GASB Statement No. 87).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB Statement No. 89).
- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB Statement No. 93).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB Statement No. 97).
- GASB Statement No. 98, *The Annual Comprehensive Financial Reporting* (GASB Statement No. 98).

GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources. The adoption effect of the new lease standard resulted in the following lease activities recognized by the University as of July 1, 2021: as a lessee, the University recorded a right of use assets and a lease liability of approximately \$6.7 million; and as a lessor, the University recorded a lease receivable and a deferred inflow of resources of approximately \$2.9 million in the statement of net position (deficit).

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period is not capitalized and included in the historical cost of a capital asset. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 93 establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 97 clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 98 establishes the term Annual Comprehensive Financial Report and its acronym ACFR. The new term replaces Comprehensive Annual Financial Report and its acronym in generally accepted accounting principles for state and local governments. 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 $1.58 billion and $1.44 billion as of June 30, 2022 and 2021, respectively. Total assets increased by approximately $131.0 million or 9% in fiscal year 2022.

Current assets primarily consist of cash and cash equivalents, short-term investments, and accounts receivable. As of June 30, 2022, cash and cash equivalents, investments, and accounts receivable, including due from related parties, comprise approximately 53%, 30% and 16%, respectively, of the current assets; meanwhile 66%, 18% and 15% of the noncurrent assets are capital assets, investments and restricted cash and cash equivalents, respectively. As of June 30, 2021, cash and cash equivalents, investments, and accounts receivable, including due from related parties, comprise approximately 32%, 14% and 53%, respectively, of the current assets; meanwhile 76% and 23% of the noncurrent assets are capital assets and investments, respectively.

Total cash and cash equivalents (current and noncurrent assets) (mainly deposit accounts in a commercial bank in Puerto Rico and money market funds in U.S. commercial banks, amounted to $398.6 million and $145.6 million at June 30, 2022 and 2021, respectively, an increase of approximately $253.0 million or 174% in fiscal year 2022.

The increase in the University's cash position of approximately $253.0 million in fiscal year 2022 resulted from the excess of the net cash provided by noncapital financing activities which amounted to $1.24 billion over the net cash used in operating activities which amounted to $854.1 million, the net cash used in capital and related financing activities which amounted to $76.1 million, and the net cash used in investing activities which amounted to $55.5 million. In fiscal year 2021, the University's cash position decreased by approximately $88.3 million or 38% mainly resulted from the deficiency of the net cash provided by noncapital financing activities which amounted to $843.8 million when compared with the net cash used in operating activities which amounted to $859.8 million, and the net cash used in capital and related financing activities which amounted to $72.4 million.

The University's unrestricted cash position amounted to approximately $193.8 million, $88.1 million, and $185.2 million as of June 30, 2022, 2021, and 2020, respectively, an increase of approximately $105.7 million or 120% in fiscal year 2022 and a decrease of $97.1 million or 52% in fiscal year 2021.

In fiscal year 2022, the University's unrestricted cash position mainly improved because of cash inflows received from various federal funds to help respond to the COVID-19 pandemic and the resulting economic disruption. The University received about $93.6 million in collections of prior year accounts receivable related to CARES Act funds, mainly granted for institutional support for lost revenues, as further explained below. In addition, the University collected about $58.0 million of prior year accounts receivable for unpaid contracted medical services from significant settlement agreements reached by the University with three related parties, as further explained below.

The University's unrestricted cash position deteriorated from fiscal year 2019, a year before the COVID-19 pandemic, to fiscal year 2021, because of the significant reductions in Commonwealth appropriations for the operational expenses of the University, the significant increase in the University's pension plan contributions and unbalanced budgets. In addition, the University's unrestricted cash position was exacerbated by the effects of the COVID-19 pandemic in fiscal years 2021 and 2020.

In addition, the University's restricted cash position mainly improved from approximately $57.5 million as of June 30, 2021 to $204.8 million as of June 30, 2022, an increase of approximately $147.3 million in fiscal year 2022. The University's restricted cash and cash equivalents as of June 30, 2022 includes approximately $157.6 million from the Commonwealth appropriations received in fiscal year 2022 for a new UPR Endowment Fund for the benefit of the students of the University as required by Act No. 4 of 2022, "Law of the Scholarship Fund to Mitigate the Increase in Tuition Costs of the Fiscal Plan". These Commonwealth appropriations amounted to approximately $162.5 million for the year ended June 30, 2022, of which $5.0 million were distributed through student scholarships, as required by Act No. 4 of 2022.

The net cash provided by noncapital financing activities increased from $843.8 million in fiscal year 2021 to $1.24 billion in fiscal year 2022, an increase of approximately $394.8 million or 47% in fiscal year 2022. The increase in fiscal year 2022 mainly resulted from the CARES Act funds collected which amounted to $376.2 million and $81.6 million in fiscal years 2022 and 2021, respectively, an increase of $294.6 million and the collection of approximately $162.5 million of Commonwealth appropriations received for a new UPR Endowment Fund. However, collections of the Commonwealth and other appropriations decreased from $584.8 million in 2021 to $532.5 million in 2022, a decrease of approximately $52.3 million in 2022 mainly as a result of the decrease in the Commonwealth appropriations for the operational expenses of the University from approximately $501.1 million in fiscal year 2021 to $407.1 million in fiscal year 2022, a decrease of approximately $94.0 million, which effect was partially offset by the increase of $40.7 million in collections of the appropriations for distributions of income received by the University under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005. In addition, collections from Federal Pell Grant program decreased by approximately $14.7 million or 9%, from $163.5 million in fiscal year 2021 to $148.8 million in fiscal year 2022 because of the reduction in the University' student body caused by the effects of the COVID-19 pandemic and by the emigration of students after the passage of hurricanes in Puerto Rico during September 2017.

The net cash used in operating activities in fiscal year 2022 decreased from $859.8 million in 2021 to $854.1 million in 2022, a decrease of approximately $5.8 million or 1% in fiscal year 2022, mainly as a result of: 1) the increase in the collected funds from the governmental grants and contracts (mainly Federal grants and contracts) of approximately $35.0 million because of the higher research activity; (2) the increase collected funds from patient services of approximately $10.2 million because an increase in volume of these activities; which effects were partially offset by (1) the increase in payments for scholarships and fellowships of approximately $46.3 million mainly because of student financial aids provided through the CARES Act federal funds received, which effect was partially offset by lesser students eligible for Federal Pell Grant program because of the reduction in the University' student body as a result of the effects of the COVID-19 pandemic; and (2) the increase in payments for benefits of approximately $18.0 million mainly because of premium pay awarded of approximately $8.0 million to eligible employees who performed essential work during the COVID-19 public health emergency provided through the CARES Act federal funds received.

The net cash used investing activities increased from almost zero in fiscal year 2021 to $55.5 million in fiscal year 2022 mainly because of the increase of approximately $61.2 million in the purchases of investments. 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, 2022 and 2021.

Total investments (current and noncurrent assets) amounted to $334.1 million and $289.8 million at June 30, 2022 and 2021, respectively. The increase of approximately $44.3 million or 15% in 2022 mainly resulted of the increase of approximately $70.6 million in the unrestricted short-term investments which effect was partially offset by the decrease of approximately $26.3 million in the restricted investments (mainly in the investments of the permanent endowment fund and the University's Healthcare Deferred Compensation Plan) because of the decrease in fair value of those investments. Total investments mainly increased because of the excess of purchases over sales and maturities of investment which effect was partially offset by the decrease in the fair value of such investments. Total purchases of investments amounted to approximately $111.9 million in 2022, meanwhile the sales and maturities of investments amounted to approximately $53.2 million. The decrease in fair value of investments amounted to approximately $12.4 million in 2022.

Deposits held with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit of the Commonwealth of Puerto Rico, amounted to $7.1 million as of June 30, 2022 and 2021. 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, 2022 and 2021, the entire balance of the deposits held with GDB was considered not realizable.

Accounts receivable, net, amounted to $13.0 million and $8.9 million at June 30, 2022 and 2021, respectively, an increase of approximately $4.1 million or 46% in 2022. 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. Gross accounts receivable amounted to $159.4 million and $150.7 million at June 30, 2022 and 2021, respectively. The increase in gross account receivable of approximately

$8.7 million or 6% in 2022 mainly resulted from the increase in the student tuition and fees receivable of approximately $4.7 million because in fiscal year 2021 the University received CARES Act funds of approximately $5.9 million from the U.S. Department of Education to discharge student debts at the University accrued during the pandemic so students can re-enroll, continue their education, or obtain their official transcript to continue their education, transfer to another postsecondary institution, and/or secure employment. In addition, due from medical plan increased by approximately $2.3 million in fiscal year 2022 because an increase in volume of these activities. The allowance for doubtful accounts for these accounts as of June 30, 2022 and 2021 amounted to approximately $146.4 million and $141.7 million, respectively, an increase of approximately $4.6 million in 2022. The increase in the allowance for doubtful accounts in 2022 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 $49.0 million and $134.4 million at June 30, 2022 and 2021, respectively, a decrease by approximately $85.4 million in 2022. 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. In addition, these accounts include due from the Federal Government for the CARES Act grants and the Federal Emergency Management Agency (FEMA) grants. The Federal Government has approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to provide economic relief from the COVID-19 pandemic in fiscal years 2022 and 2021. The University used their awards for financial aid grants to students, student support activities, and to cover a variety of institutional costs, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll. Due from Federal Government related to CARES Act grants amounted to approximately $11.5 million and $93.6 million as of June 30, 2022 and 2021, respectively, a decrease of approximately $82.1 million in 2022 mainly because the University collected about $93.6 million in prior year accounts receivable, mainly granted for institutional support for lost revenues.

Due from related parties, net amounted to $10.7 million and $89.8 million at June 30, 2022 and 2021, respectively, a decrease of approximately $79.1 million in 2022. 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. Gross related party accounts receivable amounted to $38.6 million and $113.7 million at June 30, 2022 and 2021, respectively, a decrease of approximately $75.1 million in 2022. In 2022, the University collected about $68.8 million of prior year accounts receivable, $58.0 million in cash and $10.8 million thought the offset against accounts payable, for unpaid contracted medical services from significant settlement agreements reached by the University with three related parties, as explained below. In addition, the accounts receivable for unremitted distributions of income under the Gambling Law (slot machines and others) decreased from $16.1 million as of June 30, 2021 to $4.2 million as of June 30, 2022, a decrease of approximately $11.9 million mainly because of collections of prior year accounts. The allowance for these doubtful accounts amounted to $27.8 million and $23.9 million at June 30, 2022 and 2021, respectively. The increase in the allowance for doubtful accounts in 2022 mainly resulted from the deterioration in the aging of these accounts receivable because of the financial condition of several component units of the Commonwealth.

The University entered into three significant settlement agreements for collections of accounts receivable outstanding with the following related parties:

- on June 25, 2021 with the Puerto Rico Department of Health ("DOH"), an agency of the Commonwealth of Puerto Rico (the "Commonwealth"), for unpaid medical services of approximately $13.3 million provided by the faculty members of the Medical Sciences Campus of the University to the Commonwealth's health reform program patients and other services;
- on June 25, 2021 with the Puerto Rico Medical Service Administration ("PRMSA"), a blended component unit of the Commonwealth, for unpaid contracted medical services of approximately $59.0 million provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA, less accounts payable outstanding to the PRMSA of approximately $24.3 million for contracted medical services provided by the PRMSA to the University, for a net amount of approximately $34.7 million; and,
- on February 22, 2022 with Servicios Médicos Universitarios, Inc. (the "Hospital"), a discretely presented component unit of the University, for unpaid contracted medical services of approximately $24.5 million provided by the faculty members of the Medical Science Campus of the University to the Hospital, less accounts payable outstanding due to the Hospital of approximately $10.7 million for contracted medical services provided by the Hospital to the University, for a net amount of approximately $13.8 million.

Most of these accounts receivable from the DOH, PRMSA and the Hospital as of June 30, 2021, were fully reserved before fiscal year 2021 because their collections were uncertain. As a result of the settlement agreements reached with the above three entities, the University credited its provision to the allowance for doubtful accounts by approximately $71.8 million in fiscal year 2021 and collected approximately $68.8 million in accounts receivable past due through the offset of accounts payable of approximately $10.8 million and cash received of approximately $58.0 million in fiscal year 2022.

Due from Commonwealth's agencies mainly includes the accounts receivable from the Department of Health which amounted to $1.3 million and $13.3 million at June 30, 2022 and 2021, 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. On June 25, 2021, the University entered into a settlement agreement for collections of accounts receivable outstanding from the DOH of approximately $13.3 million. On July 9, 2021, the University collected the agreed amount of $13.3 million due by the DOH.

Due from Commonwealth's agencies also includes the accounts receivable from the Department of Education which amounted to $2.1 million at June 30, 2022 and 2021 for contracts for professional development of public-school teachers and others.

In addition, due from Commonwealth's agencies includes the accounts receivable from the Gaming Commission of the Government of Puerto Rico (the "Puerto Rico Gaming Commission"), an agency of the Commonwealth, for unremitted distributions of income to be received by the University under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. In August 2020, the Puerto Rico Gaming Commission substituted the Puerto Rico Tourism Company, a component unit of the Commonwealth, as the new administrator which establishes the public policy of the Commonwealth regarding the gaming in Puerto Rico. These accounts receivable amounted to approximately $4.2 million and $13.1 million as of June 30, 2022 and 2021, respectively. These accounts receivable were collected as follows: the June 30, 2022 balance was collected by the University in August 2022 and the June 30, 2021 balance was collected by the University in July and August 2021.

Due from Commonwealth's component units includes an account receivable from the Puerto Rico Medical Service Administration ("PRMSA") which amounted to $3.9 million and $34.8 million at June 30, 2022 and 2021, respectively, for contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA. On June 25, 2021, the University entered into a settlement agreement for collections of accounts receivable outstanding from the PRMSA of approximately $59.0 million, less accounts payable outstanding to the PRMSA of approximately $24.3 million, for a net amount of approximately $34.7 million. The settlement agreement established the offset of the accounts payable to the PRMSA against the accounts receivable from the PRMSA at June 30, 2021. On August 2, 2021, the University collected the agreed net amount of $34.7 million due by the PRMSA.

In addition, due from Commonwealth's component units includes the accounts receivable from the Puerto Rico Tourism Company ("PRTC"), a component unit of the Commonwealth, which amounted to $3.0 million at June 30, 2021 for unremitted distributions of income to be received by the University (until July 2020) under the Gambling Law. In August 2020, the Puerto Rico Gaming Commission substituted the PRTC as the new administrator which establishes the public policy of the Commonwealth regarding the gaming in Puerto Rico. Due from PRTC at June 30, 2021 was collected in August 2021.

Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR"), a component unit of the Commonwealth, which amounted to $2.4 million and $1.6 million at June 30, 2022 and 2021, respectively, 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. Due from CCCUPR at June 30, 2022 has not been collected.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital") which amounted to $3.0 million and $25.2 million at June 30, 2022 and 2021, respectively, mainly comes from contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital. On February 22, 2022, the University entered into a settlement agreement for collections of accounts receivable outstanding from the Hospital of approximately $24.5 million, less accounts payable outstanding to the Hospital of approximately $10.7 million, for a net amount of approximately $13.8 million as of June 30, 2020. The settlement agreement established the offset of the accounts payable to the Hospital against the accounts receivable from the Hospital on February 22, 2022. On March 3, 2022, the University collected $10.0 million of the agreed amount due by the Hospital of approximately $13.8 million. The remaining balance due by the Hospital of approximately $3.8 million is payable in thirty-six monthly payments of approximately $105 thousand.

The University had a due from the University of Puerto Rico Retirement System (the "Retirement System") of approximately $195 thousand and $419 thousand at June 30, 2022 and 2021, respectively, which resulted from unpaid advances given by the University to the Retirement System. The amount due by the Retirement System was unsecured, non-interest bearing and payable upon demand. The amount due by the Retirement System as of June 30, 2022 has not 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-month period post the balance sheet date. The University reviews its allowance for doubtful accounts annually. Past due balances over a specified amount are reviewed individually for collectability. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital assets, net of accumulated depreciation and amortization, amounted to $750.3 million and $762.7 million at June 30, 2022 and 2021, respectively. Capital assets decreased by approximately $12.4 million or 2% in 2022. The decrease in fiscal year 2022 mainly resulted from the depreciation and amortization expense of approximately $41.2 million and the capital asset retirements of approximately $641 thousand, which effects were partially offset by the University's investment in construction projects, equipments, and other capital assets mainly for educational facilities that amounted to approximately $29.4 million.

Noncurrent other assets amounted to $15.9 million and $8.7 million at June 30, 2022 and 2021, respectively, and mainly consisted of prepaid assets, notes receivable, net, lease receivable and right of use lease assets, net.

In fiscal year 2022, the University adopted GASB Statement No. 87, *Leases* which establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. As of June 30, 2022, the University has recognized the following lease activities: as a lessee, the University recorded a right of use assets, net of approximately $5.1 million and a lease liability of approximately $5.3 million; and as a lessor, the University recorded a lease receivable of approximately $3.0 million and a deferred inflow of resources of approximately $2.9 million.

Deferred Outflows of Resources

Deferred outflows of resources, which represents resources applicable to a future reporting period, amounted to $244.7 million and $316.5 million at June 30, 2022 and 2021, respectively. The decrease of approximately $71.8 million in 2022 mainly resulted from the decrease of approximately $80.5 million in the deferred outflows from pension activities related to changes in assumptions and other inputs, which effect was partially offset by the increase of approximately $8.5 million in the deferred outflows from OPEB activities related to changes in assumptions and other inputs.

Deferred outflows of resources also include the deferred refunding loss on the University' revenue bonds of $749 thousand and $1.0 million at June 30, 2022 and 2021, respectively, which decreased by the amortization expense of approximately $202 thousand in 2022.

Liabilities

Total liabilities amounted to $2.49 billion and $3.71 billion at June 30, 2022 and 2021, respectively, a decrease of approximately $1.22 billion or 33% in 2022. The decrease in total liabilities mainly resulted from the decrease of approximately $1.19 billion or 44% in 2022 in the net pension liability which balance amounted to $1.53 billion and $2.72 billion at June 30, 2022 and 2021, respectively. In addition, the total OPEB liability amounted to $250.4 million and $239.3 million as of June 30, 2022 and 2021, respectively, an increase of approximately $11.1 million or 5% in 2022. As further explained below, the changes in the net pension liability and in the OPEB liability mainly resulted from the changes in the discount rates used to measure such liabilities.

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

Accounts payable and accrued liabilities amounted to $97.1 million and $82.9 million at June 30, 2022 and 2021, respectively. Accounts payable and accrued liabilities increased by approximately $14.2 million or 17% in 2022 mainly because of the increases in the accounts payable to suppliers of approximately $5.9 million and the increase in the accounts payable to related parties (Commonwealth and its component units, municipalities and the University component units) of approximately $5.0 million. Accounts payable to related parties amounted to $45.0 million and $40.0 million as of June 30, 2022 and 2021, respectively, an increase of approximately $5.0 million or 13% in 2022.

The increase in the accounts payable to related parties in 2022 mainly resulted from the increase accounts payable because of the delay in payments to two related parties for utilities services (electricity and water) provided to the University of approximately $5.2 million, the increase of $4.4 million in the accrual to the Commonwealth for the PayGo charge, and the increase in the accrual to the University's Retirement System of approximately $3.7 million, which effects were partially offset by the reduction of approximately $10.1 million in the due to Servicios Médicos Universitarios, Inc. (the "Hospital").

The accrual to the Commonwealth for the PayGo charge for fiscal years 2019 through 2022 billed by the Commonwealth to the University corresponding to certain retirees of a unit of the University, who are members of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), a blended component unit of the Commonwealth which amounted to approximately $18.6 million and $13.9 million as of June 30, 2022 and 2021, respectively.

The accrual to the University's Retirement System amounted to approximately $7.8 million and $4.1 million as of June 30, 2022 and 2021, respectively. The accrual mainly resulted for unpaid medical insurance contributions to retirees (other post-employment benefits) of approximately $1.2 million and $1.6 million as of June 30, 2022 and 2021, respectively, and unpaid additional contributions to the pension plan of approximately $6.6 million and $2.1 million as of June 30, 2022 and 2021, respectively. Amount due to the University's Retirement System as of June 30, 2022 and 2021 were almost paid by the University after year end.

Due to the Hospital amounted to approximately $869 thousand and $11.0 million as of June 30, 2022 and 2021, respectively, mainly comes from rental income owed by the University to the Hospital and contracted medical services provided by the Hospital to the University. In February 2022, the accounts payable to the Hospital of approximately $10.8 million were offset against the accounts receivable from the Hospital as established in the settlement agreement between the University and the Hospital signed on February 22, 2022.

Unearned revenues amounted to $35.2 million and $46.4 million at June 30, 2022 and 2021, respectively, a decrease of approximately $11.2 million or 24% in 2022. Unearned revenues mainly include cash advances received from Commonwealth grants of $20.0 million per annum in 2022, 2021, 2020 and in 2019 for tutorial and training services to public employees for which the University has not rendered those services at year end. The University commenced to offer the services in fiscal year 2019. In fiscal years 2022 and 2021, the University offered part of the trainings and seminars to public employees and realized a revenue of approximately $32.5 million and $17.4 million, respectively, for those services rendered.

Total long-term debt obligations (current and noncurrent liabilities) amounted to $348.4 million and $379.3 million at June 30, 2022 and 2021, respectively. The decrease of approximately $30.9 million or 8% in 2022 mainly resulted from principal paid on long-term debt of approximately $29.9 million in 2022; and the amortization of bond premium of approximately $1.4 million in 2022.

Long-term debt obligations include the University's revenue bonds and the Desarrollos Universitarios, Inc's AFICA bonds (the "DUI's AFICA bonds") which amounted to $297.7 million and $50.4 million at June 30, 2022 and $325.9 million and $53.4 million at June 30, 2021, respectively. The decrease in 2022 mainly resulted from the principal repayments of approximately $26.8 million in the University's revenue bonds and of approximately $3.0 million, in the DUI's AFICA bonds. These bonds are only currently rated "CC" by Standard & Poor's Ratings Services (S&P).

Net pension liability amounted to $1.53 billion and $2.72 billion at June 30, 2020 and 2021, respectively, a decrease of approximately $1.19 billion or 44% in 2022. As permitted by GASB, the University's net pension liability as of June 30, 2022 and 2021 were measured as of June 30, 2021 and 2020, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with end-of-year census data in 2021 and with beginning-of-year census data that were rolled forward to June 30, 2020, and assuming no liability gains and losses. The change in the net pension liability in 2022 mainly resulted from the increase in the discount rate used to measure the total pension liability, which amounted to 6.75% and 4.60%, in fiscal years 2022 and 2021, respectively.

In fiscal year 2022 (the 2021 Actuarial Valuation with measurement date June 30, 2021), 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 five-year average of actual contributions as of June 30, 2021. 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. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments.

In fiscal year 2021 (the 2020 Actuarial Valuation with measurement date June 30, 2020), 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 five-year average of actual contributions as of June 30, 2021. Based on those assumptions, in fiscal year 2021, 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, 2044. 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, 2044 and the applicable municipal bond index rate of 2.66%, 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, 2020, was applied to all periods of projected benefit payments after June 30, 2044. The Single Equivalent Interest Rate ("SEIR") of 4.60% 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, 2020.

The total OPEB liability amounted to amounted to $250.4 million and $239.3 million as of June 30, 2022 and 2021, respectively, an increase of approximately $11.1 million or 5% in 2022. As permitted by GASB, the University's unfunded total OPEB liability (TOL) as of June 30, 2022 and 2021 were measured at June 30, 2021 and 2020, respectively, by actuarial valuations as of June 30, 2020 and June 30, 2019, respectively. The discount rates used to calculate the total OPEB liability amounted to 2.18 % and 2.66% in fiscal years 2022 and 2021, respectively.

Total other long-term debt liabilities (current and noncurrent liabilities) amounted to $227.6 million and $238.0 million at June 30, 2022 and 2021, respectively, a decrease of approximately $10.4 million or 4% in 2022. Other long-term debt liabilities include the accrual of compensated absences, the liability for the deferred compensation plan, the claims liability and the lease liability.

The accrual for compensated absences amounted to $131.4 million and $138.3 million at June 30, 2022 and 2021, respectively, a decrease approximately $6.9 million or 5% in 2022. Changes in compensated absences are mainly related to the variations on the use of vacations and sick leaves by employees, salary changes, the total number of employees at the end of periods and the amounts of sick leaves liquidated upon employee retirement or termination.

The liability for the deferred compensation plan amounted to $82.8 million and $91.9 million at June 30, 2022 and 2021, respectively, a decrease of approximately $9.0 million or 10% in 2022. The decrease in 2022 mainly resulted from the participants' withdrawals of approximately $7.9 million and the decrease in fair value of related investments of approximately $3.6 million, which effects were partially offset by the income earned by the related investments of approximately $2.5 million. The University offers to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds and other securities, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University, subject only to the claims of the University's general creditors in the event of the University's insolvency, as defined in the Trust Agreements. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

Claims liability amounted to $8.1 million and $7.8 million at June 30, 2022 and 2021, respectively, an increase of approximately $274 thousand or 4% in 2022. 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 $1.3 million. At June 30, 2022 and 2021, the University accrued approximately $1.3 million for this claim.

Total lease liability amounted to $5.3 million at June 30, 2022. As previously explained in the Assets Section, in fiscal year 2022, the University adopted GASB Statement No. 87, *Leases* which establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset.

Deferred Inflows of Resources

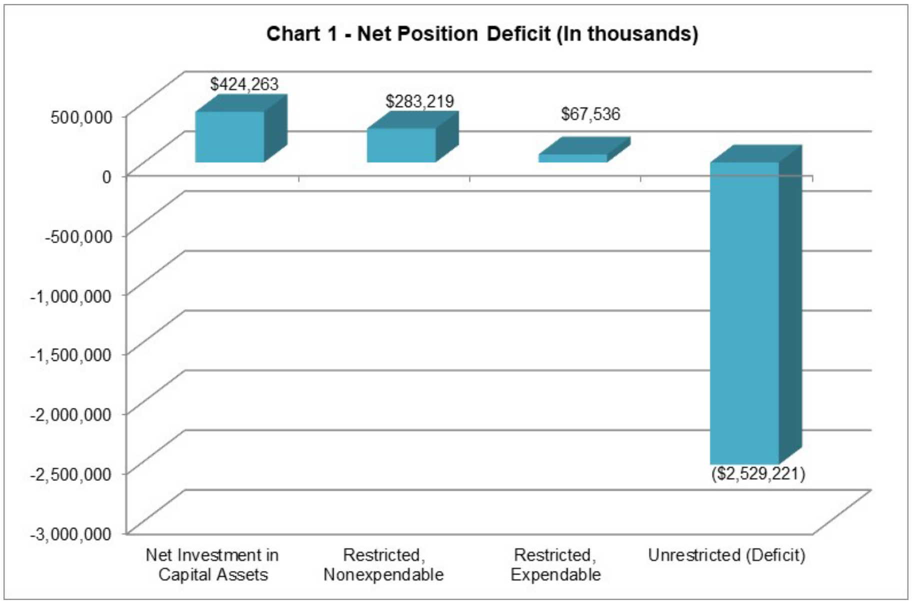
Deferred inflows of resources, which is an acquisition of resources by the University that is applicable to a future reporting period, amounted to $1.08 billion and $416.2 million at June 30, 2022 and 2021, respectively. The increase of approximately $668.5 million in 2022 mainly resulted from the increases in the deferred inflows of resources from pension activities related to changes in assumptions or other inputs, differences between expected and actual experience and net differences between projected and actual earnings on plan investments.

Net Position (Deficit)

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to a deficit of $1.75 billion and $2.36 billion at June 30, 2022 and 2021, respectively. The decrease in the net deficit position amounted to approximately $610.2 million or 26% in 2022.

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, 2022 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.

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

Approximately 87% 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 $351.5 million and $392.8 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $41.3 million or 11% in 2022. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in-patient services revenues and other operating revenues. Much of the self-generated revenue the University relies on to cover operating expenditures remained at reduced levels in 2021 because of the effects of the COVID-19 pandemic.

Tuitions and fees, net amounted to $78.4 million and $73.1 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $5.3 million or 7% in 2022. Gross tuitions and fees amounted to approximately $217.3 million and $202.5 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $14.8 million or 7% in 2022. Gross tuitions from undergraduate students amounted to approximately $145.4 million and $139.4 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $6.0 million or 4% in 2022. Gross tuitions from graduate, medicine, odontology, and other students amounted to approximately $46.3 million and $42.8 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $3.5 million or 8% in 2022.

In 2019, the University started to gradually increase the tuitions cost and fees in accordance with its certified fiscal plans. In fiscal year 2022, the tuitions cost increased as follows: the undergraduate student cost per credit from $124 in 2021 to $145 in 2022 and the graduate student cost per credit for masters programs increased from $190 cost per credit in 2021 to $195 cost per credit in 2022, from $200 cost per credit in 2021 to $205 cost per credit in 2022 for doctoral programs; and for most of the Doctor of Medicine programs the average annual tuition increased from $16 thousand in 2021 to $17 thousand in 2022. In fiscal year 2021, the student cost per credit remained equal to those applicable for fiscal year 2020.

The student body decreased by 2,959 students in 2022, from 49,769 students for fiscal year 2021 to 46,810 students for fiscal year 2022. This reduction in the student body was mainly caused for the effects of the COVID-19 pandemic and by the emigration of students after the passage of Hurricanes Maria and Irma through the Island of Puerto Rico during September 2017.

In fiscal years 2022 and 2021, the University eliminated 13 of 16 tuition exemption categories (keeping only teaching assistants, honor students, and veterans only (not spouse). To reduce the financial impact on affected students, the University implemented a new financial aid grant system ("Internal Scholarship Fund") that maintained most of the original exemptions categories. Gross tuitions and fees included $23.9 million in 2022 and $18.5 million in 2021 of tuition scholarships granted through the Internal Scholarship Fund and tuition exemptions. The tuition scholarships and tuition exemptions have not impact on the tuitions and fees, net of scholarship allowances and provision to allowance because they represent a gross tuition and a tuition scholarship allowance.

The change in gross tuitions and fees was partially offset by the change in the tuition scholarship allowances and the provision for doubtful accounts. Tuition scholarship allowances amounted to $133.1 million and $130.3 million for the fiscal years 2022 and 2021, respectively. The increase in the tuition scholarship allowances in 2022 mainly resulted from the increase in tuitions costs of eligible participants to Federal Pell Grant program of approximately $3.2 million and the increase of scholarships granted through the Internal Scholarship Fund and the tuition exemptions of approximately $5.4 million. The provision for doubtful accounts amounted to approximately $5.8 million in 2022 and to a credit of approximately $1.0 million in 2021. Refer to the Going Concern section for future increases in tuitions and related fees included in the University fiscal plan for the fiscal years 2023 to 2026.

Revenues from governmental grants and contracts, net amounted to $160.3 million and $201.4 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $41.1 million or 20% in 2022. Gross revenues from governmental grants and contracts amounted to approximately $168.1 million and $151.7 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $16.4 million or 11% in 2022. The increase in 2022 mainly resulted from the Federal grants and contracts which increased by approximately $9.5 million related to higher activity in the research and from the Commonwealth grants and contracts which increased by approximately $6.9 million mainly because of the increase of approximately $15.1 million in the revenue from trainings and seminars offered to governmental employees. The provision for doubtful accounts for these accounts amounted to approximately $1.7 million in 2022, meanwhile in 2021 it resulted in a credit of approximately $51.1 million. In fiscal year 2021, the University credited its provision to the allowance for doubtful accounts for governmental grants and contracts by approximately $50.8 million because of the settlement agreements for collections of accounts receivable entered with the Puerto Rico Medical Service Administration ("PRMSA") and with the Puerto Rico Department of Health ("DOH") on June 25, 2021, as previously described in the Assets section.

Net patient services revenue and other amounted to $81.5 million and $77.4 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $4.1 million or 5% in 2022. Patient service revenue depends on medical services, including laboratories, rendered by the University's Medical Sciences Campus faculty members. In fiscal year 2022, net patient services revenues increased because an increase in volume of these activities. The provision for doubtful accounts for these accounts resulted in provision of approximately $3.1 million and a credit $1.2 million in 2022 and 2021, respectively.

Other operating revenues, net amounted to $31.3 million and $40.9 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $9.6 million or 24% in 2022. In fiscal year 2021, the University credited its provision to the allowance for doubtful accounts for nongovernmental grants and contracts by approximately $21.0 million because of the settlement agreement for collections of accounts receivable entered with Servicios Médicos Universitarios, Inc. (the "Hospital"), on February 22, 2022, as previously described in the Assets section.

Net Non-operating Revenues

Total net non-operating revenues amounted to $947.2 million and $955.6 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $8.4 million or 1% in 2022.

The Commonwealth and other appropriations amounted to $520.6 million and $597.9 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $77.3 million or 13% in 2022.

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. These Commonwealth appropriations support the University's operational expenses. Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth appropriations for the operational expenses of the University. In accordance with the Commonwealth Budget for the fiscal years 2022 and 2021, as certified by the Oversight Board of PROMESA, the Commonwealth appropriations for the operational expenses of the University amounted to $407.1 million and $501.1 million, respectively, a decrease of approximately $94.0 million or 19%. Refer to the Going Concern Section for future changes in the Commonwealth appropriations for fiscal years 2023 and thereafter.

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 $42.1 million and $41.0 million for the years ended June 30, 2022 and 2021, respectively.

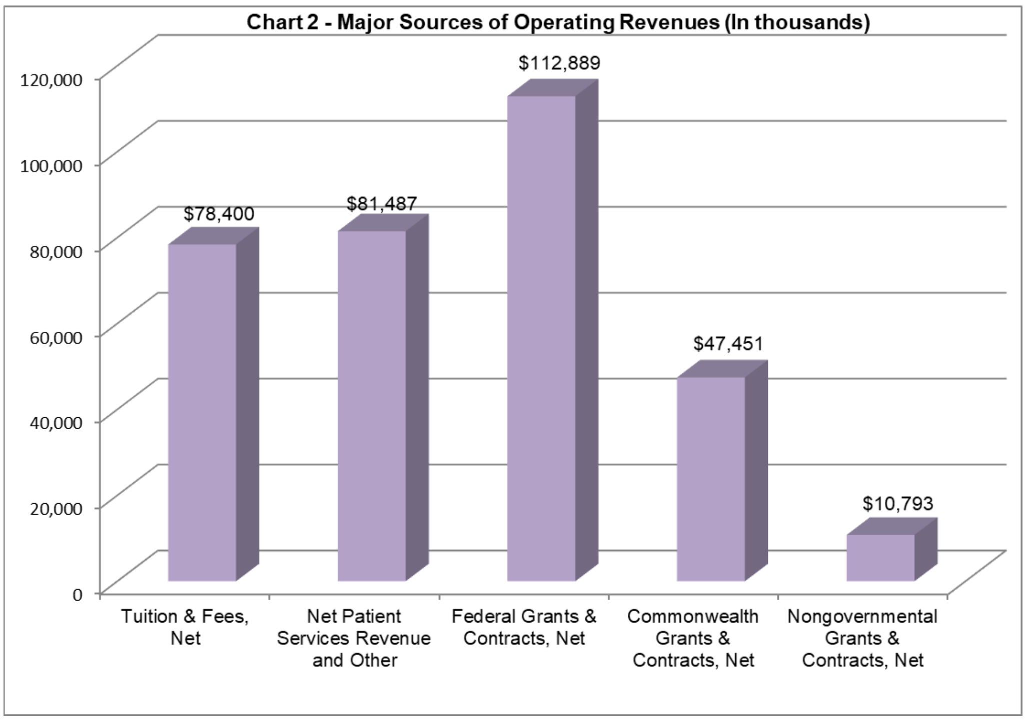
Appropriations from the Commonwealth also include distributions of income received by the University from the Puerto Rico Gaming Commission under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005. In August 2020, the Puerto Rico Gaming Commission substituted the Puerto Rico Tourism Company as the new administrator which establishes the public policy of the Commonwealth regarding the gaming in Puerto Rico. Slot machines and other appropriations for the years ended June 30, 2022 and 2021 amounted to $71.3 million and $55.8 million, respectively, an increase of approximately $15.6 million or 28% in 2022 because there was more activity in the casinos. In 2020, the casinos were closed in the last quarter of fiscal year 2020 as a result of the effects of the COVID-19 pandemic and in 2021, there was more activity in the casinos.

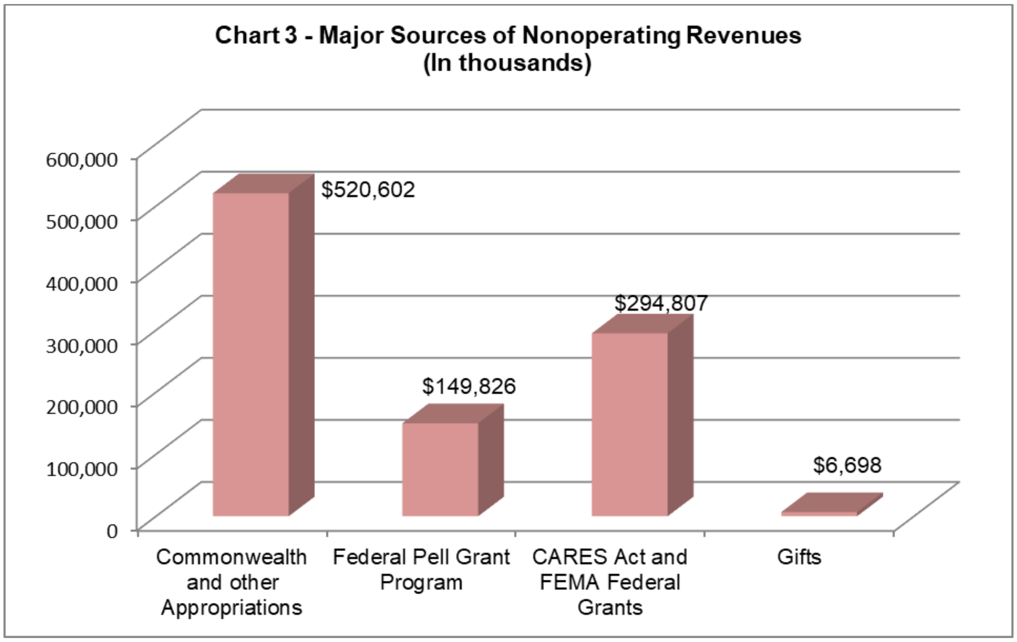
Federal Pell Grant program revenues amounted to $149.8 million and $163.8 million in 2022 and 2021, respectively, a decrease of approximately $14.0 million or 9% in 2022. The decrease in 2022 was mainly due to a lower number of eligible participants in the Federal Pell Grant program because of the reduction in the University' student body caused by the effects of the COVID-19 pandemic and by the emigration of students after the passage of Hurricanes Maria and Irma through the Island of Puerto Rico during September 2017.

Other nonoperating federal grants amounted to $294.8 million and $183.0 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $111.8 million in 2022. The increase in these nonoperating federal grants revenues in fiscal year 2022 is mainly related to the increase of approximately $119.2 million in the CARES Act federal funds received from several economic stimulus measures approved by the Federal Government to provide economic relief from the COVID-19 pandemic. These CARES Act funds amounted to approximately $294.1 million and $174.9 million for the years ended June 30, 2022 and 2021, respectively, and were mainly used to provide institutional support (approximately $179.0 million in fiscal year 2022 and $110.0 million in fiscal year 2021) and student financial aids (approximately $115.1 million in fiscal year 2022 and $64.9 million in fiscal year 2021). Nonoperating federal grants also include other disaster grants for public assistance from the U.S. Department of Homeland Security (presidentially declared disasters) of approximately $696 thousand and $8.1 million in 2022 and 2021, respectively, because of the damages caused by the hurricanes and the earthquakes to the University in September 2017 and in December 2019, respectively.

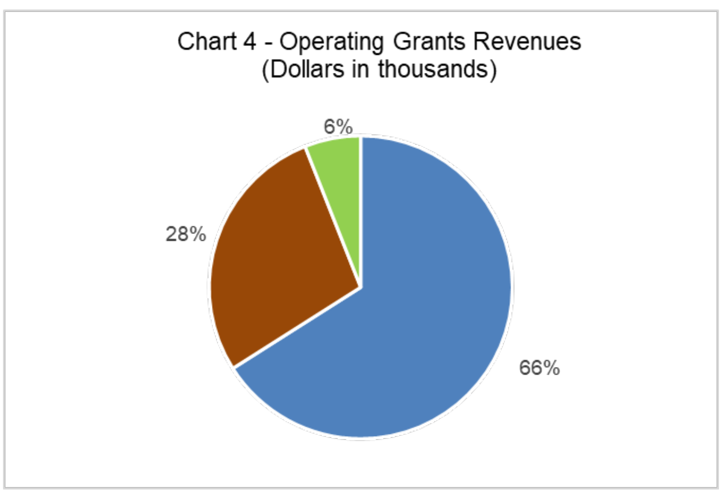
Net other nonoperating revenues (expenses) mainly includes the interest expense on capital assets-related debt and others which amounted to approximately $17.7 million and $18.5 million for the years ended June 30, 2022 and 2021, respectively. The decrease of interest expense of approximately $892 thousand in 2022 was mainly related to the reduced principal balance on these debts. In addition, net other nonoperating revenues (expenses) includes the net investment income (loss) which amounted to a net loss of approximately $8.9 million and a net income of approximately $19.1 million for the years ended June 30, 2022 and 2021, respectively, a negative impact of approximately $28.0 million which mainly resulted from the decline in the fair value of investments.

The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2022:





Federal grants represent approximately 66% of the University operating grants revenues in 2022. The following illustration presents the operating grants revenues of the University of Puerto Rico for the year ended June 30, 2022:



Federal	$ 112,889	66%
Commonwealth	47,451	28%
Nongovernmental	10,793	6%
Total	$ 171,133	100%

Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to $857.5 million and $1.34 billion for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $483.4 million or 36% in 2022. The changes in operating expenses are mainly related to the changes in the salaries and benefits, including pension cost (credit) and OPEB expense, and in supplies and other services and utilities expenses because of the effects of the COVID-19 pandemic. Salaries and benefits are the most significant components of operating expenses. Operating expenses decreased in 2022 mainly as a result of the pension credit of approximately $281.8 million recorded in fiscal year 2022, meanwhile in fiscal year 2021, it resulted in a pension cost of approximately $270.1 million for a decrease of approximately $551.9 million.

Salaries amounted to $522.6 million and $519.6 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $3.1 million or less than 1% in 2022. Salaries of faculty personnel increased by approximately $5.8 million or 2% in 2022 as a result of the increase in faculty personnel to maintain the highest level of institutional quality and the higher distributions to faculty members of the University's Medical Sciences Campus of approximately $7.1 million because collected patient revenues increased due to a higher volume of patient services in fiscal year 2022. Salaries of exempt staff decreased by approximately $3.5 million or 2% in 2022, because of the headcount attrition in non-faculty and other administrative personnel, including trust and senior positions. The University's total headcount decreased by approximately 79 positions from approximately 9,725 positions in June 2021 to 9,646 positions in June 2022.

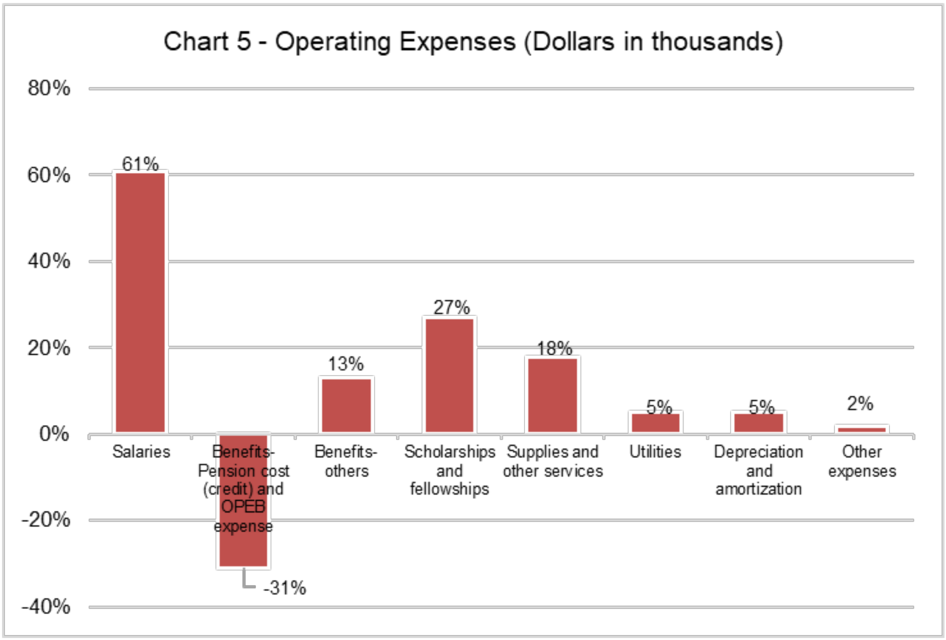
Benefits amounted to a credit of $153.6 million in 2022 and an expense $398.8 million in 2021. Benefits decreased by approximately $552.3 million in 2022 mainly because of the change in the pension cost. In fiscal year 2022, the University recognized pension credit of approximately $286.2 million, meanwhile in fiscal year 2021, it recognized a pension cost of approximately $265.8 million in accordance with GASB Statement No. 68, a decrease of approximately $552.0 million, mainly caused by the decrease in the net pension liability because of the increase in its discount rate, as explained in the Liabilities Section. OPEB cost amounted to approximately $14.9 million and $12.9 million in fiscal year 2022 and 2021, respectively, an increase of approximately $2.1 million in fiscal year 2022 mainly as result of the increase in the OPEB liability recorded in accordance with GASB Statement No. 75, as previously explained in the Liabilities Section. Other benefits amounted to $113.3 million and $115.8 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $2.5 million or 2% in 2022. In fiscal year 2022, other benefits mainly decreased in the accrual of compensated absences of approximately $8.5 million, and lower medical insurance plan expense of $1.3 million, which effect was partially offset by the premium pay of approximately $8.0 million awarded to eligible employees who performed essential work during the COVID-19 public health emergency provided through the CARES Act federal funds received. In addition, in the last quarter of fiscal year 2021, the University paid a retroactive payout of approximately $5.6 million provided to members of the Brotherhood of Non-Teaching Employees ("HEEND" for its Spanish acronym), as approved by the Oversight Board of PROMESA on February 28, 2021. The retroactive payouts cover certain benefits eliminated to the HEEND from fiscal years 2017 to 2021.

Scholarships and fellowships amounted to $232.2 million and $185.1 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $47.1 million or 25% in 2022. The increase in scholarships and fellowships in 2022 mainly resulted from the student financial aids provided through the CARES Act federal funds received of approximately $115.1 million and $64.9 million in 2022 and 2021, an increase of approximately $50.2 million as a result of the effects of the COVID-19 pandemic, which effect was partially offset with the reduction in student financial aids provided through Federal Pell Grant program which amounted to approximately $40.8 million and $57.9 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately $17.1 million because of lesser participants eligible for Federal Pell Grant program as a result of the reduction in the University' student body because of the effects of the COVID-19 pandemic; and the increase in student financial aids provided through endowment funds of approximately $7.3 million in 2022, which included $5.0 million granted through the new UPR Endowment Fund, as previously explained the Assets Section.

Supplies and other services and utilities amounted to $195.6 million and $183.4 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $12.2 million or 7% in 2022. In fiscal year 2020, most of the facilities were closed during the last quarter of fiscal year 2020 because of the effects of the COVID-19 pandemic. However, in fiscal year 2021, the University was opened the whole year. The increase in 2022 mainly resulted from the increase in utilities (electricity and water) of approximately $11.8 million or 35% because of higher electricity costs. Utilities amounted to $45.4 million and $33.6 million for the years ended June 30, 2022 and 2021, respectively. Supplies and other services amounted to $150.2 million and $149.9 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $384 thousand or less than 1% in 2022. In fiscal year 2022, professional services increased by approximately $1.4 million, maintenance expense increased by approximately $1.4 million, and supplies increased by approximately $1.0 million.

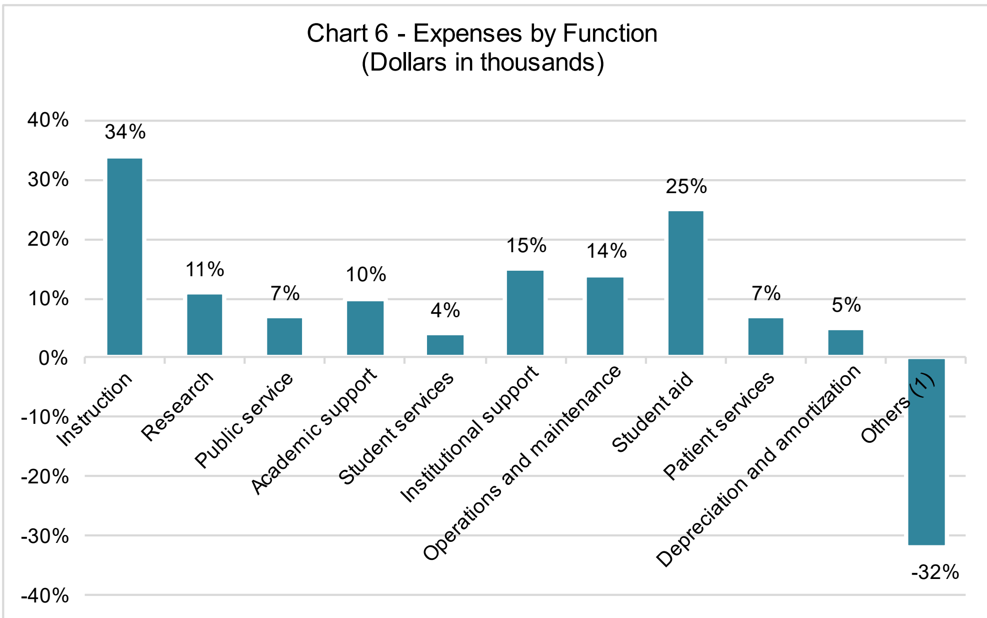
Other expenses amounted to $60.7 million and $54.0 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $6.7 million or 12% in 2022. Other expenses include the depreciation and amortization expense which amounted to $44.6 million and $40.4 million for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $4.2 million or 10% in 2022.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2022:



Salaries	$	522,635	61%
Benefits- Pension credit and OPEB expense		(266,880)	-31%
Benefits- others		113,317	13%
Scholarships and fellowships		232,152	27%
Supplies and other services		150,235	18%
Utilities		45,367	5%
Depreciation and amortization		44,644	5%
Other expenses		16,048	2%
Total	$	857,518	100%

Functional expense classification presents University expenses in the operational categories they benefit. The following illustration presents the major uses of the University revenues (both operating and nonoperating) on a functional basis for the year ended June 30, 2022:



Instruction	$ 287,897	34%
Research	95,234	11%
Public service	55,778	7%
Academic support	87,399	10%
Student services	31,521	4%
Institutional support	128,050	15%
Operations and maintenance	120,717	14%
Student aid	217,187	25%
Patient services	59,554	7%
Depreciation and amortization	44,644	5%
Others (1)	(270,463)	-32%
Total	$ 857,518	100%

(1) Other functional expenses mainly include the pension credit of approximately $286,221,000 and the OPEB expense of approximately $14,929,000 recorded in accordance with GASB Statement No. 68 and GASB Statement No. 75, respectively.

Capital Grant Contributions and Additions to Term and Permanent Endowments

Capital grant contributions amounted to \$6.3 million in fiscal year 2022 and were received from federal funds designated by FEMA. No capital appropriations were received in fiscal year 2021.

Additions to term and permanent endowments amounted to \$162.7 million and \$278 thousand for the years ended June 30, 2022 and 2021, respectively, an increase of approximately \$162.4 million in 2022. In fiscal year 2022, the University received from the Commonwealth \$162.5 million for a new UPR Endowment Fund for the benefit of the students of the University as required by Act No. 4 of 2022, "Law of the Scholarship Fund to Mitigate the Increase in Tuition Costs of the Fiscal Plan".

Operating Loss and Net Change in Net Position (Deficit)

For the year ended June 30, 2022, the University reported an operating loss of \$506.0 million. After adding net nonoperating revenues of \$947.2 million, primarily from the Commonwealth's appropriations, Federal Pell Grant program and other nonoperating federal grants, the additions to term and permanent endowments of \$162.7 million and the capital grant contributions of \$6.3 million, the net deficit position decreased by \$610.2 million for the year ended June 30, 2022 or 26% from the prior year net deficit position.

For the year ended June 30, 2021, the University reported an operating loss of \$948.1 million. After adding nonoperating revenues, net of \$955.6 million, primarily from the Commonwealth's appropriations, Federal Pell Grant program and other nonoperating federal grants, the net deficit position decreased by \$7.7 million for the year ended June 30, 2021 or less than 1% from the prior year net deficit position.

The decrease in the net operating loss of approximately \$442.1 million or 47% in fiscal year 2022 was caused by the decrease in total operating expenses of approximately \$483.4 million or 36%, which effect was partially offset by the decrease in total operating revenues of approximately \$41.3 million or 11%.

Total operating revenues amounted to \$351.5 million and \$392.8 million for the years ended June 30, 2022 and 2021, respectively, a decrease of approximately \$41.3 million or 11% in fiscal year 2022. In fiscal year 2022, operating revenue from governmental and nongovernmental grants and contracts decreased from \$227.7 million in fiscal year 2021 to \$171.1 million in fiscal year 2022, a decrease of approximately \$56.6 million or 25%. In fiscal year 2022, the provision to the allowance for doubtful accounts amounted to approximately \$15.4 million, meanwhile in fiscal year 2021, the University credited its provision to the allowance for doubtful accounts by approximately \$71.8 million because of the settlement agreements for collections of accounts receivable entered with the Puerto Rico Medical Service Administration ("PRMSA"), with the Puerto Rico Department of Health ("DOH") and with Servicios Médicos Universitarios, Inc. (the "Hospital"), as previously described in the Assets Section.

The decrease in operating expenses of approximately \$483.4 million or 36% in fiscal year 2022 is mainly related to the decrease in benefits of pension cost (credit) of approximately \$551.9 million.

The decrease in nonoperating revenues, net of approximately \$8.4 million in fiscal year 2022 was mainly related to decrease in Commonwealth appropriations of approximately \$77.3 million and in Federal Grant program funds of approximately \$14.0 million, which effects were partially offset by the increase of approximately \$119.2 million in CARES Act federal funds received from several economic stimulus measures approved by the Federal Government to provide economic relief from the COVID-19 pandemic. These CARES Act funds were mainly used to provide institutional support (approximately $179.0 million in fiscal year 2022 and $110.0 million in fiscal years 2021) and student financial aids (approximately $115.1 million in fiscal year 2022 and $64.9 million in fiscal year 2021).

Additions to term and permanent endowments amounted to $162.7 million and $278 thousand for the years ended June 30, 2022 and 2021, respectively, an increase of approximately $162.4 million in 2022. In fiscal year 2022, the University received from the Commonwealth $162.5 million for a new UPR Endowment Fund for the benefit of the students of the, as previously explained the Assets Section.

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

Subsequent Events

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the Government of the United Sates a request of a declaration of major disaster and the activation of funds from the Public Assistance program of FEMA. Claim to the insurance carrier for preliminary windstorm damages to the University's premises amounted to approximately $20.5 million. Deductible amounts for windstorm are 2% of the total insured value per location affected subject to a minimum of $200,000 per occurrence and a maximum of $3,500,000 per occurrence. Presently, the adjusted claim amount does not exceed the maximum deductible amount of $3,500,000.

On October 27, 2022, the Governing Board of the University rescinded previous certifications related to the establishment of its defined contribution plan and the closing of its defined benefit plan to all non-vested participants and new employees after October 31, 2022 and established the following: 1) the University's Retirement System will be closed only to all new employees effectively May 1, 2023; and 2) only new employees will participate in a defined contribution plan beginning May 1, 2023. Vested and non-vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

On March 23, 2023, the University requested to the Oversight Board of PROMESA the use of approximately $14.4 million in unrestricted funds for the payment of a one-time incentive of $2,750 to 4,851 non-faculty union employees during fiscal year 2023. On March 24, 2023, the Oversight of PROMESA approved the use of approximately $14.4 million for the above-mentioned purpose to be paid from the unrestricted prior year surplus that originated in fiscal year 2022.

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

- Going Concern Section and Capital Assets and Debt Administration Section for the extensions of the compliance period until May 31, 2023 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 Section for the University's appointment of UPRPS as administrative agent of Plaza Universitaria facilities until June 30, 2023.
- COVID-19 Pandemic Section, for the U.S. President Administration announcement on January 30, 2023 of its intention to end the national emergency and public health emergency declarations on May 11, 2023, related to the COVID-19 pandemic.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $12.4 million or 2% in fiscal year 2022**

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, 2022, 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 $12.4 million or 2%, from $762.7 million at June 30, 2021 to $750.3 million at June 30, 2022. The decrease in 2022 mainly resulted from the depreciation and amortization expense of approximately $41.2 million and the capital asset retirements of approximately $641 thousand, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to approximately $29.4 million.

Construction commitments at June 30, 2022, entered by the University, amounted to approximately $23.1 million. Refer to Note 10 to the financial statements for further information regarding the University's net capital assets.

- **Long-term debt obligations decreased by $30.9 million or 8% in fiscal year 2022**

The decrease in 2022 mainly resulted from principal paid on long-term debt obligations of approximately $29.9 million.

Long-term debt obligations include the University's revenue bonds which amounted to approximately $297.7 million as of June 30, 2022. 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 only currently rated "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 $50.4 million as of June 30, 2022. The AFICA bonds are only currently rated "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.

On July 20, 2021, Moody's Investors Service ("Moody's") withdrew the general obligation and related ratings of the Commonwealth of Puerto Rico, including all ratings on the Puerto Rico Aqueduct and Sewer Authority, the Puerto Rico Electric Power Authority, the Puerto Rico Building Authority, the Puerto Rico Highway and Transportation Authority, the University of Puerto Rico, including the DUI's AFICA Bonds, and other public corporations for business reasons. At the time of the withdrawal, Puerto Rico's general obligation rating was "Ca", and the outlook was negative. The Moody's withdrawal actions are not related to the current ongoing restructuring processes under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

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, 2022, the University was in compliance with the total debt service coverage ratio requirement.

Also, the Trust Agreement governing the UPR revenue bonds required the University to comply with other covenants. At June 30, 2022, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosure reports for fiscal years 2016 to 2021, and in the case of the Commonwealth, it has not filed the continuing disclosure reports for fiscal years 2017 to 2021 and its audited financial statements for fiscal years 2020 and 2021.

In addition, the Trust Agreement governing the DUI's AFICA bonds required DUI to comply with other covenants. At June 30, 2022, the DUI was not in compliance with the following covenants: 1) provide core financial information and operating data, including its audited financial statements not later than 120 days after the end of each fiscal year; 2) the University did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosure reports for fiscal years 2016 to 2021, and in the case of the DUI, it has not filed its core financial information and operating data, including its audited financial statements for fiscal years 2020 and 2021.

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 UPR revenue bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

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

The Letter Agreement has been extended eighteen times and the new Compliance Period is May 31, 2023. Pursuant to the Letter Agreement and the eighteen 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. The University agreed to transfer the following monthly payments of Pledged Revenues to the Trustee during the fiscal year ended June 30, 2022 and thereafter to be applied in accordance with the Trust Agreement during the new Compliance Period:

- in consideration for extending the Compliance Period until August 31, 2021, the University transferred to the Trustee \$3.535 million on or before each of March 25, 2021, April 23, 2021, May 25, 2021, June 25, 2021, and July 23, 2021 and transferred to the Trustee \$36,953.70 on or before August 25, 2021;
- in consideration for extending the Compliance Period until November 30, 2021, the University transferred to the Trustee \$3.6 million on or before each of September 24, 2021, October 25, 2021, and November 25, 2021;
- in consideration for extending the Compliance Period until May 31, 2022, the University transferred to the Trustee \$3.6 million on or before each of December 24, 2021, January 25, 2022, February 25, 2022, March 25, 2022 and April 25, 2022, and May 25, 2022;
- in consideration for extending the Compliance Period until November 30, 2022, the University transferred to the Trustee \$4.120 million on or before each of June 24, 2022, July 25, 2022, August 25, 2022, September 23, 2022 and October 25, 2022, and transferred \$3.706 million on on or before April 25, 2022; and,

- in consideration for extending the Compliance Period until May 31, 2023, the University transferred to the Trustee $3.580 million on or before each of December 23, 2022, January 25, 2023, February 24, 2023 and March 24, 2023, and agreed to transfer to the Trustee $3.580 million on or before April 25, 2023 and $3.580 million on or before May 25, 2023, less a credit for any amount as of May 18, 2023 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of $74,304,500.

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

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given rise to the Letter Agreement and the various Standstill Extension Agreements prior to May 31, 2023.

Discussions with respect to a consensual restructuring of the University's bonds have occurred but have not been active in the last three years. 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 Operations and Management Agreement with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence. According to DUI, the University has not made a payment to DUI pursuant to the Operations and Management Agreement since July 2018, which now constitutes an event of default under the lease agreement, the loan agreement, and the trust agreement. On January 3, 2019, the Trustee of the DUI's AFICA Bonds notified the University that its failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, the loan agreement, and the trust agreement. On January 11, 2019, the University and FAFAA notified the Trustee of the DUI's AFICA Bonds that they dispute several of the statements set forth in the DUI letter, including the obligation of the University to satisfy certain of the payments DUI alleges are outstanding under the Operations and Management Agreement.

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

Effective October 2018, DUI commenced using dormitories and commercial facilities and parking rent collections, otherwise payable to the University, as offsets and reductions to the fixed and reimbursable expenditures fees due from the University. On April 30, 2019, DUI filed a civil action requesting declaratory judgements regarding: (a) the expiration date of the Operations and Management Agreement and the fact that it remains in force; (b) the fact that the University has defaulted under the terms of said agreement and concurrently other ancillary agreements; (c) the amounts owed by the University under said agreement; and (d) the obligation of the University to fully fund the Working Capital account. Amounts claimed by DUI to the University for reimbursable expenditures fees, as defined in the Operations and Management Agreement, amounted to approximately $3,094,000 as of June 30, 2022.

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

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

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

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

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

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

On January 22, 2021, the University entered into a Memorandum of Understanding ("MOU"), as extended, with the University of Puerto Rico Parking System, Inc. ("UPRPS"), a discretely presented component unit of the University, in which the University appointed UPRPS, as the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. The University paid $15 thousand monthly as a fee for acquiring, screening, and renting the premises and managing the property and the University reimbursed all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses. On June 28, 2022, the MOU was extended until December 31, 2022. The University paid $15 thousand monthly as a fee for acquiring, screening, and renting the premises and managing the property, up to $90 thousand, and the University reimbursed all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses, up to $910 thousand, for the new term of the MOU. On December 22, 2022, the MOU was extended until June 30, 2023. The University will pay $15 thousand monthly as a fee for acquiring, screening, and renting the premises and managing the property, up to $90 thousand, and the University will reimburse all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses, up to $910 thousand, for the new term of the MOU.

In addition, the University has approximately $219,000 in financed purchase obligations used to provide financing for certain equipments. Capital assets balances as of June 30, 2022 that are financed, have an acquisition cost of approximately $485,000 with accumulated depreciation of approximately $290,000 and a net book value of approximately $195,000.

Refer to Notes 2, 9, 11, 13, and 20 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, 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 because 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.

For many years the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates. 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.

After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico ("Act No. 53 of 2021") to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

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 40% of the University's total revenues (operating and nonoperating revenues, net) are derived from the Commonwealth's appropriations which amounted to approximately $520.6 million for the year ended June 30, 2022. Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.

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

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

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. A state of emergency remains in effect for the Commonwealth since it was declared by the Governor of Puerto Rico on March 12, 2020.

Although restrictions have been lifted for almost all businesses, the Commonwealth and the University continues to experience significant challenges due to COVID-19. The pandemic and economic disruption resulting from measures to contain it continue to impact projected revenues. The ultimate impact of the COVID-19 pandemic on the Commonwealth's economy cannot be determined at this time.

The University has adopted proactive measures, such as the implementation of web-based technology assisted teaching and learning tools for its current and future students, to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact.

The Federal Government has also approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") that seek to cushion the economic fallout of the pandemic. For amounts received under the Federal Government economic stimulus measures for the years ended June 30, 2022 and 2021, refer to the *Statement of Revenues, Expenses and Changes in Net Position (Deficit) - Net Nonoperating Revenues Section*.

On January 30, 2023, the U.S. President Administration announced its intent to end the national emergency and public health emergency declarations on May 11, 2023, related to the COVID-19 pandemic. Millions of Americans have received free Covid tests, treatments and vaccines during the pandemic, and not all of that will continue to be free once the emergency is over. The White House wants to keep the emergency in place for several more months so hospitals, health care providers and health officials can prepare for a host of changes when it ends, officials said.

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

Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period of time.

The U.S. Inflation Rate is the percentage in which a chosen basket of goods and services purchased in the U.S. increases in price over a year. Inflation is one of the metrics used by the U.S. Federal Reserve to gauge the health of the economy. Since 2012, the Federal Reserve has targeted a 2% inflation rate for the U.S.

economy and may make changes to monetary policy if inflation is not within that range. A notable time for inflation was the early 1980's during the recession. Inflation rates went as high as 14.93%, causing the Federal Reserve to take dramatic actions. For decades, inflation in the United States had remained fairly stable, spurring growth and a strong economy. Since the COVID-19 pandemic, however, disruptions in the supply chain and labor force, combined with other factors, have resulted in new concerns about rising prices. The annual inflation rate for the United States is 6.5% for the 12 months ended December 2022 after rising 7.1% previously, according to U.S. Labor Department data published January 12, 2023. This is higher than the long-term average of 3.27%.

Inflation has been particularly high in the United States of America because of the switch to goods consumption over services due to high demand, bottlenecks in the supply chain, labor shortages and demands for higher wages. The risk is that persistently high living costs and tighter labor markets may force workers to push for higher wages, and employers complying with such demand. The resulting higher labor costs would in turn push up prices further, perpetuating an inflationary cycle.

Still, high inflation is expected to persist longer than anticipated, with ongoing supply chain disruptions and high energy prices throughout most of 2023, thus heightening the level of uncertainty.

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

Request for Information

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

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit)
As of June 30, 2022 (In thousands)

	Primary Government	Component Units
Assets		
Current assets:		
Cash and cash equivalents	$ 193,794	$ 18,401
Restricted cash and cash equivalents	40,136	2,170
Short-term investments at fair value	70,656	–
Restricted investments at fair value deposited with trustees and others	60,061	–
Accounts receivable, net	13,032	8,757
Due from Federal Government	49,034	318
Due from related parties, net	10,739	1,236
Lease receivable (see Note 14)	732	–
Inventories	1,537	1,052
Other assets	1,293	791
Total current assets	441,014	32,725
Noncurrent assets:		
Restricted cash and cash equivalents	164,699	–
Restricted investments at fair value:		
Endowment funds	119,142	–
Healthcare Deferred Compensation Plan	82,823	–
Others	–	15
Other long-term investments at fair value	1,370	–
Due from the Commonwealth of Puerto Rico	–	281
Lease receivable (see Note 14)	2,231	–
Notes receivable, net	8,085	–
Right of use lease assets, net (see Note 10)	5,120	–
Capital assets:		
Land and other nondepreciable assets	66,398	4,606
Depreciable assets (net of accumulated depreciation and amortization)	683,928	15,169
Other assets	442	–
Total noncurrent assets	1,134,238	20,071
Total assets	1,575,252	52,796
Deferred outflows of resources:		
Deferred outflows from pension activities	211,794	–
Deferred outflows from OPEB activities	32,155	–
Deferred refunding loss	749	–
Total deferred outflows of resources	244,698	–
Total assets and deferred outflows of resources	1,819,950	52,796
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	97,083	6,148
Unearned revenue-cash advances from governmental grants	35,227	2,057
Current portion of long-term debt:		
Notes payable and others	103	2,713
Bonds payable	31,270	–
Due to University of Puerto Rico	–	5,228
Other current liabilities:		
Lease liability (see Note 14)	2,498	–
Claims liability	837	–
Compensated absences	25,908	831
Total current liabilities	192,926	16,977
Noncurrent liabilities:		
Long-term debt, net of current portion:		
Notes payable and others	116	5,297
Bonds payable	316,871	–
Other long-term liabilities, net of current portion:		
Lease liability	2,797	–
Deferred compensation plan	82,823	–
Claims liability	7,265	2,447
Compensated absences	105,520	–
Net pension liability	1,530,764	–
Other postemployment benefits (OPEB) liability	250,387	–
Total noncurrent liabilities	2,296,543	7,744
Total liabilities	2,489,469	24,721
Deferred inflows of resources:		
Deferred inflows from pension activities	1,078,375	–
Deferred inflows from OPEB activities	3,448	–
Deferred inflows related to leases	2,861	–
Total deferred inflows of resources	1,084,684	–
Total liabilities and deferred inflows of resources	3,574,153	24,721
Net position (deficit)		
Net investment in capital assets	424,263	17,024
Restricted, nonexpendable:		
Scholarships and fellowships	191,494	–
Research	43,677	–
Other	48,048	–
Restricted, expendable:		
Loans	14,182	–
Capital projects	6,227	–
Debt service	47,127	–
Others	–	15
Unrestricted (deficit)	(2,529,221)	11,036
Total net position (deficit)	$ (1,754,203)	$ 28,075

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the Year Ended June 30, 2022 (In thousands)

	Primary Government	Component Units
Operating revenues:		
Tuitions and fees (net of scholarship allowances and others of $138,850)	$ 78,400	$ –
Net patient services revenue and other (net of provision to allowances of $3,061)	81,487	55,545
Federal grants and contracts	112,889	–
Commonwealth grants and contracts (net of provision for allowances of $1,728)	47,451	–
Nongovernmental grants and contracts (net of credit to allowances of $1,102)	10,793	–
Sales and services of educational departments	8,644	–
Auxiliary enterprises, net	913	–
Other operating revenues	10,928	6,045
Total operating revenues	351,505	61,590
Operating expenses:		
Salaries:		
Faculty	335,347	–
Exempt staff	186,020	5,093
Nonexempt wages	1,268	13,933
Benefits:		
Pension credit (see Note 16)	(281,809)	–
OPEB expense (see Note 17)	14,929	–
Other benefits	113,317	3,246
Scholarships and fellowships	232,152	–
Supplies and other services	150,235	28,829
Utilities	45,367	3,624
Depreciation and amortization	44,644	2,887
Other expenses	16,048	1,458
Total operating expenses	857,518	59,070
Operating income (loss)	(506,013)	2,520
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	520,602	–
Federal grants (see Note 7):		
Federal Pell Grant program	149,826	–
CARES Act	294,111	2,877
Federal Emergency Management Agency (FEMA)	696	–
Others	–	38
Gifts	6,698	–
Net investment income (loss)	(8,875)	1
Interest on capital assets - related debt	(17,651)	(279)
Net other nonoperating revenues	1,812	–
Net nonoperating revenues	947,219	2,637
Income before other revenues	441,206	5,157
Other revenues:		
Capital grant contributions	6,308	–
Additions to term and permanent endowments (see Note 8)	162,652	–
Total other revenues	168,960	–
Change in net position	610,166	5,157
Net position (deficit):		
Beginning net position (deficit)	(2,364,369)	22,918
End of year	$ (1,754,203)	$ 28,075

See accompanying notes to financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
For the Year Ended June 30, 2022 (In thousands)

	Primary Government
Cash flows from operating activities	
Tuition and fees	$ 78,343
Grants and contracts	195,415
Patient services	84,556
Payments to employees	(522,963)
Payments for benefits	(298,472)
Payments for scholarships and fellowships	(231,154)
Payments to suppliers	(155,288)
Payments for utilities	(40,168)
Collection of loans, net of loans issued to students	813
Auxiliary enterprises	869
Sales and services educational departments and others	33,986
Net cash used in operating activities	(854,063)
Cash flows from noncapital financing activities	
Commonwealth and other appropriations	532,541
Federal grants:	
Federal Pell Grant program	148,829
CARES Act	376,217
FEMA	9,884
Endowment gifts	162,652
Federal direct student loan program receipts	50,457
Federal direct student loan program disbursements	(50,457)
Gifts and grants for other than capital purposes	6,698
Other non-operating receipts, net	1,812
Net cash provided by noncapital financing activities	1,238,633
Cash flows from capital and related financing activities	
Purchases of capital assets	(28,958)
Federal Government capital contributions	1,413
Principal paid on capital debt and financed purchases	(29,881)
Interest paid on capital debt and financed purchases	(18,427)
Principal and interest paid on leases	(3,810)
Principal and interest received on leases	1,405
Decrease in deposits with trustees and others	2,161
Net cash used in capital and related financing activities	(76,097)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	53,157
Purchases of investments	(111,920)
Collections of interest and dividend income on investments	3,077
Advances to the University of Puerto Rico Retirement System	224
Other receipts, net	5
Net cash used in investing activities	(55,457)
Net change in cash and cash equivalents	253,016
Cash and cash equivalents:	
Beginning of year	145,613
End of year	$ 398,629

(Continued)

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (continued)
For the Year Ended June 30, 2022 (In thousands)

	Primary Government
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (506,013)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	44,644
Provision for allowances doubtful accounts	15,443
Changes in operating assets and liabilities and deferred outflows and inflows of resources:	
Decrease (increase) in:	
Grants and contracts receivables	35,815
Prepaid expenses, inventories and other	1,706
Deferred outflows of resources from pension activities	78,920
Deferred outflows of resources from OPEB activities	(7,346)
Increase (decrease) in:	
Accounts payable and accrued liabilities	18,271
Unearned revenue	(12,155)
Accrued salaries, wages, benefits and other liabilities	(7,841)
Net pension liability	(1,192,212)
OPEB liability	11,114
Deferred inflows of resources from pension activities	665,115
Deferred inflows of resources from OPEB activities	476
Net cash used in operating activities	$ (854,063)
Supplemental schedule of noncash investing, capital and financing activities	
Decrease in fair value of investments	$ 12,351
Amortization of:	
Bonds premiums, net of discounts	$ 1,385
Deferred refunding loss	$ 203
Equipments acquired through financed purchase obligations	$ 320

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.

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

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

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

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

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

Reporting Entity (continued)

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

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

Desarrollos Universitarios, Inc.

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

Molecular Sciences Research Center, Inc.

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

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

Reporting Entity (continued)

Molecular Sciences Research Center, Inc. (continued)

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 the University. The MSRC is the University System's first multidisciplinary environment, designed to meet the needs of cutting-edge research in Puerto Rico for the foreseeable future. This research space design paradigm features standardization, flexibility and adaptability, systems integration, and ease of sharing equipment and human resources. MSRC is fiscally dependent on the University and its debt is expected to be repaid entirely or almost entirely with resources of the University. Complete financial statements of MSRC can be obtained directly by contacting MSRC's administrative offices.

Condensed financial information as of June 30, 2022 and for the fiscal year then ended of the blended component units is as follows (expressed in thousands):

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

Reporting Entity (continued)

Statements of net position (deficit) as of June 30, 2022	DUI	MSRC	Total
Current assets:			
Cash and cash equivalents	$ –	$ 536	$ 536
Restricted cash and cash equivalents	56	–	56
Restricted investments at fair value deposited with trustee	16,467	–	16,467
Internal balance- net investment in direct financing lease,			–
current portion (see Note 9)	3,095	–	3,095
Accounts receivable, net	–	9	9
Internal balance - due from the University of Puerto Rico (see Note 9)	4,370	–	4,370
Other assets	13	15	28
Total current assets	24,001	560	24,561
Noncurrent assets:			
Internal balance- net investment in direct financing lease,			
net of current portion (see Note 9)	38,901	–	38,901
Depreciable capital assets (net of accumulated depreciation and			
amortization)	–	262	262
Other assets	162	–	162
Total noncurrent assets	39,063	262	39,325
Total assets	$ 63,064	$ 822	$ 63,886
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,615	$ 253	$ 1,868
Current portion of long-term debt bonds payable	3,175	–	3,175
Internal balance- due to the University of Puerto Rico (see Note 9)	–	184	184
Compensated absences	–	–	–
Total current liabilities	4,790	437	5,227
Noncurrent liabilities:			
Long-term debt, net of current portion of bonds payable	47,249	–	47,249
Internal balance - due to the University of Puerto Rico (see Note 9)	–	4,500	4,500
Total noncurrent liabilities	47,249	4,500	51,749
Total liabilities	$ 52,039	$ 4,937	$ 56,976
Net position (deficit):			
Net investment in capital assets	$ –	$ 262	$ 262
Restricted expendable:			
Capital project	3,196	–	3,196
Debt service	8,833	–	8,833
Unrestricted deficit	(1,004)	(4,377)	(5,381)
Total net position (deficit)	$ 11,025	$ (4,115)	$ 6,910

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

Reporting Entity (continued)

Statements of revenues, expenses and changes in net position (deficit) for the year ended June 30, 2022	**DUI**	**MSRC**	**Total**
Operating revenues	$ 104	$ 24	$ 128
Operating expenses	(556)	(1,974)	(2,530)
Operating loss	(452)	(1,950)	(2,402)
Non operating revenues (expenses):			
Interest on capital assets - related debt	(2,548)	–	(2,548)
Interest income from internal balance investment in direct financing lease	2,795	–	2,795
Net investing income	410	–	410
Contributions from the University of Puerto Rico	–	500	500
Net nonoperating revenues	657	500	1,157
Change in net position	205	(1,450)	(1,245)
Net position (deficit):			
Beginning of year	10,820	(2,665)	8,155
End of year	$ 11,025	$ (4,115)	$ 6,910
Statements of cash flows for the year ended June 30, 2022			
Net cash used in operating activities	$ (27)	$ (1,764)	$ (1,791)
Net cash provided by noncapital financing activities	–	2,000	2,000
Net cash used in capital and related financing activities	(6,111)	(60)	(6,171)
Net cash provided by investing activities	6,116	–	6,116
Net change in cash and cash equivalents	(22)	176	154
Cash and cash equivalents:			
Beginning of year	78	360	438
End of year	$ 56	$ 536	$ 592

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:

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

Reporting Entity (continued)

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. Starting in January 2021, UPRPS is the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. 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 year ended June 30, 2022. 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 year ended June 30, 2022. Complete financial statements of MCC can be obtained directly by contacting the MCC's administrative offices.

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

Refer to Note 3 for the combining financial information of the discretely presented component units as of and for the year ended June 30, 2022.

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

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 determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investments in publicly traded securities are stated at fair value as established by major securities markets. Nonpublicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments. 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 (loss) (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 an agency 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, due from the University Retirement System which includes uncollected advances given to the Retirement System; and notes receivable which includes institutional loans.

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

Receivables (continued)

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

Lease Receivable

Lease receivable presents value of lease payments anticipated to be received during the lease term.

Interfund Balances and Transactions

Interfund receivable and payable balances and transactions related to internal activities and to blended component units have been eliminated from the basic financial statements.

Inventories

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

Right of Use Lease Assets

Right of use assets are representative of the University's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

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

Capital Assets

All capital expenditures of $5 thousand ($1 thousand before July 1, 2014) or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under finance 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.

Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the University are reported at the lower of carrying value or fair value. No impairment loss was incurred in fiscal year 2022.

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

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

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

Unearned Revenue

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

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

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.

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 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.

Lease Liability

At the commencement of a lease, the University initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

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

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.
- *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.

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

Classification of Net Position (continued)

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, other federal grants such as: CARES Act grants and disaster relief grants, and other revenue sources that are defined as nonoperating revenues, such as Commonwealth appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

Scholarship Allowances and Student Financial Aid

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

Net Patient Service Revenue

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

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

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.

Pension

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

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

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

Postemployment Benefits Other Than Pensions

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

New Accounting Standards Adopted

As of July 1, 2021, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 87, *Leases* (GASB Statement No. 87).
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB Statement No. 89).
- GASB Statement No. 93, *Replacement of Interbank Offered Rates* (GASB Statement No. 93).
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* (GASB Statement No. 97).
- GASB Statement No. 98, *The Annual Comprehensive Financial Reporting* (GASB Statement No. 98).

GASB Statement No 87 establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land, and equipment. Lessees are required to recognize a lease liability and an intangible right- to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources. The adoption effect of the new lease standard resulted in the following lease activities recognized by the University as of July 1, 2021: as a lessee, the University recorded a right of use assets and a lease liability of approximately \$6.7 million; and as a lessor, the University recorded a lease receivable and a deferred inflow of resources of approximately \$2.9 million in the statement of net position (deficit). See Notes 10 and 14.

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

New Accounting Standards Adopted (continued)

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period is not capitalized and included in the historical cost of a capital asset. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 93 establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 97 clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 98 establishes the term Annual Comprehensive Financial Report and its acronym ACFR. The new term replaces Comprehensive Annual Financial Report and its acronym in generally accepted accounting principles for state and local governments. 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. 91, *Conduit Debt Obligations* (GASB Statement No. 91), which is effective for periods beginning after December 15, 2021 (as postponed by GASB Statement No. 95), provides a single method for government issuers to report conduit debt obligations and related commitments. GASB Statement No. 91 addresses the variation in practice by: clarifying what is a conduit debt obligation; eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting; broadening the definition of conduit debt obligations to include those for which government issuers make related additional commitments, such as guarantees or moral obligation pledges, or voluntarily agree to make debt service payments or request an appropriation for such payments, if necessary; clarifying how government issuers should account for and report commitments they extend or voluntarily provide, and arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes; and enhancing note disclosures. Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. GASB Statement No. 91 requires a government issuer to recognize a liability if qualitative factors indicate that it is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

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

Future Adoption of Accounting Pronouncements (continued)

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

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

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

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

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

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96), which is effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to use subscription asset-an intangible asset-and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than the subscription payments, including implementation costs of a SBITA; and 4) requires note disclosures regarding a SBITA.

Reporting Entity and Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 99, *Omnibus 2022*, which establishes or amends accounting and financial reporting requirements for specific issues related to 1) the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology which is effective immediately and had not impact on the University's financial statements; 2) leases, public- public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs) which is effective for fiscal years beginning after June 15, 2022 and all reporting periods, thereafter; and 3) financial guarantees and the classification and reporting of derivative instruments which is effective for fiscal years beginning after June 15, 2023 and all reporting periods, thereafter.

- GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62* (GASB Statement No. 100), which is effective for fiscal years beginning after June 15, 2023 and all reporting periods, thereafter, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

- GASB Statement No. 101, *Compensated Absences* (GASB Statement No. 101), which is effective for fiscal years beginning after December 15, 2023, requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means.

  A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

  This statement requires that a liability for certain types of compensated absences including parental leave, military leave, and jury duty leave-not be recognized until the leave commences and requires that a liability for specific types of compensated absences not be recognized until the leave is used.

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

Future Adoption of Accounting Pronouncements (continued)

- The Financial Accounting Standards Board issued Accounting Standards Codification (ASC) ASC No. 842, *Leases*, which is effective to the University's discretely component units on July 1, 2022 and requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases, among other new requirements. Pursuant to the provisions of ASC No. 842, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASC No. 842 also requires the segregation of right-of-use assets arising from operating and finance (capital) leases in the balance sheet and significantly expands the disclosures related to leases in the financial statements. ASC No. 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

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 resulted in a decrease of appropriations which have significant adverse impacts on the University, given its reliance on the Commonwealth's appropriations and lack of available funding alternatives at reasonable interest rates.

The Commonwealth's Financial Condition

For many years the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

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

2. Going Concern (continued)

The Commonwealth's Financial Condition (continued)

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

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

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico ("Act No. 53 of 2021") to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA after consummating its Eighth Amended Plan of Adjustment.

Detailed information about the events that remediated the Commonwealth's financial condition and addressed its liabilities are disclosed in the notes of the Commonwealth's 2020 fiscal year audited basic financial statements.

The University Going Concern

The University's High Dependency to Commonwealth Appropriations

The University is highly dependent on the Commonwealth appropriations to finance its operations. Approximately 40% of the University's total revenues (operating revenues and nonoperating revenues, net) are derived from the Commonwealth and other appropriations which amounted to approximately $520.6 million, $597.9 million, and $589.9 million for the years ended June 30, 2022, 2021 and 2020, respectively.

2. Going Concern (continued)

The University Going Concern (continued)

The University's High Dependency to Commonwealth Appropriations (continued)

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended. These Commonwealth appropriations support the University's operational expenses. Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth appropriations for the operational expenses of the University. In accordance with the Commonwealth Budget for the fiscal years 2022, 2021, 2020, 2019 and 2018, as certified by the Oversight Board of PROMESA, the Commonwealth appropriations for the operational expenses of the University amounted to $407.1 million, $501.1 million, $501.1 million, $587.1 million, and $631.2 million, respectively, a decrease of $426.8 million or 50.0% when compared the 2022 Commonwealth appropriations for the operational expenses of the University with the corresponding Commonwealth appropriations of $833.9 million for fiscal year 2017 and a cumulative decrease of approximately $1.54 billion for the five fiscal year period ended June 30, 2022.

Act No. 53 of 2021 fixed all the Commonwealth's appropriations for the University at $500 million in each of the five fiscal years from 2023 to 2027. For fiscal year 2023, the approved Commonwealth appropriations for the operational expenses of the University amounted to $441.2 million. After fiscal year 2027, the Commonwealth appropriations for the operational expenses of the University will be indexed to inflation.

The University's Deficit Position and Operating Losses

The University had an unrestricted deficit position and a total net deficit position of approximately $2.53 billion and $1.75 billion, respectively, as of June 30, 2022. The University has had operating losses (without considering nonoperating revenues and expenses such as: Commonwealth appropriations, Federal Pell Grant program and other nonoperating federal grants and other revenues and depreciation, interest, and other expenses and additions to term and permanent endowments) during fiscal years 2022, 2021 and 2020 of $506.0 million, $949.1 million, and $1.23 billion, respectively.

The University's Limited Ability to Raise Operating Revenues

The University has limited ability to raise operating revenues due to the economic and other related challenges of maintaining enrollment and increasing tuition. The University has seen a continuous decline trend in its student enrollment. The student body decreased from 61,747 students in academic year 2016-2017 to 46,810 students in academic year 2021-2022, a decrease of 14,937 students or 20% in the last five years. On a full-time equivalency, based on a course of 24 credits per academic year, the student body decreased from 58,633 students in academic year 2016-2017 to 43,535 students in academic year 2021-2022, a decrease of 15,098 students or 30% in the last five years. In addition, the University is experiencing a decrease in admission for the 2022-2023 academic year, when compared to previous years. This reduction in the student body was mainly caused for the effects of the COVID-19 pandemic and by the emigration of students after the passage of Hurricanes Maria and Irma through the Island of Puerto Rico during September 2017.

2. Going Concern (continued)

The University Going Concern (continued)

The University as a Covered Entity of the Oversight Board of PROMESA

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

The University's Standstill Agreement

On June 29, 2017, the University and the trustee for the University of Puerto Rico University System Refunding Bonds, Series P and Q (the UPR System Revenue Bonds) entered into a standstill agreement (the Standstill Agreement), pursuant to which the University agreed to transfer to a segregated account, for the benefit of the holders of the UPR System Revenue Bonds, certain amounts in respect of revenue pledged for the repayment of the UPR System Revenue Bonds on the condition that during the covered period of the Standstill Agreement the trustee would not institute, commence, or continue any legal proceeding against the University, the Commonwealth, or any of its agencies, instrumentalities, or municipalities thereof, to enforce rights related to UPR System Revenue Bonds. The Standstill Agreement has been subject to eighteen extensions. The latest extension is through May 31, 2023.

Pursuant to the Standstill Agreement, as extended, 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 13, to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period.

The parties agree to use commercially reasonable efforts during the compliance period to arrive at a permanent resolution of the disputes which have given to the Standstill Agreement, as extended, prior to May 31, 2023.

The Trust Agreements governing the UPR revenue bonds and the DUI's AFICA bonds 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, 2022, the University was in compliance with a total debt service coverage ratio of 4.6 to 1.

Discussions with respect to a consensual restructuring of the University's bonds have occurred but have not been active in the last three years. 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 the outstanding UPR System Revenue Bonds.

2. Going Concern (continued)

The University Going Concern (continued)

The University's Standstill Agreement (continued)

Refer to Note 13 for certain violations to debt covenants, which in management opinion do not result in events of default, as defined, and further information regarding to the UPR System Revenue Bonds and the DUI AFICA Bonds.

The University's Campuses Heightened Cash Monitoring Payment Method

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 which negatively affect the University's liquidity risk. 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. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $208 million for the year ended June 30, 2022. The University was in compliance with various program requirements for the year ended June 30, 2022.

The University's Unrestricted Cash Position

The University's unrestricted cash position amounted to approximately $262.5 million (include cash and cash equivalents of $193.8 million and short-term investments of $68.7 million), $88.1 million, $185.2 million, and $281.4 million as of June 30, 2022, 2021, 2020 and 2019, respectively, an increase of $174.4 million in fiscal year 2022 or 198%, a decrease of $97.1 million or 52% in fiscal year 2021 and a decrease of $77.0 million or 42% in fiscal year 2020, for a total decrease of approximately $193.3 million or 69% when compared the University's unrestricted cash position as of June 30, 2021 with the University's unrestricted cash position as of June 30, 2019, a year before the COVID-19 pandemic.

In fiscal year 2022, the University's unrestricted cash position mainly improved because of cash inflows received from various federal funds to help respond to the COVID-19 pandemic and the resulting economic disruption. The University received about $93.6 million in collections of prior year accounts receivable related to CARES Act funds, mainly granted for institutional support for lost revenues (see Note 7). In addition, the University received collections of about $58.0 million of prior year accounts receivable for unpaid contracted medical services from significant settlement agreements reached by the University with three related parties (see Note 8).

2. Going Concern (continued)

The University Going Concern (continued)

The University's Unrestricted Cash Position (continued)

The University's unrestricted cash position deteriorated from fiscal year 2019, a year before the COVID-19 pandemic, to fiscal year 2021, because of the significant reductions in the Commonwealth appropriations for the operational expenses of the University, the significant increase in the University's pension plan contributions and unbalanced budgets. In addition, the University's unrestricted cash position was exacerbated by the effects of the COVID-19 pandemic.

In fiscal year 2021, the University operated with an unbalanced budget of approximately $72 million (including $39 million additional contribution to the University's pension plan because the University did not freeze its current defined pension plan and did not progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans as established in the University's certified fiscal plan for fiscal year 2021 approved by the Oversight Board of PROMESA). The University's certified fiscal plan for fiscal year 2021 was balanced with actual unrestricted cash and cash equivalents at June 30, 2020 that were used to cover operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan. Employer's contributions to the University's defined pension plan increased from approximately $74.8 million in fiscal year 2019 to $160.9 million, and $160.0 million in fiscal years 2020 and 2021, respectively.

In fiscal year 2020, the decrease in the University's unrestricted cash position was mainly caused by the following: a decrease of $86.0 million, or 15%, in the Commonwealth appropriations for the operational expenses of the University, which amounted to approximately $501.1 million and $587.1 million for the years ended June 30, 2020 and 2019, respectively; a significant increase of $86.0 million, or 15%, in the University contributions to its pension plan, the University's Retirement System; and, the University's certified fiscal plan for fiscal year 2020 was balanced with actual unrestricted cash and cash equivalents of approximately $84.8 million at June 30, 2019 that were used to cover operating deficits, including those created by fulfilling increases in the pension liability obligations in the early years of the Plan.

The University's Bonds Credit Risk

The UPR System Revenue Bonds and the DUI AFICA Bonds are only currently rated "CC", with negative outlook, by Standard & Poor's Global Ratings (S&P). On July 20, 2021, Moody's Investors Service ("Moody's") withdrew the general obligation and related ratings of the Commonwealth of Puerto Rico, including all ratings on the Puerto Rico Aqueduct and Sewer Authority, the Puerto Rico Electric Power Authority, the Puerto Rico Building Authority, the Puerto Rico Highway and Transportation Authority, the University of Puerto Rico, including the DUI's AFICA Bonds, and other public corporations for business reasons. At the time of the withdrawal, Puerto Rico's general obligation rating was "Ca", and the outlook was negative. The Moody's withdrawal actions are not related to the current ongoing restructuring processes under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA).

2. Going Concern (continued)

The University Going Concern (continued)

The University's Bonds Credit Risk (continued)

An obligation rated "CC" by S&P is currently highly vulnerable to nonpayment. The "CC" rating is used when a default has not yet occurred, but S&P expects default to be a virtual certainty, regardless of the anticipated time to default. With this bond credit risk rating, the University lack of available funding alternatives at reasonable interest rates.

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. Consequently, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

The University Management Fiscal Plan

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

The Oversight Board of PROMESA recognizes that the University has made progress on implementing some measures for fiscal years 2022, 2021 and 2020, for example the University increased undergraduate and most graduate tuition costs. However, on other measures, the University is in the process to comply with previous fiscal plan requirements. For example, the University is in the process to: (1) reform its pension plan, (2) adjust benefits to sustainable levels, and (3) implement adjustment measures to capture the required procurement savings.

On May 27, 2021, the Oversight Board certified a new fiscal plan for the University for fiscal years 2022 to 2026 (the "UPR 2021 Fiscal Plan"). On March 24, 2022, the Governing Board of the University approved the University's Fiscal Plan for the fiscal years 2023 to 2027. However, the Oversight Board determined that it did not reflect a compliant budget for fiscal year 2023, as required by PROMESA. On June 30, 2022, the Oversight Board certified a new fiscal plan for the University for fiscal year 2023 (the "UPR 2022 Fiscal Plan").

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

The certified fiscal plans for the University include four core elements centered primarily on improving operations and increasing revenues, while maintaining student access and experience benefits from the improved university system:

- Operational efficiencies: The University's existing operational model, with eleven semiautonomous campuses, creates unnecessary complexity and drives higher costs. The UPR 2021 Fiscal Plan continues to identify personnel and non-personnel efficiencies, prioritizing the latter, to make sure all campuses remain operational while reinvesting in core faculty. The UPR 2021 Fiscal Plan calls for a 2% decrease in total operating disbursements between fiscal years 2023 and 2026. 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 academia needs. The fiscal plan mainly includes the following expense measures:

    - Attrition: lower overall headcount via means of attrition by reducing non-faculty and other administrative personnel, including trust and senior positions. Increase faculty in order to maintain the highest level of institutional quality.
    - Centralized procurement efforts and contract negotiations.
    - Benefits adjustments: reduce the employer monthly contribution to the medical insurance plans to $390 per month to each faculty members and to $125 per month to each non-faculty members plans, while keeping baseline contributions to employees with preexisting conditions; and reduce prospective pay out of non-payroll compensation (e.g., sick days, union charges).

- Revenue enhancement: The certified fiscal plans for the University aims to maximize opportunities to increase revenue from non-tuition sources: federal grants and awards, intellectual property and patent monetization, and ancillary service fees for providing training to external institutions.

    - 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 dues 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 2023 to 2026 by offering tutorial and training services to the Puerto Rico Department of Education and other government agencies.

    - Tuition sources:

        - Gradual increase in the undergraduate student cost as previously certified from $124 per credit in fiscal year 2021 to: $145 per credit in fiscal year 2022; and, $157 per credit in fiscal year 2023. After fiscal year 2023, tuition will be indexed to public 4-year tuition inflation (estimated to be 3.1% for fiscal year 2024).

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, indexing the increase first to the average public higher education tuition growth over the past decade (3.1%), then to the Puerto Rico inflation (1%).

- Pension reform: The University's pension fund faces significant challenges, with about 47% of liabilities unfunded as of June 30, 2022. PROMESA requires that the Commonwealth's pension systems, including the University's pension plan to be adequately funded and responsibly managed. The UPR 2021 Fiscal Plan outlines options 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.

  Accordingly, the UPR 2021 Fiscal Plan requires the University to make full actuarially required contribution to its pension plan. The University's contributions to its pension plan amounted to $160.9 million in fiscal year 2020, $160.0 million in fiscal year 2021 and $161.6 million in fiscal year 2022. The Oversight Board of PROMESA offered the University the following options:

  - Option 1: freeze its current defined benefit plan and move to a defined contribution plan without cutting accrued benefits.
  - Option 2: freeze its current defined benefit plan, move to a defined contribution plan, and progressively cut accrued benefits in a manner similar to other Commonwealth's pension plans. Eliminate $250 minimum benefit and $400 holiday bonus. This option does not require additional savings or revenue measures to this Fiscal Plan. This is the option presented in this fiscal plan.

  The Oversight Board of PROMESA strongly believes that Option 2 is the most responsible course of action for the University. If the University's pension plan remains in its current status and no measures are implemented, the University will need to find additional savings above what is presented in the certified fiscal plans to avoid operating at a deficit and maintain the solvency of its retirement system.

  The University has already taken a significant step forward by certifying a plan for a pension plan reform, which includes a 30-year closed amortization and a level dollar funding contribution. In its plan, the University closes the plan to new members and moves them to a defined contribution plan. The University pension plan was closed to new employees effective May 1, 2023. Vested and non-vested participants will continue to accrue benefits. In addition, the University's plan reduces future pension liability risk due to the closing of the pension plan, nonetheless; the University has not taken a decision over the options presented by the Oversight Board of PROMESA.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

- Fiscal governance and controls: The University has been facing difficulties with maintaining an adequate central control and transparency of campus finances. The UPR 2021 Fiscal Plan includes fiscal governance reforms such as cross-campus and component unit controls on how revenues are collected, and expenditures reported.

With the UPR 2021 and 2022 Fiscal Plans measures, including the reduction in the Government appropriations, the University would have operational deficits (post contractual debt service) from fiscal year 2023 through fiscal year 2026.

There is no certainty that the UPR 2022 Fiscal Plan or any subsequently certified fiscal plan for the University will be fully implemented or if implemented will ultimately provide the intended results. All these plans and measures, and the University’s ability to reduce its deficit and to achieve a balanced budget in the future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. As such, management does not believe that its ability to continue as a going concern has been fully alleviated.

3. Combining Financial Information of the Discretely Presented Component Units

The following table presents the combining statements of net position of the discretely presented component units as of June 30, 2022 (expressed in thousands):

	SMU	UPRPS	MCC	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 17,077	$ 1,120	$ 204	$ 18,401
Restricted cash and cash equivalents	2,057	113	–	2,170
Accounts receivable, net	8,473	23	261	8,757
Due from Federal Government	–	318	–	318
Due from the University of Puerto Rico	869	367	–	1,236
Inventories	1,052	–	–	1,052
Other assets	641	37	113	791
Total current assets	30,169	1,978	578	32,725
Noncurrent assets:				
Restricted investments	–	–	15	15
Due from the Commonwealth of Puerto Rico	281	–	–	281
Capital assets:				
Other nondepreciable assets	4,606	–	–	4,606
Depreciable assets (net of accumulated depreciation and amortization)	14,003	212	954	15,169
Total noncurrent assets	18,890	212	969	20,071
Total assets	49,059	2,190	1,547	52,796
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	5,686	423	39	6,148
Unearned revenue- advances from federal grants	2,057	–	–	2,057
Current portion of long-term debt - notes payable and others	2,644	21	48	2,713
Due to the University of Puerto Rico	4,740	488	–	5,228
Other current liabilities - compensated absences	772	59	–	831
Total current liabilities	15,899	991	87	16,977
Noncurrent liabilities:				
Long-term debt, net of current portion - notes payable and others	4,984	69	244	5,297
Other long-term liabilities - claims liability	2,447	–	–	2,447
Total noncurrent liabilities	7,431	69	244	7,744
Total liabilities	23,330	1,060	331	24,721
Net position				
Net investment in capital assets	16,212	121	691	17,024
Restricted, expendable- Other	–	–	15	15
Unrestricted	9,517	1,009	510	11,036
Total net position	$ 25,729	$ 1,130	$ 1,216	$ 28,075

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

The following table presents the combining statements of revenues, expenses, and changes in net position of the discretely presented component units for the year ended June 30, 2022 (expressed in thousands):

	SMU	UPRPS	MCC	Total
Revenues				
Operating revenues:				
Net patient services revenue and other	$ 55,545	$ –	$ –	$ 55,545
Other operating revenues	1,907	3,373	765	6,045
Total operating revenues	57,452	3,373	765	61,590
Operating expenses:				
Salaries:				
Exempt staff	5,093	–	–	5,093
Nonexempt wages	13,021	723	189	13,933
Benefits	3,028	174	44	3,246
Supplies and other services	25,860	2,601	368	28,829
Utilities	3,522	99	3	3,624
Depreciation and amortization	2,788	41	58	2,887
Other expenses	1,368	90	–	1,458
Total operating expenses	54,680	3,728	662	59,070
Operating income (loss)	2,772	(355)	103	2,520
Nonoperating revenues (expenses):				
CARES Act federal grants	2,558	319	–	2,877
Other federal grants	–	–	38	38
Net investment income	–	1	–	1
Interest on capital assets - related debt	(251)	(1)	(27)	(279)
Net nonoperating revenues	2,307	319	11	2,637
Change in net position	5,079	(36)	114	5,157
Net position:				
Beginning of year	20,650	1,166	1,102	22,918
End of year	$ 25,729	$ 1,130	$ 1,216	$ 28,075

4. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2022 consisted of the following (expressed in thousands):

	Unrestricted	Restricted	Total
The University Only			
Cash:			
Cash on hand	$ 289	$ –	$ 289
Deposit accounts with commercial banks in Puerto Rico	140,676	5,237	145,913
Total cash	140,965	5,237	146,202
Cash equivalents:			
Deposit accounts with:			
Commercial banks in Puerto Rico	52,121	192,956	245,077
Commercial banks in USA	172	–	172
Money market funds	–	6,586	6,586
Total cash equivalents	52,293	199,542	251,835
Total University's cash and cash equivalents	193,258	204,779	398,037
DUI			
Deposit accounts with commercial banks in Puerto Rico	–	56	56
Total DUI cash and cash equivalents	–	56	56
MSRC			
Deposit accounts with commercial banks in Puerto Rico	536	–	536
Total MSRC cash and cash equivalents	536	–	536
Total Primary Government	$ 193,794	$ 204,835	$ 398,629
Current portion	$ 193,794	$ 40,136	$ 233,930
Noncurrent portion	–	164,699	164,699
Total	$ 193,794	$ 204,835	$ 398,629

The University Only

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and some of its discretely presented component units (SMU and MSRC) are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico ("Treasury"), and such deposits are maintained in separate bank accounts in the name of the University and its discretely presented component units. Such authorized depositories collateralize the amount deposited in excess of the federal depository insurance of $250,000 with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. The balances in money market funds which amounted to approximately $6,586,000 at June 30, 2022, are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

4. Cash and Cash Equivalents (continued)

The University Only (continued)

Restricted cash and cash equivalents of the University's permanent endowment funds amounted to approximately $171,199,000 as of June 30, 2022 (refer to Note 5). Other restricted cash equivalents amounted to approximately $33,580,000 as of June 30, 2022, and mainly include approximately $32,495,000 of unearned cash advances from Commonwealth's grants and contracts and $346,000 of funds held in the construction fund as of June 30, 2022.

Restricted cash and cash equivalents of the University's permanent endowment funds includes approximately $157,581,000 from Commonwealth appropriations received for a new UPR Endowment Fund during fiscal year 2022. In fiscal year 2022, the Commonwealth appropriated amounts for a new UPR Endowment Fund for the benefit of the students of the University as required by Act No. 4 of 2022, "Law of the Scholarship Fund to Mitigate the Increase in Tuition Costs of the Fiscal Plan". These Commonwealth appropriations amounted to approximately $162,541,000 for the year ended June 30, 2022, of which $5,000,000 were distributed through student scholarships as permitted by the Act 4 of 2022.

As of June 30, 2022, the University's cash deposited in the banks amounted to approximately $409,489,000.

Blended Component Units' Cash and Cash Equivalents

Blended component units' cash and cash equivalents as of June 30, 2022 amounted to approximately $592,000, and mainly consisted of cash accounts in Puerto Rico commercial banks. DUI's deposits are insured up to $250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is uncollateralized. MSRC's deposits are insured up to $250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is collateralized. As of June 30, 2022, blended component units' cash deposited in the banks amounted to approximately $614,000. As of June 30, 2022, the blended component units' cash deposited in the banks was insured by the federal depository insurance and/or collateralized.

Discretely Presented Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2022, amounted to approximately $20,571,000, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2022, the discretely presented component units' cash deposited in the banks amounted to approximately $20,564,000. The discretely presented component units' uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $996,000 as of June 30, 2022.

5. Investments

The University's investments held at June 30, 2022, 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 securities:							
Bills	$ 6,299	$ –	$ –	$ –	$ –	$ 68,713	$ 75,012
Notes	15,831	–	–	–	–	519	16,350
Bonds	3	–	–	–	–	1,063	1,066
U.S. sponsored agencies bonds and notes:							
Federal Farm Credit Bank (FFCB)	307	–	–	–	–	–	307
Federal Home Loan Bank (FHLB)	427	–	–	–	–	–	427
Federal National Mortgage Association (FNMA)	1,274	–	–	–	–	–	1,274
Federal Home Loan Mortgage Corporation (FHLMC)	784	–	–	–	–	–	784
Tennesse Valley Authority (TVA)	2,569	–	–	–	–	–	2,569
U.S. municipal bonds	–	–	–	–	–	1,260	1,260
Mortgage-backed securities:							
Government National Mortgage Association (GNMA)	1,152	–	–	–	–	–	1,152
FNMA	6,730	–	–	–	–	–	6,730
FHLMC	10,487	–	–	–	–	–	10,487
Small Business Administration (SBA)	1,163	–	–	–	–	–	1,163
Commercial	19	–	–	–	–	–	19
Asset-backed securities	1,408	–	–	–	–	–	1,408
Corporate bonds	17,773	–	–	–	–	–	17,773
Nonparticipating guaranteed investment contracts	–	–	62,333	–	–	–	62,333
Certificates of deposit	153	–	–	–	5	–	158
Money market funds and others	–	43,440	–	–	–	–	43,440
External investment pools	–	–	20,390	–	–	110	20,500
Common stock and convertibles	52,912	–	100	–	–	361	53,373
Total University's investments	119,291	43,440	82,823	–	5	72,026	317,585
DUI:							
U.S. sponsored agency notes - FNMA	–	5,848	–	–	–	–	5,848
Money market funds	–	7,423	–	3,196	–	–	10,619
Total DUI's Investments	–	13,271	–	3,196	–	–	16,467
Total Primary Government	$ 119,291	$ 56,711	$ 82,823	$ 3,196	$ 5	$ 72,026	$ 334,052
Current portion	$ 149	$ 56,711	$ –	$ 3,196	$ 5	$ 70,656	$ 130,717
Noncurrent portion	119,142	–	82,823	–	–	1,370	203,335
Total	$ 119,291	$ 56,711	$ 82,823	$ 3,196	$ 5	$ 72,026	$ 334,052

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, 2022 amounted to approximately $43,440,000 and consisted of money market funds.

DUI's funds held by trustee at June 30, 2022 amounted to approximately $13,271,000 and consisted of money market funds and a U.S. sponsored agency note (Federal National Mortgage Association discounted note) purchased with remaining maturities of six months or less.

5. Investments (continued)

Restricted Investments in Construction Fund

Although the construction of Plaza Universitaria project was terminated in September 2006, DUI maintains a Construction Fund account held by trustee, related to the issuance of the AFICA bonds. As of June 30, 2022, the account balance amounted to approximately $3,196,000 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, 2022 amounted to approximately $119,291,000. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended.

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

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

As of June 30, 2022, 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, 2022, net appreciation of approximately $6,655,000 was restricted to specific purposes.

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which mainly consisted of external investment pools, nonparticipating guaranteed investment contracts and money market funds amounted to approximately $82,823,000 as of June 30, 2022. 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.

5. Investments (continued)

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

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 $62,333,000 as of June 30, 2022.

Credit Risk

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

As of June 30, 2022, the University's credit quality distribution for securities is as follows (expressed in thousands):

	Carrying Value	Quality Rating						
		AAA	AA+ to AA	A+ to A-	BBB+ to BBB-	BB-	Not Rated	No Risk
U.S. Treasury securities:								
Bills	$ 75,012	$ –	$ –	$ –	$ –	$ –	$ –	$ 75,012
Notes	16,350	–	–	–	–	–	–	16,350
Bonds	1,066	–	–	–	–	–	–	1,066
U.S. sponsored agencies bonds and notes:								
FFCB	307	–	307	–	–	–	–	–
FHLB	427	–	427	–	–	–	–	–
FNMA	7,122	305	6,817	–	–	–	–	–
FHLMC	784	134	650	–	–	–	–	–
TVA	2,569	280	2,289	–	–	–	–	–
U.S. municipal bonds	1,260	–	716	287	126	131	–	–
Mortgage-backed securities:								
GNMA	1,152	–	–	–	–	–	–	1,152
FNMA	6,730	6,652	78	–	–	–	–	–
FHLMC	10,487	10,160	327	–	–	–	–	–
SBA	1,163	–	–	–	–	–	–	1,163
Commercial	19	–	19	–	–	–	–	–
Asset-backed securities	1,408	1,408	–	–	–	–	–	–
Corporate bonds	17,773	2,066	3,409	12,298	–	–	–	–
Nonparticipating guaranteed investment contracts	62,333	–	–	62,333	–	–	–	–
Certificates of deposit	158	–	–	–	–	–	158	–
Money market funds	54,059	10,619	–	43,440	–	–	–	–
Total interest-earning securities	260,179	$ 31,624	$ 15,039	$ 118,358	$ 126	$ 131	$ 158	$ 94,743
External investment pools	20,500							
Common stock and convertibles	53,373							
Total	$ 334,052							

5. Investments (continued)

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, 2022 is uninsured and uncollateralized. These deposits are exposed to custodial credit risk. At June 30, 2022, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolios are managed by brokerage firms.

Impaired Deposits with Governmental Bank

Deposits held with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit of the Commonwealth of Puerto Rico, amounted to approximately $7,125,000 as of June 30, 2022. 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, 2022, the entire balance of the deposits held with GDB was considered not realizable.

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 $43,440,000) and the Voya Retirement Insurance and Annuity Company Fixed Account (a nonparticipating guaranteed investment contract) (approximately $62,333,000), represented 5% or more of the total investment portfolio at June 30, 2022.

At June 30, 2022, the University had variable rate interest investments amounting to approximately $4,248,000.

5. Investments (continued)

Interest Rate Risk (continued)

The following table summarizes the type and maturity of investments held by the University at June 30, 2022 (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 securities:						
Bills	$ 75,012	$ –	$ –	$ –	$ –	$ 75,012
Notes	519	6,766	9,065	–	–	16,350
Bonds	545	521	–	–	–	1,066
U.S. sponsored agencies bonds and notes:						
FFCB	–	307	–	–	–	307
FHLB	–	130	297	–	–	427
FNMA	5,848	425	849	–	–	7,122
FHLMC	–	784	–	–	–	784
TVA	50	1,952	567	–	–	2,569
U.S. municipal bonds	–	820	181	259	–	1,260
Mortgage-backed securities:						
GNMA	–	99	382	671	–	1,152
FNMA	11	434	1,678	4,607	–	6,730
FHLMC	2,350	2,981	3,446	1,710	–	10,487
SBA	–	–	433	730	–	1,163
Commercial	19	–	–	–	–	19
Asset-backed securities	–	1,408	–	–	–	1,408
Corporate bonds	1,114	10,179	6,480	–	–	17,773
Nonparticipating guaranteed investment contracts	–	62,333	–	–	–	62,333
Certificates of deposit	158	–	–	–	–	158
Money market funds	54,059	–	–	–	–	54,059
External investment pools	121	370	439	–	19,570	20,500
Common stock and convertibles	–	–	–	–	53,373	53,373
Total	$ 139,806	$ 89,509	$ 23,817	$ 7,977	$ 72,943	$ 334,052

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 $116,550,000 as of June 30, 2022, are not classified in the fair value hierarchy below because they are carried at cost.

5. Investments (continued)

Fair Value Hierarchy (continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the University as of June 30, 2022 (expressed in thousands):

Investments by Fair Value Level	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)
U.S. Treasury securities:			
Bills	$ 75,012	$ 75,012	$ –
Notes	16,350	16,350	–
Bonds	1,066	1,066	–
U.S. sponsored agencies bonds and notes:			
FFCB	307	–	307
FHLB	427	–	427
FNMA	7,122	–	7,122
FHLMC	784	–	784
TVA	2,569	–	2,569
U.S. municipal bonds	1,260	–	1,260
Mortgage-backed securities:			
GNMA	1,152	–	1,152
FNMA	6,730	–	6,730
FHLMC	10,487	–	10,487
SBA	1,163	–	1,163
Commercial	19	–	19
Asset-backed securities	1,408	–	1,408
Corporate bonds	17,773	–	17,773
Common stock and convertibles	53,373	53,373	–
Total Investments by Fair Value Level	197,002	$ 145,801	$ 51,201
External investment pools measured at Net Asset Value (NAV) (or its equivalent)	20,500		
Total Investments Measured at Fair Value	$ 217,502		

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.

5. Investments (continued)

Fair Value Hierarchy (continued)

The University holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. Investments measured at NAV (or its equivalents) mainly include opened mutual funds held in an insurance company separated account. The fair value of the account's assets is based on the NAVs of the mutual fund investments. The NAV is calculated daily upon close of the New York Stock Exchange and is based on the fair values of the underlying securities.

Discretely Presented Component Units' Investments

The MCC's restricted investment in a certificate of deposit with a local commercial bank amounted to $15,000 as of June 30, 2021. This investment was opened in fiscal year 2021 and it is pledged to a long-term note payable with a local commercial bank. The certificate of deposit is insured up to $250,000 by the federal depository insurance. The certificate of deposit is carries at cost, matures within one to five years (on January 31, 2025) and is an unrated security for purposes of credit risk.

6. Accounts Receivable

The University's accounts receivable, net of allowance for doubtful accounts as of June 30, 2022 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
Due from medical plans	$ 128,156	$ (121,456)	$ 6,700
Student tuition and fees	12,425	(9,538)	2,887
Other	18,823	(15,378)	3,445
Total accounts receivable	159,404	(146,372)	13,032
Due from Federal Government (see Note 7)	49,034	–	49,034
Due from related parties (see Note 8)	38,550	(27,811)	10,739
Total	$ 246,988	$ (174,183)	$ 72,805

6. Accounts Receivable (continued)

Component Units

The Component Units' accounts receivable, net of allowance for doubtful accounts as of June 30, 2022 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
The Hospital:			
Patient accounts	$ 41,488	$ (33,030)	$ 8,458
Others	770	(755)	15
Total the Hospital	42,258	(33,785)	8,473
UPRPS - others	23	–	23
MCC - others	272	(11)	261
Total	42,553	(33,796)	8,757
Due from Federal Government- UPRPS (see Note 7)	318	–	318
Due from the University of Puerto Rico - The Hospital	869	–	869
Due from the University of Puerto Rico - UPRPS	367	–	367
Due from the Commonwealth of Puerto Rico - The Hospital	281	–	281
Total	$ 44,388	$ (33,796)	$ 10,592

7. Federal Government Grants and Contracts

The University

The University's due from Federal Government as of June 30, 2022 is as follows (expressed in thousands):

CARES Act grants, mainly for institutional support	$ 11,510
FEMA grants for disaster-relief	4,894
Others, mainly research activity grants and contracts	32,630
Total	$ 49,034

The University's grants and contracts from the Federal Government are mainly related to: (1) grants and contracts for research activity in the Sciences, Health Sciences, Engineering, Technology, and the Arts; (2) Federal Pell Grant program; (3) CARES Act grants; and (4) the Federal Emergency Management Agency (FEMA) grants.

Grants and contracts awarded by federal and other sponsors, which are generally considered non-exchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreement are met.

7. Federal Government Grants and Contracts (continued)

The University (continued)

Substantially all federal grants and contracts are subject to financial and compliance audits by the grantor agencies of the federal government. Such federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed cost is detected as a result of such compliance audits, the University may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources. Disallowances, if any, as a result of these audits may become liabilities of the University. The University management believes that no material disallowances will result from audits by the grantor agencies (see Note 15).

The University's nonoperating revenues from federal grants for the years ended June 30, 2022 are as follows (expressed in thousands):

Federal Pell Grant program:	
Tuition costs	$ 109,045
Student financial aids	40,781
Total Federal Pell Grant program	149,826
CARES Act grants:	
Student financial aids	115,066
Institutional support	179,045
Total CARES Act grants	294,111
FEMA grants for disaster-relief	696
Total	$ 444,633

Federal Pell Grant Program

Federal Pell Grants are direct grants awarded by U.S. Department of Education through participating institutions, likes the University, to students with financial need who have not received their first bachelor's degree or who are enrolled in certain postbaccalaureate programs that lead to teacher certification or licensure. Participating institutions either credit the Federal Pell Grant funds to the student's school account, pay the student directly (usually by check) or combine these methods. Students must be paid at least once per term (semester, trimester, or quarter); schools that do not use formally defined terms must pay the student at least twice per academic year.

Grant amounts are dependent on: the student's expected family contribution (EFC); the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Financial need is determined by the U.S. Department of Education using a standard formula, established by U.S. Congress. The Pell Grant maximum annual amount was $6,495 per student in fiscal year 2022.

7. Federal Government Grants and Contracts (continued)

CARES Act Grants

The Federal Government has approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to provide economic relief from the COVID-19 pandemic.

The University used the awards for financial aid grants to students, student support activities, and to cover a variety of institutional costs, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll.

Among the allowable uses of the awards are: to support students with exceptional needs; to help retain students by providing academic or mental health support systems for students; to reengage students by discharging student debts at their institution accrued during the pandemic so students can re-enroll, continue their education, or obtain their official transcript to continue their education, transfer to another postsecondary institution, and/or secure employment; to implement evidence-based practices to monitor and suppress coronavirus in accordance with the public health guidelines; to use the institutional portion of their awards to cover a variety of institutional costs, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll; and to use a portion of their institutional award to conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to recent unemployment of a family member or of the independent student.

The first funding was allocated to the Higher Education Emergency Relief Fund I by the CARES Act, which was signed into law by the U.S President of the United States of America on March 27, 2020. The total assigned to the University amounted to approximately $86.4 million, of which approximately $40.5 million of these funds were assigned to awards for financial aid to be granted to students, $40.5 million of these funds were assigned to awards for institutional costs, and $5.4 million were assigned for be a minority servicing institution.

In January 2021, the U.S. Department of Education announced new economic stimulus available to higher education institutions to ensure learning continues for students during the COVID-19 pandemic. This funding is allocated to the Higher Education Emergency Relief Fund II by the Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSAA"), which was signed into law by the U.S President of the United States of America on December 27, 2020. The total assigned to the University amounted to approximately $135.8 million, of which approximately $40.5 million of these funds were assigned to awards for financial aid to be granted to students and $88.0 million of these funds were assigned to awards for institutional costs, and $7.3 million were assigned for be a minority servicing institution.

7. Federal Government Grants and Contracts (continued)

CARES Act Grants (continued)

In May 2021, the U.S. Department of Education announced new economic stimulus in emergency grants provided under the American Rescue Plan ("ARP") Act of 2021 for postsecondary education to provide emergency financial aid to students and ensure learning continues during the COVID-19 national emergency. This funding was provided by the ARP's Higher Education Emergency Relief Fund III, with a new formula requiring approximately half of the funding to be used by each institution to provide direct relief to students. The total assigned to the University amounted to approximately $236.9 million, of which approximately $112.3 million of these funds were assigned to awards for financial aid to be granted to students and $112.3 million of these funds were assigned to awards for institutional costs, and $12.3 million were assigned to the University for being a minority servicing institution.

The U.S. Department of Education requires institutions to report on usage of their CARES Act funds for both student financial aid grants and for institutional support. Funds available under the above CARES Act grants amounted to approximately $54.4 million as of June 30, 2022.

In September, October and December 2021, the U.S. Treasury Department, through the Commonwealth, delivered $8,088,000 in the aggregated of federal funds to the University under the ARP for a premium pay award to eligible employees who performed essential work during the COVID-19 public health emergency. In addition, the U.S. Treasury Department, through the Commonwealth, delivered $94,000,000 of federal funds to the University under the ARP to cover expenses associated with the returning of students to the campuses across the University's system in April 2022. The fundings were provided under the Coronavirus State Fiscal Recovery Fund ("CSFRF") created by the ARP. All funds received were almost used in fiscal year 2022.

Federal Emergency Management Agency (FEMA) Grants

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. On September 20, 2017, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory.

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. On January 16, 2020, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory.

7. Federal Government Grants and Contracts (continued)

Federal Emergency Management Agency (FEMA) Grants (continued)

The emergency orders for the Hurricane Maria and the earthquake events mandate 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. The University developed a formal Disaster Recovery Program to address the damages caused by both events. The University expects to receive from FEMA, during the following fifteen years approximately $752.2 million, for conducting permanent projects approved by FEMA. This will require from the University, at first, to incur and spend the programmed costs for each project, and afterwards, request from FEMA, the corresponding federal share granted amount. The rest 0.28% of the funds, that is approximately $1.4 million corresponds to small projects (as defined), and as such, the funds are expected to be received in advance. Capital grant contributions from FEMA amounted to approximately $6,308,000 for the year ended June 30, 2022.

Discretely Presented Components Units

COVID-19 Pandemic Relief Funds

The discretely presented component units' nonoperating revenues from federal grants for the year ended June 30, 2022 are as follows (expressed in thousands):

Federal grants and others:		
The Hospital: CARES Act grants	$	2,558
UPRPS: CARES Act grants		319
MCC- SBA grant		38
Total	$	2,915

The U.S. Department of Health and Human Services ("HHS") and the U.S. Treasury Department, through the Commonwealth, delivered several funding to the Hospital in support of the national response to COVID-19 pandemic as part of the distribution relief fund provided per CARES Act. These funds are used to support healthcare-related expenses or lost revenue and reimbursement attributable to coronavirus and to ensure uninsured patients can get the testing and treatment they need without receiving further billing from their providers. These are conditional contribution, not loans, to healthcare providers, and will not need to be repaid unless the provider does not comply with the intended use of the funds.

During the year ended June 30, 2022, the Hospital received federal funds of $1,000,000 from HHS which were included as unearned revenues in the statement of net position because the Hospital did not use. In addition, during the fiscal year 2022, the Hospital received federal funds of approximately $2,000,000, from the U.S. Treasury Department as subrecipient from the Commonwealth, of which approximately $2,558,000 were incurred in eligible expenses (includes approximately $557,000 of funds received in prior year).

7. Federal Government Grants and Contracts (continued)

Discretely Presented Components Units (continued)

COVID-19 Pandemic Relief Funds (continued)

Disbursements of "Program" funds are subject to the strictest standards to ensure compliance with federal regulations and best practices. The "Program" is supervised by the Coronavirus Relief Fund Disbursement Oversight Committee in conjunction with the Puerto Rico Department of Health (DOH), the Puerto Rico Health Insurance Administration (ASES) and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA").

The unused federal funds which amounted to approximately $1,358,000 as of June 30, 2022, have been recorded as unearned revenues in the statement of net position. In addition, unearned revenues include cash advances received by the Hospital or episodes in progress in connection with patient cases in process which amounted to approximately $699,000 as of June 30, 2022. At the conclusion of each episode, the cash advances will be deducted from the final billing.

In fiscal year 2022, UPRPS was eligible for the Employee Retention Credit (ERC) under the CARES Act which amounted to approximately $318,000. The ERC works as a refundable payroll tax credit claimed quarterly, and it can provide reductions to payroll taxes or cash refunds. As of June 30, 2022, ERC receivable amounted approximately $318,000. In December 2022, UPRPS received from the United States Treasury a partial refund of approximately $94,000 corresponding to quarters ended December 31, 2020 and June 30, 2021.

In fiscal year ended June 30, 2021, MCC obtained two loans from SBA, one under the Paycheck Protection Program ($38,000) and the other one under the Economic Injury Disaster Loan Emergency ($28,000). The Paycheck Protection Program loan was forgiven by SBA in fiscal year 2022 and MCC recorded a nonoperating revenue of approximately $38,000 for such purpose. MCC is in process of obtaining the SBA forgiveness of the Economic Injury Disaster Loan Emergency loan.

Substantially all federal grants and contracts are subject to financial and compliance audits by the grantor agencies of the federal government. Such federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed cost is detected as a result of such compliance audits, the Hospital may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources. Disallowances, if any, as a result of these audits may become liabilities of the Hospital. The Hospital management believes that no material disallowances will result from audits by the grantor agencies (see Note 15).

Other Grants

The Hospital received several supplemental payments amounting to approximately $2,857,000, as part of short-term acute care (STAC) services provided by Plan VITAL beneficiaries during the year ended June 30, 2022. The supplemental payments are included as part of the Hospital's net patient revenue in the accompany statement of revenues, expenses and change in net position for the year ended June 30, 2022.

8. Related-Party Transactions

The University's related-party accounts receivable, net of allowance for doubtful accounts as of June 30, 2022 are as follows (expressed in thousands):

	Gross Balance	Allowance	Net Balance
Due from Commonwealth's:			
Agencies	$ 17,514	$ (10,992)	$ 6,522
Component Units	13,956	(10,874)	3,082
Municipalities	3,915	(3,358)	557
Due from Servicios Médicos Universitarios, Inc.	2,970	(2,587)	383
Due from the University Retirement System	195	–	195
Total	$ 38,550	$ (27,811)	$ 10,739

Due from and Appropriations from Commonwealth of Puerto Rico

Due from Commonwealth's agencies includes the accounts receivable from the Puerto Rico Department of Health ("DOH") which amounted to approximately $1,318,000 at June 30, 2022, 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. On June 25, 2021, the University entered into a settlement agreement for collections of accounts receivable outstanding from the DOH of approximately $13,268,000. On July 9, 2021, the University collected the agreed amount due by the DOH.

In addition, due from Commonwealth's agencies includes the accounts receivable from the Department of Education which amounted to approximately $2,110,000 at June 30, 2022, for contracts for professional development of public-school teachers and others.

Also, due from Commonwealth's agencies includes the accounts receivable from the Gaming Commission of the Government of Puerto Rico (the "Puerto Rico Gaming Commission"), an agency of the Commonwealth, for unremitted distributions of income to be received by the University under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. In August 2020, the Puerto Rico Gaming Commission substituted the Puerto Rico Tourism Company, a component unit of the Commonwealth, as the new administrator which establishes the public policy of the Commonwealth regarding the gaming in Puerto Rico. These accounts receivable amounted to approximately $4,178,000 as of June 30, 2022 and were collected by the University in August 2022. The Puerto Rico Gaming Commission appropriations (nonoperating revenues) for the year ended June 30, 2022 amounted to approximately $71,344,000 and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses, and changes in net position for the year ended June 30, 2022.

8. Related-Party Transactions (continued)

Due from and Appropriations from Commonwealth of Puerto Rico (continued)

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. These Commonwealth appropriations support the University's operational expenses. Commencing in fiscal year 2018, the Commonwealth fiscal plans, as certified by the Oversight Board of PROMESA, started to significantly reduce the Commonwealth appropriations for the operational expenses of the University. The Commonwealth appropriations for the operational expenses of the University amounted to approximately $407,114,000 for the year ended June 30, 2022.

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 $42,144,000 for the year ended June 30, 2022.

During fiscal year 2022, the Commonwealth has appropriated amounts for a new UPR Endowment Fund for the benefit of the students of the University as required by Act No. 4 of 2022, "Law of the Scholarship Fund to Mitigate the Increase in Tuition Costs of the Fiscal Plan". The new UPR Endowment Fund will be managed by an independent third party. The new UPR Endowment Fund's returns would be used to provide need-based scholarships to the students of the University. Funds available for granting scholarships under the new UPR Endowment Fund must be distributed among graduate and undergraduate students, at a rate of seventy-five percent (75%) in favor of undergraduate students and at a rate of twenty-five percent (25%) in favor of graduate students who attend programs that have experienced increases in tuition costs, laboratories, fees or other related expenses. A new working group among the University, the Department of Treasury of the Commonwealth, the Office of the Chief Financial Officer of the Commonwealth and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA") must be established to develop metrics, compliance requirements, and financial monitoring. Also, this working group will safeguard that the funds are allocated to students with financial needs only, monitor the asset allocation of the funds, and investments alternatives. Compliance shall be developed and overseen by FAFAA. These Commonwealth appropriations amounted to approximately $162,541,000 for the year ended June 30, 2022, of which $5,000,000 was distributed for student scholarships as permitted by the Act 4 of 2022.

All Commonwealth appropriations for the fiscal year 2022 were collected in the corresponding fiscal year.

8. 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 $3,853,000 as of June 30, 2022. 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. On June 25, 2021, the University entered into a settlement agreement for collections of accounts receivable outstanding from the PRMSA of approximately $59,029,000, less accounts payable outstanding to the PRMSA of approximately $24,278,000 for a net amount of approximately $34,751,000. The settlement agreement established the offset of the accounts payable to the PRMSA against the accounts receivable from the PRMSA at June 30, 2021. On August 2, 2021, the University collected the agreed amount due by the PRMSA of approximately $34,751,000.

Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR") which amounted to approximately $2,410,000 at June 30, 2022. These accounts receivable mainly come from unpaid charges of salaries, fringe benefits and other expenses incurred in fiscal year 2022 by certain professors of the Medical Science Campus of the University for Cancer research and investigations provided to the CCCUPR. Due from CCCUPR at June 30, 2022 has not been collected.

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. On February 22, 2022, the University entered into a settlement agreement for collections of accounts receivable outstanding from the Hospital of approximately $24,551,000, less accounts payable outstanding to the Hospital of approximately $10,754,000 for a net amount of approximately $13,797,000 as of June 30, 2020. The settlement agreement established the offset of the accounts payable to the Hospital against the accounts receivable from the Hospital on February 22, 2022. On March 3, 2022, the University collected $10,000,000 of the agreed amount due by the Hospital of approximately $13,797,000. The remaining balance due by the Hospital of approximately $3,797,000 is payable in thirty-six monthly payments of approximately $105,000.

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 $195,000 as of June 30, 2022, 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, 2022 has not been collected.

8. 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, 2022 (expressed in thousands):

Due to:		
Commonwealth and its component units:		
Puerto Rico Medical Service Administration ("PRMSA")	$	915
Commonwealth of Puerto Rico		18,304
Puerto Rico Electric Power Authority ("PREPA")		11,058
Puerto Rico Aqueduct and Sewer Authority ("PRASA")		732
Others		5,003
Servicios Médicos Universitarios, Inc.		869
University of Puerto Rico Parking System, Inc. (see Note 9)		376
University's Retirement System		7,779
Total	$	45,036

Accounts payable to PRMSA, a component unit of the Commonwealth, mainly came from contracted medical services provided by the PRMSA to the University. On June 30, 2021, the accounts payable to PRMSA were offset against the accounts receivable from the PRMSA as established by the settlement agreement between the University and the PRMSA signed on June 25, 2021.

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 Commonwealth as of June 30, 2022 come from the unpaid PayGo charges for the fiscal year 2021 billed by the Commonwealth to the University corresponding to certain retirees of a unit of the University, who are members of the Employees' Retirement System of the Commonwealth of Puerto Rico. Refer to Note 16.

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. In February 2022, the accounts payable to the Hospital were offset against the accounts receivable from the Hospital as established in the settlement agreement between the University and the SMU signed on February 22, 2022.

Due to the University's Retirement System at June 30, 2022 mainly resulted for unpaid medical insurance contributions to retirees (other post-employment benefits) of approximately \$1.2 million, and unpaid additional contributions to the pension plan of approximately \$6.6 million.

For additional related-party transactions, refer to Notes 5, 9, 11, 12, 13, 15, 16 and 17.

9. Interfund Balances and Transactions

Desarrollos Universitarios, Inc. ("DUI")

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

Finance Lease Agreement

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

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

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

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

9. Interfund Balances and Transactions (continued)

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

Finance Lease Agreement (continued)

The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2022 on this finance lease was approximately $41,996,000. The effective interest rate was 6.41% at June 30, 2022.

The activity of the principal balance of the finance lease obligation for the years ended June 30, 2022 is as follows (expressed in thousands):

Beginning Balance	$ 44,902
Additions	–
Reductions	(2,906)
Ending Balance	41,996
Less current portion	3,095
Total noncurrent portion	$ 38,901

During the year ended June 30, 2022, the University paid approximately $5,701,000, under the finance lease agreement. The trustee also established that the required amount deposited in the Debt Service Reserve Fund of $5.7 million (which amount is similar to the loan repayments and basic lease payments for fiscal year 2033) would be credited to both DUI and the University as loan repayments and basic lease payments, respectively, commencing in July 2032.

At June 30, 2022, the future minimum lease payments under the finance lease are as follows (expressed in thousands):

Year Ending June 30,	Amount
2023	$ 5,697
2024	5,701
2025	5,701
2026	5,697
2027	5,699
2028-2032	28,503
2033 (1)	–
Total future minimum lease payments	56,998
Less amounts representing interest costs	(15,002)
Present value of minimum lease payments	$ 41,996

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

9. Interfund Balances and Transactions (continued)

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

Qualified Operations and Management Agreement

On December 21, 2000, DUI executed the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities. The Operations and Management Agreement had 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 might 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 Operations and Management Agreement, including the commencement date, which was set as October 1, 2006. As explained below, the Operations and Management Agreement was terminated by the University effective October 31, 2020.

Under the terms of the Operations and Management Agreement, DUI received a monthly fixed management fee of $75,000 until January 2021, DUI also received a reimbursable expenditures fee to cover expenditures incurred in operating and maintaining Plaza Universitaria facilities, at actual cost, and was not to be used to pay expenses that should otherwise be covered by the fixed management fee. The amount to be paid was determined by an annual operating budget prepared by DUI and approved by the University. The University had also fund non-routine capital expenditures, as defined.

DUI's responsibilities under the Operations and Management Agreement also included the rental and related income derived from the student dormitory and commercial facilities, as well as the parking operation. Accordingly, DUI only acted as an agent for the University in the collection and oversight of student dormitories rental, commercial facilities rental, and related income, as well as the parking operation. DUI maintained separate cash accounts for such concepts, and periodically transferred funds from these accounts to the University. Rental and other miscellaneous income derived from the student dormitories, commercial facilities and parking operations amounted to approximately $204,000 for the year ended June 30, 2022. In addition, and as further described below, during fiscal year 2022, DUI applied $204,000, in amounts collected from student dormitories and commercial facilities and parking operations towards amounts due from the University under the Operations and Management Agreement.

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

9. Interfund Balances and Transactions (continued)

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

Qualified Operations and Management Agreement (continued)

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

Effective October 2018, DUI commenced using dormitories and commercial facilities and parking rent collections, otherwise payable to the University, as offsets and reductions to the fixed and reimbursable expenditures fees due from the University. On April 30, 2019, DUI filed a civil action requesting declaratory judgements regarding: (a) the expiration date of the Operations and Management Agreement and the fact that it remains in force; (b) the fact that the University has defaulted under the terms of said agreement and concurrently other ancillary agreements; (c) the amounts owed by the University under said agreement; and (d) the obligation of the University to fully fund the Working Capital account. Amounts claimed by DUI to the University for reimbursable expenditures fees, as defined in the Operations and Management Agreement, amounted to approximately $3,094,000 as of June 30, 2022.

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

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

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

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

9. Interfund Balances and Transactions (continued)

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

Qualified Operations and Management Agreement (continued)

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

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

DUI's due from the University of Puerto Rico amounted to approximately $4,370,000 as of June 30, 2022, and mainly includes reimbursable expenditure fees receivable and tenant improvement receivable under the operations and management agreement. In addition, during the year ended June 30, 2022, the University incurred in reimbursable expenditures of approximately $104,000 under the operations and management agreement.

On January 22, 2021, the University entered into a Memorandum of Understanding ("MOU"), as extended, with the University of Puerto Rico Parking System, Inc. ("UPRPS"), a discretely presented component unit of the University, in which the University appointed UPRPS, as the administrative agent, responsible for the maintenance, repairs and operation of Plaza Universitaria facilities. For the year ended June 30, 2022, the University paid approximately $180,000 ($15 thousand monthly) as a fee for acquiring, screening, and renting the premises and managing the property, and the University reimbursed all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses, of approximately $1,975,000. Amounts due by the University to UPRPS for reimbursable expenditures fees and management fees, as defined in the MOU agreement, amounted to approximately $376,000 as of June 30, 2022.

UPRPS's responsibilities under the MOU agreement also included the rental and related income derived from the student dormitory and commercial facilities, as well as the parking operation. Accordingly, UPRPS only acted as an agent for the University in the collection and oversight of student dormitories rental, commercial facilities rental, and related income, as well as the parking operation. UPRPS maintained separate cash accounts for such concepts, and periodically transferred funds from these accounts to the University. Rental and other miscellaneous income derived from the student dormitories, commercial facilities and parking operations amounted to approximately $1,060,000 for the year ended June 30, 2022. Amounts due by UPRPS for unremitted rental and other miscellaneous income derived from the student dormitories, commercial facilities and parking operations, as defined in the MOU agreement, amounted to approximately $489,000 as of June 30, 2022.

9. Interfund Balances and Transactions (continued)

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

Qualified Operations and Management Agreement (continued)

On June 28, 2022, the MOU agreement with UPRPS was extended until December 31, 2022. The University paid $15 thousand monthly as a fee for acquiring, screening, and renting the premises and managing the property, up to $90 thousand, and the University reimbursed all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses, up to $910 thousand, for the new term of the MOU. On December 22, 2022, the MOU agreement was extended until June 30, 2023. The University will pay $15 thousand monthly as a fee for acquiring, screening, and renting the premises and managing the property, up to $90 thousand, and the University will reimburse all expenses, including but not limited to repair, security, maintenance, utilities, and any other expenses, up to $910 thousand, for the new term of the MOU agreement.

Molecular Sciences Research Center, Inc. ("MSRC")

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

Memorandum of Understanding Agreement

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

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

In 2022, 2021 and 2020, the MSRC received $2.0 million annually from the University of which it recorded a noncurrent liability, due to the University, of $4,500,000 (75% of the advances) as of June 30, 2022, and a nonoperating revenue, contributions from the University, of $500,000 (25% of the 2022 advance) in the fiscal year ended June 30, 2022; meanwhile, the University recorded a noncurrent asset, due from MSRC, of $4,500,000 as of June 30, 2022, and a nonoperating expense, contributions to MSRC, of $500,000 in the fiscal year ended June 30, 2022.

9. Interfund Balances and Transactions (continued)

Molecular Sciences Research Center, Inc. ("MSRC") (continued)

Memorandum of Understanding Agreement **(continued)**

In addition, MSRC recorded a due to the University of Puerto Rico of approximately $184,000 at June 30, 2022, for the reimbursements of certain operating expenses paid by the University on behalf of MSRC such as: salaries and related payroll expenses, medical plan expenses and security expense.

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

10. Capital Assets and Right of Use Lease Assets

Capital Assets

Changes in the University and blended component units' capital assets for the year ended June 30, 2022 are as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	10,722	9,015	(2,955)	–	16,782
	60,338	9,015	(2,955)	–	66,398
Other capital assets:					
Land improvements	44,280	–	–	–	44,280
Buildings, fixed equipment, improvements and infrastructure	1,131,949	–	2,955	(283)	1,134,621
Equipment, software and library materials	343,741	19,942	–	(3,517)	360,166
Building and equipment under financed purchase obligations	99,489	525	–	(40)	99,974
	1,619,459	20,467	2,955	(3,840)	1,639,041
Less accumulated depreciation and amortization for:					
Land improvements	(30,750)	(747)	–	–	(31,497)
Buildings, fixed equipment, improvements and infrastructure	(551,641)	(27,176)	–	283	(578,534)
Equipment, software and library materials	(293,131)	(10,479)	–	3,108	(300,502)
Building and equipment under financed purchase obligations	(41,585)	(2,803)	–	(192)	(44,580)
	(917,107)	(41,205)	–	3,199	(955,113)
Other capital assets, net of accumulated depreciation	702,352	(20,738)	2,955	(641)	683,928
Capital assets, net	$ 762,690	$ (11,723)	$ –	$ (641)	$ 750,326

As of June 30, 2022, the carrying value of the University's assets recorded under financed purchase obligations amounted to approximately $55,394,000. Amortization expense on these assets amounted to approximately $2,803,000 in fiscal year 2022.

10. Capital Assets and Right of Use Lease Assets (continued)

Component Units

Changes in the Component Units' capital assets for the year ended June 30, 2022 are as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 5,635	$ 4,395	$ (5,424)	$ –	$ 4,606
	5,635	4,395	(5,424)	–	4,606
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	7,040	15	3,740	–	10,795
Equipment, software and library materials	20,741	2,409	1,684	–	24,834
	27,781	2,424	5,424	–	35,629
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(4,080)	(637)	–	–	(4,717)
Equipment, software and library materials	(13,456)	(2,250)	–	(37)	(15,743)
	(17,536)	(2,887)	–	(37)	(20,460)
Other capital assets, net of accumulated depreciation	10,245	(463)	5,424	(37)	15,169
Capital assets, net	$ 15,880	$ 3,932	$ –	$ (37)	$ 19,775

As of June 30, 2022, the carrying value of the component units' assets recorded under financed purchase obligations amounted to approximately $93,000. Amortization expense on these assets amounted to approximately $3,000 in fiscal year 2022.

Right of Use Lease Assets

Changes in the University and blended component units' right of use lease asset for the year ended June 30, 2022 are as follows (expressed in thousands):

	Beginning Balance (1)	Additions	Deletions/ Adjustments	Ending Balance
Right of use lease assets:				
Building	$ 3,918	$ 226	$ –	$ 4,144
Equipment	2,747	1,667	–	4,414
	6,665	1,893	–	8,558
Less accumulated amortization for:				
Building	–	(1,832)	–	(1,832)
Equipment	–	(1,606)	–	(1,606)
	–	(3,438)	–	(3,438)
Right to use lease assets, net	$ 6,665	$ (1,545)	$ –	$ 5,120

(1) Beginning balance includes the changes made due to the implementation of GASB Statement No. 87, *Leases* .

11. Noncurrent Liabilities

Changes in the University's noncurrent liabilities for the year ended June 30, 2022 are as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Financed purchase obligations (see Note 12)	$ –	$ 320	$ (101)	$ –	$ 219	$ 103	$ 116
Bonds payable (see Note 13)	325,871	–	(26,760)	(1,394)	297,717	28,095	269,622
Total University's long-term debt	325,871	320	(26,861)	(1,394)	297,936	28,198	269,738
DUI's long-term debt- bonds payable (see Note 13)	53,436	–	(3,020)	8	50,424	3,175	47,249
Total long-term debt	$ 379,307	$ 320	$ (29,881)	$ (1,386)	$ 348,360	$ 31,373	$ 316,987
The University's other long-term liabilities							
Lease liability (1) (see Note 14)	$ 6,665	$ 1,891	$ (3,261)	$ –	$ 5,295	$ 2,498	$ 2,797
Deferred compensation payable (see Note 5)	91,857	–	–	(9,034)	82,823	–	$ 82,823
Claims liability (2) (see Note 15)	7,828	–	(303)	577	8,102	837	7,265
Compensated absences	138,328	–	(10,519)	3,619	131,428	25,908	105,520
Net pension liability (see Note 16)	2,722,976	–	–	(1,192,212)	1,530,764	–	1,530,764
OPEB obligation (see Note 17)	239,274	–	(11,833)	22,946	250,387	–	250,387
Total University's other long-term liabilities	$ 3,206,928	$ 1,891	$ (25,916)	$ (1,174,104)	$ 2,008,799	$ 29,243	$ 1,979,556

(1) Beginning balance includes the changes made due to the implementation of GASB Statement No. 87, *Leases*.
(2) Includes a claim liability with federal agencies of approximately $1,261,000 at June 30, 2022 and 2021. See Note 15.

Changes in the discretely presented component units' noncurrent liabilities for the year ended June 30, 2022 are as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt - notes payable and others (see Note 12)							
The Hospital	$ 10,290	$ –	$ (2,662)	$ –	$ 7,628	$ 2,644	$ 4,984
UPRPS	–	96	(6)	–	90	21	69
MCC	348	–	(56)	–	292	48	244
Total long-term debt - notes payable and others	$ 10,638	$ 96	$ (2,724)	$ –	$ 8,010	$ 2,713	$ 5,297
The Hospital's other long-term liabilities							
Claims liability (see Note 15)	$ 2,700	$ –	$ –	$ (253)	$ 2,447	$ –	$ 2,447

12. Notes Payable and Others

Financed Purchase Obligations - The University

The University has approximately $219,000 in financed purchase obligations that have maturity dates through fiscal year 2027 and has effective interest rates at 12%. These agreements are being used to provide financing for certain equipments. Capital assets balances as of June 30, 2022 that are financed, have an acquisition cost of approximately $485,000 with accumulated depreciation of approximately $290,000 and a net book value of approximately $195,000.

The table below represents debt service payments on financed purchase obligations as of June 30, 2022 (expressed in thousands).

Fiscal Year Ending June 30	Principal	Interest	Total
2023	$ 103	$ 20	$ 123
2024	58	10	68
2025	25	6	31
2026	26	3	29
2027	7	–	7
	219	$ 39	$ 258
Less: current portion	103		
Noncurrent portion	$ 116		

Notes Payable and Others – Component Units

The component units have notes payable and other long-term debt obligations amounting to approximately $8,010,000 as of June 30, 2022.

A summary of the component units' notes payable and other long-term debt obligations at June 30, 2022 follows (expressed in thousands):

	The Hospital	UPRPS	MCC	Total
Term loan payable with GDB	$ 2,316	$ –	$ –	$ 2,316
Non-interest bearing notes payable to:				
Puerto Rico Electric Power Authority	5,231	–	–	5,231
Term loans payable with commercial banks	81	–	264	345
Financed purchase obligations	–	90	–	90
Non-interest bearing notes payable to				
Small Business Administration ("SBA")	–	–	28	28
	7,628	90	292	8,010
Less: current portion	2,644	21	48	2,713
Noncurrent portion	$ 4,984	$ 69	$ 244	$ 5,297

12. Notes Payable and Others (continued)

Notes Payable and Others – Component Units (continued)

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. (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, 2022), with a floor of 6% and a ceiling of 12%. The loan is guaranteed by the University.

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

In 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, including interest. 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 necessarily limited to: payments defaults by the Hospital; the Hospital failure to observe certain covenants; the Hospital representations in loan documents prove to be incorrect; bankruptcy or insolvency of the Hospital; and provisions in the Hospital's loan documents cease to be valid and binding or the Hospital repudiates obligations. The Hospital must comply with certain operating and financial covenants, among other requirements established in the loan agreements. At June 30, 2022, the Hospital was in compliance with such covenants of a commercial bank.

University of Puerto Rico Parking System, Inc.

In April 2022, the University Parking System, Inc, (UPRPS) entered into two financed purchase obligations for the acquisition of two vehicles for a total amount of approximately $96,000. Each financed purchase obligation is collateralized with the acquired vehicle, is payable in 48 monthly payments of approximately $1,141, including interest, and a final payment of $1, matures in May 2026 and bears interest per annum equal to 7.91%.

12. Notes Payable (continued)

Notes Payable and Others – Component Units (continued)

Materials Characterization Center, Inc.

In fiscal year 2021, Materials Characterization Center, Inc. ("MCC") entered into a term loan of $305,400 with a commercial bank for the acquisition of specialized equipment to be used by MCC for the processes and research. The term loan is payable in monthly payments of approximately $3,710, including interest, with a final payment due on December 23, 2029 and bears interest per annum equal to 9.50%. The term loan is collateralized with the acquired equipment and a certificate of deposit of $15,000 with the lender, a local commercial bank. MCC must comply with certain operating and financial covenants, among other requirements established in the loan agreement. At June 30, 2022, MCC was in compliance with such covenants of a commercial bank.

In addition, due to the COVID-19 pandemic, MCC obtained two loans from SBA, one under the Paycheck Protection Program ($38,000) and the other one under the Economic Injury Disaster Loan Emergency ($28,000) in fiscal year 2021. Both SBA loans mature in fiscal year 2022. The Paycheck Protection Program was forgiven by SBA in fiscal year 2022. MCC is in process of obtaining the SBA forgiveness of the Economic Injury Disaster Loan Emergency loan.

Component Units' Debt Service Payments

The table below represents debt service payments on long-term debt of the component units as of June 30, 2022 (expressed in thousands). In the case of the Hospital, 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, 2022 will remain the same for their term.

Fiscal Year	The Hospital			UPRPS			MCC			Total		
Ending June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	$ 2,644	$ 99	$ 2,743	$ 21	$ 6	$ 27	$ 48	$ 25	$ 73	$ 2,713	$ 130	$ 2,843
2024	953	4	957	23	5	28	22	22	44	998	31	1,029
2025	600	–	600	24	3	27	24	20	44	648	23	671
2026	600	–	600	22	1	23	27	18	45	649	19	668
2027	600	–	600	–	–	–	29	15	44	629	15	644
2028-2031	2,231	–	2,231	–	–	–	142	27	169	2,373	27	2,400
	$ 7,628	$ 103	$ 7,731	$ 90	$ 15	$ 105	$ 292	$ 127	$ 419	$ 8,010	$ 245	$ 8,255

13. Bonds Payable

University's Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds" (the "UPR 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, 2022 (dollars expressed in thousands):

Series		Annual Interest Rate (%)	Due Dates as of June 30, 2022
P - Serial	$ 71,800	5.00%	2023-2026
P - Term	47,645	5.00%	2027-2030
Q - Serial	37,330	5.00%	2023-2026
Q - Term	132,415	5.00%	2027-2036
	289,190		
Plus unamortized premium	8,527		
Total	$ 297,717		

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

Blended Component Unit's Bonds

On December 21, 2000, the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority ("AFICA"), a component unit of the Commonwealth, issued, on behalf of Desarrollos Universitarios, Inc. ("DUI" and a blended component unit of the University), Educational Facilities Revenue Bonds, 2000 Series A, in the amount of $86,735,000 (the "DUI's AFICA bonds"). The DUI's AFICA 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.

13. Bonds Payable (continued)

Blended Component Unit's Bonds (continued)

The DUI's AFICA bonds payable at June 30, 2022, consist of (dollars expressed in thousands):

Description	Amount	Annual Interest Rate	Due Dates
Term Bonds	$ 50,520	5.00%	July 1, 2022-2033
Less unamortized discount	(96)		
Total	$ 50,424		

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

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

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

13. Bonds Payable (continued)

Debt Service Payments on the UPR Revenue Bonds and the DUI's AFICA Bonds

At June 30, 2022, the UPR revenue bonds and the DUI's AFICA bonds payable require payments of principal and interest as follows (expressed in thousands):

	UPR Revenue Bonds			DUI's AFICA Bonds			Total		
Fiscal Year Ending June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	$ 28,095	$ 14,459	$ 42,554	$ 3,175	$ 2,447	$ 5,622	$ 31,270	$ 16,906	$ 48,176
2024	29,505	13,055	42,560	3,330	2,284	5,614	32,835	15,339	48,174
2025	30,975	11,579	42,554	3,500	2,113	5,613	34,475	13,692	48,167
2026	20,555	10,031	30,586	3,675	1,934	5,609	24,230	11,965	36,195
2027	21,585	9,003	30,588	3,855	1,746	5,601	25,440	10,749	36,189
2028 to 2032	97,665	28,380	126,045	22,385	5,557	27,942	120,050	33,937	153,987
2033 to 2036	60,810	7,787	68,597	10,600	535	11,135	71,410	8,322	79,732
	$ 289,190	$ 94,294	$ 383,484	$ 50,520	$ 16,616	$ 67,136	$ 339,710	$ 110,910	$ 450,620

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. If 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.

13. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

The University's revenues pledged were as follows for the year ended June 30, 2022 (dollars expressed in thousands):

Pledged revenues:	
Tuition and other fees (1)	$ 162,276
Student fees	9,961
Rental and other charges received for the right of use and occupancy of the facilities in the University system	2,513
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	82
Funds paid to the University in respect to overhead allowance on federal research projects	17,750
Other income (2)	29,256
Total pledged revenues	221,838
Sinking fund reserve interest	14
Total pledged revenues plus interest	$ 221,852
Aggregate debt service:	
Principal and interest requirement	$ 42,558
Senior debt service coverage ratio	5.21
DUI's AFICA Bonds (Subordinate to the University's Bonds)	$ 5,622
Aggregate debt service	$ 48,180
Total debt service ratio	4.60

(1) Excludes revenues from tuition exclusion exemptions of approximately $24.0 million in fiscal year 2022.
(2) Includes $25.0 million of appropriations under the Gambling Law (slot machines and others).

The Trust Agreements governing the UPR revenue bonds and the DUI's AFICA bonds 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, 2022, the University was in compliance with the total debt service coverage ratio requirement.

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

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

13. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

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

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

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

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

In addition, the Trust Agreement governing the UPR revenue bonds required the University to comply with other covenants. At June 30, 2022, the University was not in compliance with the following covenants: 1) provide its audited financial statements not later than six months after the end of each fiscal year; 2) the University and the Commonwealth did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosure reports for fiscal years 2016 to 2021, and in the case of the Commonwealth, it has not filed the continuing disclosure reports for fiscal years 2017 to 2021 and its audited financial statements for fiscal years 2020 and 2021.

13. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

The Trust Agreements governing the UPR 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 UPR revenue bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

13. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

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

The Letter Agreement has been extended eighteen times and the new Compliance Period is May 31, 2023. Pursuant to the Letter Agreement and the eighteen 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. The University agreed to transfer the following monthly payments of Pledged Revenues to the Trustee during the fiscal year ended June 30, 2022 and thereafter to be applied in accordance with the Trust Agreement during the new Compliance Period:

- in consideration for extending the Compliance Period until August 31, 2021, the University transferred to the Trustee $3.535 million on or before each of March 25, 2021, April 23, 2021, May 25, 2021, June 25, 2021, and July 23, 2021 and transferred to the Trustee $36,953.70 on or before August 25, 2021;
- in consideration for extending the Compliance Period until November 30, 2021, the University transferred to the Trustee $3.6 million on or before each of September 24, 2021, October 25, 2021, and November 25, 2021;
- in consideration for extending the Compliance Period until May 31, 2022, the University transferred to the Trustee $3.6 million on or before each of December 24, 2021, January 25, 2022, February 25, 2022, March 25, 2022 and April 25, 2022, and May 25, 2022;
- in consideration for extending the Compliance Period until November 30, 2022, the University transferred to the Trustee $4.120 million on or before each of June 24, 2022, July 25, 2022, August 25, 2022, September 23, 2022 and October 25, 2022, and transferred $3.706 million on on or before April 25, 2022; and,

13. Bonds Payable (continued)

Pledged Revenues and Debt Covenants (continued)

- in consideration for extending the Compliance Period until May 31, 2023, the University transferred to the Trustee $3.580 million on or before each of December 23, 2022, January 25, 2023, February 24, 2023 and March 24, 2023, and agreed to transfer to the Trustee $3.580 million on or before April 25, 2023 and $3.580 million on or before May 25, 2023, less a credit for any amount as of May 18, 2023 in the Trustee's Bond Service Account and Reserve Account that is, in the aggregate, in excess of $74,304,500.

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

The parties agree to use commercially reasonable efforts during the Compliance Period to arrive at a permanent resolution of the disputes which have given rise to the Letter Agreement and the various Standstill Extension Agreements prior to May 31, 2023.

Discussions with respect to a consensual restructuring of the University's bonds have occurred but have not been active in the last three years. 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 bonds) 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.

13. 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 DUI's AFICA 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, 2022.

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.

13. 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). Presently, the University has paid as agreed, the monthly payments to the trustee of the DUI's AFICA Bonds and the trustee on behalf of DUI has paid as agreed, the scheduled principal and interest payments on its outstanding AFICA bonds.
Refer to Note 9 for the following:

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

In addition, the Trust Agreement governing the DUI's AFICA bonds required DUI to comply with other covenants. At June 30, 2022, the DUI was not in compliance with the following covenants: 1) provide core financial information and operating data, including its audited financial statements not later than 120 days after the end of each fiscal year; 2) the University did not file within 305 days after the end of each fiscal year, core financial information and operating data (including audited financial statements) for the prior year to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA"), and previously to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any Commonwealth state information depository ("SID") in compliance with its Continuing Disclosure requirements. In the case of the University, it has not filed the continuing disclosure reports for fiscal years 2016 to 2021, and in the case of the DUI, it has not filed its core financial information and operating data, including its audited financial statements for fiscal years 2020 and 2021.

14. Leases

A lease is defined as a contractual agreement that conveys control of the right to use another entity's nonfinancial asset, for a minimum contractual period of greater than one year, in an exchange or exchange-like transaction.

Lessee Activity

The University leases facilities, office equipment and other assets under long-tern, noncancellable lease agreements recorded in accordance with GASB Statement No. 87.

At June 30, 2022, the University had minimum principal and interest payment requirements in its lessee activity as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2023	$ 2,498	$ 389	$ 2,887
2024	1,601	212	1,813
2025	703	100	803
2026	414	34	448
2027	79	3	82
	$ 5,295	$ 738	$ 6,033

Lessor Activity

The University leases owned buildings and communication towers to others under long-tern, noncancellable lease agreements recorded in accordance with GASB Statement No. 87. During the year ended June 30, 2022, the amount recognized as lease revenue and lease interest amounted to approximately $ 1,158,000 and $339,000, respectively.

At June 30, 2022, the University had minimum principal and interest lease receivable payment requirements in its lessor activity as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2023	$ 732	$ 317	$ 1,049
2024	715	228	943
2025	606	148	754
2026	415	85	500
2027	108	52	160
2028 to 2032	200	161	361
2033 to 2037	149	78	227
2038 to 2039	38	3	41
	$ 2,963	$ 1,072	$ 4,035

Deferred inflows of resources related to leases amounted to approximately $2,860,000 as of June 30, 2022.

15. 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.

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

Changes in the claims liability amount for medical malpractice in the year ended June 30, 2022 were (expressed in thousands):

Claims payable - July 1	$	6,275
Incurred claims and changes in estimates		508
Payments for claims and adjustments expenses		(243)
Claims payable - June 30	$	6,540

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 $301,000 as of June 30, 2022, to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

Federal Assistance Programs

The University

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.

15. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

The University (continued)

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 $208 million for the year ended June 30, 2022. The University was in compliance with various program requirements for the year ended June 30, 2022.

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, 2022, management has recorded an accrual of approximately $1.3 million for this claim.

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles*, and *Audit Requirements for Federal Awards* ("Uniform Guidance") or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The University management believes the impact, beyond any amount accrued at June 30, 2022, will not be material to the University's financial statements.

15. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

The Hospital

During the year ended June 30, 2022, Servicios Médicos Universitarios, Inc. (the "Hospital") received various conditional contribution grants from the Commonwealth and from federal funded programs by the U.S. Treasury Department and the U.S. Department of Health and Human Services ("HHS"). Contributions were received for the purpose of providing financial support to the Hospital, rather than for the direct benefit of the grantor, therefore such grants were considered as nonexchange contributions. Refer to Note 7 to details of federal funds received.

The funds received from the federal funded programs were subject to financial and compliance audits in accordance with the provisions of the Uniform Guidance or to compliance audits by the above-mentioned federal agencies and the pass-through entities, as applicable. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Hospital management believes the impact will not be material to the Hospital's financial statements for the year ended June 30, 2022.

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.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which the University operates. A state of emergency remains in effect for the Commonwealth since it was declared by the Governor of Puerto Rico on March 12, 2020.

Although restrictions have been lifted for almost all businesses, the Commonwealth and the University continues to experience significant challenges due to COVID-19. The pandemic and economic disruption resulting from measures to contain it continue to impact projected revenues. The ultimate impact of the COVID-19 pandemic on the Commonwealth's economy cannot be determined at this time.

15. Commitments and Contingent Liabilities (continued)

COVID-19 Pandemic (continued)

The University has adopted proactive measures, such as the implementation of web-based technology assisted teaching and learning tools for its current and future students, to provide continuity to the current and subsequent semesters, among other measures, to mitigate its financial and operational impact. During May 2021, the University received accreditation from MSCHE for over 11,500 online courses and intends to continue expanding its academic offering in virtual learning.

However, much of the self-generated revenue the University relies on to cover operating expenditures will remain at reduced levels due to the pandemic through the remainder of December 2022. In addition, further declines are expected in enrollment and items proportionally affected by enrollment, payroll, and necessary materials, supplies, and utilities. Also, due to lower enrollment, major campus generated inflows are likely to be affected and adjustments to campus operations will have to be put in place as life on campus adapts. While the University's academic calendar has not been affected, it may change due to factors beyond Management's control.

The University has been awarded various federal funds to help respond to the pandemic and the resulting economic disruption. For amounts approved and received under the various Federal Government economic stimulus measures for the year ended June 30, 2022, refer to Note 7.

On January 30, 2023, the U.S. President Administration announced its intent to end the national emergency and public health emergency declarations on May 11, 2023, related to the COVID-19 pandemic. Millions of Americans have received free Covid tests, treatments and vaccines during the pandemic, and not all of that will continue to be free once the emergency is over. The White House wants to keep the emergency in place for several more months so hospitals, health care providers and health officials can prepare for a host of changes when it ends, officials said.

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

Construction Commitments

Construction commitments entered by the University and the Hospital amounted to approximately $23.1 million and $1.5 million, respectively, as of June 30, 2022.

15. Commitments and Contingent Liabilities (continued)

Lease Agreements

Servicios Médicos Universitarios, Inc. (the "Hospital") leases to physicians and other third parties, office facilities located in the Hospital's premises under operating rent agreements, some of which are renewed annually. Rent income for the year ended June 30, 2022 amounted to approximately $233,000. At June 30, 2022, total future minimum rental income on operating leases, is approximately $28,000 due in fiscal year ending June 30, 2023.

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 $2,316,000 at June 30, 2022, which matures on June 30, 2025. See Note 12.

Blended Component Unit

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

Refer to Note 9 for the following:

- the University's dispute with DUI regarding the Qualified Operations and Management Agreement (the "Operations and Management Agreement") with the University for the operation, maintenance, and management of Plaza Universitaria facilities is no longer in existence;
- a notification to the University dated June 22, 2020 from the Trustee of the DUI's AFICA Bonds that the University's failure to comply with the terms of the Operations and Management Agreement may constitute a default under the lease agreement, and that a default under the lease agreement could lead to an event of default the loan agreement, which causes an event of default under the trust agreement;
- the assumption by the University of all operating activities as contemplated in the Operations and Management Agreement after October 2020; and,
- the appointment of UPRPS as the administrative agent of the Plaza Universitaria facilities until June 30, 2023.

15. Commitments and Contingent Liabilities (continued)

Discretely Presented Component Unit

Since inception, Servicios Médicos Universitarios, Inc. (The Hospital), based on the opinion of its legal counsel, is considered an instrumentality of the Commonwealth. Under Law Number 98 of August 24, 1994, the responsibility of the Hospital for claim losses is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of these facts and circumstances, the Hospital's management has recorded an accrual of approximately $2,447,000 as of June 30, 2022 to cover claims and lawsuits that may be assessed against the Hospital. No provision for claims losses was recorded for the fiscal year ended June 30, 2022.

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.

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

On March 25, 2021, the Governing Board of the University approved that the University's Retirement System will be closed effectively December 31, 2021 to all non-vested participants and new employees after that date. Non-vested participants and new employees will participate in a defined contribution plan beginning January 1, 2022. On February 16, 2022, the Governing Board of the University moved the closing date to the University's Retirement System to October 31, 2022. On October 27, 2022, the Governing Board of the University rescinded previous certifications related to the establishment of its defined contribution plan and the closing of its defined benefit plan to all non-vested participants and new employees after October 31, 2022 and established the following: 1) the University's Retirement System will be closed only to all new employees effectively May 1, 2023; and 2) only new employees will participate in a defined contribution plan beginning May 1, 2023. Vested and non-vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

16. University of Puerto Rico Retirement System (continued)

Plan Description and Membership (continued)

The Retirement System is a mature retirement system with a significant retiree population. As of June 30, 2021, the latest published information, membership in the Retirement System consisted of the following:

Retirees and beneficiaries currently receiving benefits	9,324
Terminated plan participants entitled to but not yet receiving benefits	5,980
Current participating employees	8,252
Total membership	23,556

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 University of Puerto Rico Retirement Board (the "Retirement System's Board") is the administrator of the Retirement System, and its Executive Director manages the everyday affairs of the Retirement System in accordance with the faculties and provisions of Certification Number 27 (1973-74), as amended, of the Governing Board. The Retirement System has functioned pursuant to the terms and conditions of Act No. 1 and Certification Number 27 of the Governing Board. The Executive Director and the Retirement System's Board will communicate to the Governing Board of the University any decisions made related to the Retirement System.

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

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

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

16. University of Puerto Rico Retirement System (continued)

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.

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.

16. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

- After age 65 – for a participant who elected Certification 54 or Certification No. 55, if the participant elected full supplement (Certification No. 54), the annuity is the same as before age 65; otherwise, the annuity is reduced by .5% of average compensation for each year of service up to 30 years. If the participant did not elect Certification 54 or Certification No. 55, the benefit is coordinated and the annuity is reduced by .5% of average compensation in excess of Social Security wage base in effect at the retirement date for each year of service up to 30 years; if the participant had less than 30 years of service and was under age 58 at the beginning date, coordination adjustment is made before application of .5% reduction per month under age 58.
- Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.
- Minimum annuity – $250 per month.

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

- Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by 1/3% for each month the member is under age 55 at time annuity begins if the member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.
- Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount is reduced by 1/3% for each month the participant is under age 58 at time annuity begins if the member had less than 25 years of service as of July 1, 2015 and reduced from age 55 for members with 25 or more years of service as of July 1, 2015.
- After Age 65 – same as for before age 65.
- Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.
- Minimum annuity – $250 per month.

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

16. 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 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.

16. 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.

16. 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 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.

Contribution rates to the Retirement System are annually established by the Governing Board of the University in its certified fiscal plan 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.

16. University of Puerto Rico Retirement System (continued)

Funding Policy (continued)

For the year ended June 30, 2022, the average active employee contribution rate was 9.0% of annual pay, and the University's average contribution rate was 39.2% of annual payroll. The actuarially determined employer contribution rate considers payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund. The University contributed approximately 41.2% of covered-employee payroll in 2022. The University's contributions to the Retirement System amounted to approximately $161,600,000 for the year ended June 30, 2022.

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, 2022 was measured as of June 30, 2021, (the "2021 Actuarial Valuation"). The total pension liability used to calculate the net pension liability was determined by an actuarial valuation with census data as of June 30, 2021 and an experience study for the five-year period ended June 30, 2017.

The results of the actuarial valuation report are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB Statement No. 68 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in the reports due to such factors as changes in plan experience or changes in economic or demographic assumptions.

The components of the employer's net pension liability as of June 30, 2022 were as follows (dollars expressed in thousands):

Total pension liability	$ 3,303,351
Less: Plan's fiduciary net position	1,772,587
Employer's net pension liability	$ 1,530,764
Plan's fiduciary net position as a percentage of the total pension liability	53.66%

16. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

Changes in the net pension liability for the year ended June 30, 2022 are as follows (expressed in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at beginning of year	$ 4,182,208	$ 1,459,232	$ 2,722,976
Changes for the year:			
Service cost	54,863	–	54,863
Interest	187,307	–	187,307
Benefit changes	(25,509)	–	(25,509)
Difference between expected and actual experience	(60,878)	–	(60,878)
Changes in assumptions or other inputs	(814,007)	–	(814,007)
Contributions - employer	–	160,356	(160,356)
Contributions - employee	–	29,154	(29,154)
Net investment income	–	348,056	(348,056)
Benefit payments, including refunds of employee contributions	(220,633)	(220,633)	–
Administrative expenses and others	–	(3,578)	3,578
Net changes	(878,857)	313,355	(1,192,212)
Balance at end of year	$ 3,303,351	$ 1,772,587	$ 1,530,764

For the year ended June 30, 2022, the University recognized pension credit of approximately $286,221,000.

As of June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources from pension activities as follows (expressed in thousands):

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 161,600	$ –
Differences between expected and actual experience	–	57,145
Changes in assumptions or other inputs	50,194	821,083
Net difference between projected and actual earnings on plan investments	–	200,147
Total	$ 211,794	$ 1,078,375

16. University of Puerto Rico Retirement System (continued)

Net Pension Liability (continued)

Deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date which amounted to $161,600,000 as of June 30, 2022, is recognized as a reduction of the net pension liability in the year ending June 30, 2023.

Amounts reported as deferred outflows of resources and deferred inflows of resources from pension activities at June 30, 2022 will be recognized in the pension expense (credit) as follows (expressed in thousands):

Year Ending June 30:	Amount
2023	$ (402,201)
2024	(356,875)
2025	(218,960)
2026	(50,145)
Total	$ (1,028,181)

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total pension liability at June 30, 2022 was the individual entry age normal cost method. Assumptions other than mortality are based on the results of the experience study for the five-year period ended June 30, 2017. The actuarial valuations used the following actuarial method and assumptions:

Measurement Date	June 30, 2021
Valuation Date	June 30, 2021
Actuarial Accrued Liability Amortization Method	Level percentage of payroll, closed 30-year period
Remaining Amortization Period	24 years
Asset Valuation Method	5-year smoothed market
Inflation	2.40% per year
Projected Salary Increases	2.40% and wage growth rate of 0.35% per year, including inflation
Investment Rate of Return	6.75% per annum, compounded anually, net of investment expenses
Municipal Bond Index	N/A
Discount Rate	6.75% per annum, compounded annually

The mortality tables used in fiscal year 2022 (the 2021 Actuarial Valuation) were as follows:

- Pre-retirement Mortality: Pub 2010 Teachers Employees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.
- Post-retirement Healthy Mortality: Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.

16. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions (continued)

- Post-retirement Disabled Mortality: Pub 2010 Teachers Disabled Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.

- Survivor and Contingent Beneficiary Mortality: Pub 2010 Teachers Amount-Weighted Contingent Survivors Mortality Table, projected generationally using scale MP-2021.

Changes in the mortality tables and other actuarial assumptions for the June 30, 2021 actuarial valuation 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 fiscal year 2022 (the 2021 Actuarial Valuation), the discount rate increased from 4.60% to 6.75%.

Changes of Benefit Terms

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

The following changes in benefits occurred after the measurement date of June 30, 2021:

On February 16, 2022, the Governing Board of the University moved the closing date to the University's Retirement System to October 31, 2022. Non-vested participants and new employees will participate in a defined contribution plan beginning November 1, 2022. Vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

On October 27, 2022, the Governing Board of the University rescinded previous certifications related to the establishment of its defined contribution plan and the closing of its defined benefit plan to all non-vested participants and new employees after October 31, 2022 and established the following: 1) the University's Retirement System will be closed only to all new employees effectively May 1, 2023; and 2) only new employees will participate in a defined contribution plan beginning May 1, 2023. Vested and non-vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

The estimated impacts of these changes in benefits is an increase in the University's TPL of approximately $25.5 million in the fiscal years 2023 and 2024 (the 2022 and 2023 Actuarial Valuations).

16. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions (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 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad U.S. equity	32.0%	5.37%
Global ex U.S. equity	24.0%	6.22%
Domestic fixed	30.0%	1.20%
High Yield	7.5%	2.98%
Real Estate	5.0%	4.87%
Private Equity	1.5%	10.05%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability in fiscal year 2022 (the 2021 Actuarial Valuation with measurement date June 30, 2021), was 6.75%. 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 five-year average of actual contributions as of June 30, 2022. 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. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments. The discount rate at the beginning of the measurement period was 4.60%.

16. University of Puerto Rico Retirement System (continued)

Actuarial Methods and Assumptions (continued)

Discount Rate (continued)

In fiscal year 2021 (the 2020 Actuarial Valuation with measurement date June 30, 2020), the pension plan's fiduciary net position was 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 was 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.

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 five-year average of actual contributions as of June 30, 2021. 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, 2044. 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, 2044 and the applicable municipal bond index rate of 2.66%, 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, 2020, was applied to all periods of projected benefit payments after June 30, 2044. The SEIR of 4.60% that discounts the entire projected benefit stream to the same amount as a sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2020.

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

The following presents the net pension liability at June 30, 2022, calculated using the discount rate of 6.75%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate (dollars expressed in thousands):

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
$ 1,873,083	$ 1,530,764	$ 1,239,243

16. 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 blended component unit of the Commonwealth. ERS is a cost sharing, multiple employers defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.

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. Thus, its benefits are no longer funded by a pension trust. On January 18, 2022, the Title III Court entered an order confirming the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees at ERS.

The University is a cost sharing employer of the ERS for the above retirees of a unit of the University. The method used by the Commonwealth to allocate the proportional share of the ERS's net pension liability and the related pension amounts is based on the proportional share of the overall projected long-term contribution effort relative to that of all the participating government employers until June 30, 2018 and based on the proportional share of each employer's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date from June 30, 2019 and thereafter. 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, 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), as adjusted, billed by the Commonwealth to the University amounted to approximately $4,412,000, $4,478,000, $4,667,000, and $4,749,000 in fiscal years 2022, 2021, 2020, and 2019, respectively. The PayGo charges for fiscal years 2019 to 2022 amounting to approximately $18,306,000 have not be paid to the Commonwealth and the corresponding unpaid balance was included in the accounts payable and accrued liabilities in the statement of net position at June 30, 2022.

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

Program Description and Membership

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

The University provides the following OPEB:

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

At June 30, 2020, the date of the most recent actuarial valuation, membership in the OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,024
Current participating employees	8,790
Total membership	15,814

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

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

Total OPEB Liability

As permitted by GASB, the University's unfunded total OPEB liability (TOL) as of June 30, 2022 of approximately $250,387,000, was measured at June 30, 2021, by actuarial valuations as of June 30, 2020 (the "OPEB 2021 Actuarial Valuation").

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

Total OPEB Liability (continued)

In fiscal year 2022, an expected TOL was determined as of June 30, 2020 using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, June 30, 2020, 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, 2021, 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, 2021 is determined after any assumption changes. The difference between this result and the TOL as of June 30, 2021, before assumption changes, is reflected as an assumption gain or loss for the year.

Changes in the total OPEB liability for the year ended June 30, 2022 are as follows (expressed in thousands):

Balance at beginning of year	$ 239,274
Changes for the year:	
Service cost	3,902
Interest	6,207
Benefit changes	–
Difference between expected and actual experience	(1,711)
Changes in assumptions or other inputs	14,548
Benefit payments	(11,833)
Net changes	11,113
Balance at end of year	$ 250,387

For the year ended June 30, 2022, the University recognized OPEB expense of approximately $14,929,000.

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

Total OPEB Liability (continued)

As of June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources from OPEB activities as follows (expressed in thousands):

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 10,685	$ –
Differences between expected and actual experience	–	3,448
Changes in assumptions or other inputs	21,470	–
Total	$ 32,155	$ 3,448

Deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date which amounted to $10,685,000 as of June 30, 2022, are recognized as a reduction of the total OPEB liability in the year ending June 30, 2023.

Amounts reported as deferred outflows of resources and deferred inflows of resources from OPEB activities at June 30, 2022 will be recognized in the OPEB expense as follows (expressed in thousands):

Year Ending June 30:	Amount
2023	$ 4,727
2024	4,530
2025	4,562
2026	2,828
2027	1,375
Total	$ 18,022

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

Actuarial Methods and Assumptions

The actuarial cost method used to measure the total OPEB liability at June 30, 2022 was the individual entry age normal cost method. The actuarial valuation used the following actuarial method and assumptions:

Measurement Date	June 30, 2021
Valuation Date	June 30, 2020
Percentage Electing to Receive:	
Medical Subsidy	85% (applied to current and future retirees)
Tuition Remission	Not applicable
Inflation	2.40%
Payroll Growth	Not applicable
Salary Increases	Not applicable
Discount Rate -Municipal Bond Index	2.18%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index

The mortality tables used in fiscal year 2022 (the OPEB 2021 Actuarial Valuations) were as follows:

- Mortality for Healthy Participants - Pub 2010 Teachers Retirees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.

- Mortality for Disabled Participants - Pub 2010 Teachers Amount-Weighted Disabled Retirees Mortality Table, projected generationally using scale MP-2021.

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

Changes of Actuarial Assumptions

In fiscal year 2022 (the OPEB 2021 Actuarial Valuation), the discount rate decreased from 2.66% to 2.18%.

Changes of Benefit Terms

In fiscal year 2022 (the OPEB 2021 Actuarial Valuations), there were no change in the benefit terms that affected the measurement of the total OPEB liability since the prior measurement date.

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

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

The following presents the total OPEB liability at June 30, 2022, calculated using the discount rate of 2.18%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate (dollars expressed in thousands):

1% Decrease (1.18%)	Current Discount Rate (2.18%)	1% Increase (3.18)
$ 285,424	$ 250,387	$ 221,495

18. Functional Information

The University's operating expenses by functional classification during the year ended June 30, 2022 were as follows (expressed in thousands):

Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and Other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 272,024	$ 3,833	$ 11,037	$ 153	$ –	$ 850	$ 287,897
Research	46,514	13,182	24,378	788	–	10,372	95,234
Public service	40,476	1,187	13,193	509	–	413	55,778
Academic support	56,264	2,810	27,016	337	–	972	87,399
Student services	25,705	362	5,354	86	–	14	31,521
Institutional support	94,822	180	28,151	2,758	–	2,139	128,050
Operations and maintenance	43,191	30	36,721	40,608	–	167	120,717
Student aid	3,905	210,537	2,540	–	–	205	217,187
Independent operations	74	5	20	–	–	–	99
Patient service	57,211	12	1,288	127	–	916	59,554
Auxiliary enterprises	77	14	537	1	–	–	629
Depreciation and amortization	–	–	–	–	44,644	–	44,644
Others (1)	(271,191)	–	–	–	–	–	(271,191)
	$ 369,072	$ 232,152	$ 150,235	$ 45,367	$ 44,644	$ 16,048	$ 857,518

(1) Other functional expenses mainly include the pension credit of approximately $286,221,000 and the OPEB expense of approximately $14,929,000 recorded in accordance with GASB Statement No. 68 and GASB Statement No. 75, respectively.

19. University Only Financial Statements

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

Statement of Net Position (Deficit) as of June 30, 2022 (In thousands)	
Assets	
Current assets:	
Cash and cash equivalents	$ 193,258
Restricted cash and cash equivalents	40,080
Short-term investments at fair value	70,656
Restricted investments at fair value:	
Deposited with trustee and others	43,594
Accounts receivable, net	13,023
Internal balance- due from MSRC (see Note 9)	184
Due from Federal Government	49,034
Due from related parties, net	10,739
Lease receivable	732
Inventories	1,537
Other assets	1,265
Total current assets	424,102
Noncurrent assets:	
Restricted cash and cash equivalents	164,699
Restricted investments at fair value:	
Endowment funds	119,142
Healthcare Deferred Compensation Plan	82,823
Other long-term investments at fair value	1,370
Lease receivable	2,231
Notes receivable, net	8,085
Internal balance- due from MSRC (see Note 9)	4,500
Right-of-use lease assets, net	5,120
Capital assets (net of accumulated depreciation and amortization):	
Land and other nondepreciable assets	66,398
Depreciable assets	683,666
Other assets	280
Total noncurrent assets	1,138,314
Total assets	1,562,416
Deferred outflows of resources:	
Deferred outflows from pension activities	211,794
Deferred outflows from OPEB activities	32,155
Deferred refunding loss	749
Total deferred outflows of resources	244,698
Total assets and deferred outflows of resources	1,807,114
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	95,215
Unearned revenue-cash advances from governmental grants	35,227
Internal balance- due to DUI (see Note 9)	4,370
Current portion of long-term debt:	
Notes payable and others	103
Bonds payable	28,095
Internal balance - obligation under capital lease, current portion (see Note 9)	3,095
Other current liabilities:	
Lease liability	2,498
Claims liability	837
Compensated absences	25,908
Total current liabilities	195,348
Noncurrent liabilities:	
Long-term debt, net of current portion:	
Notes payable and others	116
Bonds payable	269,622
Internal balance - obligation under capital lease, net of current portion (see Note 9)	38,901
Other long-term liabilities:	
Lease liability	2,797
Deferred compensation plan	82,823
Claims liability	7,265
Compensated absences	105,520
Net pension liability	1,530,764
Other postemployment benefit (OPEB) liability	250,387
Total noncurrent liabilities	2,288,195
Total liabilities	2,483,543
Deferred inflows of resources:	
Deferred inflows from pension activities	1,078,375
Deferred inflows from OPEB activities	3,448
Deferred inflows related to leases	2,861
Total deferred inflows of resources	1,084,684
Total liabilities and deferred inflows of resources	3,568,227
Net position (deficit):	
Net investment in capital assets	424,001
Restricted, nonexpendable:	
Scholarships and fellowships	191,494
Research	43,677
Other	48,048
Restricted, expendable:	
Loans	14,182
Capital projects	3,031
Debt service	38,294
Unrestricted (deficit)	(2,523,840)
Total net position (deficit)	$ (1,761,113)

19. University Only Financial Statements (continued)

Statement of Revenues, Expenses and Changes in Net Position (Deficit) for the Year Ended June 30, 2022 (In thousands)

Revenues	
Operating revenues:	
Tuitions and fees (net of scholarship allowances and others of $138,850)	$ 78,400
Net patient services revenue and other (net of provision to allowances of $3,061)	81,487
Federal grants and contracts	112,889
Commonwealth grants and contracts (net of provision for allowances of $1,728)	47,451
Nongovernmental grants and contracts (net of credit to allowances of $1,102)	10,793
Sales and services of educational departments	8,644
Auxiliary enterprises, net	913
Other operating revenues	10,904
Total operating revenues	351,481
Operating expenses:	
Salaries:	
Faculty	335,347
Exempt staff	185,624
Nonexempt wages	1,268
Benefits:	
Pension credit	(281,809)
OPEB expense	14,929
Other benefits	113,234
Scholarships and fellowships	232,152
Supplies and other services	149,164
Utilities	44,585
Depreciation and amortization	44,608
Other expenses	15,990
Total operating expenses	855,092
Operating loss	(503,611)
Nonoperating revenues (expenses):	
Commonwealth and other appropriations	520,602
Federal grants:	
Federal Pell Grant program	149,826
CARES Act	294,111
Federal Emergency Management Agency (FEMA)	696
Gifts	6,698
Net investment loss	(9,285)
Interest on capital assets - related debt	(17,898)
Contributions to a component unit (see Note 9)	(500)
Net other nonoperating revenues	1,812
Net nonoperating revenues	946,062
Income before other revenues	442,451
Other revenues:	
Capital grant contributions	6,308
Additions to term and permanent endowments	162,652
Total other revenues	168,960
Change in net position	611,411
Net position (deficit):	
Beginning net position (deficit)	(2,372,524)
End of year	$ (1,761,113)

19. University Only Financial Statements (continued)

Statement of Cash Flows for the Year Ended June 30, 2021 and 2020 (In thousands)

Cash flows from operating activities	
Tuition and fees	$ 78,343
Grants and contracts	195,415
Patient services	84,556
Payments to employees	(522,567)
Payments for benefits	(298,417)
Payments for scholarships and fellowships	(231,154)
Payments to suppliers	(154,709)
Payments for utilities	(39,387)
Collections of loans, net of loans issued to students	813
Auxiliary enterprises	869
Sales and services educational department and others	33,966
Net cash used in operating activities	(852,272)
Cash flows from noncapital financing activities	
Commonwealth and other appropriations	532,541
Federal grants:	
Federal Pell Grant program	148,829
CARES Act	376,217
FEMA	9,884
Endowment gifts	162,652
Federal direct student loan program receipts	50,457
Federal direct student loan program disbursements	(50,457)
Gifts and grants for other than capital purposes	6,698
Other non-operating receipts, net	1,812
Net cash provided by noncapital financing activities	1,238,633
Cash flows from capital and related financing activities	
Purchases of capital assets	(28,898)
Federal Government capital contributions	1,413
Principal paid on capital debt and financed purchases	(29,767)
Interest paid on capital debt and financed purchases	(18,621)
Principal and interest paid on leases	(3,810)
Principal and interest received on leases	1,405
Decrease in deposit with trustees and others	2,651
Net cash used in capital and related financing activities	(75,627)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	53,157
Purchases of investments	(111,920)
Collections of interest and dividend income on investments	2,667
Collections of advances to the University of Puerto Rico Retirement System	224
Contributions paid to a component unit (MSRC) (see Note 9)	(500)
Loan granted to a component unit (MSRC) (see Note 9)	(1,500)
Net cash provided by investing activities	(57,872)
Net change in cash and cash equivalents	252,862
Cash and cash equivalents:	
Beginning of year	145,175
End of year	$ 398,037

19. University Only Financial Statements (continued)

Statement of Cash Flows for the Year Ended June 30, 2022 (In thousands)

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (503,611)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	44,608
Provision for allowances for doubtful accounts	15,443
Changes in operating assets and liabilities and deferred outflows and inflows of resources:	
Decrease (increase) in:	
Grants and contracts receivables	35,790
Prepaid expenses, inventories and other	1,690
Deferred outflows of resources from pension activities	78,920
Deferred outflows of resources from OPEB activities	(7,346)
Increase (decrease) in:	
Accounts payable and accrued liabilities	18,028
Unearned revenue	(12,155)
Accrued salaries, wages, benefits and other liabilities	(8,132)
Net pension liability	(1,192,212)
OPEB liability	11,114
Deferred inflows of resources from pension activities	665,115
Deferred inflows of resources from OPEB activities	476
Net cash used in operating activities	$ (852,272)
Supplemental schedule of noncash investing, capital and financing activities	
Decrease in fair value of investments	$ 12,351
Amortization of:	
Bonds premiums	$ 1,394
Deferred refunding loss	$ 203
Equipments acquired through financed purchase obligations	$ 320

20. Subsequent Events

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island and flooding many streets and roads. The Governor of Puerto Rico submitted to the Government of the United Sates a request of a declaration of major disaster and the activation of funds from the Public Assistance program of FEMA. Claim to the insurance carrier for preliminary windstorm damages to the University's premises amounted to approximately $20.5 million. Deductible amounts for windstorm are 2% of the total insured value per location affected subject to a minimum of $200,000 per occurrence and a maximum of $3,500,000 per occurrence. Presently, the adjusted claim amount does not exceed the maximum deductible amount of $3,500,000.

On October 27, 2022, the Governing Board of the University rescinded previous certifications related to the establishment of its defined contribution plan and the closing of its defined benefit plan to all non-vested participants and new employees after October 31, 2022 and established the following: 1) the University's Retirement System will be closed only to all new employees effectively May 1, 2023; and 2) only new employees will participate in a defined contribution plan beginning May 1, 2023. Vested and non-vested employees and retirees of the University's Retirement System are not impacted with this prospective change.

On March 23, 2023, the University requested to the Oversight Board of PROMESA the use of approximately $14.4 million in unrestricted funds for the payment of a one-time incentive of $2,750 to 4,851 non-faculty union employees during fiscal year 2023. On March 24, 2023, the Oversight of PROMESA approved the use of approximately $14.4 million for the above-mentioned purpose to be paid from the unrestricted prior year surplus that originated in fiscal year 2022.

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

- Notes 2 and 13 for the extensions of the compliance period until May 31, 2023 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.
- Note 9 for the University's appointment of UPRPS as administrative agent of Plaza Universitaria facilities until June 30, 2023.
- Note 15, for the U.S. President Administration announcement on January 30, 2023 of its intention to end the national emergency and public health emergency declarations on May 11, 2023, related to the COVID-19 pandemic.

Required Supplementary Information

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

	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability:								
Service cost	$ 54,863	$ 74,909	$ 72,823	$ 74,827	$ 52,000	$ 46,571	$ 48,107	$ 49,499
Interest	187,307	164,223	164,920	167,015	191,144	194,184	177,334	173,630
Changes in benefit terms	(25,509)	–	–	–	–	(14,671)	(45,209)	–
Differences between expected and actual experience	(60,878)	(24,716)	(11,902)	(2,678)	(24,376)	(4,733)	(323,974)	–
Changes in assumptions	(814,007)	(536,078)	271,633	31,859	989,905	160,911	32,269	(24,034)
Benefit payments, including refunds of member contributions	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Net change in total pension liability	(878,857)	(539,952)	289,651	72,776	1,020,362	199,648	(288,345)	29,932
Total pension liability, beginning	4,182,208	4,722,160	4,432,509	4,359,733	3,339,371	3,139,723	3,428,068	3,398,136
Total pension liability, ending (a)	$ 3,303,351	$ 4,182,208	$ 4,722,160	$ 4,432,509	$ 4,359,733	$ 3,339,371	$ 3,139,723	$ 3,428,068
Fiduciary Net Position:								
Contributions - employer	$ 160,356	$ 161,411	$ 75,263	$ 73,360	$ 79,491	$ 78,004	$ 88,251	$ 91,689
Contributions - member	29,154	34,252	32,849	35,864	39,042	38,640	35,594	37,900
Net investment income	348,056	81,796	98,788	110,357	132,950	59,009	76,684	206,595
Benefit payments	(220,633)	(218,290)	(207,823)	(198,247)	(188,311)	(182,614)	(176,872)	(169,163)
Administrative expenses and others	(3,578)	(3,639)	(3,751)	(4,458)	(4,340)	(3,367)	(4,689)	(4,566)
Net change in plan net position	313,355	55,530	(4,674)	16,876	58,832	(10,328)	18,968	162,455
Fiduciary net position, beginning	1,459,232	1,403,702	1,408,376	1,391,500	1,332,668	1,342,996	1,324,028	1,161,573
Fiduciary net position, ending (b)	$ 1,772,587	$ 1,459,232	$ 1,403,702	$ 1,408,376	$ 1,391,500	$ 1,332,668	$ 1,342,996	$ 1,324,028
Employer's Net Pension Liability - Ending (a) - (b)	$ 1,530,764	$ 2,722,976	$ 3,318,458	$ 3,024,133	$ 2,968,233	$ 2,006,703	$ 1,796,727	$ 2,104,040
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.66%	34.89%	29.73%	31.77%	31.92%	39.91%	42.77%	38.62%
Covered-Employee Payroll	$ 406,676	$ 428,086	$ 453,802	$ 478,529	$ 488,775	$ 515,994	$ 516,226	$ 515,856
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	376.41%	636.08%	731.26%	631.96%	607.28%	388.90%	348.05%	407.87%

Note: The University's net pension liability at year end was measured at beginning of year (measurement date) and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with end-of year census data for fiscal year 2022 and with beginning-of-year census data that were rolled forward to the measurement dates, and assuming no liability gains and losses for fiscal years 2015 to 2021.

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

Fiscal Year Ended June 30	Actuarial Determined Contribution (ADC) (1)	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (2)
2021	$ 163,240	$ 160,356	$ 2,884	$ 406,676	39.43%
2020	138,914	161,411	(22,497)	428,086	37.71%
2019	127,609	75,263	52,346	453,802	16.58%
2018	96,089	73,360	22,729	478,529	15.33%
2017	85,829	79,491	6,338	488,775	16.26%
2016	86,635	78,004	8,631	515,994	15.12%
2015	89,255	88,251	1,004	516,226	17.10%
2014	78,204	91,689	(13,485)	515,856	17.77%
2013	77,772	88,481	(10,709)	491,291	18.01%
2012	72,186	75,140	(2,954)	491,063	15.30%

(1) The actuarially determined contribution for fiscal years 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014 were determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2020, 2019, 2018, 2017, 2016, 2015 and 2014, respectively, and assumed no gains or losses. Fiscal years 2013 and 2012 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, 2021, Required Contribution was established in the June 30, 2020 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 considers 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.

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 and thereafter 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.

	2021	2020	2019	2018	2017
Valuation date	June 30, 2020 (Lag)	June 30, 2019 (Lag)	June 30, 2018 (Lag)	June 30, 2017 (Lag)	June 30, 2016 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Actuarial accrued liablity amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	24 years- constant (open basis)	25 years- constant (open basis)	26 years- constant (open basis)	27 years- constant (open basis)	28 years- constant (open basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	2.5% per year	2.5% per year	2.5% per year	3.0% per year	3.0% per year
Projected salary increases	2.75% per year, including inflation	2.75% per year, including inflation	2.75% per year, including inflation	3.75% per year, including inflation	3.75% per year, including inflation
Investment rate of return	6.75% per annum, compounded annually, net of investment expenses and including inflation	6.75% per annum, compounded annually, net of investment expenses and including inflation	6.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation	7.75% per annum, compounded annually, net of investment expenses and including inflation
Mortality:					
Pre-retirement Mortality	Pub 2010 Teachers Employees Amount-Weighted Mortality Table, projected generationally using scale MP-2021.	Pub 2010 Teachers Employees Amount-Weighted Mortality Table, projected generationally using scale MP-2020.	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2014 White Collar Headcount-weighted Mortality Table with rates adjusted by 103.8% for males and by 98.2% for females, projected generationally using scale MP-2017.	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females

	2016	2015	2014	2013	2012
Valuation date	June 30, 2015 (Lag)	June 30, 2014 (Lag)	June 30, 2013 (Lag)	June 30, 2013 (Lag)	June 30, 2012 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Actuarial accrued liablity amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	29 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	3.00% per year	3.00% per year	3.50% per year	3.50% per year	3.50% per year
Projected salary increases	3.75% per year, including inflation	3.75% 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	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	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 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	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

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

	2022	2021	2020	2019	2018
Total OPEB Liability:					
Service cost	$ 3,902	$ 3,928	$ 3,805	$ 3,945	$ 4,560
Interest	6,207	6,415	6,596	7,064	6,091
Changes in benefit terms	–	–	–	(3,097)	–
Differences between expected and actual experience	(1,711)	–	(2,382)	(2,978)	–
Changes in assumptions	14,548	4,365	11,405	2,680	1,775
Benefit payments	(11,833)	(10,704)	(10,998)	(12,885)	(10,119)
Net change in total OPEB liability	11,113	4,004	8,426	(5,271)	2,307
Total OPEB liability, beginning	239,274	235,270	226,844	232,115	229,808
Total OPEB liability, ending	$ 250,387	$ 239,274	$ 235,270	$ 226,844	$ 232,115
Covered-Employee Payroll	$ 324,970	$ 406,676	$ 428,086	$ 453,802	$ 478,529
Total OPEB Liability as a Percentage of Covered-Employee Payroll	77.05%	58.84%	54.96%	49.99%	48.51%

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

Note to schedule:

Total OPEB Liability

The University's total OPEB liability (TOL) as of June 30, 2022 and 2021 were measured at June 30, 2021 and 2020, respectively, by an actuarial valuation as of June 30, 2020 and 2019, respectively. The University's TOL as of June 30, 2020, 2019 and 2018 was measured at June 30, 2019, 2018 and 2017, respectively, by actuarial valuations as of those dates.

In fiscal years 2022, 2021, 2020 and 2019, the expected TOL was determined at valuation date (as of June 30, 2020, June 30, 2019, June 30, 2019, and June 30, 2018, respectively), using standard roll forward techniques. The roll forward calculation begins with the actual TOL as of the prior measurement date, adds the annual normal cost (also called the service cost) and interest at the discount rate for the previous year, and subtracts expected benefit payments for the year. The difference between this result and the actual TOL at valuation date, before reflecting any assumption changes, is reflected as an experience gain or loss for the year. In addition, the actual TOL at valuation date is determined after any changes in benefit terms. The difference between this result and the TOL at valuation date, before benefit changes, is reflected as change in benefit terms gain or loss for the year. Finally, the actual TOL at valuation date is determined after any assumption changes. The difference between this result and the TOL at valuation date, before assumption changes, is reflected as an assumption change gain or loss for the year.

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

Plan Assets

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

Changes of Actuarial Assumptions

In fiscal year 2022, the discount rate decreased from 2.66% to 2.18%.

In fiscal year 2021 (the OPEB 2020 Actuarial Valuation), the mortality projection scale used to project generationally the rates of mortality was changed from MP-2020 to MP-2021. In addition, the discount rate decreased from 2.79% to 2.66%.

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

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

In fiscal year 2018 (the OPEB 2017 Actuarial Valuation), the rates of separation from active service and the rates of post-retirement mortality have been changed based on an experience study performed for the five-year period ending June 30, 2017; and the discount rate has increased from 2.71% to 3.13%.

Changes in Benefit Terms

In fiscal years 2022, 2021, 2020 and 2018 (the OPEB 2021, 2020, 2019 and 2017 Actuarial Valuations, respectively), there were no change in the benefit terms that affected the measurement of the total OPEB liability since the prior measurement date.

In fiscal year 2019 (the OPEB 2018 Actuarial Valuation), the tuition remission provision was eliminated.

Other Financial Information

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Changes in the University's Sinking Fund Reserve
Year Ended June 30, 2022
(In thousands) (Unaudited)

	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from unrestricted current funds	$ 40,092	$ –	$ 40,092
Interest earned on investments	11	3	14
Total additions	40,103	3	40,106
Deductions:			
Payments of bond interest	15,797	–	15,797
Payments of bond principal	26,760	–	26,760
Legal fees and related expenses	–	192	192
Total deductions	42,557	192	42,749
Net decrease for the year	(2,454)	(189)	(2,643)
Balances at beginning of year	36,681	9,411	46,092
Balance at end of year	$ 34,227	$ 9,222	$ 43,449

Note: The University's Sinking Fund assets as of June 30, 2022 mainly consisted of investments in money market funds.

Report on Internal Control and on Compliance

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
University of Puerto Rico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 27, 2023.

Our report includes a reference to other auditors who audited financial statements of Molecular Sciences Research Center, Inc., Servicios Médicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc., and Materials Characterization Center, Inc., (the "Component Units") as described in our report on the University's financial statements. The financial statements of the Component Units were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Component Units or that are reported separately by those auditors who audited the financial statements of the Component Units.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether- the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

March 27, 2023

Stamp No. E512404 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Finding Number: 2022-001 - Financial Statement Close Process

Criteria

A fundamental element of a sound system of internal controls is an effective financial statement close process. Such a process is essential in enabling organizations to prepare timely and accurate financial statements. This process helps ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the University's general ledger and culminates in the preparation of the University's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Condition

During our audit, we noted deficiencies in the University's financial statement close process, including the following:

- Multiple post-closing entries were not initially completed by the University during its closing process. These post-closing entries were necessary to properly record revenue and expense activity, accounts receivable activity, cash activity, prepaid expenses activity and certain liabilities. These entries, when aggregate, were considered material to the financial statements.

- The compilation of financial data and reconciliation processes for several areas are not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.

- The preliminary pension plan actuarial report incorrectly considered changes to benefits that were approved subsequent to the plan measurement date. The corrected actuarial report was issued on March 7, 2023.

Cause

The existing internal controls are not sufficient for an effective timely financial statement close process.

Effect

The post-closing entries recorded by the University resulted in a delayed financial statement close process, thus affecting the audit process and the timing of issuance of the audited financial statements.

Finding Number: 2021-001 - Financial Statement Close Process (continued)

Recommendations

Management should continue to improve the annual closing process, including more effective monitoring controls over financial information. All general ledger accounts should be supported by reconciliations, roll-forward schedules and other appropriate documentation which are timely reviewed at two levels and evidenced by supervisory approval. Journal entries should be completed, and consequently, timely reviewed for the processing of financial statements at year end.

All accounting judgments and estimates should also be properly supported and reviewed. In reviewing and developing the closing process, the University should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. Additionally, there is a need for key accounting personnel to develop and review the draft financial statements for correctness of accounting, presentation and disclosure prior to its presentation to the auditors. This may include holding internal training programs for the preparers and first level reviewers related to the financial statement close process.

The University should perform an evaluation of its finance structure. Such evaluation should include a review of responsibilities, financial reporting, and accounting controls. The University should also enforce a standardized financial statement close process for all campuses.

An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be reinforced.

Management's Response

Although the University has achieved its ultimate annual financial reporting objective and in doing so is current with its submission of audited financial statements within the required due date for the last five (5) consecutive years, the UPR concurs its financial closing process needs to continue to implement best practices to meet its ultimate goal an overall leaner process.

To this end, Management is continuously taking further proactive actions to minimize the amount of post-closing entries and, in doing so, during the last two years it has been able to minimize said entries by an average of 33% when compared to prior years and no recorded audit adjustments have been identified. As part of the initiatives executed, the University has employed the following specific actions:

Finding Number: 2021-001 - Financial Statement Close Process (continued)

Management's Response (continued)

- The UPR has already established a recurring process to collect and streamline financial data aimed at producing monthly financial reporting that assists management to identify variances and request action over them. Although we continue to improve this process, this itself has aided management in identifying unaccounted items earlier in the process as well as other accounting matters which require accounting recognition. For FY22 this resulted in approximately 31% less post-closing entries than during the preceding year.

- Timeline for key milestones for appropriate and on-time recognition of account receivables, revenues, expenses, liabilities, and other key accounting.

- Deployment of financial consultants as an aid to management for the analyses, and processing of financial and qualitative information necessary for accounting and preaudit procedures.

- Hold regular status meetings with the Finance Office Directors of all the campuses to monitor progress, roadblocks, and find alternative courses of action.

- Development of monthly and quarterly Budget-to-Actual analyses aimed to identify significant fluctuations, the need for accounting recognition of economic activities in an accrual basis and assist management decisions on a day-to-day basis.

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