Universidad de Puerto Rico

Informe Anual 2002-2003

UNIVERSIDAD DE PUERTO RICO

Universidad de Puerto Rico

Este informe presenta a los foros a quien compete su evaluación, a la comunidad universitaria y a la comunidad en general, los principios, estrategias y cumplimientos en la gestión de dirección universitaria durante el año académico 2002-2003. Más de ser un informe de logros, aspira a comunicar y documentar cómo la Universidad se plantea su crecimiento y sus responsabilidades y cómo se articula dicho proyecto en la programación y administración de la institución.

Informe Anual 2002-2003

El Punto de Partida

Al inicio de su segundo siglo, la Universidad de Puerto Rico reafirma las responsabilidades que pesan sobre ella, en primer lugar, por ser el gran proyecto cultural de Puerto Rico; en segundo lugar, porque entiende la necesidad de atemperar sus ofertas a las realidades cambiantes del país y el mundo, y en tercer lugar, porque los escenarios del saber y la investigación imponen nuevas formas de práctica universitaria. En función de estas tres plataformas, los logros aquí reseñados parten del convencimiento de que la Universidad para el siglo XXI debe construirse sobre la base de las siguientes prioridades estratégicas:

1. Mayor atención a las necesidades de los estudiantes desde antes de que lo sean hasta el vínculo que aspiran tener con la institución, luego de la graduación.

2. Establecimiento de una cultura de evaluación crítica de los programas de estudio para insistir en nuestro compromiso de atemperarlos a la transformación incesante de los saberes y las necesidades cambiantes de la sociedad.

3. Mejoramiento de los respaldos que damos al sector docente para que realicen sus tareas en las mejores condiciones posible como educadores e investigadores, así como a los cuadros administrativos para generar apoyos más efectivos a los primeros.

4. Reordenamiento de las estructuras reglamentarias para permitir la prestación expedita de servicios y la consecución de los objetivos académicos.

5. Optimización de los recursos informáticos para agilizar los procesos educativos y las operaciones administrativas.

6. Inserción decidida de la Universidad de Puerto Rico en su base urbana.

7. Puesta al día de las instalaciones universitarias para pasar de la metáfora de la enfermedad a la metáfora de la excelencia en el diseño construcción, ocupación y mantenimiento de las mismas.

I. Requerimientos institucionales para desarrollar las prioridades estratégicas:

Las siguientes acciones fueron emprendidas para habilitar el cumplimiento de la agenda universitaria. Se enumeran a continuación los objetivos proyectados y los niveles de cumplimiento.

A. Nombramiento de los rectores del sistema

Objetivos:

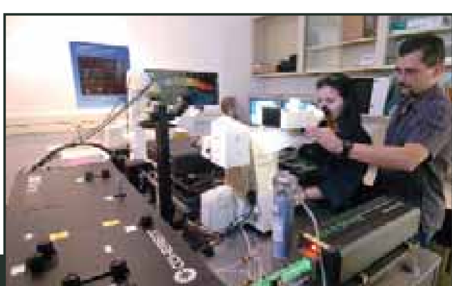
1. Establecer la estabilidad y el liderato idóneo para acometer las exigencias de una ambiciosa agenda institucional.

2. Nutrir la confianza de los universitarios en los quehaceres institucionales.

Cumplimientos:

1. Se dispuso una atención directa y constante al proceso de consulta para el nombramiento del rector(a) en cada recinto.

2. Se logró el nombramiento de los once rectores y rectoras en propiedad atendiendo las recomendaciones de los procesos de consulta respectivos.



B. Reorganización de la Oficina del Presidente

Objetivos:

1. Asegurar que la estructura responda de manera adecuada a la agenda sustantiva de la Institución.

2. Viabilizar el liderazgo en todas las actividades relacionadas con el quehacer universitario.

3. Ofrecer el mejor servicio y la mejor respuesta a las necesidades de las unidades.

4. Atender con mayor especificidad las líneas de crecimiento académico y tecnológico.

Cumplimientos:

1. Se identificaron cinco áreas de gestión directamente bajo el Presidente. Estas son: Asuntos Académicos; Investigación y Tecnología; Asuntos Fiscales y Administración; Desarrollo de Infraestructura; y Desarrollo y Exalumnos.

2. Se creó una vicepresidencia en investigación y tecnología. Se mantuvo el área de gestión de asuntos académicos con el rango de vicepresidencia.

3. Las funciones ministeriales de la Oficina del Presidente se definieron mediante la Certificación de la Junta de Síndicos Número 90 (2002-2003).

C. Restituir la integridad de la fórmula de financiación de la Universidad de Puerto Rico adaptada en 1966.

Objetivos:

1. Detener el proceso de incremento exponencial de gastos que ponían en riesgo la salud fiscal de la institución.

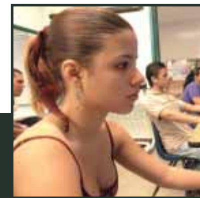
2. Asegurar la estabilidad financiera de la Universidad que anticipaba un déficit de al menos $60 millones.

3. Evitar la vulnerabilidad de las finanzas universitarias por parte de las administraciones gubernamentales que se suceden en la jefatura del gobierno.

Cumplimientos:

1. La Asamblea Legislativa derogó el Fondo de Oportunidades Educativas. La Universidad recuperó la cantidad de $40 millones; $15 de los cuales ingresaron de forma inmediata en el Fondo de Becas Estudiantiles.

2. Por orden ejecutiva de la Gobernadora decretó la Declaración de Política Pública del Gobierno del Estado Libre Asociado con el fin de terminar las imposiciones de responsabilidades nuevas a la Universidad sin el respaldo financiero.

D. Puesta en orden de las finanzas

Objetivos:

1. Eliminar las operaciones que no correspondían de manera intrínseca al objetivo educativo de la Universidad de Puerto Rico.

2. Promover la disciplina en los gastos a tono con la política de administrar con idoneidad en momentos de contracción económica.

Cumplimientos:

1. Se procedió al arrendamiento del CDT de Canóvanas al Municipio con retención de su titularidad por parte de la Universidad de Puerto Rico.

2. Se realizó la venta del CDT de Trujillo Alto al Departamento de Salud por $3.2 millones.

3. Se obtuvo una disminución de la pérdida acumulada y reducción en un 46% de los anticipos concedidos por la Universidad a Servicios Médicos Universitarios, entidad administrativa de las instalaciones de salud.

4. Se lograron economías internas acordadas entre los recintos y los oficiales de la Presidencia para cerrar el año fiscal sin déficit.

II. Agenda Universitaria 2002 – 2003

La consecución de la gestión universitaria durante el año académico 2002 – 2003 se guió por las prioridades estratégicas identificadas en la sección Punto de Partida. A continuación desglosamos objetivos proyectados y zonas de cumplimiento en cada una de las prioridades.

A. Atención a las necesidades de los estudiantes desde antes que lo sean hasta el vínculo sostenido que aspiran tener con la Institución luego de la graduación.

Objetivos:

1. Comunicar a la juventud escolar puertorriqueña la importancia de la educación postsecundaria y orientar a dichos estudiantes sobre la gama de carreras y programas que se ofrecen en el sistema universitario.

2. Reclutar los mejores estudiantes para el sistema de la Universidad de Puerto Rico.

3. Establecer mecanismos de admisión y matrícula ágiles y eficaces.

4. Lograr mayores oportunidades de acceso al mundo para los estudiantes universitarios.

5. Crear y mantener vínculos sostenidos con los exalumnos.

Cumplimientos:

1. Se desarrolló un Plan de Reclutamiento que comenzará a operar para el año académico 2004-2005 con las características de eficiencia y agilidad buscadas.

2. Se revisó el Programa de Admisión Temprana con miras a aumentar hasta un 40% el número de estudiantes admitidos bajo dicha modalidad para el año académico 2004-2005.

3. El Presidente y los Rectores visitaron 67 escuelas secundarias del país.

4. Se estableció un sistema de un servicio de admisión a través del teléfono y del Internet que permite a los estudiantes solicitar admisión en línea y acceder a una base de datos sobre servicios y programas.

5. Se creó un nuevo conjunto de documentos de admisión.

6. Se concertaron acuerdos con instituciones universitarias del exterior para fomentar las oportunidades de internacionalización para nuestros estudiantes, y para la recepción de estudiantes extranjeros en nuestros recintos.

7. Se enviaron 301 estudiantes a cursar su tercer año de estudios en universidades europeas.

8. Se establecieron oficinas de coordinación de los programas de internacionalización en cada uno de los recintos.

9. Se levantó una base de datos de doscientos veinte mil egresados, actualizando 65,000 direcciones.

10. Se realizaron comunicaciones seriadas por parte de los rectores a los exalumnos de sus recintos.

11. Hubo eventos especiales para convocar exalumnos en los Recintos de Ciencias Médicas y el Recinto Universitario de Mayagüez.

12. Se adelantó la planificación de campañas sostenidas de reclutamiento de exalumnos.

13. Se realizó con éxito la Cena de Honor del Fondo Dotal.

14. Se creó el *Bilingual Initiative for Hispanic Students,* en colaboración con ASPIRA, para reclutar estudiantes hispanos en las comunidades de Estados Unidos con miras a que estudien en la Universidad de Puerto Rico en Cayey

B. Establecimiento de una cultura de evaluación crítica de los programas de estudio.

Objetivos:

1. Atemperar los programas y currículos a la transformación incesante de los saberes y las necesidades cambiantes de la sociedad.

2. Obtener un crecimiento cualitativo y en densidad de la oferta programática de la Universidad de Puerto Rico.

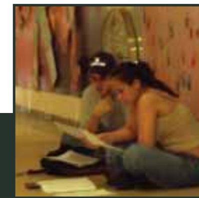
Cumplimientos:

1. Establecimiento de un sistema articulado de acreditación por parte de agencias externas bajo la Vicepresidencia de Asuntos Académicos.

2. Acreditación de la Escuela de Arquitectura por la National Architectural Accrediting Board.

3. Acreditación de la Escuela de Medicina por parte del Consejo de Educación Médica de la Asociación Médica Americana.





C. Mejoramiento de los respaldos al sector docente para realizar en las mejores condiciones posibles sus tareas como educadores e investigadores, así como a los cuadros administrativos para generar apoyos más efectivos a los primeros.

Objetivos:

1. Identificar áreas incipientes y dinámicas de investigación en la frontera del conocimiento susceptibles de conformar una agenda de investigación competitiva para la Universidad de Puerto Rico.

2. Fortalecer la infraestructura física y tecnológica en el sistema para sostener la investigación de punta.

3. Aumentar el número de investigadores entre el personal docente.

4. Elevar a un mayor número de docentes a los coeficientes de producción más competitivos de acuerdo a estándares internacionales.

5. Formar centros multicampus y multidisciplinarios de investigación.

Cumplimientos:

1. Se invirtió un total que supera los $124 millones para la investigación.

2. Se dispusieron $36.6 millones en fondos y pareos institucionales para establecer cinco nuevos centros de investigación y expandir uno ya existente.

3. Los Institutos Nacionales de Salud (NIH) concedieron $30 millones para tres centros de investigación en neurociencia, genoma humano y estudio de proteínas.

4. Puerto Rico alcanzará el lugar 37 entre las 52 jurisdicciones norteamericanas en términos de producción de labor investigativa de punta.

5. Se confirieron 2,200 grados en ciencias y tecnología en todo el sistema.

6. Se entregó el informe final *University of Puerto Rico Cancer Center: An Assessment and Roadmap for the Future.*

D. Reordenamiento de las estructuras reglamentarias para permitir la prestación expedita de servicios y la consecución de los objetivos académicos.

Objetivos:

1. Adelantar la agenda universitaria sobre la base de una reglamentación vinculada a y facilitadora de los objetivos institucionales.

2. Devolver responsabilidades y marcas de acción más ágiles a la base universitaria, constituida por sus departamentos y facultes; por sus estudiantes y académicos.

Cumplimientos:

1. Se revisaron y actualizaron los siguientes reglamentos:
   a. Adquisiciones de equipo informático,
   b. Viajes,
   c. Compras,
   d. Jardín Botánico
   e. Propiedad inmueble
   f. Adquisiciones Recursos Bibliotecarios,
   g. Guía de Conservación y Administración de Documentos,
   h. Subastas de Mejoras Permanentes,
   i. Admisiones,
   j. Recaudaciones, y
   k. Asistencias de Cátedra e Investigación

2. Se nombró un Comité Ad Hoc para iniciar el proceso de revisión del Reglamento General de la Universidad de Puerto Rico.

E. Inserción decidida de la Universidad de Puerto Rico en su base urbana.

Objetivos:

1. Reconstruir el tejido de relaciones con los entornos urbanos de cada recinto en función de mejores entendimientos de las necesidades comunitarias.

2. Hacer disponible a los pueblos y ciudades que acogen a nuestros recintos las tecnologías, recursos humanos e ideas que potencien relaciones agradables y creativas de convivencia.

3. Agrupar de manera sistémica a los coordinadores y directores de actividades culturales de los recintos.

4. Extender a las comunidades un programa de actividades culturales amplio que sirva para destacar los productos de la creación artística universitaria y contribuya a diversificar la oferta cultural de los puertorriqueños.

5. Generar proyectos que sirvan de laboratorios vivos a estudiantes y docentes en sus gestiones de servicio público.

Cumplimientos:

1. Se dio inicio al programa cultural Ecocultura en el escenario del Jardín Botánico, que combina actividades artísticas con el disfrute y aprecio de los espacios naturales.

2. Se articuló una relación funcional entre coordinadores y directores de Actividades Culturales del sistema universitario.

3. Se inició el programa de la Sinfónica en la Universidad con conciertos en los diferentes recintos.

4. Puesta en marcha del Instituto para el Desarrollo Comunitario de Mayagüez, con servicios e impacto en las comunidades del noroeste del país.

5. Reorganización de la iniciativa Ciudad Universitaria de apoyo al proyecto de revitalización de Río Piedras, con el desarrollo de proyectos de investigación y de comunicaciones.

F. Puesta al día de las instalaciones universitarias

Objetivos:

1. Pasar de la metáfora de la enfermedad a la metáfora de la excelencia en el diseño, construcción, ocupación y mantenimiento de las mismas.

2. Integrar política, responsabilidad, programación, y visión en el manejo de los patrimonios universitarios.

3. Validar la responsabilidad de la Universidad como garante de belleza, buena ejecución y cuidado esmerado de sus propiedades, y promotora de arte.

Cumplimientos:

1. Se aprobó el Plan de Intervención en Edificios de la Universidad de Puerto Rico.

2. Se realizaron intervenciones inmediatas en aquellas estructuras diagnosticadas con síntomas del síndrome de edificios enfermos.

U n i v e r s i d a d d e P u e r t o R i c o

Este Informe refleja a cabalidad los objetivos de la agenda universitaria y los cumplimientos respectivos para el año académico 2002-2003 por parte de la Oficina del Presidente de la Universidad de Puerto Rico, las vicepresidencias y oficinas concernidas de la Administración Central de la Universidad de Puerto Rico.

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Report of Independent Auditors

Board of Trustees
University of Puerto Rico

We have audited the accompanying statements of net assets of the University of Puerto Rico (the University), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2003 and 2002 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital), a discretely presented component unit, as of and for the years ended June 30, 2003 and 2002. Those financial statements were audited by other auditors whose report has been furnished to us, which included an explanatory paragraph stating that the discretely presented component unit has experienced recurring losses since it commenced operations and has a net capital deficiency that rise substantial doubt about its ability to continue as a going concern. Our opinion, insofar as it relates to data included for the Hospital is solely based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Puerto Rico as of June 30, 2003 and 2002, and its changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As disclosed in Note 1 to the financial statements, during 2002, the University adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges ad Universities – an amendment of GASB Statement No. 34, GASB Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for Statement and Local Governments: Omnibus – and Amendment of GASB Statements No. 21 and No. 34, and GASB Statement No. 38, Certain Financial Statements Note Disclosures.

The Management's Discussion and Analysis on page 3 to 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

As discussed in Note 11 to the financial statements, the discretely presented component unit has experienced recurring losses since it commenced operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are described in Note 11. The 2003 and 2002 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the University of Puerto Rico taken as a whole. The schedule of changes in sinking fund reserves included in page 43 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 8, 2003 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GAS and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

October 8, 2003

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original of
this report.

University of Puerto Rico

Management's Discussion and Analysis

June 30, 2003

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of Puerto Rico (the University) for the year ended June 30, 2003. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

Financial Highlights

The financial position of the University remains strong at June 30, 2003, with total assets of $945,776,000, total liabilities of $649,128,000 and net assets of $296,648,000. The University's net assets increased by $23,614,000 in the year ended June 30, 2003 to $296,648,000 at June 30, 2003. This increase is explained in the section entitled "Analysis of Financial Position and Results of Operations." An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the University as of and for the year ended June 30, 2003 follow:

Condensed Statement of Net Assets

Assets	
Current assets	$343,492,432
Noncurrent assets:	
Capital	568,604,803
Other	33,678,864
Total assets	$945,776,099
Liabilities	
Current liabilities	$104,847,662
Noncurrent liabilities	544,280,641
Total liabilities	$649,128,303
Net assets	
Invested in capital assets net of related debt	$150,639,405
Restricted:	
Nonexpendable	31,906,293
Expendable	100,138,696
Unrestricted	13,963,402
Total net assets	$296,647,796

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues	
Tuition and fees	$ 38,844,683
Grants and contracts	246,523,874
Patient services	53,329,127
Other operating revenues	30,579,768
Total operating revenues	369,277,452
Operating expenses	1,040,994,779
Operating loss	(671,717,327)
Nonoperating revenues	
State appropriations	695,550,184
Other nonoperating loss, including interest on indebtedness	(9,243,174)
Net nonoperating revenues	686,307,010
Income before other revenues	14,589,683
Capital appropriations	691,592
Addition to permanent endowment	8,332,474
Total increase in net assets	$ 23,613,749

Condensed Statement of Cash Flows

Cash and cash equivalents provided	
Operating activities	$ (658,450,757)
Noncapital financing activities	708,285,700
Capital and related financing activities	(88,222,791)
Investing activities	48,728,417
Net increase in cash and cash equivalents	10,340,569
Cash and cash equivalents - beginning of	94,920,159
Cash and cash equivalents - end of year	$ 105,260,728

Using the Financial Statements

The University's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This was followed in November 1999 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;* in June 2002 by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an Amendment of GASB Statements No. 21 and No. 34*; and, also in June 2002 by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

These statements were effective for the year ended June 30, 2002. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. A significant change required by GASB Statements No. 34 and 35 is that depreciation is now presented as a part of expense and the acquisition of capital assets is not. Previously, the University's financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

Analysis of Financial Position and Results of Operations

Statement of Net Assets

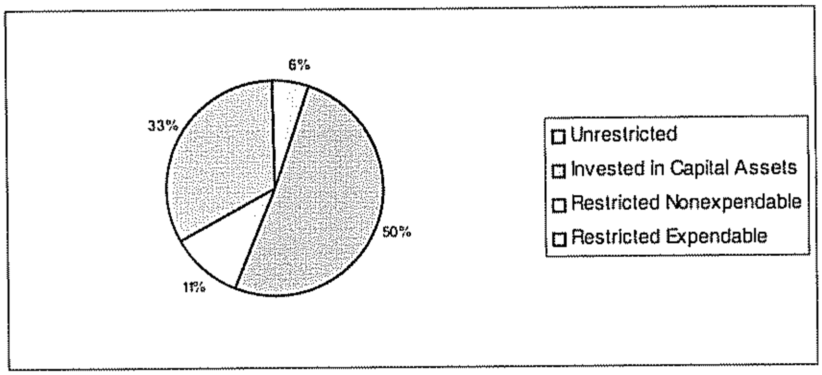
The statement of net assets presents the assets, liabilities and net assets of the University as of the fiscal year ended June 30, 2003. The net assets are displayed in three parts, invested in capital assets net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purposes. The statement of net assets, along with all of the University's basic financial statements, is 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 included in the statement of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Of these amounts, cash and cash equivalents, investments and accounts receivable comprise approximately 30%, 10% and 43%, respectively, of current assets. Approximately 94% of noncurrent assets are capital assets.

University cash, cash equivalents and investments decreased from $203,918,000 at June 30, 2002 to $168,630,000 at June 30, 2003. Accounts receivable increased from $113,293,000 to $146,868,000 for the same year. The increase is mainly due to $25 million in funds not received by the University as of June 30, 2003 in connection with the revocation of the "Ley Oportunidades Educativas." After the revocation of this law, the Central Government assigned the University $40 million divided in $15 million to use in student scholarships and $25 million to use in operating expenses. The University received the $25 million subsequent to the end of the fiscal year.

Current liabilities consist primarily of accounts payable and accrued liabilities and the current portion of long-term debt and other current liabilities. Accounts payable and accrued liabilities increased from $59,849,000 to $62,814,000 between June 30, 2002 and 2003. Noncurrent liabilities consist primarily of bonded indebtedness, notes payable, the noncurrent portion of sick leave and vacation accrual, and the contingent liabilities. Long-term debt decreased from $430,826,000 to $411,115,000 between June 30, 2002 and 2003 as a result, mostly, of the repayment of principal.

Net assets represent the residual interest in the University's assets after liabilities are deducted and are classified into one of four categories as shown on the following illustration:



Net assets invested in capital assets, net of related debt amounting to $150,639,000, represent the University's capital assets less accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable net assets, amounting to $31,906,000, consist primarily of the University's endowment funds. These funds are divided in "term" and "quasi" endowments. The corpus of the "quasi" funds may not be expended and must remain with the University in perpetuity. The corpus of the "term" endowment funds may be expended after the period underline by the donor expires. Only the earnings from these funds may be expended. Restricted expendable net assets, amounting to $100,139,000, are subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans and scholarship purposes.

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the University such as donors or grant agencies. This includes funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received. Approximately one half of the net assets relate to capital projects, which are in various stages of planning and completion.

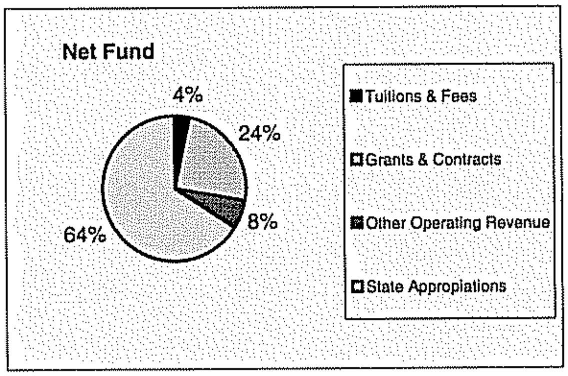
Statement of Revenues, Expenses and Changes in Net Assets

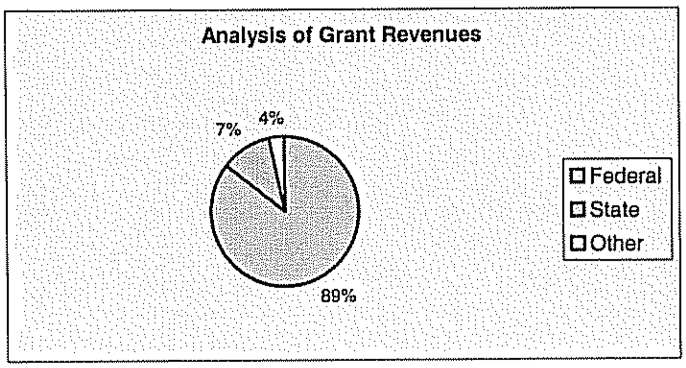
Changes in total University net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are received for providing 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. GASB Statement No. 34 requires that state appropriations be classified as nonoperating.

Approximately 69% of the operating revenues of the University are grants and contracts. The remainder consists primarily of tuition and fees and patient services.

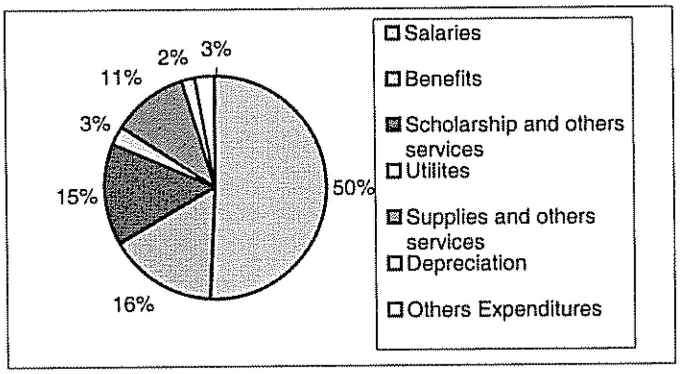
The following illustration presents the major sources of University revenues (both operating and nonoperating) for the year ended June 30, 2003:



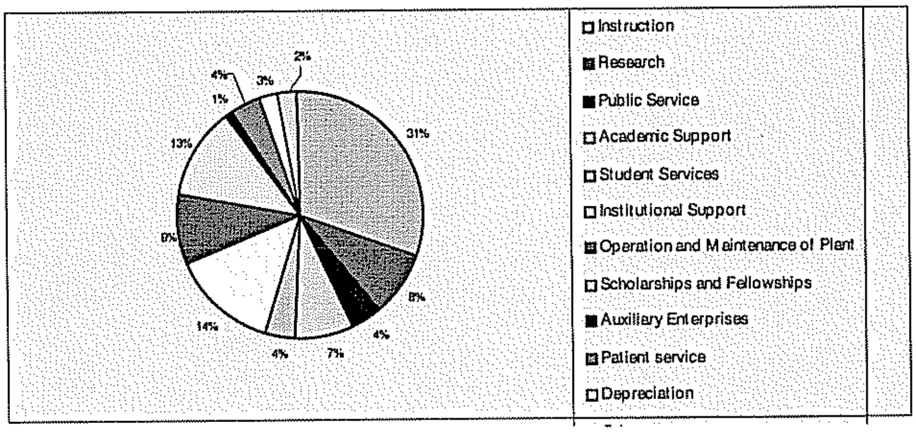


University expenses are presented using natural expense classifications. Salaries and benefits represent 66% of the University's operating expenses.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2003:



Functional expense classification presents University expenses in the operational categories they benefit. The following illustration presents the major uses of University revenues (both operating and nonoperating) on a functional basis for the year ended June 30, 2003:



For the year ended June 30, 2003, the University reported an operating loss of approximately $671,717,000. After adding nonoperating revenue and expenses, primarily state appropriations, the total increase in net assets for the year is approximately $23,614,000.

Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. The statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by the University is presented by category.

Increases in cash and cash equivalents from noncapital financing activities were due primarily to the receipt of state appropriations and increases in cash and cash equivalents from investing activities resulted from maturities of short-term investments. Those increases were offset by decreases in cash and cash equivalents from capital and related financing activities and cash used in operating activities. Cash and cash equivalents decreased from capital and related debt activity due primarily to purchases of capital assets and payment of principal and interest on debt. The decrease in cash and cash equivalents from operating activities is consistent with the University's operating loss.

Capital Assets and Debt Administration

Significant capital asset additions during the year ended June 30, 2003 included the construction of new facilities and renovation of existing ones in the Bayamón, Mayagüez and Río Piedras campuses. These additions consist 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.

The University's capital construction program for educational facilities for the fiscal years ended June 30, 2003 and 2002 amount to approximately $5,600,000 and $6,000,000, respectively.

No new debt was issued during the current year. Debt in the amount of approximately $20,185,000 was retired during the year.

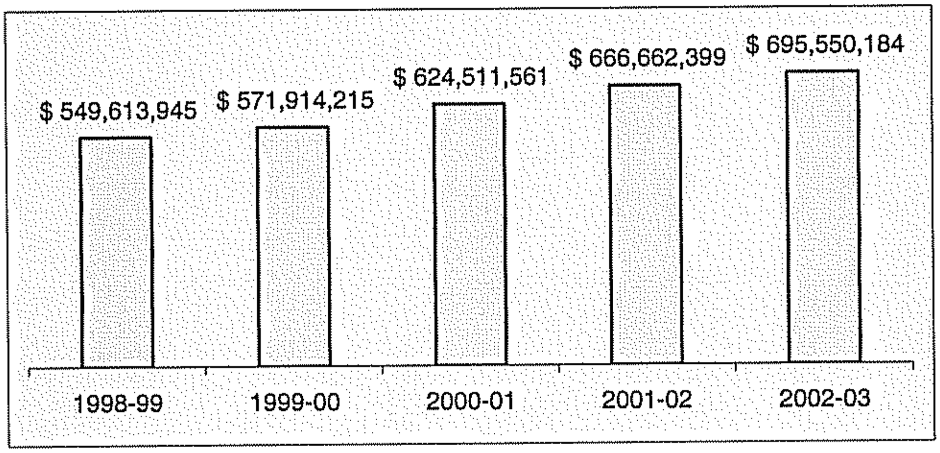
Economic Outlook

The Puerto Rican economy must be analyzed as a region within the U.S. economy, being an integral part of the U.S. monetary and banking system, as well as within its territorial and custom boundaries. The main drive of the Puerto Rican economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the U.S. Thus, historically, the real growth rates of the Puerto Rican economy have closely followed the behavior of the U.S. economy. In fiscal year 2003, Puerto Rico experienced the consequences of the slowdown in the U.S. economy, since the U.S. Real GDP increased by only 2.5%.

The level of the Commonwealth of Puerto Rico (the Commonwealth) support and the increases in compensation, student tuition and fee, and energy costs have a direct impact in the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

Commonwealth appropriations contribute approximately 66% the operating and non-operating revenues excluding investment income and private gifts. The level of the Commonwealth support is therefore one of the key factors influencing the university's financial condition.

The Commonwealth appropriations for the last five years are illustrated below:



The University administration is not aware of any currently known facts, decisions or conditions that are expected to have a significant effect on the University's financial position or results of operation during fiscal year 2003 beyond those unknown variations having a global effect on virtually all types of business operations. While the University's overall financial position is strong, various factors influence the University's ultimate financial success.

University of Puerto Rico

Statements of Net Assets

	June 30 2003	June 30 2002
Assets		
Current assets:		
Cash and cash equivalents	**$101,796,532**	$ 92,888,782
Investments at fair value	**35,012,345**	88,405,397
Investments with bond trustees at fair value	**40,659,528**	40,419,378
Receivables:		
Accounts receivable (less allowances for doubtful accounts of $62,282,482 and $44,931,424 for 2003 and 2002, respectively)	**146,867,608**	113,292,619
Inventories	**5,362,281**	5,309,225
Prepaid expenses and other assets	**13,794,138**	14,190,674
Total current assets	**343,492,432**	354,506,075
Noncurrent assets:		
Restricted cash and cash equivalents	**3,464,196**	2,031,377
Investments at fair value	**28,357,394**	20,591,987
Notes receivable, net	**1,857,274**	2,647,454
Capital assets (net accumulated depreciation of $312,137, 216 and $287,548,475 for 2003 and 2002, respectively)	**568,604,803**	553,229,348
Total noncurrent assets	**602,283,667**	578,500,166
Total assets	**$945,776,099**	$933,006,241
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 62,814,035**	59,849,454
Current portion of long-term debt	**21,678,195**	20,693,194
Other current liabilities	**20,355,432**	16,512,361
Total current liabilities	**104,847,662**	97,055,009
Noncurrent liabilities:		
Long-term debt	**411,115,012**	430,326,177
Other long-term liabilities	**133,165,629**	132,591,005
Total noncurrent liabilities	**544,280,641**	562,917,182
Total liabilities	**$649,128,303**	$659,972,191

See accompanying notes.

University of Puerto Rico

Statements of Net Assets (continued)

	June 30	
	2003	**2002**
Net assets		
Invested in capital assets, net of related debt	**$150,639,405**	$151,907,968
Restricted, nonexpendable		
Scholarship & fellowships	**19,218,425**	17,784,156
Research	**9,182,394**	1,202,023
Other	**3,505,474**	3,316,191
Restricted, expendable		
Research	**12,337,151**	7,493,437
Loans	**6,591,548**	7,003,845
Capital projects	**11,980,073**	5,196,070
Debt service	**38,744,124**	38,898,131
Other	**30,485,800**	20,003,506
Unrestricted	**13,963,402**	20,228,720
Total net assets	**$296,647,796**	$273,034,047

See accompanying notes.

University of Puerto Rico

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended June 30 2003	2002
Revenues		
Operating revenues:		
Tuition and fees (net of scholarship allowances of $29,851,338 and $33,336,946 for 2003 and 2002, respectively)	**$ 38,844,683**	$ 35,835,830
Net hospital patient services and other	**53,329,127**	47,078,882
Federal grants and contracts	**228,163,047**	197,888,832
State grants and contracts	**18,360,827**	25,547,328
Nongovermental grants and contracts	**8,689,261**	9,374,723
Sales and services of educational departments	**3,371,067**	3,304,329
Auxiliary enterprises (net of scholarship allowances of $164,346 and $151,290 for 2003 and 2002, respectively)	**6,311,761**	6,026,945
Other operating revenues	**12,207,679**	13,489,808
Total operating revenues	**369,277,452**	338,546,677
Expenses		
Salaries:		
Faculty	**302,400,308**	294,625,089
Exempt staff	**217,257,646**	206,775,370
Nonexempt wages	**3,005,772**	2,669,394
Benefits	**163,304,509**	150,513,646
Scholarship and other services	**152,101,495**	131,578,130
Utilities	**29,355,098**	28,520,064
Supplies and other services	**114,245,234**	112,026,066
Depreciation	**28,166,598**	26,024,224
Other expenditures	**31,158,119**	11,642,458
Total operating expenses	**1,040,994,779**	964,374,441
Operating loss	**(671,717,327)**	(625,827,764)
Nonoperating revenues (expenses):		
Commonwealth appropriations	**695,550,184**	666,662,399
Gifts	**4,047,717**	3,788,681
Net investment income	**3,100,772**	1,969,867
Interest on indebtedness	**(16,746,988)**	(15,152,086)
Other nonoperating revenues	**355,325**	37,880
Net nonoperating revenues	**686,307,010**	657,306,741
Income before other revenues	**14,589,683**	31,478,977
Capital appropriations	**691,592**	5,628,946
Additions to term and permanent endowment	**8,332,474**	-
Increase in net assets	**23,613,749**	37,107,923
Net Assets		
Beginning of year	**273,034,047**	606,173,990
Cumulative effect of change in accounting principle – adoption of depreciation for capital assets	**-**	(370,247,866)
End of year	**$ 296,647,796**	$ 273,034,047

See accompanying notes.

University of Puerto Rico

Statements of Cash Flows

	Year ended June 30	
	2003	**2002**
Cash flows from operating activities		
Tuition and fees	**$ 38,884,295**	$ 35,814,735
Grants and contracts	**256,492,213**	243,881,495
Patient services	**53,329,127**	47,078,882
Auxiliary enterprises	**6,371,702**	6,084,219
Sales and services of educational departments	**(4,613,314)**	6,339,074
Payments to suppliers and vendors	**(112,147,487)**	(118,146,109)
Payments to employees	**(522,249,235)**	(504,345,709)
Payments for utilities	**(29,355,098)**	(28,520,064)
Payments for benefits	**(161,940,571)**	(141,823,074)
Payments for scholarships and fellowships	**(152,167,114)**	(131,576,677)
New loans issued to students	**(877,080)**	(506,076)
Student loan repayments	**1,667,260**	119,743
Other payments	**(31,845,455)**	(9,832,045)
Net cash used in operating activities	**(658,450,757)**	(595,431,606)
Cash flows from noncapital financing activities		
Commonwealth appropriations	**695,550,184**	666,662,399
Endowment gifts	**8,332,474**	(2,133,482)
Gifts and grants for other than capital purposes	**4,403,042**	3,826,561
Net cash provided by noncapital financing activities	**708,285,700**	668,355,478
Cash flows from capital and related financing activities		
Capital appropriations	**691,592**	5,628,946
Net purchases of capital assets	**(51,742,245)**	(76,133,755)
Principal paid on capital debt	**(20,185,000)**	(19,265,000)
Interest paid on capital debt	**(16,746,988)**	(15,152,086)
Deposit with trustee	**(240,150)**	1,122,192
Net cash used in capital and related financing activities	**(88,222,791)**	(103,799,703)

University of Puerto Rico

Statements of Cash Flows (continued)

	Year ended June 30	
	2003	**2002**
Cash flows from investing activities		
Proceeds from sales and maturities of investments	**45,627,645**	42,012,176
Interest on investments	**3,100,772**	4,103,350
Net cash provided by investing activities	**48,728,417**	46,115,526
Net change in cash and cash equivalents	**10,340,569**	15,239,695
Cash and cash equivalents:		
Beginning of period	**94,920,159**	79,680,464
End of period	**$ 105,260,728**	$ 94,920,159
Reconciliation of net operating revenues (expenses) to net cash used in operating activities		
Operating loss	**$(671,717,327)**	$(625,827,764)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	**28,166,598**	26,024,224
Reduction of capital assets	**8,200,192**	
Amortization on bond premium, discount and future appreciated principal	**1,958,835**	1,867,117
Changes in assets and liabilities, net:		
Grants and contracts receivables	**1,114,658**	6,726,047
Other receivables	**(34,689,647)**	2,077,026
Prepaid expenses, inventories and other	**343,480**	(8,118,872)
Accounts payable and accrued liabilities	**3,754,757**	(8,807,699)
Accrued salaries and wages and other liabilities	**4,417,697**	10,628,315
Net cash used in operating activities	**$(658,450,757)**	$(595,431,606)

See accompanying notes.

Discretely Presented Component Unit

(Servicios Médicos Universitarios, Inc.)

Balance Sheets

	June 30 2003	June 30 2002
Assets		
Current assets:		
Cash	**$ 503,575**	$ 21,456
Patient accounts receivable, net of allowance for doubtful accounts of $21,220,381 in 2003 and $21,256,185 in 2002	**8,564,465**	7,182,708
Estimated third-party payor settlement - Medicare	**-**	1,642,755
Accounts receivable - other	**1,395,818**	580,247
Inventories of supplies	**1,559,751**	1,320,317
Prepaid expenses	**772,695**	662,326
Total current assets	**12,796,304**	11,409,809
Property and equipment, net	**1,972,300**	1,888,785
Total assets	**$ 14,768,604**	$ 13,298,594
Liabilities and deficiency in unrestricted net assets		
Current liabilities:		
Bank overdraft	**$ 18,090**	$ -
Current portion of capital lease obligations	**374,958**	310,294
Accounts payable	**14,101,780**	13,147,370
Accrued interest	**1,062,252**	212,252
Estimated third-party payor settlements-medicare	**275,589**	-
Accrued payroll taxes and employee benefits	**1,257,510**	1,172,286
Accrued expenses	**5,122,259**	4,683,280
Total current liabilities	**22,212,438**	19,525,482
Long-term debt, net of current portion	**17,000,000**	17,000,000
Capital lease obligations, net of current portion	**48,208**	309,825
Due to related party	**17,865,936**	8,035,456
Total liabilities	**57,126,582**	44,870,763
Commitments and contingencies		
Deficiency in unrestricted net assets	**(42,357,978)**	(31,572,169)
Total liabilities and deficiency in unrestricted net assets	**$ 14,768,604**	$ 13,298,594

See accompanying notes.

Discretely Presented Component Unit

(Servicios Médicos Universitarios, Inc.)

Statement of Operations and Deficiency in Unrestricted Net Assets

	Year ended June 30	
	2003	**2002**
Unrestricted revenues and other support:		
Net patient service revenue	**$ 22,059,511**	$ 24,441,438
Premium revenue	**1,950,857**	6,161,024
Other revenue	**1,168,002**	1,751,816
Total revenues and other support	**25,178,370**	32,354,278
Expenses		
Salaries and benefits	**14,611,776**	14,648,909
Contracted services	**2,309,043**	3,425,558
Professional services	**1,023,395**	1,234,896
Hospital, medical and drugs	**3,143,330**	7,766,836
Supplies	**11,778,647**	10,423,776
Utilities	**1,504,705**	1,549,182
Interest	**981,503**	936,927
Depreciation and amortization	**566,313**	689,687
Other	**45,467**	18,658
Total expenses	**35,964,179**	40,694,429
Net loss	**(10,785,809)**	(8,340,151)
Deficiency in unrestricted net assets, at beginning of year	**(31,572,169)**	(23,232,018)
Deficiency in unrestricted net assets, at end of year	**$(42,357,978)**	$(31,572,169)

See accompanying notes.

Discretely Component Unit

(Servicios Médicos Universitarios, Inc.)

Statement of Cash Flows

	Year ended June 30	
	2003	**2002**
Cash flows from operating activities:		
Net loss	**$(10,785,809)**	$(8,340,151)
Adjustments to reconcile net (loss)		
to net cash (used in) operating activities:		
Depreciation and amortization	**566,313**	689,687
Provision for bad debts	**5,135,478**	7,462,680
(Increase) in patient accounts receivable	**(6,517,235)**	(6,323,512)
Decrease (increase) in estimated third-party payor settlements-Medicare	**1,918,344**	(205,032)
(Increase) decrease in inventory of supplies	**(239,434)**	216,986
Decrease (increase) in prepaid expenses	**795,039**	(47,516)
(Increase) decrease in accounts receivable - other	**(815,571)**	281,431
(Decrease) increase in accounts payable	**(107,947)**	232,167
Increase in accrued expenses and payroll taxes and employee benefits	**524,203**	1,417,777
Increase (decrease) in accrued interest	**850,000**	(907,432)
Total adjustments	**2,109,190**	2,817,236
Net cash (used in) operating activities	**(8,676,619)**	(5,522,915)
Cash flows (used in) investing activities		
Purchase of property and equipment	**(649,828)**	(563,118)
Cash flows from financing activities		
Bank overdraft	**18,090**	(521,768)
Proceeds from long-term debt	**-**	3,367,611
Payment from long-term debt and capital lease obligations	**(196,953)**	(153,079)
Net advances from University of Puerto Rico and other related parties	**9,987,429**	3,412,387
Net cash provided by financing activities	**9,808,566**	6,105,151
Net increase in cash	**482,119**	19,118
Cash at beginning of year	**21,456**	2,338
Cash at end of year	**$ 503,575**	$ 21,456
Supplemental disclosures of cash flows information		
Cash paid for interest	**$ 113,503**	$ 1,844,359

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The University of Puerto Rico (the University) is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a thirteen-member Board of Trustees, of which ten are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Board consist of one full-time student and two term professors. The Governor appointed the original members for terms from four to eight years. Upon expiration of their terms, the new members will be appointed for a period of six years. The terms for the student and professors are for one year.

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

The financial reporting entity of the University consists principally of the Río Piedras, Mayagüez and Medical Sciences campuses; the University Colleges with units in Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado; and the Central Administration.

Appropriations from the Commonwealth are the principal source of revenues of the University and are supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. In addition, the Commonwealth has appropriated amounts for general current obligations for capital improvement programs, and for loans and financial assistance to students.

Discretely Presented Component Unit Disclosures: A discretely presented component unit is an entity whose operations are separate from the University's but over whom the University has significant accountability. The following is treated as a discretely presented component unit:

Servicios Médicos Universitarios, Inc.

The University has a separate non-profit corporation, "Servicios Médicos Universitarios, Inc." (the Hospital), which is fiscally dependent on the University, to operate and administer two hospital facilities. The Hospital is legally separated from the University and is governed by a separate board. Complete financial statements of Servicios Médicos Universitarios, Inc. can be obtained directly by contacting the Hospital's administrative offices.

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

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

Financial Statement Presentation

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This was followed in November 1999 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*; in June 2001 by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion ad Analysis – for State and Local Governments: Omnibus – an Amendment of GASB Statement No. 21 and No. 34*; and, also in June 2002 by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements are effective for the year ended June 30, 2002. The financial statement presentation required by GASB Statement Nos. 34, 35, 37 and 38 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund group perspective previously required.

Significant accounting changes made in order to comply with the new requirements included the adoption of depreciation of capital assets, reporting tuition and fee revenue net of certain scholarship allowances and reporting revenue from auxiliary enterprises net of cost of goods sold and scholarships and allowances. Additionally, reclassifications of prior year balances have been made to conform to the current year presentation.

Measurement Focus and Basis of Accounting

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. 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.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. The University has elected to not apply FASB pronouncements issued after the applicable date.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

Cash Equivalents

The University considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. As of June 30, 2003 and 2002, cash equivalents of approximately $86,134,000 and $107,141,000, respectively, consists of certificates of deposit and time deposits.

As of June 30, 2003, the Board of Trustees has designated cash equivalents and investments in excess of liabilities and open commitments for the future development of the University's activities, such as the capital improvement program, academic support, and research and development. Therefore, the funds are not available for other uses other than those for which they are designated. The Board of Trustees has the power to re-designate these funds, as it may consider necessary.

Investments

Investments are reported at fair value in the statements of net assets. The changes in the fair value of investments are reported in the statements of revenues, expenses and changes in net assets as a component of net investment income.

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value in order to measure the current liability attributable to plan participants.

Capital Assets

All capital expenditures of $1,000 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 is recorded using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment and library materials, 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 capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Inventories

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

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

Classification of Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted, nonexpendable net assets consist of 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 assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets represent 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 assets may be designated for specific purposes by action of managements or the Board of Trustees, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are expected net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. 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 Pell grants and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating 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.

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

Bond Premium/Discount and Deferred Issuance Costs

Bond premium and/or discount and deferred issuance costs are amortized using the effective interest method.

Deferred Compensation Plan

The University offers certain employees 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, 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, 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 (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair market 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. The University believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

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.

Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. The University pays, annually, the excess of 90 days of accumulated sick leave to the employees. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, provided the employee has at least 10 years of service with the University. During the years ended June 30, 2003 and 2002, the cost of the excess of 90 days of the accumulated sick leave were $7,520,000 and $7,131,000, respectively.

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

Classification of Revenues

The University has classified its 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; and, hospital patient service revenues, net of allowances for contractual adjustments and doubtful accounts.

Non operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34, such as state appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

Gifts and Pledges

Pledges of financial support from organizations and individuals representing and unconditional promise to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, 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.

During the current year, the University received the first payment of $7,295,684 of an award from the Federal Department of Health and Human Services of $17,295,684, to establish a Health Services Research Center within the University of Puerto Rico's School of Medicine. The purpose of this Center is to strengthen and increase the diversity of the biomedical and behavioral workforce for the 21st century.

As part of the agreement, the University has to maintain the principal invested for at least five years; therefore, it was classified as a term endowment fund. The University received other miscellaneous endowment gifts during the year.

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 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 will be 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.

2. Cash

All the operating cash of the University and its Retirement System (the System) is pooled into one bank account. Cash balances by funds represent the cash that is allocated to each fund of the University.

The University is 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. Such authorized depositories, except for the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank for Puerto Rico (EDB), collateralize the uninsured deposits with securities that are pledged with the Department of the Treasury.

No collateral is required to be maintained for deposits in the GDB and EDB, both public corporations of the Commonwealth of Puerto Rico.

As of June 30, 2003 and 2002, the carrying value of cash and cash equivalents amounted to approximately $105,261,000 and $94,920,000, respectively, and the cash deposited in the banks amounted to $92,235,000 and $114,641,000, respectively. The University's deposits as of June 30, 2003 are the following:

Insured by the United States and Puerto Rico insurance corporations or collateralized by securities pledged with the Department of the Treasury (University's agent)	$61,948,000
Uncollateralized (mainly deposits in GDB and EDB)	30,287,000
	$92,235,000

3. Investments

Investments as of June 30, 2003 and 2002 consist of the following:

	2003		2002	
	Current Amount	**Fair Value**	**Current Amount**	**Fair Value**
Current:				
Certificates of deposit	**$ 497,364**	**$ 497,364**	$ 57,280,476	$ 57,280,476
Common stock	**32,767,691**	**32,767,691**	29,413,298	29,413,298
U.S. Treasury bonds and notes	**40,659,528**	**40,659,528**	40,419,378	40,419,378
U.S. Government agencies	**1,747,290**	**1,747,290**	1,711,623	1,711,623
	$75,671,873	**$75,671,873**	$128,824,775	$128,824,775
Noncurrent:				
Certificates of deposit	**$ 2,447,778**	**$ 2,447,778**	$ 2,409,102	$ 2,409,102
Common stock	**9,442,908**	**9,442,908**	5,703,134	5,703,134
U.S. Treasury bonds and notes	**4,357,058**	**4,357,058**	4,197,632	4,197,632
U.S. Government agencies	**4,830,692**	**4,830,692**	2,153,866	2,153,866
Corporate bonds	**6,928,958**	**6,928,958**	5,778,253	5,778,253
Real estate held for sale	**350,000**	**350,000**	350,000	350,000
	$28,357,394	**$28,357,394**	$ 20,591,987	$ 20,591,987

Investments consisting of certificates of deposit and real estate held for sale were held by the University; common stock, US treasury bonds and notes, US government agencies and corporate bonds were held in custody by a commercial bank in the University's name. The certificates of deposit are insured by the United States and Puerto Rico insurance corporations or collateralized by securities pledged with the Department of the Treasury.

4. Accounts Receivable

Accounts receivable as of June 30 are as follows:

	2003	2002
Puerto Rico Department of Health	**$ 76,487,026**	$ 73,747,224
Due from Federal government	**25,366,041**	21,216,655
Other	**107,297,023**	63,260,164
	209,150,090	158,224,043
Less allowance for doubtful accounts	**62,282,482**	44,931,424
Accounts receivable, net	**$146,867,608**	$113,292,619

4. Accounts Receivable (continued)

During 2000, the legislature of Puerto Rico approved a resolution to pay $48,420,764 to the University on behalf of the Puerto Rico Department of Health, over the course of eight years. As of June 30, 2003 and 2002, the University has received $18,140,000 and $8,570,127, respectively, from these amounts. The remaining balance is included as part of the accounts receivable from the Puerto Rico Department of Health.

5. Capital Assets

Changes in capital assets for the year ended June 30, 2003 are as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	$ 34,005,504	$ -	$ -	$ (1,040,000)	$ 32,965,504
Construction - in progress	132,746,793	31,760,597	(16,521,130)	-	147,986,260
	166,752,297	31,760,597	(16,521,130)	(1,040,000)	180,951,764
Other capital assets:					
Land improvements	26,232,421	-	2,907,738	-	29,140,159
Building, fixed equipment, improvements and infrastructure	482,062,528	1,677,118	13,254,825	(1,560,000)	495,434,471
Equipment and library materials	165,730,577	18,304,530	358,567	(9,178,049)	175,215,625
	674,025,526	19,981,648	16,521,130	(10,738,049)	699,790,255
Less accumulated depreciation for:					
Land improvements	(7,905,959)	(1,589,276)	-	-	(9,495,235)
Buildings, fixed equipment, improvements and infrastructure	(170,713,829)	(12,686,585)	-	117,000	(183,283,414)
Equipment and library materials	(108,928,687)	(13,890,737)	-	3,460,857	(119,358,567)
	(287,548,475)	(28,166,598)	-	3,577,857	(312,137,216)
Other capital assets, net:	386,477,051	(8,184,950)	16,521,130	(7,160,192)	387,653,039
Capital assets, net	$ 553,229,348	$ 23,575,647	$ -	$ (8,200,192)	$ 568,604,803

6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2003 are as follows:

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
Notes payable	$ 508,195	$ -	$ -	$ -	$ 508,195	$ 508,195	$ -
Bonds payable	450,511,177	-	(20,185,000)	1,958,835	432,285,012	21,170,000	411,115,012
Total long-term	$451,019,372	$ -	$(20,185,000)	$1,958,835	$432,793,207	$21,678,195	$411,115,012
Other long-term liabilities							
Deferred compensation payable	$ 29,413,298	$3,354,393	$ -	$ -	$ 32,767,691	$ -	$ 32,767,691
Claims liability	12,755,541	2,969,104	(2,366,380)	-	13,358,265	2,800,000	10,558,265
Compensated absences	106,934,526	460,579	-	-	107,395,105	17,555,432	89,839,673
Total other long-term liabilities	$149,103,365	$6,784,076	$ (2,366,380)	$ -	$153,521,061	$20,355,432	$133,165,629

Bonds payable are further disclosed in Note 7.

7. Bonds Payable

A. Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of bonds payable as of June 30, 2003:

Series	Balance as of June 30, 2003	Annual Interest Rate (%)	Due Date
C – Serial	$ 1,209,000	3.00%	1972-2011
D – Serial	1,553,000	3.75%	1972-2011
F – Term	14,250,000	5.50%	2012
M – Serial	26,165,000	4.35-5.45%	1996-2009
M – Term	127,215,000	5.25-5.5%	2015-2025
N – Serial	48,640,000	4.35-5.45%	1996-2008
N - Capital Appreciation Serial Bonds	51,980,000	5.6-5.75%	2009-2013
O - Serial	88,150,000	4.5-3.75%	2001-2020
O - Term	101,905,000	5.38%	2030
	461,067,000		
Less unamortized bond discount	(12,003,535)		
Plus unaccreted premium	1,938,313		
Less future appreciated principal	(18,716,766)		
	$432,285,012		

Capital Appreciation Serial Bonds interest accrues semi-annually and is added to the principal.

7. Bonds Payable (continued)

B. Debt Service Requirement

At June 30, 2003, bonds payable require payments of principal and interest as follows:

	Principal	Interest	Total
2004	$ 21,170,000	$ 22,013,293	$ 43,183,293
2005	17,255,000	20,815,030	38,070,030
2006	18,200,000	19,864,180	38,064,180
2007	19,210,000	18,854,332	38,064,332
2008	20,280,000	17,784,858	38,064,858
2009 to 2013	113,172,000	108,025,133	221,197,133
2014 to 2018	66,505,000	60,554,138	127,059,138
2019 to 2023	86,375,000	40,688,538	127,063,538
2024 to 2028	74,045,000	17,094,904	91,139,904
2029 to 2030	24,855,000	2,022,000	26,877,000
	$461,067,000	$327,716,406	$788,783,406

C. Pledged Revenues

The bonds are general obligations of the University and are collateralized by the pledge of, and a first charge on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued. In the event that the pledged revenues are insufficient to pay the principal of, and the interest on, the bonds, the University agrees to provide any additional required monies from other funds available to the University for such purposes, including funds appropriated by the Commonwealth of Puerto Rico. The revenues pledged were as follows for the year ended June 30, 2003:

Tuition and other fees collected	$ 55,265,683
Student fees collected	5,377,673
Rental and other charges received for the right of use and occupancy of the facilities in the University system	1,201,259
Bookstore receipts (gross sales less cost of books and supplies sold)	1,192,725
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	1,524,781
Funds paid to the University in respect to overhead allowance on federal research projects	12,969,736
Other income	27,211,539
	$104,743,396

7. Bonds Payable (continued)

C. Pledged Revenues (continued)

Interest earned on investments in the sinking fund reserve account amounted to approximately $519,000 and $1,198,000 for the years ended June 30, 2003 and 2002, respectively.

The University is required to maintain a sinking fund and construction fund as described in the following paragraphs:

The funds for retirement of indebtedness consist of a sinking fund which includes three separate accounts designated 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.

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 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.

D. Bonds Arbitrage

During fiscal year 2003 the Government Development Bank performed an arbitrage test. The preliminary results of the test showed a positive arbitrage. The University followed the recommendation of the Government Development Bank and recorded a liability amounting to $2,379,000 in connection with the calculation.

8. Commitments and Contingent Liabilities

A. Capital Program

The University's capital construction program for educational facilities for the fiscal years ended June 30, 2003 and 2002 amounts to approximately $5,600,000 and $6,000,000, respectively.

Since August 1998, the University and the Commonwealth of Puerto Rico Legislature have been working together in a capital improvement project named Tropical Medicine School Renewal. During 2002, the Legislature made an appropriation of $4,500,000 for the first phase of the project. The purpose of this project is the renewal, rehabilitation and revaluation of this historic structure.

Currently, this project is delayed. As a result of this delay, the University has not received any new appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico. At this moment, the University's administration and the Legislature of Puerto Rico (the Legislature) are discussing the future of this project.

B. Insurance

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. Through January 1993 the University was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, the University was unable to obtain insurance at a cost it considered to be economically justifiable, consequently, the University is now self-insured for such risks. 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. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. 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 in fiscal year 2003 were:

Claims payable - July 1	$12,755,541
Incurred claims and changes in estimates	2,969,104
Payments for claims and adjustments expenses	2,366,380
	$13,358,265

8. Commitments And Contingent Liabilities (continued)

B. Insurance (continued)

The University continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

C. Federal Assistance Programs

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" or to compliance audits by grantor agencies. The resolution of certain previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

D. Discretely Presented Component Unit

Servicios Médicos Universitarios, Inc. (the Hospital) is a nonprofit corporation organized to operate and administer one hospital and two outpatient medical facilities located in the Carolina area of Puerto Rico. These facilities were acquired by the University which include land, building and medical equipment.

During April 2002, the Diagnostic and Treatment Center located in Canóvanas was rented to the Municipality of Canóvanas. This rent agreement includes a purchase option that may be enforced at any time subject to the approval of the University and the Municipality of Canóvanas.

The Hospital entered into a loan agreement (the Agreement) with the Government Development Bank for Puerto Rico (GDB) for an aggregate principal amount not to exceed $17,000,000. As part of the Agreement, the University (the Guarantor) agreed to guaranty payment obligations.

On July 18, 2001, the Board of Trustees approved to amend the Working Capital Loan to $15,367,611 and to decrease the Improvement Loan to $1,632,389. The amendment was effective on August 1, 2001. In addition, the Guarantor will pay GDB, on the first day of July and January of each year, the balance of interest due and outstanding by the Hospital.

8. Commitments And Contingent Liabilities (continued)

D. Discretely Presented Component Unit (continued)

Scheduled principal repayments on long-term debt and capital lease obligations for the next five years and thereafter are as follows:

	Long-term	Capital leases
2004	$ -	$418,231
2005	-	50,676
2006	15,367,611	-
2007	-	-
2008	-	-
2009 to 2013	-	-
2014 to 2018	1,632,389	-
Less: amount representing interest under capital lease obligations	-	45,741
	$17,000,000	$423,166

Total interest charged to operations under the aforementioned leases were approximately $39,900 and $56,200 in 2003 and 2002, respectively.

E. Other

Desarrollos Universitarios, Inc. (the Corporation) was incorporated on October 2, 1996. The Corporation is a non-profit corporation, with the sole purpose of developing, constructing and operating academic, residential, administrative, office, commercial and maintenance facilities (Plaza Universitaria) for use by students, faculty members, administrators, employees, visitors, invitees, and other members of or persons and entities related to or conducting business with the University community, or other activities conducted in such facility.

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 the Corporation. The Agreement, dated May 22, 1998, states among other things the following: (1) the University will lease to, or otherwise grant to, the Corporation the right for the long-term use of the land, for the sole purpose of developing, constructing and operating Plaza Universitaria, (2) the Corporation shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line credit and/or any other structure or credit facility, (3) the Corporation 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,

8. Commitments And Contingent Liabilities (continued)

E. Other (continued)

(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.

On December 21, 2000, the University entered into a lease agreement with the Corporation in which the University agreed to pay directly to a trustee for the account of the corporation, the basic lease payments (denominated into components of principal and interest) on or before the twenty-fifth (25) day of each month.

Future minimum annual lease payments under this agreement at June 30, 2004 are: $5,700,925 in 2004; $5,701,175 in 2005; $5,701,775 in 2006; $5,701,025 in 2007 and $148,202,175 thereafter.

9. University of Puerto Rico Retirement System

General

The System is a single-employer defined benefit pension plan that covers all employees of the University of Puerto Rico (the University) with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States taxes.

Membership consisted of the following as of June 30, 2003 and 2002:

	2003	2002
Retirees and beneficiaries receiving benefits	**6,209**	6,013
Terminated plan members entitled to but not yet receiving benefits	**326**	339
Terminated non-vested plan members entitled to return of their contributions	**6,952**	6,990
Active plan members	**12,243**	12,308
Total	**25,730**	25,650

9. University of Puerto Rico Retirement System (continued)

Plan Amendments

Effective July 1, 2002, the Plan was amended, by establishing Certification 139, to offer participants the alternative of raising the maximum salary basis for both benefits and contributions to $60,000. The participant contributes at a rate of 11% of compensation. Any participant hired on or before July 1, 2002 can elect the above provisions of this certification and pay the difference in contributions retroactively with interest from the later of hiring date or October 1, 1973.

Effective July 1, 1998, the Plan was amended to offer participants an increase from $35,000 to $50,000 in the maximum salary subject to withholding contributions. The participants who elect this benefit may pay retroactively to their first day of employment the differences in withholding contributions for prior year salaries exceeding $35,000 and up to a maximum of $50,000 plus 8% interest. Effective July 1, 1998, all new participants contribute 9% of their salary up to $50,000.

Effective July 1, 1995, the Plan was amended to increase by 3% the pension benefits to those employees who retired due to age or disability and who have been retired for at least three years as of January 1, 1995, with a monthly minimum of $10 and a monthly maximum of $50. In addition, the maximum annual compensation for those participants who had not completed 20 years of service by July 1, 1979 was raised to $35,000. Also, the minimum pension was raised to $250 a month. Finally, the reduction for commencement of pension benefits prior to age 65 was reduced to 1/3% per month for participants who had not completed 20 years of service by July 1, 1979 and elected Certification 55, and for participants hired on or after January 1, 1990.

Contributions and Funding Policy

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

Members who elect Certification No. 139: 11% of monthly compensation up to $6,600

Members who have not completed 20 years of service by July 1, 1979:

- If full supplement is elected: 7% of monthly compensation up to $2,917
- If full supplement is not elected: 5% of monthly compensation up to $2,917
- If Certification 94 is elected: 9% of monthly compensation up to $4,167

Members who have completed 20 years of service by July 1, 1979:

- If full supplement is elected: 7% of monthly compensation
- If full supplement is not elected: 4% of monthly compensation up to $350, plus 6.5% of the excess

9. University of Puerto Rico Retirement System (continued)

Contributions and Funding Policy (continued)

Members who have not completed 20 years of service by July 1, 1979 and elect Certification 55:

- If full supplement is elected: 7% of monthly compensation up to $2,917
- If full supplement is not elected: 4% of monthly compensation up to $350, plus 6.5% of the excess up to $2,917
- If Certification 94 is elected: 9% of monthly compensation up to $4,167

Members who are hired between January 1, 1990 and June 30, 1998:

- 8% of monthly compensation up to $2,917 or,
- If Certification 94 is elected: 9% of monthly compensation up to $4,167

Members who are hired on or after July 1, 1998:

- 9% of monthly compensation up to $4,167

The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2003 and 2002 was 16% and 14%, respectively, of annual covered payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund.

The University contributed 14% and 13% of participants' payroll in 2003 and 2002, respectively. The University contributions together with the member's contributions and the income of the System should, theoretically, be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System.

The contributions of the University were originally designed to fund, together with the contributions of the members, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the System over a forty-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.

Retirement Benefits

The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Board of Trustees of the University of Puerto Rico (Board of Trustees), formerly known as the Council on Higher Education of the University of Puerto Rico. Article XIII of the Rules and Regulations of the University of Puerto Rico Retirement System as amended effective July 1, 1973 assigns the authority to establish and amend benefit provisions to the Board of Trustees.

9. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

Participants who have completed 20 years of service by July 1, 1979 are entitled to annual retirement benefits at any age after 30 years of service. Otherwise, participants are entitled to annual retirement benefits at age 55 after 30 years of service. Participants may elect to receive their retirement benefits at age 58 after 10 years of service, or at age 55 after 25 years of service.

The amount of service retirement annuity is as follows:

- For all members except those who have completed 20 years of service by July 1, 1979:
    - Before age 65 - for members with at least 30 years of service: 75% of average compensation. Amount is reduced by ½% for each month the member is under age 58 at time annuity begins.
    - Before age 65 - for members with less than 30 years of service: 1.5% of average compensation per year of service for the member with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year. Amount is reduced by ½% for each month the member is under age 58 at time annuity begins.
    - After age 65 - if the member elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by ½% of average compensation not in excess of Social Security wage base in effect at retirement for each year of service. If the member had less than 30 years of service and was under age 58 at the beginning date, adjustment is made before application of ½% reduction per month under age 58.
- For those members who have completed 20 years of service by July 1, 1979:
    - Before age 65 - for members with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the member 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 not more than 85% of average compensation.
    - Before age 65 - for members with less than 30 years of service: 1.5% of average compensation per year of service for members 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 ½% for each month the member is under age 58 at the time the annuity begins.

9. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

- At age 65 - if member elected full supplement, the annuity is the same as before age 65. Otherwise, the annuity is reduced by ½% of first $350 of average compensation for each year of service but not by more than primary Social Security benefit. If the member had less than 30 years of service and was under age 58 at beginning date, adjustment is made before application of ½% reduction per month under age 58.

- For all members who have not completed 20 years of service by July 1, 1979 and elect Certification 55, and for those hired on or after January 1, 1990:

  - Before age 65 - for members with less than 30 years of service: 1.5% of average compensation per year of service for members with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year.

  - Before age 65 - for members with at least 30 years of service: 75% of average compensation. Amount reduced by 1/3% for each month the member is under age 55 at time annuity begins.

  - Age 65 - if member elected full supplement, annuity is the same as before age 65. Otherwise, annuity is reduced by ½% of average compensation at time of retirement multiplied by years of service.

  - Minimum Annuity - $250 per month - if a member 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.

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

  - Refund may also be obtained after 10 years of service, but the vested benefit is lost.

9. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

- **Disability Benefits** - employees who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes, or after 10 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 benefits are paid as follows:

  - Before age 65 - if service related, 50% of final salary. If not service related, 30% of average compensation plus additional 1% for each year of service over 10.

  - After age 65 - reduced to amount payable as retirement annuity, if that amount is less than disability retirement annuity, but reduced annuity plus primary Social Security benefit may not be less than original disability annuity.

Death Benefits:

- Pre-retirement death benefit - if the death of an employee is service related, a death benefit equal to 50% of the final annual salary plus $120 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 salary. If death is non-service related, a lump sum is paid equal to the employee's contributions plus one year's final salary, 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. Minimum annuity, $75 per month, maximum annuity, $150 per month.

Christmas Bonus:

- A $300 annual bonus is given to all retiree plan members.

10. Post-Retirement Benefits

In addition to the pension benefits described in Note 9, the University provides post-retirement health care benefits and a Christmas bonus for its retired employees in accordance with law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the University. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and by the University up to maximum of $125 per month for each retiree. During the years ended June 30, 2003, the payments of health care benefits amounted to $7,402,560. The Christmas bonus paid to the retired employees during the years ended June 30, 2003 and 2002 were $300, respectively, per retiree and the total amounts were $1,779,819 and $7,723,746, respectively. These benefits are recorded as expenditures when granted and paid. The plan covers approximately 6,209 retirees.

11. Going Concern - Discretely Presented Component Unit

Since the Hospital commenced operations, it has experienced significant operating losses having an accumulated deficit of approximately $42,350,000 at June 30, 2003. The Hospital has received advances from the University to cover its cash needs from operations. Most of these accumulated losses are mainly because, as a former public hospital operated by the Department of Health, it provides a significant amount of services to indigent population for which the Hospital does not obtain a payment. Most of these patients are indigent persons not subscribed to the Health Reform Program, aliens without medical insurance coverage, among others. The medical services provided to these persons were supposed to be paid to the Hospital by the Puerto Rico Department of Health. However, since the beginning of the operations of the Hospital, the Department of Health has been unable to pay for such services. As shown in the accompanying financial statements, the Hospital has accumulated losses for uncollectible accounts receivable in the approximate amount of $21,000,000. From this amount, approximately $4,650,000 was related to the accounts receivable balance received when the University acquired the hospital operations from the Department of Health, which maintained the accounts in a system called THIS and such system was unable to be converted during the year 2000 procedures.

The Hospital's management believes that this factor had a material impact in the Hospital's results of operations during its years of operations and consequently in the accumulated deficit at June 30, 2003.

At present, the Hospital's management with the assistance of the University of Puerto Rico's administration is working with a management plan toward its operational activities as well as the Hospital's ability to get cash to comply with its current obligations.

Among the matters included in such management plan are the following:

a. The extension of the medical privileges in the Hospital to faculty members within the Hospital's primary and secondary market area.

b. Development of new business within the Hospital's building, for example space rentals for physicians and others.

c. Reorganization of the Utilization Department under new management.

d. Marketing of the Ob Gyn Physicians Group services.

Recently, and among the alternatives, the Management of the Hospital has to deal with its fiscal difficulties and has been publicly discussing the possibility to sell the Hospital.

The accompanying financial statements of the Hospital do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the amounts and classifications of liabilities that might be necessary should the Hospital be unable to continue as a going concern or in the event of any disposition of the Hospital's assets through a sale or by other means.

12. Functional Information

The University's operating expenses by functional classification were as follows:

Functional Classification	Salaries and Benefits	Supplies and Other Services	Scholarship and Fellowship	Utilities	Depreciation	Other Expenditures	Total
Instruction	$ 283,602,693	$ 15,490,203	$ 17,002,955	$ 905.915	$ -	$ 849,206	$ 317,850,972
Research	52,678,234	21,836,657	7,093,351	1,021,022	-	3,203,936	85,833,200
Public service	35,637,914	7,763,321	213.351	400,877	-	18,545	44,034,008
Academic support	60,609,540	14,289,722	1.730,169	284,733	-	87,684	77,001,848
Student service	32,837.358	7,632,658	611,620	11,211	-	21,895	41,114,742
Institutional support	111,493.550	27,627,472	35,517	4.451,677	-	109,652	143,717,868
Operation and maintenance of plant	61,214.164	12.008,665	9,333	21.728,979	-	231,769	95,192,910
Student aid	4,423,118	462,765	125.302,700	876	-	-	130,189,459
Independent operations	1,008,106	183,260	89,408	-	-	-	1,280,774
Patient service	38,729,267	2,255,897	13.091	74.291	-	-	41,072,546
Auxiliary enterprises	3,734,291	4,694,614	-	265,603	-	174,127	8,868,635
Depreciation	-	-	-	-	28.166,598	-	28,166,598
Other	-	-	-	209,914	-	26,461,305	26,671,219
	$ 685,968,235	$ 114,245,234	$ 152,101,495	$ 29,355,098	$ 28,166,598	$ 31,158,119	$ 1,040,994,779

13. Significant New Accounting Pronouncement

In June 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. GASB Statement No. 39 established new guidelines for identifying and reporting organizations as component units of the University and will be effective for the University for the year ending June 30, 2004. The preliminary evaluation of the University's Management is that the implementation will result in the inclusion of Desarrollos Universitarios, Inc. as a discretely presented component unit.

University of Puerto Rico

Schedule of Changes in Sinking Fund Reserves

	Year ended June 30, 2003			
	Bond Depreciation Account	**Bond Service Account**	**Bond Reserve Account**	**Total**
Additions:				
Redemption	$ -	$ 912,822	$ -	$ 912,822
Reserve	-	-	-	-
Internal transfer	-	36,694,496	5,622,602	42,317,098
Interest earned on investments	8,040	50,137	461,218	519,395
Net increase in fair value of investments	2,748	131,641	50,554	184,943
Total receipts	10,788	37,789,096	6,134,374	43,934,258
Deductions:				
Payment of bond interest	-	22,990,441	-	22,990,441
Payment of bond principal	-	20,185,000	-	20,185,000
Transfer to bond service account	912,821	-	-	912,821
Net decrease in fair market value	-	-	-	-
Reimbursed of temporary advances	-	-	-	-
Total disbursements	912,821	43,175,441	-	44,088,262
Net increase (decrease) for the year	(902,033)	(5,386,345)	6,134,374	(154,004)
Balance at beginning of year	902,033	5,386,355	34,525,585	40,813,973
Balance at end of year	$ -	$ 10	$40,659,959	$40,659,969

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Report on Independent Auditors on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards

Board of Trustees
University of Puerto Rico

We have audited the financial statements of the University of Puerto Rico (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 8, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in a separate letter dated October 8, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University in a separate letter dated October 8, 2003.

This report is intended for the information of the audit committee, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

October 8, 2003

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original of
this report.