UNIVERSIDAD DE PUERTO RICO

Informe Anual 2003-2004

UNIVERSIDAD DE PUERTO RICO
UPR

Informe Anual
2003-2004

Contenido

Este informe presenta a los foros a quienes compete su evaluación, a la comunidad universitaria y a la comunidad en general, los principios, estrategias y cumplimientos en la gestión de dirección de la Universidad de Puerto Rico durante el año académico 2003-2004. Aspira a comunicar y documentar cómo plantea la Universidad su crecimiento y sus responsabilidades y cómo se articula dicho proyecto en la programación y administración de la institución.

El Punto de Partida:

Con las graduaciones de 2004, la Universidad de Puerto Rico concluyó las actividades centrales de su Año Centenario en el que recibió muestras inspiradoras de respeto y estimación por parte del pueblo puertorriqueño y sus instituciones. Para la Universidad, el ciclo conmemorativo estrechó los nexos con el país al que se debe, a la vez que sirvió de acicate para acometer proyectos que actualizan las bases universitarias y abren senderos novedosos de crecimiento institucional.

Este Informe da cuenta, en primer lugar, del estado de situación de lo que llamamos las bases universitarias, es decir, de aquellas dimensiones y áreas cuyo adecuado ordenamiento posibilita la operación y crecimientos de la Institución. En segundo lugar, el Informe identifica los principales logros académicos y administrativos así como los renglones de fortalecimiento de la identidad institucional en el pasado año académico.

LAS BASES UNIVERSITARIAS

I. ESTABILIDAD FINANCIERA

La Universidad se aboca a fortalecer sus fuentes tradicionales de ingreso en tanto institución estatal y a identificar y convocar fuentes complementarias de ingreso. Es un nuevo entendimiento de lo público, que desborda el concepto gubernamental e integra el escenario social amplio en el que la Universidad se desempeña y al cual impacta. Es un nuevo entendimiento de lo que es la comunidad universitaria, que expande su ámbito a los egresados y a los amigos –colectivos e individuales- que se identifican y apoyan a la institución.

A. Financiación gubernamental

Objetivos:

Lograr la integración por ley de aquellas partidas eliminadas de la fórmula de financiación adjudicada a la Universidad.

Cumplimiento:

Si bien la Universidad no logró la integración por ley de aquellas partidas eliminadas de la fórmula de financiación, se obtuvo, mediante la Orden Ejecutiva 2003-44 del 30 de junio de 2003, la cantidad de $25 millones y mediante la Resolución Conjunta Núm.907 de la Legislatura de Puerto Rico, una asignación directa de $15 millones que se adjudicó de manera íntegra a los estudiantes beneficiarios de programas de ayudantía económica. Ambas medidas mitigaron los efectos del menoscabo presupuestario ocasionado por la reducción en la base de la fórmula de financiación.

B. Políticas de disciplina financiera institucional

Objetivos:

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

2. Devolver responsabilidades de manejo presupuestario a las unidades y programas que realizan las responsabilidades académicas.

Cumplimientos:

Para este año fiscal 2003-2004 se le solicitó a todas las unidades del sistema ajustar su operación y los gastos recurrentes para producir economías a tono con la política de disciplina fiscal. Cada unidad, basada en una ponderación de su situación presupuestaria particular, ajustó sus gastos recurrentes en el renglón de gastos de nómina y otros gastos, particularmente, viajes y equipo. Dicha acción sistémica produjo un ahorro de $7.2 millones.

El desglose por Unidad refleja el siguiente cuadro:

Recinto de RP	$1,907,386
Recinto de May	1,326,941
Recinto Ciencias Med.	913,178
UPR Aguadilla	158,842
UPR Arecibo	233,529
UPR Bayamón	275,008
UPR Carolina	192,797
UPR Cayey	277,967
UPR Humacao	344,711
UPR Ponce	188,392
UPR Utuado	103,230
Junta de Síndicos	33,473
Adm. Central	129,340
Prog. Generales	626,834
Asig. Generales	487,120
Total	$7,198,748

C. Fondo dotal:

Objetivos:

1. Incrementar las donaciones monetarias y en especie en respaldo de proyectos especiales de fomento académico y cultural.

Cumplimientos:

1. Fondo Dotal UPR aumentó de $31.9 millones en 2002-2003 a $ 39.8 millones en 2003-2004.

D. Grants

Objetivos:

1. Incrementar la obtención de "grants" en proyectos de tecnología de frontera.

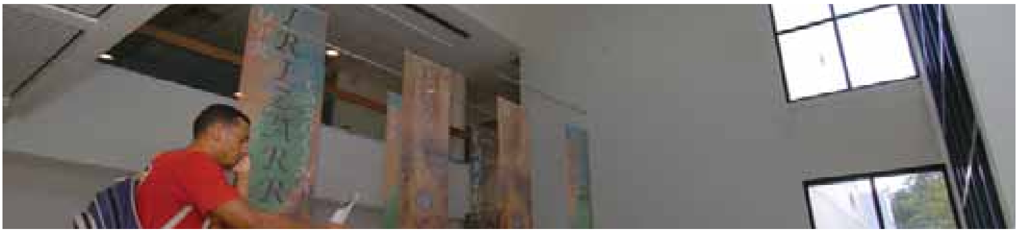
2. Incrementar la obtención de "grants" en proyectos multicampus y multidisciplinarios.

3. Incrementar la obtención de "grants" en proyectos de enlace y cooperación con centros de investigación y universidades fuera de Puerto Rico

4. Incrementar la obtención de "grants" que tengan un efecto enriquecedor en nuestros programas académicos y en las competencias estudiantiles y docentes.

Cumplimientos:

Los "grants" y los contratos federales para el año fiscal 2003-2004 ascienden a $238,621,641.00. Esto representa un aumento de $13.2 millones respecto al año anterior o un 6%.



II.
INSTALACIONES UNIVERSITARIAS

Objetivos:

1. Rearticular bajo un nuevo orden conceptual y nuevos parámetros de ejecución del diseño y construcción de nuevas estructuras así como la intervención en estructuras existentes que así lo requieran en la Universidad de Puerto Rico.

2. Rearticular bajo un nuevo orden conceptual y nuevos parámetros de ejecución la atención al llamado síndrome de edificios enfermos que aqueja a un número de estructuras en la Universidad.

3. Incorporación sistemática de obras de arte en los espacios edificados y no edificados de la Universidad

Cumplimientos:

1. Aprobación del Programa de Mejoras Permanentes de la Universidad de Puerto Rico para los años 2003-2004 a 2006-2007 mediante la Certificación de la Junta de Síndicos Núm.175 (2002-2003).

2. Incluye proyectos dirigidos a: la rehabilitación y mejoras de edificios que presentan riesgos o problemas de salud a sus ocupantes; restauración de los edificios y espacios emblemáticos, dotándolos en ocasiones de nuevos usos; nueva construcción para instalaciones de docencia, de investigación y de espacios de calidad para esparcimiento y sosiego, así como para el mejoramiento de general del entorno natural y edificado.

3. Instalación de una escultura de tamaño monumental en cada uno de los recintos con motivo del Centenario y como resultado del Simposio Internacional de Escultura. Un total de once obras de artistas puertorriqueños e internacionales fueron instaladas en los espacios abiertos. El Simposio se subvencionó en su totalidad con donativos privados y un "grant" del National Endowment for the Arts.

4. Exhibición permanente de obras de arte de la colección del Museo de Historia, Antropología y Arte de Río Piedras en el edificio de Administración Central.

III. VÍNCULO SOSTENIDO CON EL ESTUDIANTADO

I. MEJORES SERVICIOS Y APOYOS A LOS ESTUDIANTES

Objetivos:

1. Incrementar los índices de retención y terminación de grados.

2. Optimizar los servicios de la Oficina de Estudiantes para agilizar y profesionalizar los procedimientos de reclutamiento, admisión y colocación estudiantil.

3. Ampliar y flexibilizar las concesiones de ayuda económica.

4. Atención a los estudiantes de escuela superior para atraer los mejores talentos a la Universidad.

Cumplimientos:

1. La Universidad de Puerto Rico tuvo una matrícula de 68,599 estudiantes distribuidos en las once unidades del sistema.

2. En el año académico que concluye se confirieron 77 grados doctorales, 647 de maestría, y cerca de 8,114 grados de bachiller y un total de sobre 10,095 grados académicos.

3. Consolidación de la Oficina de Estudiantes como unidad integrada. El concepto de un vínculo sostenido entre la Universidad y sus estudiantes ha hilvanado el trabajo de la Oficina de Estudiantes durante el año académico 2003-2004.

4. Los esfuerzos de reclutamiento se han dirigido a sembrar en la imaginación de los escolares puertorriqueños la idea de la Universidad de Puerto Rico como una opción real de futuro. Sobresalen los seis Encuentros de Líderes Estudiantiles de la Universidad y el Departamento de Educación, por medio de los cuales recibimos en seis de los recintos de la Universidad a 2,107 líderes estudiantiles del sistema escolar público para ponerlos en contacto con líderes estudiantiles universitarios y en los que tratan temas sustantivos como la deserción y la violencia escolares.

5. La Universidad de Puerto Rico admitió los primeros estudiantes bajo la modalidad de "Home Schoolers" y bajo la Iniciativa Bilingüe.

6. Diseño y producción de un CD-ROM interactivo, el cual será la pieza central de reclutamiento del año 2004-2005. Nos proponemos lanzar esta nueva pieza en la edición 2004 de Conexión Universitaria, pautada para principios de octubre, actividad diseñada para los consejeros profesionales del sistema escolar público y privado.

7. El nuevo proceso de admisión temprana se lleva a cabo por medio de una fórmula que toma en cuenta el perfil variado de los diversos programas académicos de la Universidad. El resultado del cambio fue un aumento de más de 300% en el número de estudiantes admitidos en dicha modalidad y la participación de todos los recintos.

8. Aumento de 35% en el número de estudiantes que reciben sus becas por medio del depósito directo, elevando la participación total al 47% de la totalidad de los becados.

9. La radicación de solicitudes electrónicas aumentó en 47% con respecto al año anterior; es decir, 35,003 solicitudes electrónicas de un total de 60,285 solicitudes.

10. La Universidad de Puerto Rico reseñó sus ofrecimientos académicos en la "Hobson´s Guide for College-Seeking Hispanic Students", publicación que se distribuye anualmente a 2,000 escuelas superiores en Estados Unidos alcanzando a un millón de estudiantes. La implantación de las recomendaciones del estudio realizado por "The Media Network" en tres ciudades de los Estados Unidos nos permitirá posicionarnos más efectivamente de cara al proceso de admisión del 2005.

11. La Junta de Síndicos aprobó la Certificación 135 (2003-2004), por medio de la cual se expresa la Política Institucional sobre los Servicios de Desarrollo Profesional y Colocaciones para Alumnos de la Universidad de Puerto Rico.

12. Por segundo año consecutivo, la Compañía Johnson & Johnson hizo entrega de un donativo de $100,000 que será destinado a becas para estudiantes sobresalientes de los programas de enfermería de la Universidad de Puerto Rico. Este donativo nos permitirá conceder becas de $2,000 a cincuenta estudiantes de los recintos de Mayagüez, Ciencias Médicas, Humacao, Arecibo y Carolina.

13. Se revisaron los protocolos de las ceremonias de graduación para diseñar un modelo uniforme para todas las unidades que provea para el reconocimiento adecuado del logro de los estudiantes.

14. Se aprobó la Política de Admisión Diferida para Estudiantes Graduados (Certificación Núm. 26, 2003-2004 de la Junta de Síndicos).

15. Evaluación de las políticas institucionales sobre Amnistía Académica, repetición de cursos con calificaciones de C, D, F y NP, y otorgamiento de honores de graduación.

II. EXALUMNOS Y AMIGOS DE LA UNIVERSIDAD:

Establecimiento de nexos con la familia universitaria de egresados y con los amigos, individuales, institucionales y corporativos.

Objetivos:

1. Nutrir el sentido de identificación para establecer un lazo de agradecimiento, afecto y apoyo permanente entre la Universidad y sus egresados.

2. Desarrollo de una cultura de filantropía entre ex alumnos y amigos de la Universidad.

3. Conversión de los ex alumnos en una fuente creciente de apoyo económico a la institución.

4. Propiciar la concesión de donativos mayores por parte de exalumnos.

5. Adelantar en la identificación y movilización de los egresados de la Universidad.

6. Integración de la Junta de Síndicos al proyecto de ex alumnos.

7. Revisión de toda la reglamentación y normativa sobre donativos.

Cumplimientos:

1. De un universo de egresados estimado en sobre 300,,000 personas, se han identificado 220,883. De éstas se han actualizado las direcciones de 95,750.

2. El año pasado las donaciones al Fondo Dotal ascendieron a más de $4 millones en efectivo y especie.

3. Cultivo de donantes por el Presidente resulta en que dos ex alumnos realicen cada uno un donativo de $500,000 al Fondo Dotal de la UPR.

4. UPR recibe primer legado testamentario de $1,000,000, más una colección de arte valorada en la misma cantidad.

5. Se reciben otros donativos significativos de piezas y colecciones de arte para el nuevo museo del Recinto Universitario de Mayagüez (MuSA).

6. Rectores participan en taller intensivo del "Council for Advancement and Support of Education" (CASE) sobre "Educational Fundraising".

7. Con motivo del Centenario se organiza primera Cena de Honor. Unas trescientas ochenta personas asisten. Se recaudan más de $289,000 para el Fondo Dotal.

8. Se publica el primer número de la revista La Universidad, una publicación gratuita que se envía por correo a ex alumnos y amigos de la Universidad de Puerto Rico.

9. La exhibición Acércate a la Universidad, en San Juan. Ponce y Mayagüez, estimula la voluntad de apoyar a la Institución por parte de exalumnos y otros visitantes.

10. Se diseña la primera campaña de recaudación anual. Todas las unidades participan y realizan sus envíos. La Oficina del Presidente respalda iniciativa con otro envío en apoyo a los realizados por los recintos. Como resultado de la primera campaña de recaudación anual las unidades recibieron donativos que sumaron $129,592.

11. La Oficina del Presidente y las once unidades inician gestiones de recaudación para el Simposio Internacional de Escultura. Proyecto sirve a las unidades como modelaje para acercamiento y recaudación de "major gifts". Se recaudaron $319,000 y se comisionaron e instalaron 11 esculturas monumentales de artistas reconocidos internacionalmente.

12. La Junta de Síndicos aprueba certificaciones con normativa sobre relaciones universitarias (Cert. # 190, #191 y #192, Serie 2003-2004).

13. Grupo de Síndico dona sus dietas al Fondo Dotal.

14. Junta de Síndicos crea Comité Especial de Desarrollo y Recaudación de Fondos Privados.

15. Proyecto de vinculación con exalumnos genera la organización de grupos de exalumnos en los Estados Unidos.

IV. LA FACULTAD: UN NUEVO ÁMBITO DE RELACIONES

Afinar y fortalecer la calidad académica de nuestro cuerpo de profesores e investigadores.

Objetivos:

1. Consolidar a la Universidad de Puerto Rico como la institución de educación superior con el mayor número de profesionales con grado doctoral en el país.

2. Establecer un sistema electrónico de Informes de Profesores que permita la auto-evaluación de los docentes y mantener un portafolio profesional en formato electrónico; y la evaluación y proyección de los logros docentes a nivel local e internacional.

Cumplimientos:

1. Actualmente 2,205 de un total de 4,833 profesores e investigadores ostentan el título doctoral, para un 46% de la facultad; 2,517 ostentan el grado de maestría, para un 52%.

2. Desarrollo de un sistema electrónico para Informes de Profesores en el que se podrán registrar en las ejecutorias académicas, eruditas, creativas e investigativas del personal docente. Se produjo, en colaboración con representantes de todas las unidades, el primer borrador el Informe de Actividades de Profesores en formato electrónico.

3. Se recomendaron bajo el Programa de Beca Presidencial para Estudios Graduados o Profesionales seis nuevas becas para estudios doctorales en las áreas de Ciencias Ambientales, Bioestadísticas y Periodismo y se renovaron 32 becas.

4. La Junta de Decanos y Decanas de Asuntos Académicos endosó el Plan de Práctica Intramural e hizo recomendaciones sobre su implantación.

5. La Universidad de Puerto Rico y el "Committee for Institutional Cooperation" firmaron un acuerdo para que profesores del Sistema UPR puedan proseguir estudios doctorales en las universidades que pertenecen al CIC. Se coordinó para que todas las unidades se integren al Faculty "Resource Network". El FRN es una membresía por invitación de 41 instituciones, incluyendo "New York University", que es la sede. El programa ofrece a la facultad invitada seminarios para enriquecer y desarrollar temas que son parte de la enseñanza a nivel universitario.

6. La Vice-presidencia de Asuntos Académicos auspició la membresía de todos los Decanos Académicos en el "American Council of Academic Deans". ACAD provee a los decanos académicos un sistema de comunicación y de apoyo sobre los procesos de enseñanza-aprendizaje, y avalúo estudiantil.

7. Cátedra Hostos – La Dra. Rosalina Perales, Catedrática del Departamento de Drama de la Facultad de Humanidades del Recinto de Río Piedras ocupó la Cátedra Especial durante el año 2003-2004, y la primera mitad del año académico 2004-2005, cuando compartió el nombramiento de forma honorífica con la Dra. Ana Luisa Sierra, Catedrática Asociada del Departamento de Español del Recinto de Río Piedras. Durante su incumbencia la Catedrática Perales trabajó el tema "El Teatro Infantil de Eugenio María de Hostos: Familia, Ética y Performancia". Entre otras actividades, exploró y difundió el teatro infantil de Eugenio María de Hostos en universidades y escuelas dentro y fuera de la Isla, incluyendo producciones y presentaciones en Chile, la República Dominicana y Nueva York.

V. PROGRAMACIÓN ACADÉMICA

La Universidad de Puerto Rico como centro de alta y creciente calidad académica.

Objetivos:

1. Fortalecer la cultura de evaluación en todos los niveles de la programación académica. La generalización de la cultura de evaluación debe proveer horizontes deseables de comportamiento y producción académicos.

2. Revisar los contenidos y procesos relacionados a la evaluación y puesta al día de la oferta académica existente y la inserción de nuevos programas, en función de la investigación institucional, del ambiente externo y la incorporación de estándares de excelencia establecidos para las disciplinas, tecnologías y profesiones.

3. Retener y aumentar las acreditaciones institucionales, profesionales y especializadas en la Universidad.

4. Apoyar en forma especial la acreditación de las dos disciplinas en las que tenemos la mayor cantidad de estudiantes y programas, éstas son Educación y Administración de Empresas.

5. Promover la excelencia académica de los programas de estudio mediante su creación y evaluación desde los estándares de la entidad de acreditación profesional y/o institucional pertinentes.

6. Impulsar la investigación institucional que permita la toma de decisiones y la planificación más idónea.

Cumplimientos:

1. Se ha desarrollado y puesto en vigor un protocolo calendarizado mediante el cual los cerca de 512 programas académicos y los servicios cocurriculares como bibliotecas y centros de investigación existentes deberán auto evaluarse a base de los parámetros identificados, rendir cuenta de su efectividad, y efectuar los cambios necesarios para conformarse con el perfil actualizado de egresados.

2. Todas las unidades del Sistema ostentan la acreditación de la "Middle States Association", Ciento ventidós programas académicos están acreditados por sus correspondientes asociaciones profesionales. Ciento veintiseis otros programas ya están encaminados a lograr sus respectivos reconocimientos.

3. Elaboración, en coordinación con los recintos, de un Plan de Acreditación de la Universidad de Puerto Rico.

4. Iniciar esfuerzos hacia el reconocimiento externo de los servicios que ofrecemos a través de nuestros museos, bibliotecas, servicios de consejería y de registraduría.

5. Se aprobaron y revisaron los siguientes programas:

Certificado Graduado en Gerencia
Clínica del Recinto de Ciencias Médicas

Certificado Postbachillerato de Maestro Bibliotecario
a Distancia del Recinto de Río Piedras

Certificado de Estudios Empresariales
del Recinto de Río Piedras

Certificado Graduado en Promoción de la Salud Escolar del Recinto de Ciencias Médicas

Maestría en Ciencias en Terapia Ocupacional del Recinto de Ciencias Médicas

6. Se inició un proyecto en coordinación con el Consejo de Educación Superior de Puerto Rico para auditar la oferta académica de la Institución. El resultado de esta iniciativa permitió certificar los programas activos, según la licencia del CES e identificar los programas que requieren completar un proceso de moratoria.

7. Se comenzó el Proyecto para el Desarrollo de los Programas de Educación del Sistema con el objetivo de que todos logren la acreditación de la entidad externa National Council Accreditacion for Teachers Education (NCATE).

8. La Junta de Síndicos aprobó las Políticas y Normas para Autorizar Secuencias Curriculares de especial interés para la Universidad de Puerto Rico y el servicio público (Certificación Núm. 27, 2003-2004).

9. Se constituyó un Comité Ejecutivo para preparar un documento de trabajo de Política de Educación a Distancia que estableciera las metodologías y las tecnologías de la información necesarias (equipo, infraestructura, personal de apoyo y presupuesto) así como los procedimientos y presupuestos necesarios.

10. Acuerdo para ofrecer una Maestría entre el Recinto de Río Piedras y la UPR en Humacao en el área de Administración de Empresas.

11. Se aprobó en enero de 2004 por la Junta de Decanos y Decanas una Guía para la redacción de propuestas para el establecimiento de programas académicos nuevos en la Universidad de Puerto Rico. Se preparó y distribuyó a los Decanos y Decanas de Asuntos Académicos una Guía para la preparación de informes de programas académicos creados o revisados mediante la Certificación Núm. 93-113 del Consejo de Educación Superior.

12. Se inició la implantación uniforme de la Certificación Núm. 130. (1999-2000) de la Junta de Síndicos sobre el Registro y Codificación Uniforme de Cursos para agilizar los procesos de traslado, equivalencias, convalidaciones y sustituciones de cursos.

13. Se continuaron los diálogos y la coordinación con representantes del Consejo de Educación Superior de Puerto Rico, la "Middle States Association" (MSA) y las unidades del primer ciclo de evaluación de Renovación de Licencia y Reacreditación Institucional mediante visita conjunta de ambas entidades.

14. A través del Proyecto Atlantea, se establecieron enlaces y redes de investigación académica con colegas de la región caribeña y universidades privadas en Puerto Rico, entre ellas:

i. 23 proyectos de Enlace

ii. 10 Mini Grants a tres unidades del Sistema

iii. 24 Redes de Investigación y enlace académico en seis unidades del Sistema que involucraron a 168 investigadores y docentes

iv. Creación de la Red para el Estudio del Género en la Cuenca del Caribe

v. Respaldo a cuatro publicaciones

vi. Auspicio de la VI Jornada de Estudios Caribeños

15. El Proyecto Atlantea contribuyó a la internacionalización de la Universidad mediante el establecimiento y fortalecimiento de vinculaciones con investigadores en 22 países, entre ellos: Haití, Cuba, República Dominicana, Jamaica, Costa Rica, Venezuela, México, Trinidad y Tobago, El Salvador, Estados Unidos, Guatemala, Panamá, Nicaragua, Islas Vírgenes, Carriacou, Santa Cruz y Martinica.

16. Se constituyó en noviembre de 2003 un Comité Asesor, compuesto por 12 profesoras y profesores, que colabora en la revisión de las propuestas académicas que la Junta Universitaria refiere a la Vicepresidencia. También se comenzó la práctica de referir las propuestas a especialistas externos en las disciplinas para su evaluación y recomendaciones.

17. Se coordinó con las unidades para que recopilaran datos sobre los siguientes indicadores, indispensables para una agenda de planificación institucional:

i. Avalúo de la oferta académica

ii. Avalúo de oferta y demanda curricular

iii. Avalúo de la efectividad del proceso educativo

iv. Admisiones y asistencia económica

v. Estado de la oferta extracurricular

18. Creación de un inventario de los programas acreditados, candidatos a acreditación o susceptibles a obtenerla, así como las entidades de acreditación correspondientes a cada programa. Aplicación en la revisión de las propuestas para la creación o revisión de programas académicos de los estándares de excelencia de la entidad acreditadora correspondiente.

19. Se inició un proyecto en coordinación con el Consejo de Educación Superior de Puerto Rico para auditar la oferta académica de la Institución. El resultado de esta iniciativa permitió certificar los programas activos, según la licencia del CES, e identificar los programas que requieren completar un proceso de moratoria.

20. La Certificación Núm. 93-113 del Consejo de Educación Superior resume las normas y guías para la consideración y trámite para la creación y revisión de programas. La Universidad propuso tres cambios principales:

i. Separa las acciones de creación de las de revisión. Es decir, habrá una certificación exclusiva para nuevos programas y otra para la evaluación y posible revisión de éstos.

ii. Incluir unas guías para la preparación de los distintos contenidos de las propuestas.

iii. Incorporar y actualizar los contenidos requeridos por la agencia acreditadora, Middle States Association, y la agencia que otorga la licencia, el Consejo de Educación Superior.

21. Se revisaron los planes estratégicos de cada Oficina de la Presidencia y de cada unidad en armonía con el Plan Académico Administrativo del Presidente, los requerimientos de Licencia y Acreditación así como los criterios de la Oficina del Contralor de Puerto Rico.

VI.
CULTURA DE INVESTIGACIÓN

Objetivos:

1. Aumentar la competitividad de nuestra producción investigativa.

2. Generar investigaciones de frontera desde los parámetros que muestran universidades de escala parecida a la nuestra.

3. Articular una alianza con el sistema educativo público para fortalecer la enseñanza y formación de los estudiantes puertorriqueños en ciencias y matemáticas.

4. Configurar la infraestructura sistémica correspondiente para que adelante los propósitos y proyectos de investigación

Cumplimientos:

1. Creación con un fondo inicial de $100 millones del Fideicomiso para la Ciencia, la Tecnología y la Investigación del cual la Universidad es institución fundadora, que impulsará el establecimiento en Puerto Rico de instalaciones y de talento de calidad mundial.

2. El Centro Comprensivo de Investigaciones de Cáncer, que será uno de sólo treinta y ocho centros similares en todos los Estados Unidos, y que se establecerá mediante un convenio con el Centro M.D. Anderson de la Universidad de Texas utilizando fondos de los Institutos Nacionales de la Salud ascendentes a $18 millones. No sólo desarrollará nuevo conocimiento sobre formas de prevenir y de tratar esta enfermedad, sino que generará en el proceso los cuadros puertorriqueños que podrán a su vez ejercer provechosamente su profesión en beneficio de la salud y del bienestar de la comunidad.

3. El Edificio de Ciencias Moleculares, una iniciativa conjunta del Recinto de Río Piedras y del Recinto de Ciencias Médicas, con recursos combinados federales, estatales y fondos propios de la Universidad. Con un área de 281,000 pies cuadrados, es el proyecto de infraestructura de investigación más ambicioso que jamás se haya intentado en el país. Creará una infraestructura para la investigación y el desarrollo de tecnología que a su vez ayudará al desarrollo económico de las industrias con un alto componente tecnológico. Es el primer edificio dedicado exclusivamente a la investigación en Puerto Rico.

4. El Centro Para el Estudio de las Desigualdades en

VII. DOTACIÓN TECNOLÓGICA

Objetivos:

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

2. Adecuar la dotación tecnológica a las nuevas conceptualizaciones sobre diseño y construcción de estructuras.

3. Servir de soporte a la cultura de investigación.

4. Servir de soporte a la cultura de evaluación.

Cumplimientos:

1. Se creó un Comité para estudiar la integración de los servicios de telefonía, Internet e Internet 2, el cual preparará una solicitud de propuesta para integrar y optimizar estos servicios en todas las unidades del sistema.

2. Se recibió el Informe que hiciera el grupo evaluador "EDUCAUSE" del "National Science Foundation", sobre las capacidades de la red de comunicaciones a nivel institucional e intracampus. Las unidades evaluadas fueron Río Piedras, Cayey, Ponce, Bayamón y la Administración Central.

3. Los recintos de Ponce y Utuado recibieron propuestas federales de Título V para mejorar la infraestructura de comunicaciones en estas unidades.

4. Se inició la implantación de una red inalámbrica en los recintos de la Universidad de Puerto Rico que permitirá al estudiante tener acceso a los recursos electrónicos de la universidad en cualquier lugar con cobertura y en cualquier momento. El proyecto se completó en cinco unidades (Mayagüez, Aguadilla, Cayey, Ciencias Médicas y Río Piedras) y se encuentra en progreso en las restantes seis.

5. Se invirtió un total de $ 1,617,068 en el mantenimiento de los servicios de Internet2.

6. Evaluación de la infraestructura existente para aumentar el ancho de banda de dos T1 a DS-3 para los ocho recintos de cuatro años

7. La UPR participó activamente en las organizaciones que apoyan el desarrollo de tecnologías de información en instituciones de educación superior tales como Internet2, Universia, Educause y "Hispanic Educational Telecommunications System" (HETS).

8. La UPR adquirió el índice de citas bibliográficas "Web of Science", el cual contiene la versión electrónica del "Social Sciences Citation Index" y una versión ampliada del "Science Citation Index" mediante un donativo de la "Nacional Science Foundation".

9. Se realizó un análisis de brecha para evaluar la implantación de un sistema de información integrado para la Universidad de Puerto Rico

VIII.

REGLAMENTACIÓN UNIVERSITARIA Y CUADROS ADMINISTRATIVOS

Examinar del Reglamento General, el instrumento básico de reglamentación de la Universidad.

Cumplimientos:

1. Elaboración a cargo de un comité con representación docente, no-docente y estudiantil de un documento de trabajo que servirá de base para el diálogo universitario sobre el Reglamento General.

2. La Junta de Síndicos, mediante la Certificación número 60, 2003-2004 del 20 de febrero de 2004, convocó a todos los sectores de la comunidad universitaria a una discusión a fondo sobre la transformación reglamentaria de la Universidad y se uniciaron diálogos institucionales en torno al Reglamento General.

PERSONAL NO DOCENTE

Objetivos:

1. Profesionalizar los instrumentos de descripción de los puestos no-docentes y sus correspondientes atributos.

2. Ofrecer servicios de apoyo al empleado no-docente que incidan en una mejor calidad de vida laboral.

Cumplimientos:

1. Se diseñó y estructuró el Formulario de Notificación de Deberes, Atribuciones, Funciones y Responsabilidades del Puesto en armonía con los términos acordados con La Hermandad de Empleados Exentos No Docentes.

2. Desarrollo de un programa de monitoría y mediación en asuntos obreros-patronales que asume las funciones otrora atendidas por el Negociado de Conciliación y Arbitraje del Departamento del Trabajo.

3. Se logró la licencia del Consejo General de Educación para el Centro Preescolar de la Administración Central.

IX.
INTERNACIONALIZACIÓN

Objetivos:

1. Aumentar el número de estudiantes en los programas de estudios en el exterior.

2. Aumentar los respaldos institucionales en y fuera de Puerto Rico para los estudiantes que viajan al exterior.

Cumplimientos:

1. Durante el año académico 2003-2004, 224 estudiantes viajaron a universidades españolas, comparado con 75 durante el año académico 2002-2003.

2. Firma de convenios con las Universidades de Salamanca, Complutense de Madrid, Centro Reina Sofía, Universidad Tecnológica del Cibao, Universidad Abierta para Adultos, Instituto Dominicano de Tecnología, Instituto Católico Tecnológico de Barahona, Instituto Nacional de Ciencias Exactas, Instituto Tecnológico del Cibao Oriental, Instituto Tecnológico Mercy Jacques, Universidad Agroforestal Fernando Arturo de Meriño, Universidad Católica de Santo Domingo, Universidad Eugenio María de Hostos, Universidad Nacional Evangélica, Universidad Tecnológica de Santiago, Universidad Nordestana, Universidad Central del Este, Universidad Tecnológica del Sur y la Universidad de Chile para la recepción de estudiantes del sistema UPR en dichos centros.

3. Apertura de oficinas de intercambio en las siguientes unidades del sistema: UPR en Aguadilla, Arecibo, Carolina, Ponce, Utuado y el Recinto de Ciencias Médicas.

4. Establecimiento de una Oficina de la Universidad de Puerto Rico en España para apoyar a los alumnos y docentes durante su estancia en España.

5. Establecimiento de la oficina de intercambio en Madrid.

X. FOMENTO CULTURAL

Una cartelera de actividades de fomento y auspicio de manifestaciones de la cultura local e internacional de alta calidad.

Objetivos:

1. Promover y auspiciar el arte y la cultura de calidad que se gesta en Puerto Rico y en los escenarios internacionales.

Cumplimientos:

1. La Universidad de Puerto Rico es anfitriona de la Ruta Quetzal, un proyecto multicultural auspiciado por el gobierno e instituciones de España.

2. Gira de la Orquesta Sinfónica de Puerto Rico por los recintos universitarios. Se ofrecieron diez conciertos; nueve en sedes universitarias y uno en Plaza Las Américas.

3. Homenaje Póstumo a José Trías Monge. Memorial musical celebrado en la Escuela de Derecho de la Universidad con la participación del conjunto de Cámara San Juan "String Quartet".

4. Temporadas 3 y 4 de Eco-Cultura con actividades que combinan las artes y la valoración de los espacios naturales universitarios. Se ofrecieron bajo esta iniciativa conciertos de música de cámara, nueva trova, música latinoamericana y música autóctona puertorriqueña. Además, se escenificó la obra de teatro "Donde el viento hace buñuelos" con la participación de Rosa Luisa Márquez y Antonio Martorell.

5. Gran Gala del Centenario celebrada en el Carnegie Hall de Nueva York con la participación del Coro del Centenario, compuesto por 115 voces provenientes de todas las unidades del sistema, y dirigido por la Prof. Carmen Acevedo; la Orquesta Sinfónica de Puerto Rico bajo la dirección del Maestro Guillermo Figueroa y las solistas June Anderson y Jossie Pérez.

6. Participación de escultores, artistas y críticos de arte de renombre internacional en el Simposio de Esculturas realizado durante dos semanas en el mes de mayo de 2004. Con motivo del Centenario se instalaron 11 piezas de tamaño monumental, una en cada recinto, y se llevaron a cabo charlas, foros, presentaciones, exhibiciones, conciertos y otras actividades culturales en los recintos para la comunidad universitaria y comunidad general.

7. Presentación en Plaza Las Américas del Coro del Centenario, dirigido por la Prof. Carmen Acevedo y compuesto por 200 voces provenientes de los coros universitarios de Mayagüez, Ponce, Ciencias Médicas, Coro de Concierto de Río Piedras y Coro de la Universidad de Puerto Rico. Participación de la Orquesta Sinfónica de Puerto Rico bajo la dirección del Maestro Roselín Pabón.

8. Festival de la Voz Universitaria celebrado en la Universidad de Río Piedras en Aguadilla con la participación de voces de los once recintos universitarios.

9. Congreso Iberoamericano del Teatro Universitario. Celebrado en la Universidad de Puerto Rico en Utuado, contó con la participación de grupos teatrales de universidades de Argentina, México; de los recintos de Aguadilla, Cayey, Utuado, Mayagüez, Ponce, Humacao, Bayamón, Carolina, Río Piedras; la Universidad del Sagrado Corazón de Puerto Rico y dos escuelas superiores.

10. Ciclo de Actividades Culturales en ocasión de la exhibición Acércate a la Universidad en Plaza Las Américas. Se presentaron más de treinta grupos e intérpretes de danza, música popular, música de cámara, música coral y teatro.

XI. IDENTIDAD INSTITUCIONAL

Objetivos:

1. Fortalecer en escenarios de divulgación amplia los haberes, talentos y proyectos de la Universidad de Puerto Rico.

2. Colaborar mediante la concertación de alianzas con la industria al desarrollo integral del país y al papel relevante de la Universidad en ese cometido.

3. Convertir a la Editorial de la Universidad de Puerto Rico en una editorial universitaria actualizada, que respalde la programación académica, que sirva al fomento cultural de las comunidades intra y extra muros y que contribuya al fortalecimiento de la identidad institucional de la UPR en y fuera de Puerto Rico.

Cumplimientos:

1. Montaje de la exhibición ACÉRCATE A LA UNIVERSIDAD en la nave principal de Plaza Las Américas por espacio de una semana. Miles de visitantes circularon por los ejes informativos; compartieron con alumnos, profesores y personal de la Universidad; se registraron como exalumnos y presenciaron actividades educativas, artísticas y culturales.

2. Editorial de la Universidad de Puerto Rico: Se reestructura el ordenamiento normativo y la visión estratégica de la Editorial de la Universidad de Puerto Rico para convertirla en una editorial universitaria atemperada a los planes de desarrollo de la Universidad y a los rumbos actuales de la industria editorial. En los primeros seis meses bajo el nuevo esquema operativo, la Editorial ha producido 7 nuevos libros y 19 re-impresiones.

ESTE INFORME PRESENTA A CABALIDAD LOS OBJETIVOS DE LA AGENDA UNIVERSITARIA Y LOS CUMPLIMIENTOS RESPECTIVOS PARA EL AÑO ACADEMICO 2003-2004 POR PARTE DE LA OFICINA DEL PRESIDENTE DE LA UNIVERSIDAD DE PUERTO RICO, LAS VICEPRESIDENCIAS Y OFICINAS CONCERNIDAS DE LA ADMINISTRACION CENTRAL DE LA UNIVERSIDAD DE PUERTO RICO.

UNIVERSIDAD DE PUERTO RICO

Oficina del Presidente
Universidad de Puerto Rico

Jardín Botánico Sur
1187 Calle Flamboyán
San Juan, Puerto Rico
00926-1117

AUDITED FINANCIAL STATEMENTS

University of Puerto Rico
Years Ended June 30, 2004 and 2003

University of Puerto Rico

Audited Financial Statements

Years Ended June 30, 2004 and 2003

Contents

Report of Independent Auditors

Board of Trustees
University of Puerto Rico

We have audited the accompanying statement of net assets of the University of Puerto Rico (the University), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2004 and 2003 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 statement bases on our audits. We did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital) and Desarrollos Universitarios, Inc. (the Company), discretely presented component units, as of and for the years ended June 30, 2004 and 2003 and March 31, 2004 and 2003, respectively. Those financial statements were audited by other auditors whose report has been furnished to us. The Hospital's report included an explanatory paragraph stating that this 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 and the Company 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, and 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 reports 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, 2004 and 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 29, 2004, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's Discussion and Analysis, as listed in the table of contents, 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.

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 49 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.

As disclosed in Note 1 to the financial statements, during 2004, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations are Component Units an amendment of GASB 14.*

Ernst & Young LLP

November 29, 2004, except for
Note 15, as to which the date
is January 1, 2005

Stamp No. 2004113
Affixed to
Original of
This report.

University of Puerto Rico

Management's Discussion and Analysis

June 30, 2004 and 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 years ended June 30, 2004 and 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, 2004, with total assets of $979,895,000 total liabilities of $679,134,000 and net assets of $300,762,000. University net assets increased $4,114,000 in the year ended June 30, 2004 to $300,762,000 at June 30, 2004. This increase is explained in the section entitled "Analysis of Financial Position and Results of Operations." An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2004, 2003 and 2002 follow:

Condensed Statements of Net Assets

	June 30 2004	2003	2002
Assets			
Current assets	$ 347,198,637	$ 343,492,432	$ 354,506,075
Noncurrent assets:			
Capital	591,331,872	568,604,803	553,229,348
Other	41,365,027	33,678,864	25,270,818
Total assets	$ 979,895,536	$ 945,776,099	$ 933,006,241
Liabilities			
Current liabilities	$ 135,275,117	$ 104,847,662	$ 97,055,009
Noncurrent liabilities	543,858,433	544,280,641	562,917,182
Total liabilities	$ 679,133,550	$ 649,128,303	$ 659,972,191
Net assets			
Invested in capital assets net of related debt	$ 164,188,965	$ 150,639,405	$ 151,907,968
Restricted:			
Nonexpendable	38,902,830	31,906,293	22,302,370
Expendable	91,944,811	100,138,696	78,594,989
Unrestricted	5,725,380	13,963,402	20,228,720
Total net assets	$ 300,761,986	$ 296,647,796	$ 273,034,047

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2004	2003	2002
Operating revenues			
Tuition and fees	$ 40,235,263	$ 38,844,683	$ 35,835,830
Grants and contracts	251,075,661	246,523,874	223,436,160
Patient services	50,675,183	53,329,127	47,078,882
Other operating revenues	38,466,965	30,579,768	32,195,805
Total operating revenues	380,453,072	369,277,452	338,546,677
Operating expenses	1,120,598,736	1,040,994,779	964,374,441
Operating loss	(740,145,664)	(671,717,327)	(625,827,764)
Nonoperating revenues			
State appropriations	743,632,033	695,550,184	666,662,399
Other nonoperating loss, including interest on indebtedness	(6,852,732)	(9,243,174)	(9,355,658)
Net nonoperating revenues	736,779,301	686,307,010	657,306,741
(Loss) income before other revenues	(3,366,363)	14,589,683	31,478,977
Capital appropriations	2,243,129	691,592	5,628,946
Addition to permanent endowment	5,237,424	8,332,474	-
Total increase in net assets	$ 4,114,190	$ 23,613,749	$ 37,107,923

Condensed Statements of Cash Flows

	2004	2003	2002
Cash and cash equivalents (used in) provided by			
Operating activities	$ (711,317,046)	$ (658,450,757)	$ (595,431,606)
Noncapital financing activities	755,518,466	708,285,700	668,355,478
Capital and related financing activities	(79,302,909)	(88,222,791)	(103,799,703)
Investing activities	(13,331,357)	48,728,417	46,115,526
Net (decrease) increase in cash and cash equivalents	(48,432,846)	10,340,569	15,239,695
Cash and cash equivalents - beginning of year	105,260,728	94,920,159	79,680,464
Cash and cash equivalents - end of year	$ 56,827,882	$ 105,260,728	$ 94,920,159

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 Statement No. 21 and No. 34;* in June 2002 by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and also in May 2002 by GASB Statement No. 39, *Determining whether Certain Organizations on Components Units*.

These statements became effective for the years ended June 30, 2002 through 2004. 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

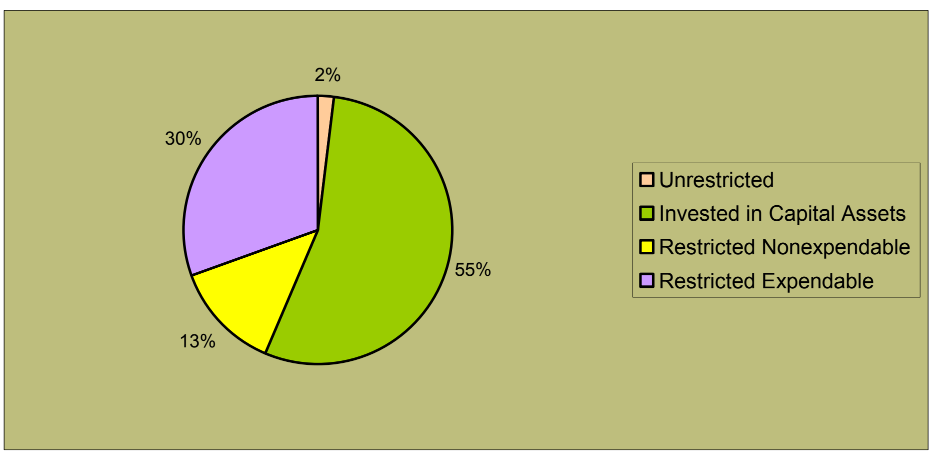
The statement of net assets presents the assets, liabilities and net assets of the University as of June 30, 2004 and 2003. The net assets are displayed in three parts, invested in capital assets net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable 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 15%, 23% and 52%, respectively, of current assets. Approximately 93% of noncurrent assets are capital assets.

University's cash, cash equivalents and investments decreased from $203,918,000 at June 30, 2002 to $209,290,000 at June 30, 2003 and to $175,651,000 at June 30, 2004. Accounts receivable increased from $113,293,000 to $146,868,000 and to $183,788,000 for the same periods. The increase is mainly due to $25 million in funds not received by the University as June 30, 2004 in connection with the revocation of the "Ley de 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 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. Accounts payable and accrued liabilities increased from $59,849,000 to $62,814,000 and to $81,097,000 between June 30, 2002, 2003 and 2004. Noncurrent liabilities consist primarily of bonded indebtedness and notes payable. Long-term debt decreased from $430,326,000 to $411,115,000 and to $397,834,000 for the same period 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 $164,189,000 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 $38,903,000 consist primarily of the University's permanent endowment funds. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended. Restricted expendable net assets, amounting to $91,944,000 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.

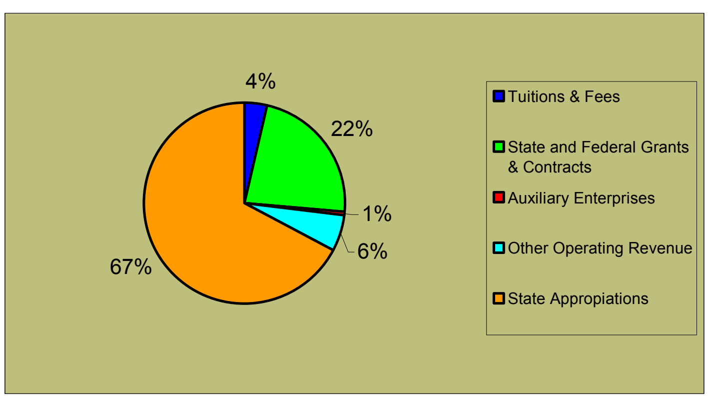
Statement of Revenues, Expenses and Changes in Net Assets

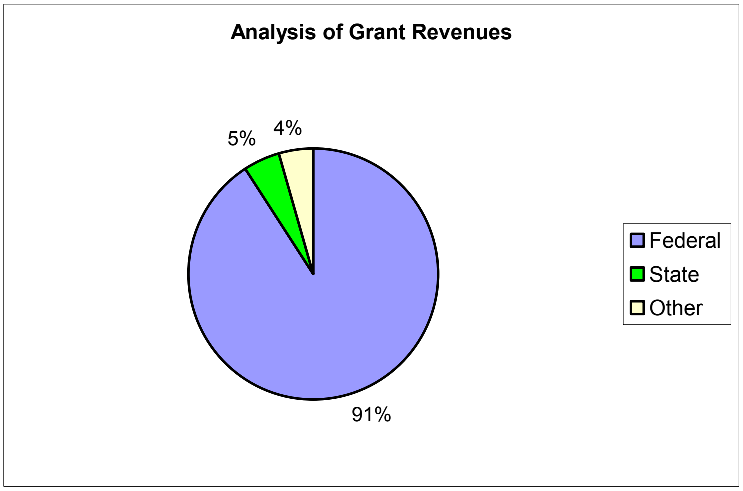
Changes in total University net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present the revenues received by the university, both operating and nonoperating, 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 statement appropriations be classified as nonoperating.

Approximately 90% of the operating revenues and non operating revenues of the University are appropriations grants and contracts. The remainder consists primarily of tuition and fees and patient services.

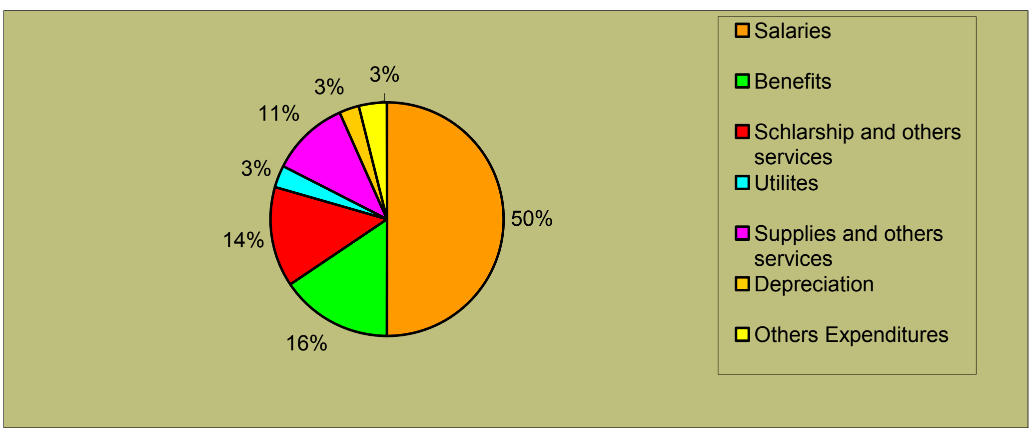
The following illustration presents the major sources of University revenues (both operating and nonoperating) for the year ended June 30, 2004:



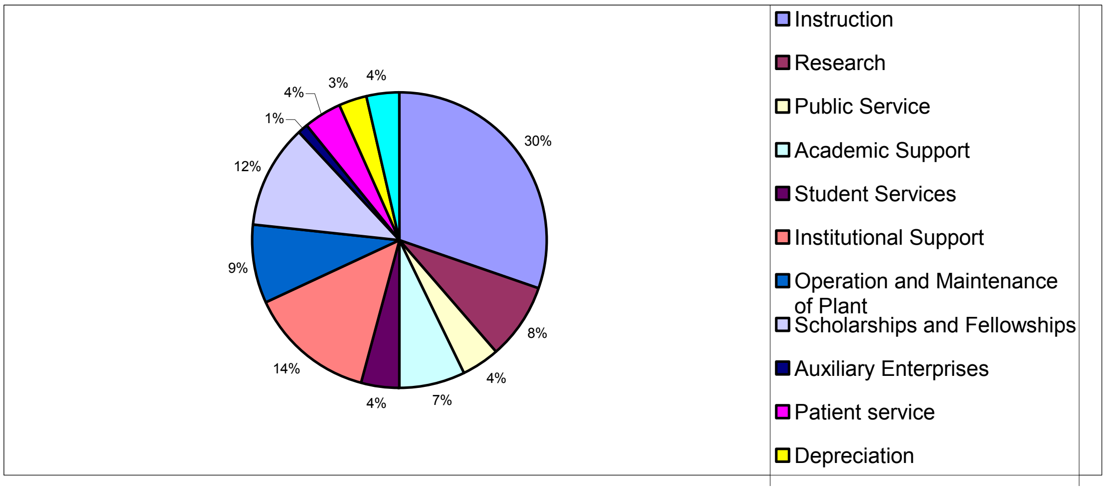


University expenses are presented using natural expense classifications. Salaries and benefits represent 66% of the University's operating expenses.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2004:



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, 2004.



For the year ended June 30, 2004, the University reported an operating loss of approximately $740,146,000. After adding nonoperating revenue and expenses, primarily state appropriations, the total increase in net assets for the year is approximately $4,114,000.

Statement of Cash Flows

The statements of cash flows present 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

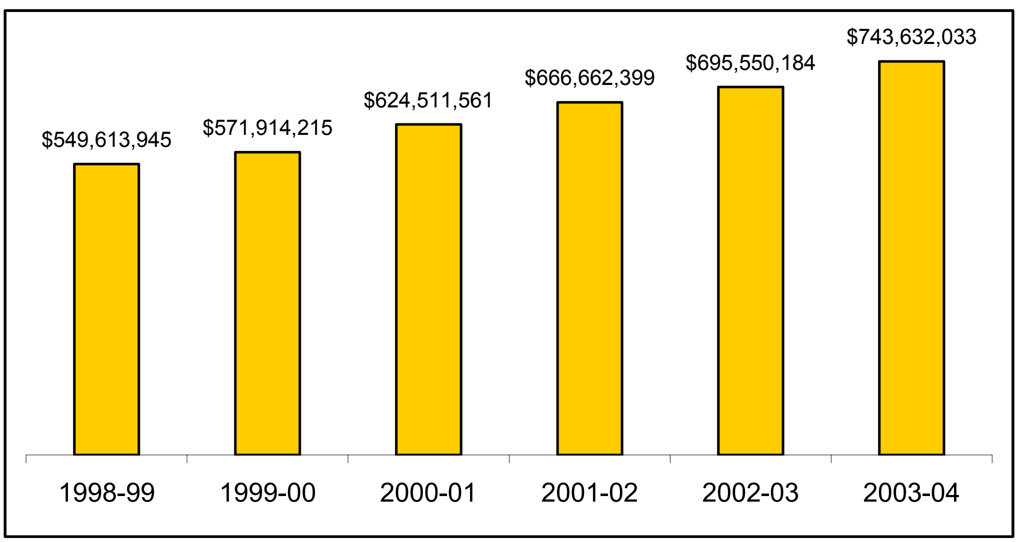
Significant capital assets additions for the year ending June 30, 2004 consist mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes.

During fiscal year 2004, the University borrowed $15,951,000 from the Governmental Development Bank, to finance new construction projects. Debt in the amount of approximately $21,447,000 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 Rico economy have closely followed the behavior of the U.S. economy. In fiscal year 2004, Puerto Rico experienced the consequences of the slowdown in the U.S. economy, since the U.S. Real GDP increased by only 0.8%.

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 2004 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 2004	June 30 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 55,330,233	$ 101,796,532
Investments at fair value	42,380,461	35,012,345
Investments with bond trustees at fair value	39,099,123	40,659,528
Receivables:		
Accounts receivable (less allowances for doubtful accounts of $75,841,858 and $62,282,482 for 2004 and 2003, respectively)	183,788,282	146,867,608
Inventories	7,455,868	5,362,281
Prepaid expenses and other assets	19,144,670	13,794,138
Total current assets	347,198,637	343,492,432
Noncurrent assets:		
Restricted cash and cash equivalents	1,497,649	3,464,196
Investments at fair value	37,343,883	28,357,394
Notes receivable, net	2,523,495	1,857,274
Capital assets (net accumulated depreciation of $340,650,082 and $312,137,216 for 2004 and 2003, respectively)	591,331,872	568,604,803
Total noncurrent assets	632,696,899	602,283,667
Total assets	$ 979,895,536	$ 945,776,099
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 81,097,273	$ 62,814,035
Current portion of long-term debt	31,531,864	21,678,195
Other current liabilities	22,645,980	20,355,432
Total current liabilities	135,275,117	104,847,662
Noncurrent liabilities:		
Long-term debt	397,834,520	411,115,012
Other long-term liabilities	146,023,913	133,165,629
Total noncurrent liabilities	543,858,433	544,280,641
Total liabilities	$ 679,133,550	$ 649,128,303

See accompanying notes.

University of Puerto Rico

Statements of Net Assets (continued)

	June 30	
	2004	2003
Net assets		
Invested in capital assets, net of related debt	$ 164,188,965	$ 150,639,405
Restricted, nonexpendable:		
Sholarship and fellowships	20,979,392	19,218,425
Research	13,292,145	9,182,394
Other	4,631,293	3,505,474
Restricted, expendable:		
Research	13,180,651	12,337,151
Loans	7,996,322	6,591,548
Capital projects	6,679,951	11,980,073
Debt service	39,838,432	38,744,124
Other	24,249,455	30,485,800
Unrestricted	5,725,380	13,963,402
Total net assets	$ 300,761,986	$ 296,647,796

See accompanying notes.

University of Puerto Rico

Statements of Revenues, Expenses and Changes in Net Assets

	June 30 2004	June 30 2003
Revenues		
Operating revenues:		
Tuitions and fees (net of scholarship allowances of $30,100,834 and $29,581,338 for 2004 and 2003, respectively)	$ 40,235,263	$ 38,844,683
Net hospital patient services and other	50,675,183	53,329,127
Federal grants and contracts	238,477,529	228,163,047
State grants and contracts	12,598,132	18,360,827
Nongovermental grants and contracts	11,366,647	8,689,261
Sales and services of educational departments	4,726,381	3,371,067
Auxiliary enterprises (net of scholarship allowances of $4,146 and $164,346 for 2004 and 2003, respectively)	6,748,690	6,311,761
Other operating revenues	15,625,247	12,207,679
Total operating revenues	380,453,072	369,277,452
Expenses		
Salaries:		
Faculty	323,245,761	302,400,308
Non-faculty	229,202,035	217,257,646
Non-exempt wages	2,808,706	3,005,772
Benefits	179,020,688	163,304,509
Scholarship and other services	154,139,641	152,101,495
Utilities	31,234,988	29,355,098
Supplies and other services	121,930,100	114,245,234
Depreciation	34,266,264	28,166,598
Other expenses	44,750,553	31,158,119
Total operating expenses	1,120,598,736	1,040,994,779
Operating loss	(740,145,664)	(671,717,327)
Nonoperating revenues (expenses):		
Commonwealth appropriations	743,632,033	695,550,184
Gifts	6,010,379	4,047,717
Net investment income	3,023,248	3,100,772
Interest on indebtedness	(16,524,989)	(16,746,988)
Other nonoperating revenues	638,630	355,325
Net nonoperating revenues	736,779,301	686,307,010
(Loss)\ income before other revenues	(3,366,363)	14,589,683
Capital appropriations	2,243,129	691,592
Additions to term and permanent endowment	5,237,424	8,332,474
Increase in net assets	4,114,190	23,613,749
Net assets		
Beginning of year	296,647,796	273,034,047
End of year	$ 300,761,986	$ 296,647,796

See accompanying notes.

University of Puerto Rico

Statements of Cash Flows

	Years Ended June 30	
	2004	2003
Cash flows from operating activities		
Tuition and fees	$ 40,113,831	$ 38,884,295
Grants and contracts	255,434,259	256,492,213
Patient services	50,675,184	53,329,127
Auxiliary enterprises	6,654,215	6,371,702
Sales and services educational deparments	(3,624,511)	(4,613,314)
Payments to suppliers and vendors	(121,921,472)	(112,147,487)
Payments to employees	(548,196,193)	(522,249,235)
Payments for utilities	(31,216,778)	(29,355,098)
Payments for benefits	(154,604,323)	(161,940,571)
Payments for scholarships and fellowships	(154,140,705)	(152,167,114)
New loans issued to students	(2,435,729)	(877,080)
Student loan repayments	1,769,508	1,667,260
Other payments	(49,824,332)	(31,845,455)
Net cash used in operating activities	(711,317,046)	(658,450,757)
Cash flows from noncapital financing activities		
Commonwealth appropriations	743,632,033	695,550,184
Endowment gifts	5,237,424	8,332,474
Gifts and grants for other than capital purposes	6,649,009	4,403,042
Net cash provided by noncapital financing activities	755,518,466	708,285,700
Cash flows from capital and related financing activities		
Capital appropriations	2,243,129	691,592
Net purchases of capital assets	(61,085,487)	(51,742,245)
Principal paid on capital debt	(21,447,422)	(20,185,000)
Interest paid on capital debt	(16,524,989)	(16,746,988)
Deposit with trustee	1,560,404	(240,150)
Proceeds from capital debt	15,951,456	-
Net cash used in capital and related financing activities	(79,302,909)	(88,222,791)

University of Puerto Rico

Statements of Cash Flows (continued)

	Years Ended June 30	
	2004	**2003**
Cash flows from investing activities		
(Purchase) sales of investments, net	(16,354,605)	45,627,645
Interest on investments	3,023,248	3,100,772
Net cash (used in) provided by investing activities	(13,331,357)	48,728,417
Net change in cash and cash equivalents	(48,432,846)	10,340,569
Cash and cash equivalents:		
Beginning of period	105,260,728	94,920,159
End of period	$ 56,827,882	$ 105,260,728
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	$ (740,145,664)	$ (671,717,327)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	34,266,264	28,166,598
Reduction of capital assets	4,092,154	8,200,192
Amortization on land premium, discount and future appreciated principal	2,069,141	1,958,835
Changes in assets and liabilities, net:		
Grants and contracts receivables	(36,920,674)	(33,574,989)
Prepaid expenses, inventories and other	(7,444,118)	343,480
Accounts payable and accrued liabilities	17,617,019	3,754,757
Accrued salaries and wages and other liabilities	15,148,832	4,417,697
Net cash used in operating activities	$ (711,317,046)	$ (658,450,757)

See accompanying notes.

Discretely Presented Component Unit
(Servicios Médicos Universitarios, Inc.)

Balance Sheets

	Years Ended June 30	
	2004	**2003**
Assets		
Current assets:		
Cash	$ 834,927	$ 503,575
Patient accounts receivable, net of allowance for doubtful accounts of $$24,663,708 in 2004 and $21,220381 in 2003	10,468,354	8,564,465
Estimated third-party payor settlement - Medicare	410,347	-
Accounts receivable - other	2,265,787	1,395,818
Inventories of supplies	1,535,453	1,559,751
Prepaid expenses	877,233	772,695
Total current assets	16,392,101	12,796,304
Property and equipment, net	2,551,845	1,972,300
Total assets	$ 18,943,946	$ 14,768,604
Liabilities and deficiency in unrestricted net assets		
Current liabilities:		
Bank overdraft	$ -	$ 18,090
Current portion of long term debt	15,367,611	-
Current portion of capital lease obligations	338,073	374,958
Accounts payable	16,791,526	14,101,780
Accrued interest	1,912,252	1,062,252
Estimated third-party payor settlements-medicare	-	275,589
Accrued payroll taxes and employee benefits	1,577,899	1,257,510
Accrued expenses	4,266,459	5,122,259
Total current liabilities	40,253,820	22,212,438
Long-term debt, net of current portion	1,632,389	17,000,000
Capital lease obligations, net of current portion	32,004	48,208
Due to related party	23,073,255	17,865,936
Total liabilities	64,991,468	57,126,582
Commitments and contingencies		
Deficiency in unrestricted net assets	(46,047,522)	(42,357,978)
Total liabilities and deficiency in unrestricted net assets	$ 18,943,946	$ 14,768,604

See accompanying notes.

Discretely Presented Component Unit
(Servicios Médicos Universitarios, Inc.)

Statements of Operations and Deficiency in Unrestricted Net Assets

	Years Ended June 30	
	2004	**2003**
Expenses:		
Net patient service revenue	$ 35,011,804	$ 27,194,989
Premium revenue	-	1,950,857
Other revenue	1,385,018	1,168,002
Total revenues and other support	36,396,822	30,313,848
Expenses:		
Salaries and benefits	15,843,487	14,611,776
Contracted services	2,365,146	2,309,043
Professional services	942,119	1,023,395
Hospital, medical and drugs	-	3,143,330
Supplies	13,291,843	11,778,647
Utilities	1,816,464	1,504,705
Interest	996,509	981,503
Provision for bad debts	3,990,269	5,135,478
Depreciation and amortization	776,989	566,313
Other	63,540	45,467
Total expenses	40,086,366	41,099,657
	(3,689,544)	(10,785,809)
Deficiency in unrestricted net assets at beginning of year	(42,357,978)	(31,572,169)
Deficiency in unrestricted net assets at end of year	$ (46,047,522)	$ (42,357,978)

See accompanying notes.

Discretely Presented Component Unit
(Desarrollos Universitarios, Inc.)

Balance Sheets

	Years Ended March 31	
	2004	**2003**
Assets		
Cash	$ 77,805	$ 72,331
Restricted funds held by trustee	32,331,302	42,870,918
Project in process	70,965,964	56,069,674
Bond issuance costs, net of accumulated amortization of $210,412 and $147,341	2,578,812	2,641,883
Prepaid expenses	5,110	-
Total assets	$ 105,958,993	$ 101,654,806
Liabilities and deficiency in fund balance		
Construction contract, project management fees and other payables, including retainage of $2,451,894 in both years	$ 3,787,561	$ 4,681,363
Accrued interest payable	1,113,722	1,113,720
Accrued expenses	115,876	90,961
Unearned revenue	14,670,562	9,493,359
Bonds payable, net of discount of $394,091 and $421,676	86,340,909	86,313,324
Total liabilities	106,028,630	101,692,727
Deficiency in fund balance	(69,637)	(37,921)
Total	$ 105,958,993	$ 101,654,806

See accompanying notes.

Discretely Presented Component Unit
(Desarrollos Universitarios, Inc.)

Statements of Operations and Deficiency in Fund Balance

	Years Ended March 31	
	2004	**2003**
Expenses:		
General and administrative	$ (31,716)	$ (22,288)
Total expenses and excess of expenses Over revenues	(31,716)	(22,288)
Defiency in fund balance, beginning of year	(37,921)	(15,633)
Defiency in fund balance, end of year	$ (69,637)	$ (37,921)

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 proceeding 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 University has two discretely presented component units as follows:

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. 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)

Desarrollos Universitarios, Inc.

Desarrollos Universitarios, Inc. (the Company) is legally separated from the University and is governed by a separate board. The Company was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico as a not-for-profit organization. The Company was organized to develop, construct, and operate academic, residential, administrative, office, commercial, and maintenance facilities for the use of students and other persons or entities conducting business with the University of Puerto Rico (the University). Currently, the Company is in the process of developing the Plaza Universitaria (Plaza Universitaria) and the Central Air Condition System projects (the Projects), to be leased to the University. Plaza Universitaria will consist of a student housing facility, a multi-story parking building and an institutions building to house administrative, student service and support functions and to a lesser extent to lease commercial space. The financing for the Projects is being provided by the issuance of $86,735,000 in Educational Facilities Revenue Bonds through the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA).

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 2004 by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements are effective for the year ended June 30, 2003. The financial statement presentation required by GASB Statement Nos. 34, 35, 37 and 38 provide 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.

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

Financial Statement Presentation (continued)

In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Components Units*, (an amendment to GASB Statement 14). The objective of this Statement is to provide criteria for determining whether certain organizations should be reported as component units based on the nature of significance of their relationship with a primary government and to clarify reporting requirements for those organizations. This Statement establishes additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units as defined in paragraph 9 of Statement 14. In addition, this Statement should be applied to nongovernmental component units when they are included in a governmental financial reporting entity. As a result of this pronouncement, the University included Desarrollos Universitarios, Inc. as a discretely presented component unit.

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, 2004 and 2003, cash equivalents of approximately $65,898,000 and $86,134,000, respectively, consist of certificates of deposit and time deposits.

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, 2004 and 2003, the cost of the excess of 90 days of the accumulated sick leave was $8,206,000 and $7,520,000, 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 second payment of $5,000,000 of an award from the National Center of Minority Health Disparities (NCMHD) 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, 2004 and 2003, the carrying value of cash and cash equivalents amounted to approximately $56,828,000 and $105,261,000, respectively, and the cash deposited in the banks amounted to $70,938,000 and $92,235,000, respectively. The University's deposits as of June 30, 2004 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)	$ 70,938,000

3. Investments

Investments as of June 30 consist of the following:

	2004				2003			
	Carrying Amount		Fair Value		Carrying Amount		Fair Value	
Current:								
Certificates of deposit	$	1,000,188	$	1,000,188	$	497,364	$	497,364
Common stock		39,646,387		39,646,387		32,767,691		32,767,691
U.S. Treasury bonds and notes		39,099,123		39,099,123		40,659,528		40,659,528
U.S. Government agencies		1,733,886		1,733,886		1,747,290		1,747,290
	$	81,479,584	$	81,479,584	$	75,671,873	$	75,671,873
Noncurent:								
Certificates of deposit	$	3,536,736	$	3,536,736	$	2,447,778	$	2,447,778
Common stock		12,233,284		12,233,284		9,442,908		9,442,908
U.S. Treasury bonds and notes		5,194,037		5,194,037		4,357,058		4,357,058
U.S. Government agencies		5,771,977		5,771,977		4,830,692		4,830,692
Corporate bonds		10,257,849		10,257,849		6,928,958		6,928,958
Real estate held for sale		350,000		350,000		350,000		350,000
	$	37,343,883	$	37,343,883	$	28,357,394	$	28,357,394

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:

	2004		2003	
Puerto Rico Department of Health	$	44,993,883	$	76,487,026
Due from Federal government		31,410,284		25,366,041
Other		183,225,973		107,297,023
		259,630,140		209,150,090
Less allowance for doubtful accounts		75,841,858		62,282,482
Accounts receivable, net	$	183,788,282	$	146,867,608

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, 2004 and 2003, the University has received $25,710,000 and $18,140,000, 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, 2004 are as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	$ 32,965,504	$ -	$ -	$ -	$ 32,965,504
Construction - in progress	147,986,260	41,812,751	(70,982,665)	(1,633,155)	117,183,191
	180,951,764	41,812,751	(70,982,665)	(1,633,155)	150,148,695
Other capital assets:					
Land improvements	29,140,159	-	1,374,565	-	30,514,724
Building, fixed equipment, improvements and infraestructure	495,434,471	1,834,631	69,419,494	(27,268)	566,661,328
Equipment and library materials	175,215,625	17,438,105	188,606	(8,185,129)	184,657,207
	699,790,255	19,272,736	70,982,665	(8,212,397)	781,833,259
Less accumulated drepreciation for:					
Land improvements	(9,495,235)	(716,147)	-	-	(10,211,382)
Buildings, fixed equipment, improvements and infraestructure	(183,283,414)	(12,745,701)	-	-	(196,029,115)
Equipment and library materials	(119,358,567)	(20,804,416)	-	5,753,398	(134,409,585)
	(312,137,216)	(34,266,264)	-	5,753,398	(340,650,082)
Other capital assets, net:	387,653,039	(14,993,528)	70,982,665	(2,458,999)	441,183,177
Capital assets, net	$ 568,604,803	$ 26,819,223	$ -	$ (4,092,154)	$591,331,872

6. Lines of Credit

As of June 30, 2004 and 2003, the University has available a line of credit agreement with GDB for the total authorized amount of $100,000,000. Also, during the year ended June 30, 2004, the University obtained another credit facility with GDB for the amount of $60,000,000. Advances under these agreements, which bear a variable interest rates and are payable in a monthly and annual basis, respectively, amounted to $14,046,090 and $1,905,365 at June 30, 2004. The lines of credit are guaranteed by the Commonwealth of Puerto Rico.

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2004 are as follows:

2004

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Amounts Within One Year	Noncurrent Liabilities
Long-term debt							
Notes payable	$ 508,195	$ 15,951,456	$ (277,422)	$ -	$ 16,182,229	$ 14,276,863	$ 1,905,367
Bonds payable	432,285,012	-	(21,170,000)	2,069,141	413,184,153	17,255,000	395,929,153
Total long-term	$ 432,793,207	$ 15,951,456	$ (21,447,422)	$ 2,069,141	$ 429,366,382	$ 31,531,863	$ 397,834,520
Other long-term liabilities							
Deferred compensation payable	$ 32,767,691	$ 6,878,696	$ -	$ -	$ 39,646,387	$ -	$ 39,646,387
Claims liability	13,358,265	3,111,018	(2,871,241)	-	13,598,042	3,500,000	10,098,042
Compensed absences	107,395,105	8,030,359	-	-	115,425,464	19,145,980	96,279,484
Total non-current liabilities	$ 153,521,061	$ 18,020,073	$ (2,871,241)	$ -	$ 168,669,893	$ 22,645,980	$ 146,023,913

2003

	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Amounts 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	$ 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	$149,103,365	$6,784,076	$ (2,366,380)	$ -	$153,521,061	$20,355,432	$133,165,629

Bonds payable are further disclosed below in Note 8.

8. 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, 2004:

Series	Balance as of June 30, 2004	Anual Interest Rate (%)	Due Date
C - Serial	$ 1,069,000	3.00%	1972-2011
D - Serial	1,383,000	3.75%	1972-2011
F - Term	13,275,000	5.50%	2012
M - Serial	22,330,000	4.35-5.45%	1996-2009
M - Term	127,215,000	5.25-5.45%	2015-2025
N - Serial	36,075,000	4.35-5.45%	1996-2008
N - Capital Appreciation Serial Bonds	51,980,000	5.6-5.75%	2009-2013
O - Serial	84,665,000	4.5-3.75%	2001-2020
O - Term	101,905,000	5.38%	2030
	439,897,000		
Less unamortized bond discount	(11,447,101)		
Plus amortized premium	1,529,351		
Less unaccreted principal	(16,795,097)		
	$ 413,184,153		

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

8. Bonds Payable (continued)

B. Debt Service Requirement

	Principal	Interest	Total
2005	$ 17,255,000	$ 20,815,030	$ 38,070,030
2006	18,200,000	19,864,180	38,064,180
2007	19,210,000	18,854,333	38,064,333
2008	20,280,000	17,784,858	38,064,858
2009	15,774,918	22,294,200	38,069,118
2010 to 2014	78,567,907	99,182,833	177,750,740
2015 to 2019	70,065,000	56,993,150	127,058,150
2020 to 2024	90,980,000	36,085,338	127,065,338
2025 to 2030	109,564,175	13,829,188	123,393,363
	$ 439,897,000	$ 305,703,110	$ 745,600,110

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, 2004:

	Fiscal Year Ended June 30	
	2004	2003
Pledged Revenues:		
Tuition and other fees collected	$ 55,431,021	$ 55,265,683
Student fees collected	5,109,364	5,377,673
Rental and other charges received for the right of use and occupancy of the facilities in the University system	1,209,430	1,201,259
Bookstore receipts (gross sales less cost of books and supplies sold)	456,461	1,192,725
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	812,034	1,524,781
Funds paid to the University in respect to overhead allowance on federal research projects	15,317,430	12,969,736
Other income	28,501,876	27,211,539
	$ 106,837,616	$ 104,743,396

8. Bonds Payable (continued)

C. Pledged Revenues (continued)

Interest earned on investments in the sinking fund reserve account amounted to approximately $377,000 and $519,000 for the years ended June 30, 2004 and 2003, 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 2004 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 $2,371,000 in connection with the calculation. This amount is presented as accounts payable and accrued liabilities in the accompanying financial statements.

9. Commitments and Contingent Liabilities

A. Capital Program

The University's capital construction program for educational facilities for the fiscal years ended June 30, 2004 and 2003 amounts to approximately $4,812,000 and $5,600,000, respectively.

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 2004 were:

Claims payable - July 1	$ 13,358,265
Incurred claims and changes in estimates	25,710,348
Payments for claims and adjustment expenses	(25,470,571)
Claims payable - June 30	$ 13,598,042

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.

9. Commitments and Contingent Liabilities (continued)

D. Discretely Presented Component Units

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

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.

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

2005	$ 15,367,611	$ 367,615
2006	-	33,764
2007	-	-
2008	-	-
2009	-	-
Thereafter	1,632,389	-
	17,000,000	401,379
Less: amount representing interest under capital lease obligations	-	31,302
	$ 17,000,000	$ 370,077

Total interest charged to operations under the aforementioned leases was approximately $30,000 and $40,000 in 2004 and 2003, respectively.

Desarrollos Universitarios, Inc. (the Company) was incorporated on October 2, 1996. The Company 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.

9. Commitments and Contingent Liabilities (continued)

D. Discretely Presented Component Units (continued)

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

On December 21, 2000, the University entered into a lease agreement with the Company in which the University agreed to pay directly to a trustee for the account of the Company, 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, 2005 are: $5,701,175 in 2005; $5,701,775 in 2006; $5,701,025 in 2007 and $148,202,175 thereafter.

10. 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.

10. University of Puerto Rico Retirement System (continued)

General (continued)

Membership consisted of the following as of June 30, 2004 and 2003:

	2004	2003
Retirees and beneficiaries receiving benefits	$ 6,317	$ 6,209
Terminated plan members entitle to but no yet receiving benefits	324	326
Terminated non-vested plan members entitled to return on their contributions	6,945	6,952
Active plan members	12,484	12,243
Total	$ 26,070	$ 25,730

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.

10. University of Puerto Rico Retirement System (continued)

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

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, 2004 and 2003 was 16% for both years, 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 2004 and 2003, 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.

10. University of Puerto Rico Retirement System (continued)

Contributions and Funding Policy (continued)

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.

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.

10. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

- 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.

  - 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.

10. 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 $400 annual bonus is given to all retiree plan members.

11. 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, 2004, the payments of health care benefits amounted to $ 7,631,644. The Christmas bonus paid to the retired employees during the years ended June 30, 2004 and 2003 were $400 and $300, respectively, per retiree and the total amounts were $2,444,114 and $1,779,819, respectively. These benefits are recorded as expenditures when granted and paid. The plan covers approximately 6,317 retirees.

12. Going Concern - Discretely Presented Component Unit

Since the Hospital commenced operations, it has experienced significant operating losses having an accumulated deficit of approximately $46,048,000 at June 30, 2004. 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 $24,664,000.

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, 2004.

At present, the Hospital's management with the assistance of the University of Puerto Rico's administration has implemented 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:

- Extension of the medical privileges in the Hospital to faculty members within the Hospital's primary and secondary market area.
- Development of new business within the Hospital's building, for example space rentals for physicians and others.
- Marketing of the Ob Gyn and pediatrics services.
- Marketing of the ophthalmology services, including a new physician that has a specialization in cornea diagnosis and treatment.
- Revaluation of the contract agreements with the anesthesiologists and radiologists, to share the costs of those services.
- More aggressive negotiation with medical insurance to increase the perdiem rates.

Among the alternatives, the Hospital has to deal with its fiscal difficulties and has publicly discussing the possibility to sell the Hospital's facilities.

The accompanying financial statements 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.

13. Functional Information

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

Functional Classification	Salaries and Benefits	Supplies and Other Services	Scholarships and Fellowship	Utilities	Depreciation	Other Expenditues	Total
Instruction	$ 304,399,510	$ 16,491,926	$ 18,238,003	$ 812,021	$ -	$ 790,708	$ 340,732,168
Research	57,423,633	21,398,183	8,056,002	948,346	-	2,872,814	90,698,978
Public Service	39,576,695	7,954,043	686,506	382,989	-	-	48,600,233
Academic support	63,923,120	14,712,136	2,263,778	657,998	-	36,000	81,593,032
Student service	35,674,445	8,440,403	306,259	5,913	-	-	44,427,020
Institutional support	118,202,009	30,909,760	11,036	4,882,779	-	1,839,544	155,845,128
Operation and Maintenance of plant maintenance of plant	61,563,710	11,074,660	5,634	23,078,488	-	665,910	96,388,402
Student aid	4,718,872	445,776	124,482,597	608	-	-	129,647,853
Independent operations operations	1,125,951	167,353	75,317	115	-	-	1,368,736
Patient service	43,678,660	4,319,168	14,509	117,932	-	66,754	48,197,023
Auxiliary enterprises	3,990,585	6,016,692	-	347,799	-	-	10,355,076
Depreciation	-	-	-	-	34,266,264	-	34,266,264
Other	-	-	-	-	-	38,478,823	38,478,823
	$ 734,277,190	$ 121,930,100	$ 154,139,641	$ 31,234,988	$ 34,266,264	$ 44,750,553	$ 1,120,598,736

14. Significant New Accounting Pronouncement

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This Statement results from the Board's formal reviews of its existing standards. These reviews—part of the Board's strategic plan—are designed to evaluate the continuing usefulness of current requirements. The reduction of existing custodial credit risk disclosures follows from federal banking reforms adopted since the release of Statement 3. This statement will be effective for the University for fiscal year ended June 30, 2005.

In November 2003 the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. This statement will be effective for the University for fiscal year ended June 30, 2006.

In April 2004 the GASB issued Statement No. 43, *Financial Reporting for Post employment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Post employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and OPEB plans. This statement will be effective as follows:

14. Significant New Accounting Pronouncement (continued)

The requirements of this Statement for OPEB plan reporting are effective one year prior to the effective date of Statement 45 for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Plans in which the sole or largest employer is a phase 1 government—with annual revenues of $100 million or more—are required to implement this Statement in financial statements for periods beginning after December 15, 2005.

- Plans in which the sole or largest employer is a phase 2 government—with total annual revenues of $10 million or more but less than $100 million—are required to implement this Statement in financial statements for periods beginning after December 15, 2006.

- Plans in which the sole or largest employer is a phase 3 government—with total annual revenues of less than $10 million—are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

If comparative financial statements are presented, restatement of prior-period financial statements is required. Early implementation is encouraged.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is effective for Statistical sections prepared for periods beginning after June 15, 2005.

In July 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a)requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b)providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. This statement will be effective as follows:

The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Governments that were phase 1 governments for the purpose of implementation of Statement 34—those with annual revenues of $100 million or more—are required to implement this Statement in financial statements for periods beginning after December 15, 2006.

14. Significant New Accounting Pronouncement (continued)

- Governments that were phase 2 governments for the purpose of implementation of Statement 34—those with total annual revenues of $10 million or more but less than $100 million—are required to implement this Statement in financial statements for periods beginning after December 15, 2007.

- Governments that were phase 3 governments for the purpose of implementation of Statement 34—those with total annual revenues of less than $10 million—are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

Earlier application of this Statement is encouraged. All component units should implement the requirements of this Statement no later than the same year as their primary government.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Legislation - an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This statement is effective for periods beginning after June 15, 2005. Earlier application is encouraged.

15. Subsequent Event

On January 1, 2005, a working capital loan amounting to $15,367,611 of Servicios Médicos Universitarios (the Hospital) payable to the Government Development Bank of Puerto Rico (GDB), became due. As mentioned in Note 9, the University guarantees this loan. The Hospital's management will commence negotiations with GDB in order to extend the note's due date; among other plans. Management of the University does not believe that GDB will request any payment from the University in 2005, related to this loan.

Other Financial Information

University of Puerto Rico

Schedule of Changes in Sinking Fund Reserve

	2004			2003			
	Bond Service Account	Bond Reserve Account	Total	Bond Redemption Account	Bond Service Account	Bond Reserve Account	Total
Additions:							
Transfer from Reserve Account	$ 3,607,039	$ -	$ 3,607,039	$ -	$ -	$ -	$ -
Transfer from Redemption Account		-	-	-	912,822	-	912,822
Transfer from unrestricted current funds	39,508,764	4,084,757	43,593,520	-	36,694,496	5,622,602	42,317,098
Net increase in fair marker value of investments	1	160,694	160,694	2,748	131,641	50,554	184,943
Interest Earned on Investments	102,704	274,648	377,352	8,040	50,137	461,218	519,395
Total receipts	43,218,507	4,520,098	47,738,605	10,788	37,789,096	6,134,374	43,934,258
Deductions:							
Payments of bond interest	22,048,516	-	22,048,516	-	22,990,441	-	22,990,441
Payments of bond principal	21,170,000	-	21,170,000	-	20,185,000	-	20,185,000
Transfer to Reserve Account	-	3,607,039.00	3,607,039	-	-	-	-
Transfer to Service Account	-	-	-	912,821	-	-	912,821
Net decrease in fair marker value of investments	-	-	-	-	-	-	-
Total disbursements	43,218,516	3,607,039	46,825,555	912,821	43,175,441	-	44,088,262
Net increase/(decrease) for the year	(9)	913,059	913,050	(902,033)	(5,386,345)	6,134,374	(154,004)
Balances at beginning of year	10	40,659,959	40,659,969	902,033	5,386,355	34,525,585	40,813,973
Balance at end of year	$ 1	$ 41,573,018	$ 41,573,019	$ (0)	$ 10	$ 40,659,959	$ 40,659,969

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, 2004, and have issued our report thereon dated November 29, 2004. 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.

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 an opinion 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 reportable 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 caused by errors or fraud 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 November 29, 2004.

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 November 29, 2004.

This report is intended for the information of the board of trustees, 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

November 29, 2004

Stamp No. 2004114
affixed to
original of
this report.