$86,735,000
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA) Educational Facilities Revenue Bonds, 2000 Series A (University Plaza Project)

The bonds will have the following characteristics:

- AFICA will issue the bonds and lend the proceeds of the bonds to

DESARROLLOS UNIVERSITARIOS, INC.

(the "Borrower"), a not-for-profit corporation organized under the laws of Puerto Rico, to finance the development, construction and equipping of certain educational and related facilities, to make a deposit to a debt service reserve fund for the bonds and to pay the costs and expenses incurred in connection with the issuance and sale of the bonds.

- The Borrower will lease the facilities to the

UNIVERSITY OF PUERTO RICO

under a lease agreement to be dated December 21, 2000. The rent payments required to be made by the University of Puerto Rico under the lease agreement will be sufficient to pay the principal of and interest on the bonds when due.

- AFICA is required to pay the bonds solely out of loan repayments to be made by the Borrower from rent payments received from the University of Puerto Rico under the lease agreement. The bonds do not constitute a debt of the Government of Puerto Rico or of any of its political subdivisions or instrumentalities, other than AFICA.
- The bonds will be dated December 1, 2000. Interest on the bonds will accrue from December 1, 2000 and will be payable on each January 1 and July 1, commencing July 1, 2001.
- The principal of and interest on the bonds will be insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.
- The bonds will be registered under The Depository Trust Company's book-entry only system. Purchasers of the bonds will not receive definitive bonds.
- The inside cover page of this Official Statement contains information concerning the maturity schedule, interest rates and prices or yields of the bonds.
- The bonds are subject to redemption prior to maturity as set forth herein.
- Subject to continuing compliance with certain tax covenants, interest on the bonds will not be includable in gross income for federal income tax purposes and interest on the bonds is exempt from state, Puerto Rico and local income taxation under existing law. However, see "TAX MATTERS," beginning on page 13 of this Official Statement, for alternative minimum tax consequences with respect to interest on the bonds and other tax considerations.
- It is expected that settlement for the bonds will occur on or about December 21, 2000.

Investing in these securities involves risks. See "BONDHOLDERS' RISKS" beginning on page 6 of this Official Statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

PAINEWEBBER INCORPORATED

December 14, 2000

$86,735,000
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA)
Educational Facilities Revenue Bonds, 2000 Series A
(University Plaza Project)

$36,215,000 Serial Bonds†

Maturity Date	Principal Amount	Interest Rate	Yield
July 1, 2004	$1,295,000	5.000%	4.00%
July 1, 2005	1,360,000	4.000	4.05
July 1, 2006	1,415,000	5.000	4.10
July 1, 2007	1,485,000	4.000	4.15
July 1, 2008	1,545,000	5.000	4.20
July 1, 2009	1,620,000	4.125	4.30
July 1, 2010	1,685,000	4.250	4.35
July 1, 2011	1,760,000	5.625	4.45*
July 1, 2012	1,860,000	5.625	4.55*
July 1, 2013	1,960,000	5.625	4.65*
July 1, 2014	2,075,000	5.625	4.72*
July 1, 2015	2,190,000	5.625	4.79*
July 1, 2016	2,315,000	5.625	4.84*
July 1, 2017	2,445,000	5.625	4.89*
July 1, 2018	2,580,000	5.625	4.92*
July 1, 2019	2,725,000	5.625	4.97*
July 1, 2020	2,880,000	5.000	5.12
July 1, 2021	3,020,000	5.000	5.14

$50,520,000 5.00% Term Bonds due July 1, 2033† - Yield 5.23%

†Insured by MBIA Insurance Corporation.
* Yield to par call.

No dealer, broker, sales representative or other person has been authorized by AFICA, the Borrower, the University or the Underwriter to give any information or to make any representations other than those contained or incorporated by reference in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by AFICA, the Borrower, the University or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such jurisdiction. The information set forth herein with respect to AFICA, MBIA Insurance Corporation ("MBIA Insurance") and DTC has been obtained from AFICA, MBIA Insurance and DTC, respectively, and all other information contained herein has been obtained from the Borrower or the University and other official sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs or condition of the Borrower, the University, AFICA, MBIA Insurance or the Commonwealth of Puerto Rico since the date hereof. The Underwriter has provided the following three sentences for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$86,735,000
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA)
Educational Facilities Revenue Bonds, 2000 Series A
(University Plaza Project)

INTRODUCTION

This Official Statement of Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA") sets forth certain information with respect to the offering and sale by AFICA of its Educational Facilities Revenue Bonds, 2000 Series A (University Plaza Project) (the "Bonds") in the principal amount of $86,735,000. The principal of and interest on the Bonds will be insured by a financial guaranty insurance policy (the "MBIA Bond Insurance Policy") issued by MBIA Insurance Corporation ("MBIA Insurance").

This Official Statement includes the cover page, the inside cover page, the back cover page, the Appendices hereto and incorporates by reference the Commonwealth of Puerto Rico Financial Information and Operating Data Report, dated August 1, 2000 (the "Commonwealth Report") and the general purpose financial statements of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") for the fiscal year ended June 30, 1999, together with the independent auditor's report thereon, dated January 14, 2000 of Deloitte & Touche LLP certified public accountants (the "Commonwealth Financial Statements"). The Commonwealth Report and the Commonwealth Financial Statements have been filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR"). For information on how to obtain the Commonwealth Report and the Commonwealth Financial Statements, see "MISCELLANEOUS."

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions thereof. Summaries of the Loan Agreement, the Trust Agreement, the Lease Agreement, the Assignment Agreement and the Master Trust Indenture (each as defined herein) are set forth in Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS." All capitalized terms not otherwise defined in this Official Statement shall have the respective meanings ascribed to them in the documents being summarized. All references herein to the Bonds, the Loan Agreement, the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Master Trust Indenture and the Management Contract (as defined herein) are qualified in their entirety by such documents, copies of which may be examined, or obtained at the expense of the person requesting the same, at the corporate trust office of The Bank of New York (the "Trustee") at 10161 Centurion Parkway, Jacksonville, Florida 32256.

The order and placement of materials in this Official Statement, including the Appendices, and the incorporation by reference of the Commonwealth Report and the Commonwealth Financial Statements, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, the Commonwealth Report and the Commonwealth Financial Statements, must be considered in its entirety.

DESCRIPTION AND SUMMARY OF FINANCING

The project being financed with the proceeds of the Bonds consists of the development, construction and equipping of certain educational and related facilities (the "Project") for the University of Puerto Rico (the "University"). The Project is being constructed on a site owned by the University located across from the principal entrance to the University's main campus in the Río Piedras section of San Juan (the "Site"). The Project will contain three components. One component will consist of several structures to provide student housing. Another component will consist of the University administrative offices, student service and support functions and limited commercial space. The third component will consist of a multi-story parking garage building. For a more detailed description of the Project see "THE PROJECT."

The Bonds are being issued under a trust agreement, to be dated as of December 1, 2000 (the "Trust Agreement"), between AFICA and the Trustee. The proceeds of the Bonds will be used to make a loan to Desarrollos Universitarios, Inc., a not-for-profit corporation organized under the laws of Puerto Rico (the "Borrower"), pursuant to the terms of a loan agreement, to be dated as of December 1, 2000 (the "Loan Agreement"), between the Borrower and AFICA. The proceeds of the Bonds will be used to (i) finance the development, construction and equipping of the Project; (ii) repay a portion of certain advances made by Government Development Bank for Puerto Rico ("GDB") under a line of credit facility for the purpose of paying certain costs of the development and construction of the Project; (iii) make a deposit to a debt service reserve fund for the Bonds; and (iv) pay the costs and expenses incurred in connection with the issuance and sale of the Bonds. See "SOURCES AND USES OF FUNDS." On the date of initial issuance and delivery of the

Bonds (the "Closing Date"), the Trustee will deposit the proceeds of the Bonds, net of costs incurred in connection with the issuance of the Bonds, to the credit of the funds to be established under the Trust Agreement.

The Borrower has entered into a construction agreement (the "Construction Agreement"), dated January 20, 2000, with Dick-Miramar, S.E. for the construction and equipping of the Project. Construction of the Project commenced in January 20, 2000 and is expected to be completed in May, 2003.

The Borrower has acquired the right to occupy and make use of the Site from the University pursuant to the terms of a Deed of Constitution of Surface Right, dated December 21, 2000 (the "Surface Right Agreement"). The Surface Right Agreement has a term of 33 years. On or prior to the Closing Date, the Borrower and the University will enter into a Lease Agreement (the "Lease Agreement") pursuant to which the University will lease the Project for a term of 33 years. Under the Lease Agreement, the University may acquire the Project from the Borrower for $1.00 at the end of such term. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Lease Agreement, Management Contract and Assignment Agreement" and Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS —Summary of the Lease Agreement."

The University will charge its students rent for the occupancy of the dormitories that are part of the Project. The rental income from students will constitute Pledged Revenues of the University applicable towards the payment of debt service on the University Senior Bonds (as defined below). To the extent any income remains after current payment of debt service on the University Senior Bonds, it will be used, together with other available income of the University, to pay rent due to the Borrower under the Lease Agreement. See "BONDHOLDERS' RISKS."

THE BONDS

General

The Bonds will be issued under the Trust Agreement between AFICA and the Trustee. The Bonds will be dated, will bear interest at such rates and will mature (subject to the rights of redemption described below) in such amounts and on such dates, as set forth on the inside cover page of this Official Statement. The Bonds will accrue interest from December 1, 2000 at the rates set forth on the inside cover page of this Official Statement, payable semiannually on each January 1 and July 1, commencing on July 1, 2001 (each an "Interest Payment Date"), or if any such day is not a business day, on the next succeeding business day, until maturity or prior redemption.

The Bonds will be issued as fully registered Bonds without coupons in denominations of $5,000 or any multiple thereof. The Bonds will be registered under the DTC book-entry only system described below. Therefore, purchasers of the Bonds will not receive definitive Bonds. The principal or redemption price of and interest on the Bonds will be payable as described below under "Book-Entry Only System."

Optional Redemption

The Bonds at the time outstanding maturing after July 1, 2010 are subject to redemption, at the option of the University in whole or in part (in such order of maturity as directed by the University), on July 1, 2010 or any Interest Payment Date thereafter (which date shall not be less than 45 days from the date that notice of such redemption is mailed to the Trustee by the University and the Borrower), at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, without premium.

Mandatory Sinking Fund Redemption

The Bonds maturing July 1, 2033 are subject to redemption in part commencing on July 1, 2022 and on each July 1 thereafter to the extent of the Sinking Fund Requirements for said Bonds set forth below (less the principal amount of any such Bonds retired by purchase) at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date:

Sinking Fund Requirements for Bonds due July 1, 2033

Year	Amount
2022	$3,175,000
2023	3,330,000
2024	3,500,000
2025	3,675,000
2026	3,855,000
2027	4,050,000
2028	4,255,000
2029	4,465,000
2030	4,690,000
2031	4,925,000
2032	5,170,000
2033†	5,430,000

†Maturity

Sinking Fund Requirement means the principal amount fixed or computed for the retirement by purchase or redemption of Bonds in any 12 month period ending June 30 of each year while the Bonds are outstanding, as provided for in the Trust Agreement. The Sinking Fund Requirement shall be initially the respective principal amounts for each bond year fixed in the Trust Agreement and the aggregate amount of the Sinking Fund Requirement for the Bonds shall be equal to the aggregate principal amount of such Bonds.

The amounts accumulated in the Sinking Fund Account pursuant to the Sinking Fund Requirement for any July 1 may be applied by the Trustee prior to the 45th day preceding such July 1, to the purchase of Bonds. In addition, the University and the Borrower, at their option, may direct the Trustee to credit against any Sinking Fund Requirement the principal amount of Bonds purchased by the Trustee (otherwise than from moneys deposited in the Sinking Fund Account) or delivered by the University or the Borrower to the Trustee for cancellation.

Extraordinary Mandatory Redemption

In the event that the Project is (i) taken for any public use or purpose by the power of eminent domain (or deed in contemplation thereof) or (ii) damaged by fire, natural disaster or other hazard, and is not repaired, restored or replaced, the Bonds at the time outstanding are subject to redemption in whole or in part from Net Proceeds received by the Trustee as provided in the Trust Agreement not used to repair, restore or replace the Project, plus, in the case of a redemption in whole, other available moneys not to exceed one-third of the Net Proceeds applied to such redemption. In such event, the Trustee shall redeem the Bonds on any date occurring at least 45 days after delivery of the notice of redemption from the Borrower in accordance with the requirements of the Trust Agreement, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, without premium. "Net Proceeds" are defined in the Trust Agreement as any proceeds of hazard and casualty insurance proceeds, proceeds of title insurance and any proceeds of any taking by eminent domain or expropriation paid with respect to the Project remaining after payment of any expenses incurred in the collection thereof.

The Bonds are also subject to redemption to the extent of (i) any moneys remaining in the Project Account of the Construction Fund upon receipt by the Trustee of the certificate evidencing the occurrence of substantial completion (pursuant to Section 3.06 of the Loan Agreement) or (ii) any Net Proceeds remaining after the restoration, repair or replacement of the Project following a casualty or taking, all at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the redemption date.

Notice and Effect of Redemption; Partial Redemption

At least 30 days before any redemption date, notice thereof will be sent by first-class mail, postage prepaid, to the registered owners of the Bonds to be redeemed. If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected as provided below. Each notice of redemption shall set forth (a) the redemption date, (b) the redemption price, if fewer than all of the Bonds then outstanding shall be called for redemption, the distinctive numbers and letters, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, (d) that on the date fixed for redemption such redemption price will become due and payable upon each Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue on and after said redemption date, and (e) the place where such Bonds or portions thereof called for redemption are to be surrendered for payment of such redemption price. In case any Bond is to be redeemed in part only, the notice of redemption shall state also that on or after the redemption date, upon surrender of such Bond, a new Bond or Bonds in principal amount equal to the unredeemed portion of such Bond will be issued. Failure to mail such notice to any Bondholder or any defect in any notice so mailed shall not affect the validity of the proceedings for the redemption of the Bonds of any other Bondholders.

If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected by the University and the Borrower on the basis of their maturities, in multiples of $5,000. If less than all of the Bonds of any maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected by the Trustee by such method as the Trustee deems fair and appropriate, in multiples of $5,000.

If notice of redemption is given and if sufficient funds are on deposit with the Trustee to provide for the payment of the principal of and premium, if any, and interest on the Bonds (or portions thereof) to be redeemed, then the Bonds (or portions thereof) so called for redemption will, on the redemption date, cease to bear interest and shall no longer be deemed outstanding under or be entitled to any benefit or security under the Trust Agreement.

Book-Entry Only System

The following information concerning DTC and DTC's book-entry system has been obtained from DTC. AFICA, the Trustee, the Borrower, the University and the Underwriter do not take any responsibility for the accuracy thereof.

DTC will act as securities depository for the bonds. The bonds will be issued as fully registered bonds in the name of Cede & Co., DTC's partnership nominee. One fully registered bond will be issued for each maturity of the bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement of securities transactions among Direct Participants, such as transfers and pledges, in deposited securities through electronic book-entry changes in accounts of the Direct Participants, thereby eliminating the need for physical movement of securities. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of the Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear transactions through or maintain a custodial relationship with a Direct Participant either directly or indirectly (the "Indirect Participants;" and together with the Direct Participants, the "Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the bonds on DTC's records. The ownership interest of each actual purchaser of each bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the bonds, except in the event that use of the DTC system for the bonds is discontinued.

To facilitate subsequent transfers, all bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the bonds of any maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the bonds. Under its usual procedures, DTC mails an "Omnibus Proxy" to AFICA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and redemption premium, if any, and interest payments on the bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Borrower, the University or AFICA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Each person for which a Participant acquires an interest in the bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, forwarded in writing by such Participant and to have notification made of all interest payments.

DTC may discontinue providing its services as securities depository with respect to the bonds at any time by giving reasonable notice to AFICA or the Trustee. In such event, AFICA will try to find a substitute securities depository and, if unsuccessful, definitive bonds will be printed and delivered. In addition, AFICA, in its sole discretion and without the consent of any other person, may terminate the services of DTC as securities depository with respect to the bonds if AFICA determines that Beneficial Owners of such bonds shall be able to obtain definitive bonds. In such event, definitive bonds will be printed and delivered as provided in the Trust Agreement and registered in accordance with the instructions of the Beneficial Owners.

So long as Cede & Co., as nominee of DTC (or any other nominee of DTC), is the registered owner of the bonds, all references herein to the bondholders or registered owners of the bonds (other than under the heading "TAX MATTERS") shall mean Cede & Co., or such other nominee, in the capacity of nominee for DTC, and shall not mean the Beneficial Owners of the bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by AFICA or the Trustee to DTC only.

For every registration of transfer or exchange of the bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

AFICA, the Trustee, the Borrower and the University shall have no responsibility or obligation to any Participant or any Beneficial Owner with respect to (1) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant, as described above; (2) the payment or timeliness of payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption price of or interest on the bonds; (3) the delivery or timeliness of delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Trust Agreement to be given to bondholders; (4) the selection of the beneficial owners to receive payment in the event of any partial redemption of the bonds; or (5) any consent given or other action taken by DTC as bondholder.

In the event that the book-entry only system is discontinued and the Beneficial Owners become registered owners of the bonds, the following provisions will apply: The principal of the bonds and premium, if any, thereon when due will be payable upon presentation of the bonds at the corporate trust office of the Trustee in Jacksonville, Florida, and interest on the bonds will be paid by check mailed to the persons who were the registered owners as of the 15th day of the month immediately preceding the related interest payment date, as provided in the Trust Agreement. Bonds may be exchanged for an equal aggregate principal amount of bonds in other authorized denominations and of the same maturity and interest rate, upon surrender thereof at the Trustee's corporate trust office in San Juan, Puerto Rico. The transfer of any bond may be registered only upon surrender thereof to the Trustee along with a duly executed assignment in form satisfactory to the Trustee. Upon any such registration of transfer, a new bond or bonds of authorized denominations in an equal aggregate principal amount, of the same maturity, bearing interest at the same rate and registered in the name of the transferee will be executed by AFICA and authenticated by the Trustee. No charge may be made to the bondholders for any exchange or registration of transfer of the bonds, but any bondholder requesting any such exchange shall pay any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The trustee will not be required to exchange or to register the transfer of any bond during the period of 15 days preceding the date of giving of notice of redemption or after any bond or portion thereof has been selected for redemption.

BONDHOLDERS' RISKS

The Bonds are subject to certain payment risks and certain prepayment and redemption risks relating, in part, to the Borrower's and the University's continued ability to comply with their respective obligations and covenants under the Lease Agreement, the Loan Agreement and the Assignment Agreement. Other possible changes in circumstances that could affect the Bonds are discussed below. **This discussion of bondholders' risks is not, and is not intended to be, exhaustive.**

Payment Risks

General

The Bonds are subject to certain risks that may occur and that could affect the ability of the Borrower to meet its obligations to pay the principal of and premium, if any, and interest on the Bonds or that may result in the payment of the Bonds prior to their maturity date, and that could affect the Borrower's and the University's ability to comply with their respective obligations and covenants under the Lease Agreement and/or the Loan Agreement.

Factors Affecting the University

The ability of the Borrower to comply with its obligations under the Loan Agreement depends upon the timely payment by the University of the lease payments (basic and supplemental) due under the Lease Agreement. The University is an independent public corporation of Puerto Rico. The liabilities of the University do not constitute liabilities of the Government of Puerto Rico.

The University has approximately $488,488,000 of outstanding bonds (the "University Senior Bonds") issued under the terms of a Trust Agreement, dated as of June 1, 1971, as amended (the "1971 Trust Agreement"), among the University, State Street Bank and Trust Company, N.A., successor trustee, and Banco Popular de Puerto Rico, as co-trustee. Under the terms of the 1971 Trust Agreement, the University Senior Bonds are secured by a pledge of the proceeds, receipts, profits and other income derived by or on behalf of the University from: (i) tuition fees; (ii) student fees; (iii) rentals and other charges for the right of use or occupancy of the facilities in the University System created under the 1971 Trust Agreement; (iv) net bookstore receipts; (v) interest on investment of University funds, excluding the Construction Fund and the Sinking Fund (each, as defined under the 1971 Trust Agreement); (vi) funds paid to the University in respect of overhead allowances on Federal research projects; (vii) all other income excluding appropriations and contributions; and (viii) amounts received through the debt service grant programs of the United States Government or any agency thereof (collectively, the "Pledged Revenues"). The rental income derived by the University from its subleasing of space in the Project (including room and board payments from the students occupying the dormitories at the Project) will constitute Pledged Revenues. To the extent that the Pledged Revenues are insufficient to pay the principal of and the interest on the University Senior Bonds, the University has covenanted in the 1971 Trust Agreement to provide required moneys from other funds available to the University for such purpose, including funds appropriated by the Legislature of Puerto Rico.

The obligation of the University to make lease payments to the Borrower is subordinated to the obligation to pay the principal of and premium, if any, and interest on the University Senior Bonds. Pursuant to the terms of a Master Trust Indenture, to be dated as of December 1, 2000 (the "Master Trust Indenture"), the University has granted a subordinated lien on the Pledged Revenues for the benefit of the Borrower to secure the obligation of the University to make basic lease payments under the Lease Agreement and supplemental lease payments required under the Lease Agreement to ensure that the balance in the Debt Service Reserve Fund is maintained at the required level. Under the terms of the Master Trust Indenture, the University may issue additional obligations which will be ratably entitled to the benefit of the subordinated lien on the Pledged Revenues (collectively with the obligation of the University to make lease payments under the Lease Agreement, the "University Subordinated Obligations"). See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Master Trust Indenture."

The University and its operations are described in Appendix B — "UNIVERSITY OF PUERTO RICO" and the audited financial statements of the University as of and for the years ended June 30, 2000 and 1999 are included as Appendix C hereto.

Prepayment Risks

General

The Bonds are subject to prepayment in advance of their stated maturity upon redemption and following an acceleration upon the occurrence of certain events of default under the Trust Agreement, the Loan Agreement, the Lease Agreement, the Management Contract and the Assignment Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS." Since there can be no assurance that the University or the Borrower will be able to comply with their respective obligations under the agreements referred to in the preceding sentence and since the Trustee has the right to cause an acceleration of the Bonds upon an event of default, the Bonds may not remain outstanding until their stated maturity.

Other Risks

Enforcement of Remedies

The enforcement of the remedies under the Trust Agreement, the Loan Agreement and the Assignment Agreement may be limited or restricted by laws relating to bankruptcy and rights of creditors generally and by application of general principles of equity applicable to the availability of certain remedies and may be substantially delayed in the event of litigation or statutory remedy procedures.

The other proceedings described herein are dependent, in many respects, upon judicial action which is subject to discretion or delay. Under existing law and judicial decisions, including specifically the United States Bankruptcy Code, the remedies specified by the Assignment Agreement may not be readily available or may be limited.

THE BORROWER

The Borrower was incorporated as a Puerto Rico not-for-profit corporation on January 22, 1997. The Borrower's sole business activity and source of income will consist of developing, owning and operating the Project. The Borrower's mailing address and records keeping office is located at Metro Office Park, Suite 204, Parkside Plaza, Guaynabo, Puerto Rico 00968.

The Department of Treasury has granted the Borrower an exemption, as a not-for-profit corporation, from the payment of income taxes under Section 1101(10) of the Puerto Rico Internal Revenue Code of 1994, as amended. The Puerto Rico income tax exemption is subject to compliance with the following two conditions: (i) the Borrower may not sell, assign, transfer or dispose of, in any form or manner whatsoever, its title to the Project, except only if such sale, assignment or transfer is made to the University; and (ii) the Borrower may not assign or transfer its interest as landlord under the Lease Agreement. The Borrower also intends to file an application with the United States Internal Revenue Service for designation as a 501(c)(3) entity under the provisions of the United States Internal Revenue Code of 1986, as amended (the "Code").

THE PROJECT

"Plaza Universitaria," as the Project will be known, will effectively extend the University's main Campus in the Río Piedras sector of San Juan, Puerto Rico, across from its main entrance. The Project is an integrated development that will provide new, state-of-the-art facilities to help maintain the University's competitive position and attract additional qualified students and faculty. Its development has been coordinated with the metropolitan San Juan rapid transit rail system ("Tren Urbano"), which is currently under construction, to assure that the train alignment and station locations are compatible with the Project and to integrate the train's "University Station" with the Project.

The Project is comprised of three functionally integrated components. One set of structures will provide student housing, another will provide a multi-story parking building, and the third, an institutional building, will consolidate administrative, student service and support functions. The institutional building will also provide space for some academic functions, and limited commercial space for compatible services.

The housing component of the Project will provide new housing facilities for 584 students. The Project will offer a variety of accommodations for students in order to fulfill the unmet demand for on-campus housing, including dormitories for married students. The dormitories have been designed to satisfy the different individual needs of the students, and at the same time comply with important demand components, such as proximity to the campus, privacy, security, individual bedrooms and shared common facilities.

The institutional building will provide a centralized location for student administrative functions, such as Admissions, Registrar, Dean of Students and Financial Aid. The ground floor will provide commercial space for the relocation of the University bookstore, a US Postal Service station, and a commercial bank, as well as limited spaces for a convenience store, fast food outlets and a document processing center. The parking building will provide spaces for over 400 vehicles, serving students, administrators and visitors.

SOURCES AND USES OF FUNDS

Set forth below are the sources and uses of Bond proceeds:

Sources	
Principal Amount of the Bonds	$86,735,000.00
Accrued Interest	244,773.61
Original Issue Discount	(1,952,955.55)
Original Issue Premium	1,466,835.45
Total Sources	$86,493,653.51
Uses	
Deposit to Project Account of Construction Fund	$68,779,375.97
Repayment of GDB Line of Credit	8,978,123.52
Deposit to Debt Service Reserve Fund	5,702,156.26
Deposit to Interest Account	244,773.61
Authority Fee	867,350.00
Underwriter's Discount, Financial Guaranty Insurance Policy Premium, Trustee, Legal and Printing Fees and Expenses and Other Direct Costs of Issuance of the Bonds	1,921,874.15
Total Uses	$86,493,653.51

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations of AFICA

The Bonds are limited obligations of AFICA payable solely from (i) payments to be made by the Borrower under the Loan Agreement, (ii) basic lease payments to be made by the University under the Lease Agreement, (iii) certain funds and accounts held by the Trustee under the Trust Agreement and certain investment income thereon, and (iv) any proceeds realized from the exercise of any rights granted to the Trustee under the Trust Agreement and the Assignment Agreement. AFICA has no taxing power.

THE BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE COMMONWEALTH OR OF ANY OF ITS POLITICAL SUBDIVISIONS OR INSTRUMENTALITIES, OTHER THAN AFICA, AND NEITHER THE COMMONWEALTH NOR ANY OF ITS POLITICAL SUBDIVISIONS OR INSTRUMENTALITIES, OTHER THAN AFICA, SHALL BE LIABLE THEREON. THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS PROVIDED THEREFOR IN THE TRUST AGREEMENT AND THE LOAN AGREEMENT AND FROM RENT PAYMENTS TO BE MADE BY THE UNIVERSITY UNDER THE LEASE AGREEMENT.

The obligation to repay the Loan will constitute an absolute and unconditional promise by the Borrower to pay amounts sufficient to pay the principal of and the premium, if any, and interest on the Bonds.

Trust Agreement

AFICA has, in the Trust Agreement, assigned and pledged to the Trustee for the benefit of the Beneficial Owners (the "Bondholders"), AFICA's right, title and interest in and to the Loan Agreement (subject to the retention of certain rights, including the right to receive notices, to the payment of certain expenses and to indemnification), as security for all obligations of AFICA under the Bonds and the Trust Agreement.

Under the Trust Agreement, a bond fund (the "Bond Fund") has been created, into which the Trustee is required to make monthly deposits in order to pay interest on each Interest Payment Date and principal and premium, if any, on each day on which principal of the Bonds is due and payable. The University has agreed to make monthly basic lease payments and periodic supplemental lease payments directly to the Trustee, who shall apply such payments first to the required Bond Fund deposits and second to satisfy the Borrower's obligation to cause the Debt Service Reserve Fund to be maintained at its required level, with any balance being transferred to the Borrower to be applied under the Management Contract (referred to below).

Pursuant to the Trust Agreement, a debt service reserve fund has been created (the "Debt Service Reserve Fund"). On the Closing Date, $5,702,156.26 (the "Required Debt Service Reserve") will be deposited in the Debt Service Reserve Fund. The Borrower is required to maintain the Required Debt Service Reserve. Moneys in the Debt Service Reserve Fund will be used to make payments on the Bonds whenever and to the extent that moneys to the credit of the Bond Fund are insufficient for such purpose. Under the Trust Agreement, the Borrower shall direct the Trustee to cause the monies held in the Debt Service Reserve Fund to be invested in Investment Obligations (as defined in the Trust Agreement).

See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Trust Agreement."

Loan Agreement

The Loan Agreement requires the Borrower to make payments that are fixed as to time and amount so as to enable AFICA to make timely payment of the principal of and premium, if any, and interest on the Bonds. Under Section 3.06 of the Loan Agreement, upon completion of the Project the Borrower and the University are required to deliver to the Trustee a certificate stating that the Project has been completed.

The Loan Agreement will remain in full force and effect until such time as the Bonds and the interest thereon have been paid or otherwise discharged. The Loan Agreement, including the respective rights to receive payments thereunder, among other rights, will be assigned by AFICA to the Trustee pursuant to the Trust Agreement as security for the payment of the Bonds.

See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS -- Summary of the Loan Agreement."

Bond Insurance

The principal of and interest on the Bonds will be insured by the MBIA Bond Insurance Policy. MBIA Insurance shall be deemed to be the owner of the Bonds in lieu of the registered owners thereof and the beneficiary of Obligation No. 1 under the Master Trust Indenture for purposes of (1) taking remedial actions under the Trust Agreement, the Loan Agreement, the Lease Agreement, the Assignment Agreement or the Master Trust Indenture, as the case may be, and (2) so long as MBIA Insurance shall not then be in default on its obligations under the MBIA Bond Insurance Policy, the giving of consents to the execution of any supplemental agreement to the Trust Agreement, the Loan Agreement, the Lease Agreement, the Assignment Agreement or the Master Trust Indenture, as the case may be. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Trust Agreement."

Lease Agreement, Management Contract and Assignment Agreement

On or prior to the Closing Date, the Borrower and the University will enter into the Lease Agreement, pursuant to which the University will lease the Project (except for the limited commercial portion of the Project) for a 33-year term and is granted an option to acquire the Project for $1 at the end of such term. The obligation of the University to make lease payments is secured by a subordinate lien on the Pledged Revenues of the University. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Master Trust Indenture." Pursuant to the Lease Agreement, the University will make basic lease payments, payable monthly, in amounts sufficient to pay the principal of and interest on the Bonds when due, and maintain the Debt Device Reserve Fund at its required level, and will pay, as supplemental lease payments, such amounts as may be required under the management contract then in effect for the cost of maintaining and repairing the Project. Under the terms of the Lease Agreement, the University will make the lease payments directly to the Trustee. The University will commence making basic lease payments in January 2001. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Lease Agreement."

The Borrower and the University will enter into a Development, Operations and Management Agreement (the "Management Contract") for the maintenance of the Project (except for the limited commercial portion of the Project). The Management Contract will have a term of 15 years, commencing upon the occupancy of the Project by the University, which term may be extended for an additional 15 years at the University's option. Under the terms of the Management Contract, the University will make monthly payments to the Borrower of such amounts as are required for the maintenance of the Project (based on an estimate made and revised on an annual basis). The Management Contract will initially comply with certain rules of the Code governing qualified management contracts. Compliance with these rules will be unnecessary if the Borrower's application to be a 501(c)(3) institution is approved by the United States Internal Revenue Service, as is expected by the Borrower. In such case the Borrower and the University will substitute the Management Contract with an agreement which excludes the provisions that were incorporated to comply with the aforementioned requirements of the Code.

Pursuant to the Assignment Agreement, the Borrower will assign to the Trustee as security for the payment of the Bonds its rights under the Lease Agreement to receive the basic lease payments and the portion of the supplemental lease payments that are required under the Lease Agreement to ensure that the balance in the Debt Service Reserve Fund is maintained at the required level. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Assignment Agreement."

Master Trust Indenture

On or prior to the Closing Date, the University will enter into the Master Trust Indenture. The obligation of the University under the Lease Agreement to make basic lease payments and a certain supplemental lease payments (relating to the obligation of the University to ensure that the balance in the Debt Service Reserve Fund is maintained at the required level) constitutes Obligation No. 1 under the Master Trust Indenture and, as such, will be secured by a subordinated lien on the Pledged Revenues. Under the terms of the Master Trust Indenture, the University may issue additional University Subordinated Obligations upon a showing that the lesser of (i) the Pledged Revenues (excluding any monies received in such period under debt service grant programs of the United States Government or any agency thereof) for any period of twelve consecutive months within the eighteen calendar months preceding the issuance of such University Subordinated Obligations and (ii) the estimated Pledged Revenues (excluding any monies received in such period under debt service grant programs of the United States Government or any agency thereof) for the period of twelve consecutive months beginning with the month in which such University Subordinated Obligations are issued is no less than 125% of the maximum scheduled annual debt service for any fiscal year thereafter on account of the University Senior Bonds and University Subordinated Obligations then outstanding and the additional University Subordinated Obligations then to be issued.

In the Master Trust Indenture, the University covenants to fix, impose, revise from time to time, and collect tuition fees, student fees and rentals and other charges for the right of use or occupancy of the facilities of the University, so that the Pledged Revenues (after deducting any Federal debt service grant payments), together with any other funds, including funds appropriated by the Legislature of Puerto Rico, will be sufficient to have a long-term debt service coverage ratio of 1.0 at the end of each fiscal year of the University. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Master Trust Indenture."

BOND INSURANCE

The MBIA Bond Insurance Policy

The following information has been furnished by MBIA Insurance for use in this Official Statement. Reference is made to *Appendix E* for a specimen of the MBIA Bond Insurance Policy.

The MBIA Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the University to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The MBIA Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA Insurance from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA Insurance on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bond or presentment of such other proof of ownership of the Bond, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bond as are paid by MBIA Insurance, and appropriate instruments to effect the appointment of MBIA Insurance as agent for such owner of the Bond in any legal proceeding related to payment of insured amounts on the Bond, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owner or the Trustee payment of the insured amounts due on such Bond, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA Insurance. MBIA Insurance is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA Insurance has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA Insurance, changes in control and transactions among affiliates. Additionally, MBIA Insurance is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1999, MBIA Insurance had admitted assets of $7.0 billion (audited), total liabilities of $4.6 billion (audited), and total capital and surplus of $2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2000, MBIA Insurance had admitted assets of $7.5 billion (unaudited), total liabilities of $5.1 billion (unaudited), and total capital and surplus of $2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Copies of MBIA Insurance's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from MBIA Insurance. A copy of the Annual Report on Form 10-K of the Company is available from MBIA Insurance or the Securities and Exchange Commission. The address of MBIA Insurance is 113 King Street, Armonk, New York 10504. The telephone number of MBIA Insurance is (914) 273-4545.

Moody's Investors Service ("Moody's") rates the financial strength of MBIA Insurance "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), rates the financial strength of MBIA Insurance "AAA."

Fitch IBCA, Inc. rates the financial strength of MBIA Insurance "AAA."

Each rating of MBIA Insurance should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA Insurance and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revisions or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market prices of the Bonds. MBIA Insurance does not guaranty the market prices of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

AFICA

General

The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA") is a body corporate and politic constituting a public corporation and governmental instrumentality of Puerto Rico. The Legislature of Puerto Rico determined that the development and expansion of commerce, industry, and health and educational services within Puerto Rico is essential to the economic growth of Puerto Rico and to attain full employment and preserve the health, welfare, safety and prosperity of all its citizens. The Legislature of Puerto Rico also determined that new methods of financing capital investments were required to promote industry in Puerto Rico and to provide modern and efficient medical facilities for the citizens of Puerto Rico. Accordingly, AFICA was created under Act No. 121 of the Legislature of Puerto Rico, approved June 27, 1977, as amended (the "Act"), for the purpose of promoting the economic development, health, welfare and safety of the citizens of Puerto Rico. AFICA is authorized to borrow money through the issuance of revenue bonds and to loan the proceeds thereof to finance the acquisition, development, construction and equipping of industrial, tourist, educational, medical, pollution control and solid waste disposal facilities. AFICA has no taxing power. AFICA's offices are located at Minillas Government Center, De Diego Avenue, Stop 22, San Juan, Puerto Rico 00940. AFICA's telephone number is (787) 728-4060.

Governing Board

The Act provides that the Governing Board of AFICA (the "Governing Board") shall consist of seven members. The President of GDB, the Executive Director of Puerto Rico Industrial Development Company, the Executive Director of Puerto Rico Infrastructure Financing Authority, the President of the Puerto Rico Environmental Quality Board and the Executive Director of the Puerto Rico Tourism Company are each *ex officio* members of the Governing Board. The remaining two members of the Governing Board are appointed by the Governor of Puerto Rico for terms of four years. The following individuals are the current members of the Governing Board:

Name	Position	Term	Occupation
Lourdes M. Rovira-Rizek	Chairperson	Indefinite	President, Government Development Bank for Puerto Rico
Héctor Russé-Martínez	Member	Indefinite	President, Puerto Rico Environmental Quality Board
José Corujo	Member	Indefinite	Executive Director, Puerto Rico Tourism Company
Xavier Romeu	Member	Indefinite	Secretary of Economic Development and Commerce, and Executive Director, Puerto Rico Industrial Development Company
Miguel A. Cordero	Member	Indefinite	Executive Director, Puerto Rico Infrastructure Financing Authority
James Thordsen	Member	June 27, 2002	President, James Thordsen, Inc.
José Salas-Soler	Member	October 22, 2001	Attorney-at-Law

The Act provides that the affirmative vote of four members is sufficient for any action taken by the Governing Board.

The following individuals are currently officers of AFICA:

Carlos Colón De Armas, Executive Director of AFICA, is also Executive Vice President of GDB. He was appointed to these positions in February of 1999. Mr. Colón De Armas received a PhD in finance from Purdue University in 1992. Prior to his appointment, he was Deputy Executive Director of the Puerto Rico Highway and Transportation Authority.

Javier Ramos-Luiña, Assistant Executive Director of AFICA, is also Financing Principal of GDB. He has been associated with GDB since 1997. Mr. Ramos-Luiña received a Masters of Business Administration degree from Atlanta University in 1990 and a Bachelor of Science degree in Business Administration from Bryant College in 1988. Prior to his appointment, he worked in investment banking firms in Puerto Rico.

Delfina Betancourt Capó, Secretary and General Counsel of AFICA, is also Senior Vice President and General Counsel of GDB. Ms. Betancourt has been associated with GDB since 1984. She received a law degree from Cornell University in 1982.

Outstanding Revenue Bonds and Notes of AFICA

As of October 31, 2000, AFICA had revenue bonds and notes issued and outstanding in the principal of approximately $3.1 billion.

All such bond and note issues have been authorized and issued pursuant to trust agreements or resolutions separate from and unrelated to the Trust Agreement relating to the bonds and are payable from sources other than the payments under the Loan Agreement.

Under the Act, AFICA may issue additional bonds and notes from time to time to finance industrial, tourist, educational, medical or pollution control facilities. However, any such bonds and notes would be authorized and issued pursuant to other trust agreements or resolutions separate from and unrelated to the Trust Agreement relating to the Bonds and would be payable from sources other than the payments under the Loan Agreement.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

As required by Act No. 272 of the Legislature of Puerto Rico, approved May 15, 1945, as amended, GDB has acted as a financial advisor to AFICA in connection with the issuance and sale of the Bonds.

GDB is a public corporation with varied governmental financial functions. Its principal functions are to act as financial advisor to and fiscal agent for Puerto Rico, its municipalities and its public corporations in connection with the issuance of bonds and notes, to make advances to public corporations and to make loans to private enterprises that will aid in the economic development of Puerto Rico. The Underwriter has been selected by GDB to act from time to time as underwriter of its obligations and the obligations of Puerto Rico, its instrumentalities and public corporations. The Underwriter or its affiliates also participate in other financial transactions with GDB.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of AFICA taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds or existence or powers of AFICA.

TAX MATTERS

In the opinion of Brown & Wood LLP, New York, New York, Bond Counsel, based on existing law and subject to compliance by the Borrower, the University and AFICA with certain requirements relating to the Code and covenants regarding the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury, if any, interest on the Bonds is not includable in gross income for federal income tax purposes. Bond Counsel will express no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes on or after the effective date on which (i) the Lease Agreement, the Trust Agreement or the Loan Agreement or any related document is modified or amended in any manner that affects the exclusion of interest on the Bonds for federal income tax purposes without the approval of Bond Counsel or (ii) any change contemplated by the above-referenced documents occurs or action is taken upon the approval of counsel other than Bond Counsel to the extent such change or action affects such exclusion. Bond Counsel is further of the opinion that the Bonds and the interest thereon are exempt from state, Commonwealth and local income taxation. The form of opinion to be delivered by Bond Counsel is set forth in Appendix D "FORM OF OPINION OF BOND COUNSEL" attached to this Official Statement.

In rendering the opinion in the first sentence of the preceding paragraph, Bond Counsel has relied, among other things, upon representations made by the Borrower in connection with the issuance of the Bonds with respect to Borrower's current status and prospective status as a not-for-profit corporation organized under the laws of the Commonwealth. Bond Counsel has been advised by the Borrower that it expects to apply to the Internal Revenue Service to be recognized as an entity described in section 501(c)(3) of the Code.

If such status is not obtained, the Management Contract, as executed in connection with the issuance of the Bonds and pursuant to which the Project (except for the commercial space) will be managed, will comply with Revenue Procedure 97-13, 1997-1 C.B. 632 ("Revenue Proceudure 97-13"). In the event that the Borrower obtains status as an organization described in section 501(c)(3) of the Code after the issuance of the Bonds, the Management Contract will be replaced by a Management Contract which will no longer comply (a "Noncomplying Agreement") with the requirements of Revenue Procedure 97-13. Prior to the management of the Project by the Borrower pursuant to a Noncomplying Agreement, the Lease Agreement requires the delivery of an opinion of González-Nieto García Feliciano & Balzac, San Juan, Puerto Rico, counsel to the Borrower, in the form set forth in the Lease Agreement, that the Borrower is an organization described in section 501(c)(3) of the Code. In rendering the opinion in the first sentence of the second preceding paragraph and in the event that the Project (except for the commercial space) will be managed by the Borrower pursuant to a Noncomplying Agreement, Bond Counsel is relying upon the receipt of such opinion in substantially such form.

Alternative Minimum Tax

Interest on the Bonds will not be treated as a specific preference item in calculating the alternative minimum taxable income of individuals and corporations; however, interest on the Bonds will be includable in the computation of the alternative minimum tax on corporations imposed by the Code.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Bonds over the initial public offering price to the public (excluding bond houses, brokers or similar person acting in the capacity of underwriters or wholesales) at which price a substantial amount of the Bonds of such maturity is sold constitutes original issue discount. The amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. Original issue discount accruing pursuant to such constant yield method will be excluded from gross income to the same extent as interest on the Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of the Bonds with original issue discount (the "Discount Bonds") that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although such owners have not received cash attributable to such original issue discount in such year.

A purchaser in the initial offering who acquires a Discount Bond at an issue price equal to the initial offering price thereof as set forth on the inside cover page will be treated as receiving an amount of interest not includable in gross income for federal income tax purposes equal to the original issue discount accruing during the period he holds such Discount Bond and will increase his adjusted basis in such Discount Bond by the amount of such accruing discount for purposes of determining taxable gain or loss on the redemption, sale or other disposition of such Discount Bond for federal income tax purposes. The accrual of original issue discount and its effect on the redemption, sale or other disposition of Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds and with respect to Commonwealth, state, and local income tax consequences of owning and disposing of Discount Bonds.

Original Issue Premium

The excess, if any, of the tax basis of the Bonds of any maturity (generally the purchase price) to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchases such maturity as part of the initial offering and at the initial offering price over the amount payable at maturity of such Bonds is "Bond Premium." Bond Premium is amortized over the term of such Bonds for federal income tax purposes. No deduction is allowed for such amortization of Bond Premium; however, Bond Premium is treated as an offset to qualified stated interest received on the Bonds. Owners of such Bonds are required to decrease their adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. Owners of such Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon the redemption, sale or other disposition of such Bonds and with respect to Commonwealth, state, and local income tax consequences of owning and disposing of such Bonds.

Other Tax Consequences

Ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issue of the Bonds will not have an adverse impact on the tax-exempt status of the interest of the Bonds, the economic value of the tax exemption or the market prices of the Bonds. Legislative or regulatory actions and proposals may also affect the economic value of the tax exemption or market prices of the Bonds.

LEGAL INVESTMENT

The Bonds will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico as required by law.

UNDERWRITING

Under a Bond Purchase Agreement, PaineWebber Incorporated (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from AFICA at a discount of $1,016,674.15 from the respective offering prices for the Bonds derived from the information set forth on the inside cover page of this Official Statement. If any of the Bonds are taken and paid for by the Underwriter, the Underwriter must take and pay for all of the Bonds plus accrued interest. The Bond Purchase Agreement referred to above provides for the indemnification by the Borrower of AFICA and the Underwriter against certain civil liabilities. The offering prices may be changed from time to time by the Underwriter.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the respective offering prices stated or derived from information stated on the inside cover page of this Official Statement.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 as amended (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"):

(a) the University will agree to file within 305 days after the end of each fiscal year beginning with its 2000 fiscal year, with each NRMSIR and with any Commonwealth state information depository ("SID"), core financial information and operating data for the prior fiscal year, including the University's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and operating data and revenues, expenditures, financial operations and indebtedness generally found in this Official Statement;

(b) the Borrower will agree to file within 120 days after the end of each fiscal year beginning after its fiscal year 2000, with each NRMSIR and with any Commonwealth SID, core financial information and operating data, including audited financial statements prepared in accordance with generally accepted accounting principles, and operating data and revenues, expenditures, financial operations and indebtedness generally found in this Official Statement;

(c) the Borrower and the University will agree to file in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth SID, notice of failure of the University to comply with clause (a) above and of the Borrower to comply with clause (b) above, respectively, and notice of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;
(ii) non-payment related defaults;
(iii) unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) unscheduled draws on credit enhancements reflecting financial difficulties;
(v) substitution of credit or liquidity providers, or their failure to perform;
(vi) adverse opinions or events affecting the tax-exempt status of the Bonds;
(vii) modifications to rights of Bondholders;
(viii) Bond calls;
(ix) defeasances;
(x) release, substitution, or sale of property securing repayment of the Bonds; and
(xi) rating changes.

With respect to the following events:

Events (iv) and (v) - The Borrower and the University do not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Borrower or the University, as the case may be, applies for or participates in obtaining the enhancement.

Event (vi) - For information on the tax status of the Bonds, see "TAX MATTERS."

Event (viii) - The Borrower does not undertake to provide the above-described notice in respect of any scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of such redemption are set forth in detail in this Official Statement under "THE BONDS -- Mandatory Redemption," (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bonds and the Trust Agreement, and (iv) public notice of redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of Bonds.

As of the date of this Official Statement, there was no Puerto Rico SID. The nationally recognized municipal securities information repositories are: Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08542-0840; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York 10041; Interactive Data, Attn: Repository, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Borrower or the University may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Borrower or the University, such other events are material with respect to the Bonds, but neither the Borrower nor the University undertakes to provide any such notice of the occurrence of any material event except those events listed above.

The University and the Borrower acknowledge that their respective undertakings pursuant to the Rule described above are intended to be for the benefit of the Beneficial Owners of the Bonds, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of the undertakings shall be limited to a right to obtain specific performance of the University's or the Borrower's obligations hereunder. The Borrower and the

University have represented to the Underwriter that neither has failed to comply with any similar undertaking under the Rule.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants in paragraphs (a), (b) or (c) above (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the University and the Borrower written notice of any request to cure such breach, and the University or the Borrower, as applicable, shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified in the Continuing Disclosure Agreement among the Borrower, the University and the Trustee dated as of December 1, 2000 in a Commonwealth court located in the Municipality of San Juan, and for the equal benefit of all Beneficial Owners of the outstanding Bonds benefitted by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Notwithstanding the foregoing, no challenge to the adequacy of the information provided in accordance with the filings mentioned in paragraphs (a), (b) or (c) above may be prosecuted by any Beneficial Owner of Bonds except in compliance with the remedial and enforcement provisions contained in the Trust Agreement. See Appendix A — "SUMMARIES OF PRINCIPAL DOCUMENTS — Summary of the Trust Agreement — Enforcement of Remedies."

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Borrower or the University; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or change in circumstances, and the amendment does not materially impair the interests of the Beneficial Owners of the Bonds, as determined by parties unaffiliated with the Borrower or the University or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such interpretation, ceases to be in effect for any reason, and the University elects that the Covenants shall be deemed amended accordingly.

The Borrower and the University have further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the unqualified approving legal opinion of Brown & Wood LLP, New York, New York, Bond Counsel. A copy of the opinion of Bond Counsel is set forth in Appendix D. Certain legal matters will be passed upon for the Underwriter by Pietrantoni Mendez & Alvarez LLP. Certain legal matters will be passed upon for AFICA by Delfina Betancourt-Capó, Esq., General Counsel to AFICA, for the Borrower by González-Nieto García Feliciano & Balzac, San Juan, Puerto Rico, and for the University by Cancio Nadal Rivera Díaz & Berríos, San Juan, Puerto Rico.

ACCOUNTANTS

The University's audited financial statement for the years ended June 30, 2000 and 1999, together with the auditor's report of Ernst & Young LLP are contained in Appendix C.

RATINGS

The Bonds have been assigned a rating of "Aaa" by Moody's Investors Service, Inc. and of "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., in each case with the understanding that upon delivery of the Bonds, the MBIA Bond Insurance Policy will be issued by MBIA Insurance. Ratings reflect only the respective opinions of such rating agencies, and an explanation of the significance of ratings must be obtained from the respective rating agency. Such rating agencies were provided with materials relating to the Borrower and the University and the Bonds and other relevant information, and no application has been made to any other rating agency for the purpose of obtaining a rating on the Bonds.

There is no assurance that the ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by either or both of such rating agencies. Any downward revision or withdrawal of the ratings could have an adverse effect on the market prices of the Bonds.

MISCELLANEOUS

The foregoing references to and summaries of certain Federal, Commonwealth and local laws, including, but not limited to, the laws of the Commonwealth, Act No. 2 of 1966, and documents and agreements, including but not limited to the Trust Agreement, are made subject to all the detailed provisions thereof. Such references and summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions. Copies of the Trust Agreement, the Loan Agreement, the Master Trust Indenture, the Lease Agreement and the Assignment Agreement are available for inspection during regular business hours at the corporate trust office of the Trustee.

Appended to and constituting a part of this Official Statement are the summaries of Principal Documents (Appendix A), a description of the University (Appendix B), the financial statements and supplementary information of the University for the fiscal years ended June 30, 2000 and 1999, together with the independent auditor's report thereon, dated September 30, 2000, of Ernst & Young LLP, San Juan, Puerto Rico, certified public accountants (Appendix C), the proposed form of opinion of Bond Counsel (Appendix D), and a specimen of the MBIA Bond Insurance Policy (Appendix E).

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement incorporates by reference the Commonwealth Report and the Commonwealth Financial Statements. The Commonwealth Report has been filed by the Commonwealth with each NRMSIR as *Appendix B* to the University's Official Statement, dated August 10, 2000, for the $200,000,000 University System Revenue Bonds, Series O. The Commonwealth Financial Statements have been filed by the Commonwealth with each NRMSIR as part of the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 1999.

Any appendix of an Official Statement of the Commonwealth or of any instrumentality of the Commonwealth filed with each NRMSIR and the MSRB or any other document containing the Commonwealth Report or the Commonwealth Financial Statements filed with each NRMSIR after the date hereof and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth Report and the Commonwealth Financial Statements incorporated herein by reference. Requests for such document should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 140 Broadway, 38th Floor, New York, N.Y. 10005, telephone number (212) 422-6420, or to Director-General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, Santurce, PR 00940, telephone number (787) 722-7060.

A copy of the Commonwealth Report and the Commonwealth Financial Statements may be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* above.

The financial statements of the University included in *Appendix C* and the Commonwealth Financial Statements have been audited by Ernst & Young LLP and Deloitte & Touche LLP, San Juan, Puerto Rico, respectively, as set forth in their respective reports therein. The information in the Commonwealth Report was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is incorporated by reference in this Official Statement on authority of such officials or authority of such publications as public official documents, respectively. The information pertaining to AFICA and DTC was supplied, respectively, by AFICA and DTC. The information pertaining to MBIA Insurance and the MBIA Bond Insurance Policy was supplied by MBIA Insurance. The remaining information set forth in this Official Statement, except the information appearing in *Underwriting, Appendix D,* and the Commonwealth Financial Statements, was supplied by the Borrower and by the University and is included in this Official Statement on their authority.

The execution and delivery of this Official Statement have been duly authorized by AFICA, and this Official Statement has been approved by the Borrower and the University.

This Official Statement will be filed with each NRMSIR and with the MSRB.

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY

By: /s/ Carlos A. Colón De Armas
Carlos A. Colón De Armas
Executive Director

Approved:

DESARROLLOS UNIVERSITARIOS, INC.

By: /s/Esteban Rodríguez Maduro
Esteban Rodríguez Maduro
President

UNIVERSITY OF PUERTO RICO

By: /s/Norman I. Maldonado
Norman I. Maldonado
President

APPENDIX A

SUMMARIES OF PRINCIPAL DOCUMENTS

DEFINITIONS OF CERTAIN TERMS FOR TRUST, LOAN, LEASE AND ASSIGNMENT AGREEMENTS

"Assignment Agreement" means the Assignment Agreement, dated as of the date of the Closing, from the Borrower to the Trustee, together with any amendments and supplements thereto permitted by the Trust Agreement.

"Average Annual Debt Service on the Bonds" means at any given time of determination, the average of the Principal and Interest Requirements for the Bonds for the then current and each future Bond Year until their final maturity.

"Bond Year" means the period commencing on July 1 of any year and ending on June 30 of the following year, except that the first Bond Year shall commence on the date of Closing.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Commercial Facilities" means that portion of the Project not leased to the University under the Lease Agreement.

"Completion Date" means the date of completion of the acquisition and construction of the Project as that date shall be certified pursuant to the Loan Agreement.

"Force Majeure" means acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of the Commonwealth or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; war; insurrections; civil disturbances; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; droughts; floods; washouts; arrests; restraint of government and people; explosions; breakage, malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of utilities; shortages of labor, materials, supplies or transportation; change in government standards and regulations; or

"Governing Body" means, when used with respect to the University, its board of trustees or other board or group of individuals in which the powers of the University are vested by law.

"Insurance Requirements" means and includes all provisions of any insurance policy required by the Loan Agreement, all requirements of the issuer of such insurance policies, and all orders, rules and regulations and other requirements of the Puerto Rico Fire Department (or any other body exercising similar functions) applicable to or affecting the Project, or any part thereof, or any use or conditions of the Project, or any part thereof.

"Investment Agreement" means an agreement for the investment of money in the Debt Service Reserve Fund, the Principal Account, the Interest Account, the Sinking Fund Account or the Project Account entered into by the Trustee with a Qualified Financial Institution, whether such agreement is in the form of an interest-bearing time deposit, repurchase agreement or any other similar arrangement and which is rated by each Rating Agency in one of the four highest rating categories (without regard to any gradations within such categories).

"Management and Operations Agreement" means the agreement set forth in Exhibit III of the Lease Agreement, an the same may be amended or supplemented from time to time as therein permitted.

"Master Trust Indenture" means the master trust indenture, dated as of December 1, 2000, between the University and the Master Trustee, as the same may be amended or supplemented from time to time as therein permitted.

"Maximum Annual Debt Service on the Bonds" means, at any given time of determination, the maximum Principal and Interest Requirements for the Bonds for the then current and any succeeding Bond Year.

"Net Proceeds" means any proceeds of casualty and theft insurance and any other available funds from any alternative risk management program required or permitted by the Lease Agreement, and proceeds of title insurance required thereof and any proceeds of any taking by eminent domain or condemnation paid with respect to the Project Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"Outstanding" or "outstanding", when used with reference to Bonds, means, as of a particular date, all Bonds theretofore issued under the Trust Agreement, except:

> (1) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation; (2) Bonds for the payment of which moneys or Defeasance Obligations the principal of and the interest on such Defeasance Obligations, when due, without reinvestment, will be sufficient to pay, on the date when such Bonds are to be paid or redeemed, the principal amount or the Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, have been deposited with the Trustee in trust for the Holders of such Bonds; (3) Bonds in exchange for or in lieu of which other Bonds have been issued under the Trust Agreement; and (4) Bonds deemed to have been paid in accordance with the Trust Agreement; provided, however, that in determining whether the holders of the requisite principal amount of Bonds outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Trust Agreement, Bonds owned by the Borrower or any affiliate thereof or the University shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded.

"Plans and Specifications" means, collectively, the plans and specifications prepared for the Project as the same may be implemented and detailed from time to time and as the same may be revised from time to time prior to the completion of construction of the Project in accordance with the Loan Agreement.

"Principal Requirements" for any Bond Year means the sum of (i) the amount required to pay the principal of all Outstanding Serial Bonds coming due on July 1 of the following Bond Year and (ii) the Sinking Fund Requirements for Term Bonds for such Bond Year.

"Project Property" means the Site, the Project and any other buildings, improvements and fixtures located on the Site, together with all easements, rights, and appurtenances thereto and all building improvements and fixtures existing and/or that could exist in the future thereon including, without limitation, the Project and all personal property of the Lessor existing and/or that could exist in the future therein, but excluding the Commercial Facilities.

"Rating Agency" means any of Fitch, Moody's and S&P at the time rating the Bonds.

"Redemption Price" means, with respect to Bonds or a portion thereof, the principal amount of such Bonds or portion thereof plus the applicable redemption premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms and the terms of the Trust Agreement.

"Required Debt Service Reserve" means the least amount equal to 10% of the original proceeds of the Bonds (determined in accordance with the provisions of the Tax Certificate), one hundred percent (100%) of Maximum Annual Debt Service on the Bonds and one hundred twenty-five percent (125%) of Average Annual Debt Service on the Bonds.

"Required Payments under the Loan Agreement" means the payments so designated by and set forth in the Loan Agreement.

"Serial Bonds" means the Bonds which are stated to mature on July 1, 2004 to 2021, inclusive.

"Sinking Fund Requirement" means, with respect to the Term Bonds for any Bond Year, the principal amount fixed or computed for such Bond Year as provided under the Trust Agreement for the retirement of such Term Bonds by purchase or redemption.

Prior to the Bond Year commencing July 1, 2021, there shall be no Sinking Fund Requirements.

The aggregate amount of such Sinking Fund Requirements for the Term Bonds, together with the amount due upon the final maturity of such Term Bonds, shall be equal to the aggregate principal amount of the Term Bonds. The Sinking Fund Requirements for the Term Bonds shall begin in the Bond Year determined as provided in the Trust Agreement and shall end with the Bond Year immediately preceding the maturity of such Term Bonds (such final installment being payable at maturity). The principal amount of Term Bonds retired by operation of the Sinking Fund Account by purchase in excess of the total amount of the Sinking Fund Requirement for such Term Bonds during any Bond Year, shall be credited against and reduce the future Sinking Fund Requirements for such Term Bonds in such manner as shall be specified in an Officer's Certificate of the University filed with the Trustee pursuant to the Trust Agreement.

On or before the forty-fifth (45th) day next preceding any July 1 on which Term Bonds are to be retired pursuant to the Sinking Fund Requirement therefor, the Authority, the Borrower or the University may purchase and deliver to the Trustee for cancellation Term Bonds required to be redeemed on such July 1 in any aggregate principal amount desired and receive a credit against amounts required to be transferred from the Sinking Fund Account on account of such Term Bonds in the amount of one hundred percent (100%) of the principal amount of any such Term Bonds so purchased and delivered.

If any Term Bonds of the same maturity are paid or redeemed by operation of the Bond Fund, the Trustee shall reduce future Sinking Fund Requirements therefor in such manner as shall be specified in an Officer's Certificate of the University filed with the Trustee pursuant to the Trust Agreement.

"Substantial Completion Certificate" means a certificate signed by a Borrower Representative and a University Representative to the effect that the Project Property is ready for its intended use except for punchlist items.

"Tax Certificate" means the Tax Certificate and Agreement, dated the Closing, concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by the Authority, the Borrower and the University on the date of initial execution and delivery of the Bonds, including any and all exhibits attached thereto.

"Term Bonds" means the Bonds that are stated to mature on July 1, 2033.

"Total Required Payments" means the sum of Loan Repayments and Required Payments under the Loan Agreement.

"1971 Trust Agreement" means the trust agreement, dated as of June 1, 1971, as amended, by and among the University, State Street Bank and Trust Company, N.A., successor trustee, and Banco Popular de Puerto Rico, co-trustee, as the same may be further amended or supplemented as therein permitted or as the same may be replaced by a successor agreement having substantially the same purpose.

SUMMARY OF THE TRUST AGREEMENT

Pledge and Security. The Trust Agreement constitutes a pledge and assignment by the Authority to the Trustee for the benefit of the Bondholders all of the Authority's right, title and interest in the Loan Agreement, (except for certain rights of the Authority to indemnification, exemption from liability, notices and the payment of costs and expenses) in trust to provide for the payment of the principal of and premium, if any, and interest on the Bonds.

Construction Fund. The proceeds from the sale of the Bonds, other than amounts to be deposited to the credit of the Debt Service Reserve Fund, accrued interest on the Bonds and a portion of the amount of interest to accrue on the Bonds during the construction of the Project, will be deposited with the Trustee in the Construction Fund established under the Trust Agreement.

Payments of the costs of the acquisition, construction and equipping of the Project will be made by the Trustee from the Project Account of the Construction Fund upon requisitions signed by the Borrower (and approved by the University or the Authority if prior to the payment thereof the University or the Authority so determine by written notice to the Trustee). Any amounts remaining in the Project Account on the Completion Date will be transferred first, to the Debt Service Reserve Fund if there is a deficiency therein, or second, to the Bond Fund and used to purchase Bonds, redeem Bonds or pay principal of the Bonds in accordance to the order of priority established in the Trust Agreement. (Secs. 401-409).

Establishment of Funds. The Trust Agreement establishes the following funds:

1. Educational Facilities Revenue Bonds (Plaza Universitaria Project) 2000 Series A Bond Fund, in which there are established an Interest Account, a Principal Account, and a Sinking Fund Account; and

2. Educational Facilities Revenue Bonds (Plaza Universitaria Project) 2000 Series A Debt Service Reserve Fund.

The money and securities in each of said funds and accounts are held in trust and pending application shall be subject to a lien and charge in favor of the holders of the Bonds. (Sec. 501).

Funds Received. The Trustee shall deposit all amounts received as Loan Repayments and Required Payments under the Loan Agreement (set forth in the first paragraph under "Required Payments under the Loan Agreement" in the Loan Agreement summary below) in the following order:

(i) into the Interest Account, beginning on January 25, 2001, and continuing on the twenty-fifth (25th) day of each month thereafter, an amount equal to 1/6 of the interest payable on the Bonds on the next ensuing interest payment date until the amounts held to the credit of the Interest Account are equal to the sum of such amount of interest payable on such interest payment date;

(ii) into the Principal Account, beginning on July 25, 2003 and continuing on the twenty-fifth (25th) day of each month thereafter, an amount equal to one-twelfth (1/12) of the amount of principal payable on all Serial Bonds on the next ensuing July 1 until the amounts held to the credit of the Principal Account are equal to the sum of such amount of principal payable on such July 1;

(iii) into the Sinking Fund Account, beginning on July 25, 2021 and continuing on the twenty-fifth (25th) day of each month thereafter, an amount equal to 1/12 of the Sinking Fund Requirement for such Bond Year for the Term Bonds then outstanding; and

(iv) beginning on the twenty-fifth (25th) day of the month following the month in which money is transferred from the Debt Service Reserve Fund to any account in the Bond Fund to cure a deficiency therein, into the Debt Service Reserve Fund 1/6 of the amount or amounts so transferred until the amount then on deposit in the Debt Service Reserve Fund is equal to the Required Debt Service Reserve; and, beginning on the twenty-fifth (25th) day of the month following a valuation in which a decline in the value of Investment Obligations (as hereinafter defined) in the Debt Service Reserve Fund causes the amount then to the credit of the Debt Service Reserve Fund to be less than 90% of the Required Debt Service Reserve, into the Debt Service Reserve Fund 1/12 of the amount needed to cause the amount then to the credit of the Debt Service Reserve Fund to equal the Required Debt Service Reserve.

To the extent that investment earnings are credited to the Interest, Principal or Sinking Fund Accounts or amounts are credited thereto as a result of the application of Bond proceeds or a transfer of investment earnings on any other fund or account held by the Trustee, or otherwise, future deposits to such accounts shall be reduced in the order of such deposits by the amounts so credited, and subsequent Loan Repayments due from the Borrower shall be reduced by the amounts so credited and in the order of such Repayments (and to the same extent, Basic Lease Payments of the University under the Lease Agreement shall be correspondingly reduced).

All amounts received by the Trustee as principal of or interest accruing on the Bonds to be redeemed as a result of a prepayment of the Loan shall be deposited in the Principal Account and Interest Account, respectively, when received. All amounts received by the Trustee as redemption premiums shall be deposited in the Principal Account when received. (Sec. 502).

In the event the balance in the Bond Fund is insufficient for the payment of principal, premium, if any, or interest becoming due on the Bonds on the next ensuing interest payment date or date upon which Bonds are to be redeemed or otherwise paid, the Trustee shall notify the Borrower and the University of the amount of the deficiency. If the amount in the Bond Fund is insufficient to make the next payment on the Bonds becoming due on the next interest or principal payment date, the Trustee shall transfer to such Fund such amount as may be necessary to remedy the deficiency therein from the Debt Service Reserve Fund. (Secs. 503-505).

Application of Money in Debt Service Fund; Qualified Reserve Fund Substitute. The Trustee shall use amounts in the Debt Service Reserve Fund to make transfers to the Interest Account, the Principal Account and the Sinking Fund Account to the extent necessary to pay interest on and principal (whether at maturity, by acceleration or in satisfaction of a Sinking Fund Requirement) of the Bonds, whenever and to the extent that the money on deposit in any of such Accounts is insufficient for such purposes and has not been cured.

If the amount held in the Debt Service Reserve Fund exceeds the Required Debt Service Reserve, such excess amount shall be transferred by the Trustee, as the University shall direct, to the Interest Account, the Principal Account or the Sinking Fund Account. Any such excess so transferred shall be credited against future deposits to such Accounts, unless transferred to cure deficiencies therein, and shall be credited by the Trustee against future Loan Repayments to be made by the Borrower and in the order of such Repayments (and to the same extent, Basic Lease Payments of the University under the Lease Agreement shall be correspondingly reduced).

The University may, at any time, deliver to the Trustee a Qualified Reserve Fund Substitute in an amount equal to all or any portion of the Required Debt Service Reserve. In such event, if the University shall also deliver to the Trustee, among other things, a written statement setting forth the use which the University proposes to make of the cash and Investment Obligations that will be released from the Debt Service Reserve Fund upon the delivery of the Qualified Reserve Fund Substitute accompanied by an opinion of bond counsel to the Authority to the effect that such proposed use will not cause the interest on the Bonds to be includable in the gross income of the recipients thereof for purposes of federal income taxation, the Trustee shall transfer to the University an amount on deposit to the credit of the Debt Service Reserve Fund equal to the amount of the Qualified Reserve Fund Substitute. Qualified Reserve Fund Substitute means (i) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated in one of the two highest rating categories (without regard to any gradations within either of such categories) by any Rating Agency or (ii) a policy of reserve fund insurance naming the Trustee as beneficiary, issued by an insurance company whose claims paying ability is rated in the highest rating category by any Rating Agency, in either case (A) in an amount not more than the Required Debt Service Reserve and (B) approved by the Authority, which approval shall not be unreasonably withheld.

If any Qualified Reserve Fund Substitute shall be in effect, the Trustee will draw moneys under such Qualified Reserve Fund Substitute at the same time and in the same amount that the Trustee would otherwise have been required to transfer amounts from the Debt Service Reserve Fund in accordance with the third preceding paragraph; provided, however, that in making any such transfers, the Trustee shall first exhaust all cash and any Investment Obligations on deposit in the Debt Service Reserve Fund before drawing under any Qualified Reserve Fund Substitute.

If at any time moneys in the Debt Service Reserve Fund are used to pay the principal of, or redemption premium or interest on, any Bond as a result of the failure of the Borrower to pay the full amount of its Loan Repayments at the times required, or for any other reason, the Trustee shall promptly notify the University of such failure or other reason which required such use of the moneys in the Debt Service Reserve Fund and that Basic Lease Payments corresponding to and in an aggregate amount of such Loan Repayments not so paid in full shall be due and payable not later than six months after the giving of such notice to the University. If at any time the amount on deposit to the credit of the Debt Service Reserve Fund is not equal to the Required Debt Service Reserve, other than because of the use of the moneys as referred to in the preceding sentence of this paragraph, the Trustee shall promptly notify the University that Supplemental Lease Payments under the Lease Agreement in an aggregate amount sufficient to make the amount then on deposit to the credit of the Debt Service Reserve Fund equal to the Required Debt Service Reserve shall be due and payable not later than one year after the giving of such notice to the University. Copies of such notices or requests shall be sent concurrently by the Trustee to Government Development Bank for Puerto Rico. (Sec. 506).

Investment of Funds. Money in all funds and accounts, created under the Trust Agreement shall be continuously invested and reinvested by the Trustee in Investment Obligations to the extent practicable in accordance with the instructions of a University Representative as provided in the Trust Agreement or, if no such instruction is given, in Government Obligations with a maturity not exceeding 180 days from the date of investment. Any such Investment Obligations shall mature not later than the respective dates when the money in such funds or accounts will be required for the purposes intended; provided, however, that Investment Obligations deposited in the Debt Service Reserve Fund shall mature no later than the final maturity date of the Bonds at the time outstanding. (Sec. 602).

Government Obligations are defined as (i) direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, (ii) bonds, debentures or notes issued by Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association, and (iii) any certificates or other evidences of ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the principal thereof or the interest thereon) of the character described in clause (i), which certificates are rated in the highest rating category by any Rating Agency (or any successors thereto).

Investment Obligations are defined as Government Obligations and obligations of any agency or instrumentality whose obligations are backed by the full faith and credit of the United States of America and, to the extent from time to time permitted by law, (A) the obligations of (i) Federal National Mortgage Association, (ii) Federal Home Loan Banks, (iii) Federal Farm Credit System, (iv) Federal Home Loan Mortgage Corporation, (v) Government National Mortgage Association, (vi) Federal Housing Administration, and (vii) Farmers Home Administration (to the extent not included in Government Obligations), (B) repurchase agreements with financial institutions which are members of the Federal Reserve System or primary dealers in the United States Treasury market the short-term obligations of which institutions or dealers are rated at least A-3 by S&P (or its equivalent by any Rating Agency) or whose long-term obligations are rated in one of the four highest rating categories by such Rating Agency (without regard to any gradations within such categories), secured by Government Obligations or by securities described in clause (A) above; provided, that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least weekly, of not less than 104% of the repurchase price (or in the case such underlying obligations are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, of not less than 105% of the repurchase price), a legal opinion shall be furnished to the Trustee to the effect that the repurchase agreement meets guidelines under the laws of the Commonwealth for the legal investment of public funds, the Trustee shall be given a first priority security interest, no independent third party shall have a lien, such obligations purchased must be transferred to the Trustee or an independent third party agent by physical delivery or by an entry made on the records of the issuer of such obligations, in either case, the entity should receive confirmation from the independent third party that those securities are being held in a safe-keeping account in the name of the entity (the trust or safe-keeping department of broker-dealers or financial institutions selling investments or pledging collateral or underlying securities, or their custodial agents, are not considered independent third parties for the foregoing purposes), such repurchase agreement shall constitute a "repurchase agreement" within the meaning of Section 101 of the United States Bankruptcy Code, as amended, and any investment in a repurchase agreement shall be considered to mature on the date the bank, trust company or recognized securities dealer providing the repurchase agreement is obligated to repurchase the Investment Obligations, which date shall be not more than 30 days after the securities the subject of such repurchase agreement were originally provided, (C) debt obligations and commercial paper rated "A-1" or better by S&P, (D) U.S. Treasury Strips, REFCORP Strips, and FICO Strips, (E) Investment Agreements, (F) money market accounts of the Trustee or any state or federally chartered bank, banking association, trust company or subsidiary trust company that is rated or whose parent state bank is rated in the highest short-term rating category or in one of the two highest long-term rating categories by any Rating Agency (without regard to any gradations within either such category) or money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by any Rating Agency of "AAAm-G"; "AAAm"; or "AAm" (or its equivalent), (G) certificates of deposit secured at all times by Government Obligations or collateral described in (A) which certificates are issued by commercial banks, savings and loan associations or mutual savings banks; provided that the collateral must be held by a third party and the Trustee must have a perfected first priority security interest in the collateral; (H) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF; (I) bonds or notes issued by any state, territory or municipality which are rated by any Rating Agency in one of the two highest rating categories (without regard to any gradations within either such category) assigned by such agencies; (J) federal funds or bankers' acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "A-1" or "A" (or its equivalent) or better by any Rating Agency; and (K) any Commonwealth administered pool investment fund in which the Authority is statutorily permitted or required to invest. Any investment in Government Obligations or in obligations described in (A) above may be made in the form of an entry made on the records of the issuer of the particular obligation.

Valuation. For the purpose of determining the amount on deposit in any fund or account, except the Debt Service Reserve Fund, Investment Obligations in which money in such fund or account is invested shall be valued (a) at face value if such Investment Obligations mature within 6 months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such obligations. The Investment Obligations on deposit in the Debt Service Reserve Fund shall be valued at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such obligations. (Sec. 603).

Events of Default. Each of the following is an event of default under the Trust Agreement:

(a) payment of any installment of interest on any Bond shall not be made by the Authority when the same shall become due and payable; or

(b) payment of the principal or the redemption premium, if any, of any Bond shall not be made by the Authority when the same shall become due and payable, whether at maturity or by proceedings for redemption, pursuant to a Sinking Fund Requirement or otherwise; or

(c) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any agreement supplemental thereto and such default shall continue for 30 days after receipt by the Authority of a written notice from the Trustee specifying such default and requiring the same to be remedied; provided, however, that if prior to the expiration of such 30-day period the Authority institutes action reasonably designed to cure such default, no Event of Default shall be deemed to have occurred upon the expiration of such 30-day period for so long as the Authority pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time; and

(d) an "event of default" shall have occurred under the Loan Agreement or the Lease Agreement and such event of default shall not have been remedied or waived. (Sec. 801).

Acceleration of Maturities. Upon the happening and continuance of any Event of Default described in paragraphs (a) and (b) of "Event of Default" above, the Trustee shall, and upon the happening and continuance of any other Event of Default, the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of Bonds then outstanding shall, by notice in writing to the Authority, the University and the Borrower, declare the principal of all Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable. Such declaration may be rescinded under circumstances specified in the Trust Agreement. (Sec. 802).

Enforcement of Remedies. Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may, and upon the written direction of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under the Trust Agreement, shall, proceed, subject to the provision of indemnification satisfactory to the Trustee, to protect and enforce its rights and the rights of the Bondholders under applicable laws, under the Loan Agreement, under the Lease Agreement, under the Assignment Agreement, or under the Trust Agreement. (Sec. 803).

Pro Rata Application of Funds. If at any time the money in the Bond Fund is not sufficient to pay the interest on or the principal of Bonds as the same become due and payable (either by their terms or by acceleration of maturities) such money, together with any money then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Trust Agreement or otherwise, will be applied as follows:

(a) if the principal of all Bonds has not become or has not been declared due and payable, all such money in the Bond Fund will be applied:

> first: to the payment to the persons entitled thereto ratably of interest on all installments of interest on Bonds then due and payable in the order in which such installments became due and payable at the rate of such interest from the respective dates upon which such installments became due and payable, and then to the payment, ratably, of such installment according to amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;
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> second: to the payment to the persons entitled thereto ratably of interest on the unpaid principal of and premium, if any, on any Bonds that have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement), in the order of their due dates, at the respective rates specified therein from the respective dates upon which such Bonds became due and payable, and then to the payment ratably of such principal and premium, if any, according to the amount of such principal due on such date to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds; and
>
> third: to the payment of the interest on and the principal of and premium, if any, on Bonds, to the purchase and retirement of Bonds, and to the redemption of Bonds, all in accordance with the provisions of the Trust Agreement.

(b) If the principal of all Bonds becomes or is declared due and payable, all such money will be applied to the payment of principal and interest (including interest on any overdue installment of interest) and premium, if any, then due upon the Bonds without preference or priority of principal over interest or premium or interest over principal or premium, or premium over principal or interest, or of any installment of interest over any other installment of interest or any Bond over any other Bond ratably, according to the amounts due respectively for principal, premium and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(c) If the principal of all Bonds has been declared due and payable and if such declaration is thereafter rescinded and annulled under the provisions of the Trust Agreement, then, subject to the provisions of paragraph (b) above under this caption in the event that the principal of all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Bond Fund will be applied in accordance with the provisions of paragraph (a) above under this caption. (Sec. 805)

Holders of Majority in Principal Amount of Bonds May Control Proceedings. Subject to the provision of indemnification satisfactory to the Trustee, the holders of a majority in aggregate principal amount of the Bonds then outstanding shall have the right, to direct the time, method and place of conducting all remedial proceedings to be taken by the Trustee under the Trust Agreement or exercising any trust or power conferred upon the Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement. (Sec. 807).

Waiver of Past Defaults. The holders of not less than a majority in aggregate principal amount of the Bonds then outstanding may on behalf of the holders of all the Bonds then outstanding waive any past default under clause (c) or (d) under "Events of Default" above and its consequences except a default in respect of a covenant or provision of the Loan Agreement or the Lease Agreement which cannot be modified or amended without the consent of the holder of each outstanding Bond affected. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon. (Sec. 814).

Notice to Bondholders. Except as described below under this caption, notice of any Event of Default will be mailed to all Bondholders of record within thirty (30) days after the Trustee received notice of the same. The Trustee will not be subject to any liability to any Bondholder by reason of its failure to send any such notice.

Except upon the happening of an Event of Default with respect to the payment of the principal of and interest on or redemption premium on Bonds when due, the Trustee may withhold notice of any Event of Default to Bondholders if in its opinion such withholding is in the interest of the Bondholders. (Sec. 813).

Rights of Holders of Bonds Subject to Those of MBIA. In consideration for the issuance of the MBIA Bond Insurance Policy, MBIA has been granted the right in lieu of the holders of the Bonds to exercise remedies upon the happening of an Event of Default and also to consent to amendments to the Trust Agreement and the Ancillary Agreements (as defined below). See "Bond Insurance" under SECURITY AND SOURCES OF PAYMENT FOR THE BONDS above in this Official Statement. (Sec. 208).

Removal of Trustee. The Trustee may be removed at any time (i) by an instrument or concurrent instruments in writing, executed by the Bondholders of not less than a majority in aggregate principal amount of Bonds then Outstanding or (ii) for so long as no Event of Default has occurred and be continuing, by an instrument executed by a University Representative with the written consent of the Authority (such demand to be effective only when received by the Trustee, the Authority and the University). In the event the Trustee (i) ceases to be eligible under the Trust Agreement to serve as such and fails to resign after a written request therefor by the University or any Bondholder who has been a bona fide Bondholder for at least six (6) months, or (ii) becomes incapable of acting or is judged to be bankrupt or insolvent or a receiver is appointed to take charge or control of the Trustee or its or property or affairs for the purpose of rehabilitation, liquidation or conservation, then, in each case, the Authority or the University may remove the Trustee and any Bondholder who has been a bona fide Bondholder for at least six (6) months may petition an appropriate court for the removal of the Trustee and appointment of a successor. (Sec. 914).

Appointment of a Successor Trustee. If the Trustee resigns, is removed, or becomes incapable of acting, or if the position of Trustee shall become vacant for any cause, the Authority with the approval of the University shall promptly appoint a Trustee to fill such vacancy. If at any time within one (1) year after any resignation, removal of incapability, or occurrence of a vacancy, a successor Trustee has been appointed by the Authority or the University, holders of a majority of the aggregate principal amount of the Bonds then Outstanding by an instrument or concurrent instruments in writing delivered to the Authority, the University and the retiring Trustee, may appoint a successor Trustee and such appointed successor Trustee, upon acceptance of such appointment, will supersede any successor Trustee appointed by the Authority or the University. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions, any holder who has been a bona fide holder for at least six (6) months may apply to any court of competent jurisdiction to appoint a successor Trustee. (Sec. 914).

Supplements and Amendments Not Requiring Bondholder Consent. The Authority and the Trustee may, without the consent or approval of, or notice to, any of the Bondholders, at any time and from time to time, enter into such supplements and amendments to the Trust Agreement, in form satisfactory to the Trustee: (a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision in the Trust Agreement which may be inconsistent with any other changes therein, or to make any other changes with respect to matters or questions arising under the Trust Agreement, which shall not be inconsistent with the provisions of the Trust Agreement and shall not, in the opinion of the Trustee , be detrimental to the interest of the Bondholders, or (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or (c) to add to the covenants of the Authority for the benefit of the Bondholders or to surrender any right or power therein conferred upon the Authority, or (d) to modify, amend or supplement the definition of "Investment Obligations", or (e) to modify, amend or supplement the Trust Agreement or any supplement or amendment thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar Federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the jurisdictions of the United States, and, if they so determine, to add to the Trust Agreement or any supplement or amendment thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar Federal statute, or (f) to make any other change which, in the judgment of the Trustee, will not restrict, limit or reduce the obligation of the Authority to pay the principal of or interest on the Bonds or otherwise impair the security of the Bondholders under the Trust Agreement and which shall not be inconsistent with the provisions of the Trust Agreement, provided such action shall not materially adversely affect the interests of the Bondholders. (Sec. 1101).

Supplements and Amendments Requiring Bondholder Consent. Any other amendments or supplements to the Trust Agreement require the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, except that no such amendment or supplement shall permit, or be construed as permitting, without the consent of each Bondholder so affected: (a) an extension of the time for the payment of the principal of, or the interest on, any Bond; or (b) a reduction in the principal of any Bond or the redemption premium, if any, or the rate of interest thereon; or (c) the creation of any lien or security interest with respect to the Loan Agreement or the Lease Agreement or the payments thereunder (other than the lien created by [the Pledge Agreement], the Trust Agreement and the Assignment Agreement); or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds; or (e) a reduction in the aggregate principal of the Bonds required for consent to such supplement or amendment or any waiver thereunder. (Sec. 1102).

The Trustee is not obligated to execute any proposed supplement or amendment if its rights, obligations and interests would be affected thereby. (Sec. 1104).

Any amendment or supplement to the Trust Agreement will not become effective without the consent of the Borrower and the University. (Sec. 1105).

Amendments and Supplements to the Loan Agreement, the Ground Lease, the Lease Agreement, and the Assignment Agreement. The Authority, the University and the Borrower, as the case may be, may enter into, and the Trustee may consent to, from time to time and at any time, such amendments and supplements to the Loan Agreement, the Ground Lease, the Lease Agreement, and the Assignment Agreement (collectively, the "Ancillary Agreements") as shall not be inconsistent with the terms and provisions thereof and in the opinion of the Trustee shall not be detrimental to the interests of the Bondholders (a) to cure any ambiguity or formal defect or omission in the Ancillary Agreements or in any supplement thereto, provided such action shall not materially adversely affect the interests of the Bondholders, (b) to grant to or confer upon the Authority or Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Authority or Bondholders or the Trustee, or (c) to add to the covenants of the Borrower or the University for the benefit of the Bondholders or to surrender any right or power therein conferred upon the Borrower or the University, or (d) to make any other change which, in the judgment of the Trustee, will not restrict, limit or reduce the obligation of the Borrower to make the payments under the Loan Agreement or the University under the Lease Agreement to pay the principal of or interest on the Bonds, or otherwise impair the security of the Bondholders under the Trust Agreement, provided such action shall not materially adversely affect the interests of the Bondholders. (Sec. 1201).

Except for supplements or amendments provided for in the preceding paragraph, the Authority, the Borrower and the University, as appropriate, shall not enter into and the Trustee shall not consent to, any supplement or amendment to any of the Ancillary Agreements unless notice of the proposed execution of such supplement or amendment shall have been given and the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall have consented to and approved the execution thereof, all as provided for in the second paragraph under "Supplemental Trust Agreements" above; and provided further that without the consent of all of the holders of the Bonds outstanding affected by such change, no such supplement or amendment shall be consented to by the Trustee which would reduce the obligations of the Borrower under the Loan Agreement and the University under the Lease Agreement with respect to the Bonds. (Sec. 1202).

Any such amendment or supplement shall not become effective until consented to by the Trustee. (Sec. 1203).

Defeasance. Any outstanding Bond, or portion thereof in the principal amount of $5,000 or any multiple thereof, shall be deemed paid under the Trust Agreement when the whole amount of the principal of an interest on such Bond shall have been paid or when: (a) in case such Bond or portion thereof has been selected for redemption, the University shall have given to the Trustee irrevocable instructions to give notice of redemption of such Bond or portion thereof in accordance with the Trust Agreement; (b) there shall have been deposited with the Trustee moneys, or Defeasance Obligations which shall not contain provisions permitting the redemption thereof other than at the option of the holder, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys, which shall be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on such Bond or portion thereof on or prior to the redemption date or maturity date thereof, as the case may be; and (c) in the event such Bond or portion thereof does not mature and is not to be redeemed within the next succeeding 60 days, the University shall have given the Trustee irrevocable instructions to give notice to the holder of such Bond or portion thereof, stating that the deposit of moneys or Defeasance Obligations has been made with the Trustee and that such Bond or portion thereof is deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and interest on such Bond or portion thereof. (Sec. 1301).

Such Bond or portion thereof deemed paid pursuant to the foregoing paragraph shall cease to be entitled to any benefit or security under the Trust Agreement. When all Bonds are paid or deemed paid pursuant to the foregoing paragraph, the lien of the Trust Agreement will be discharged.

Defeasance Obligations means (i) noncallable Government Obligations, (ii) Defeased Municipal Obligations and (iii) evidences of ownership of a proportional interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity as custodian.

Defeased Municipal Obligations means obligations of state, territory or local government issuers which are rated in the highest rating category by any Rating Agency provision for the payment of the principal of and redemption of premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of noncallable Government Obligations, the maturing principal of and interest on such Government Obligations, when due and payable, shall provide sufficient money to pay the principal of and redemption premium, if any, and interest on such obligations of state, territory or local government issuers.

SUMMARY OF THE LOAN AGREEMENT

General. The Loan Agreement requires the Borrower to make payments that are fixed as to time and amount so as to enable the Authority to make timely payment of the principal of and premium, if any, and interest on the Bonds.

The Loan Agreement will remain in full force and effect until such time as the Bonds and the interest thereon have been paid or otherwise discharged. The Authority will assign all of its rights under the Loan Agreement to the Trustee, except for certain rights of the Authority to indemnification, exemption from liability, notices and the payment of costs and expenses.

Loan. Upon the terms and conditions of the Loan Agreement the Authority shall loan the Borrower the proceeds of the sale of the Bonds. The principal amount of the Loan shall be equal to the aggregate principal amount of the Bonds. The proceeds of the Loan shall be used by the Borrower, together with other available funds, to (i) pay the cost of the Project, (including a portion of the interest to accrue on the Bonds until the Completion Date), (ii) make a deposit to the Debt Service Reserve Fund in an amount equal to the Required Debt Service Reserve, and (iii) pay certain expenses incurred in connection with the authorization and issuance of the Bonds. (Sec. 4.01).

Loan Repayments. Loan Repayments shall be made in monthly installments from the proceeds of the Bonds or from the Basic Lease Payments and Supplemental Lease Payments received by the Borrower under the Lease Agreement. Each installment shall be deemed to be a Loan Repayment and shall be paid at the times and in the amounts set forth below. Loan Repayments shall be sufficient in the aggregate to pay in full, when due (whether by maturity, redemption, acceleration or otherwise), the principal of all Bonds, together with the total interest and redemption premium, if any, thereon.

The Loan Repayments shall be due and payable as follows:

(a) beginning January 25, 2001, and continuing on the twenty-fifth (25th) day of each month thereafter, an amount equal to one-sixth (1/6) of the amount of interest payable on all Bonds on the next succeeding interest payment date;

(b) beginning on July 25, 2003, and continuing on the twenty-fifth (25th) day of each month thereafter through and including June 25, 2021, an amount equal to one-twelfth (1/12) of the amount of principal payable on all Serial Bonds on the next succeeding July 1;

(c) beginning on July 25, 2021, and continuing on the twenty-fifth (25th) day of each month thereafter, an amount equal to one-twelfth (1/12) of the amount required to retire the Term Bonds to be called by mandatory redemption or to be paid at maturity on the next succeeding July 1, in accordance with the Sinking Fund Requirements therefor; and

(d) from time to time any amount that may be required to enable the Authority to pay redemption premiums as and when Bonds are called for redemption or to pay the principal of and interest on Bonds as the same become due upon redemption or acceleration or otherwise.

Each Loan Repayment shall be equal to the sum (without duplication) of the applicable amounts specified above in paragraphs (a) to (d), inclusive. (Sec. 4.03).

Required Payments under the Loan Agreement. There shall be due and payable as a Required Payment under the Loan Agreement from Supplemental Lease Payments received by the Borrower under the Lease Agreement, (i) not later than six months following the date on which the Trustee shall have notified the Borrower and the University in accordance with the Trust Agreement of the use of moneys in the Debt Service Reserve Fund to cure a deficiency in the Bond Fund pursuant to the application of moneys in the Debt Service Reserve Fund as required under the Trust Agreement, into the Debt Service Reserve Fund the amount or amounts so transferred so that the amount then on deposit in the Debt Service Reserve Fund is equal to the Required Debt Service Reserve and (ii) not later than one year following a valuation made in accordance with the Trust Agreement in which a loss resulting from a decline in the value of Investment Obligations in the Debt Service Reserve Fund causes the amount on deposit in the Debt Service Reserve Fund to be less than ninety percent (90%) of the Required Debt Service Reserve, into the Debt Service Reserve Fund, the amount of such deficiency.

If a disbursement is made under a Qualified Reserve Fund Substitute to provide funds for any of the purposes referred to in the preceding paragraph, the Borrower shall be obligated (within the periods provided in the preceding paragraph) to reinstate the stated amount of such Substitute (and any payments made by the Borrower in respect of such reinstatement shall be deemed to be required payments under the Loan Agreement) or to deposit to the credit of the Debt Service Reserve Fund moneys at the times and in the amounts set forth in the preceding paragraph, it being understood that the Borrower's obligation to make such payments or deposits shall be payable solely from corresponding payments received by the Borrower under the Lease Agreement.

The Borrower shall pay as required payments, from Supplemental Lease Payments received by it under the Lease Agreement, certain costs and expenses, exclusive of costs and expenses payable from the proceeds of the Bonds, including, among other things, the following: (i) the fees and other costs payable to the Trustee, including the reasonable compensation and the expenses and disbursements of Trustee's counsel and the costs and expenses of indemnifying the Trustee for, and holding the Trustee harmless against, any loss, liability or expense (including the costs and expenses of defending against any claim of liability) incurred without gross negligence or willful misconduct by the Trustee and arising out of or in connection with its acting as Trustee under the Trust Agreement and as assignee of the Borrower under the Assignment Agreement; (ii) all costs incurred in connection with the purchase, redemption or defeasance of Bonds to the extent money is not otherwise available therefor; (iii) the fees and other costs incurred for services of such attorneys, management consultants and accountants as are employed to make examinations, provide services, render opinions or prepare reports required under the Loan Agreement, the Lease Agreement, the Assignment Agreement or the Trust Agreement; (iv) reasonable fees and other costs that the Borrower is obligated to pay, not otherwise paid under the Loan Agreement, the Lease Agreement, the Assignment Agreement or the Trust Agreement, incurred by the Authority in connection with its administration and enforcement of, and compliance with, the Loan Agreement, the Lease Agreement, the Assignment Agreement or the Trust Agreement; (v) all costs incurred by the Authority and the Trustee in connection with the discontinuation of or withdrawal from any book-entry system for the Bonds or any transfer from one book-entry system to another; (vi) fees and other costs incurred in connection with the issuance of the Bonds and (vii) any amounts required to be rebated to the United States Government in satisfaction of the covenant to preserve the exclusion of interest on the Bonds from the gross income of the recipients thereof for federal income tax purposes as set forth in the Loan Agreement . (Sec. 4.04 and Sec. 5.11).

Total Required Payments to Be Unconditional. The obligation of the Borrower to make the Loan Repayments and all other required payments under the Loan Agreement and to perform and observe the other agreements contained in the Loan Agreement shall be absolute and unconditional. The Borrower will pay without abatement, diminution or deduction (whether for taxes or otherwise) all such amounts regardless of any cause or circumstance whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim that the Borrower may have or assert against the Authority or the Trustee or any other person. (Sec. 4.05).

Assignment by Authority. The Authority assigned all its rights under and interest in the Loan Agreement (except for certain reserved rights under the Loan Agreement) and will pledge and assign any payments, receipts, and revenues receivable by it (except as aforesaid) under or pursuant to the Loan Agreement and the income earned by the investment of funds held under the Trust Agreement to the Trustee, as security for payment of the principal of and premium, if any, and interest on the Bonds. Except as provided in the preceding sentence, the Authority will not sell, assign or otherwise dispose of its interest under the Loan Agreement or the payments, receipts and revenues of the Authority derived under the Loan Agreement. (Sec. 6.02).

Construction of Project. The Borrower will cause the Project to be constructed and equipped substantially in accordance with the plans and specifications therefor with all reasonable dispatch; but if for any reason such construction and equipping shall be delayed or shall not be completed, there shall be no resulting diminution in or postponement of the payments required under the Loan Agreement to be paid by the Borrower. (Sec. 3.01).

Disbursements from Construction Fund. The Authority and the Borrower agree that the moneys in the Construction Fund shall be applied to the payment of the cost of the Project and otherwise as provided in accordance with the Trust Agreement, and such moneys shall be invested and reinvested in accordance with the Trust Agreement. (Sec. 3.04).

Borrower Required to Pay Cost of Project. If the moneys in the Construction Fund available for the payment of the cost of the Project are not sufficient to pay the cost of the Project, the Borrower agrees to complete the Project and to pay all that portion of the cost of the Project as may be in excess of the moneys available therefor in the Construction Fund. The Authority does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund will be sufficient to pay the cost of the Project. The Borrower agrees that if, after exhaustion of the moneys in the Construction Fund, the Borrower should pay any portion of the cost of the Project, it shall not be entitled to any reimbursement therefor from the Authority or from the Trustee, and that it shall not be entitled to any abatement, diminution or postponement of the payments to be made pursuant to the Loan Agreement. (Sec. 3.05).

Borrower May Merge. The Borrower, so long as the Bonds are outstanding, will not transfer all or substantially all its assets to another person and will not consolidate with or merge into another person (unless the Borrower is the surviving entity in any such merger or consolidation); provided, however, that the Borrower may consolidate with or merge into another person, or transfer to another person all or substantially all its assets, if the successor or transferor irrevocably and unconditionally assumes all the obligations of the Borrower under the Lean Agreement. (Sec. 5.01).

Inspections. The Borrower agrees that the Authority, the Trustee and their duly authorized agents shall have the right at all reasonable times upon advance written notice to enter upon and make an inspection of the

Project for purposes of ascertaining whether the Borrower has complied with the agreements and obligations under the Loan Agreement. (Sec. 5.04).

Maintenance and Operation of the Project. The Borrower will agree to cause the Project to be operated at all times as Educational Facilities (as defined in the Act) and to be maintained, preserved and kept in good repair, working order and condition and will from time to time cause to be made all reasonably necessary and proper repairs, replacements and renewals; provided, however, that the Borrower will have no obligation to cause to be maintained, preserved, repaired, replaced or renewed any element or unit of the Project the maintenance, repair, replacement or renewal of which, in the opinion of the Borrower, becomes uneconomic to the Borrower because of damage or destruction or obsolescence, change in economic or business conditions, or change in government standards and regulations. (Sec. 4.07).

Sale of Project; Assignment of Loan Agreement. The Borrower may sell, lease or otherwise transfer or encumber the Project as a whole or in part (collectively, a "sale"), and any proceeds thereof may be retained by the Borrower, without the consent of the Authority, and the Loan Agreement may be assigned in whole or in part; but (a) no such sale of the Project or such assignment of the Loan Agreement shall relieve the Borrower from the obligation to make the payments required under the Loan Agreement; (b) the Borrower shall deliver to the Authority and the Trustee an Opinion of Bond Counsel, dated the date of such sale or assignment, to the effect that such sale or assignment will not adversely affect the exclusion for federal income tax purposes of interest or the Bonds from gross income; and (c) the Borrower shall notify the Authority within 15 days after such sale or assignment.

The assignment of the Loan Agreement is subject to the following additional conditions: (i) the assignee shall in writing expressly assume and agree to pay and to perform all of the obligations of the Borrower under the Loan Agreement that shall have been assigned to it; and (ii) the assignee shall state in writing that none of the obligations and covenants under the Loan Agreement assumed by it or the performance thereof will conflict with, or constitute on the part of such assignee a breach of or default under, any indenture, mortgage, agreement or other instrument to which such assignee is a party or by which it is bound, or any existing law, rule, regulation, judgment, order or decree to which such assignee is subject. The provisions of clause (c) of the preceding paragraph and of the preceding sentence do not apply if all parties to the assignment consist of the Borrower or its subsidiaries, units or affiliates. (Sec. 6.01).

Events of Default. Each of the following is an event of default under the Loan Agreement:

(a) failure by the Borrower to pay the principal of, or premium, if any, or interest on the Bonds when the same shall become due and payable;

(b) failure by the Borrower to make other payments required by the Loan Agreement if such failure shall continue for a period of thirty (30) days after written notice thereof, unless a written extension is granted by the Authority and the Trustee prior to its expiration;

(c) failure by the Borrower to observe or perform any covenants, conditions or agreements under the Loan Agreement other than (a) and (b) above, and continuation of such failure for sixty (60) days after written notice thereof, unless a written extension thereof is granted by the Authority and the Trustee prior to its expiration; provided, however, that if such failure cannot be corrected within such sixty (60) day period, it will not constitute an event of default if corrective action is commenced by the Borrower during such period and diligently pursued until such failure is corrected; or

(d) certain events of bankruptcy, insolvency, liquidation or similar proceedings involving the Borrower.

If by reason of Force Majeure (as defined in the Loan Agreement), the Borrower is unable to perform any of its obligations under (c) above, the Borrower will not be deemed to be in default during the continuance of such inability, including a reasonable time for the removal of the effect thereof. (Sec. 7.01).

The Authority has no power to waive any default under the Loan Agreement or extend the time for the correction of any default which could became an event of default without the consent of the Trustee. (Sec. 7.05).

Acceleration; Remedies. Whenever any Event of Default under the Loan Agreement shall have happened and be continuing, any one or more of the following remedial steps may be taken, provided that written notice of the default has been given to the Borrower by the Authority or the Trustee (except that notice need not be given in the case of a failure by the Borrower to make the payments required by clause (a) under the heading "Events of Default" above): (a) the Trustee may at its option declare all unpaid amounts payable under the heading "Loan Repayments" to be immediately due and payable; or (b) the Trustee may take any action at law or in equity to collect the payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement; or, (c) with respect to any Event of Default relating to performance and observance of its reserved rights, the Authority, without the consent of the Trustee or any Bondholder, may proceed to enforce such performance and observance by any action at law or in equity. (Sec. 7.02).

Prepayment. The Borrower is required to prepay the amounts payable under the Loan Agreement when and to the extent the University shall have prepaid its Basic Lease Payments to effect a redemption of the Bonds pursuant to the provisions of the Trust Agreement. (Sec. 8.02).

Amendments. The Loan Agreement may not be amended, changed, modified, altered or terminated, except in accordance with the Trust Agreement. (Sec. 9.11).

SUMMARY OF THE LEASE AGREEMENT

General. Pursuant to Lease Agreement, the Borrower (in this Lease Agreement summary, the "Lessor") will lease the Project to the University (in this Lease Agreement summary, the "Lessee") and, commencing with the term of the lease as described below, the Lessee will make lease payments at such times and in such amounts as are sufficient to pay the principal of and premium, if any, and interest on the Bonds when due and to provide a reserve therefor.

Term. The term of the lease will commence on the Occupancy Date (the date upon which the Lessee shall have received the Substantial Completion Certificate) and terminate upon the earlier of the following: (a) July 1, 2033; (b) such date as all Basic Lease Payments, Supplemental Lease Payments (see "Supplemental Lease Payments" below) and all other payments of the Lessee shall have been paid or duly provided for; and (c) such date as all proceeds derived from the exercise by the Trustee of its remedies as the assignee of a secured party under applicable Commonwealth laws have been applied by the Trustee to the payment, in whole or in part, of the Bonds. (Sec. 3.1).

Basic Lease Payments. The Lessee has agreed to pay directly to the Trustee for the account of the Lessor, the Basic Lease Payments (denominated into components of principal and interest) on or before the twenty-fifth (25th) day of each month. The Lessee has also agreed to pay to the Trustee as Basic Lease Payments amounts sufficient to pay interest on the Bonds as the same becomes due until the Occupancy Date. The Basic Lease Payments shall be sufficient as to amounts and time to pay when due the principal (whether at maturity or upon redemption or acceleration) of and redemption premium, if any, and interest on the Bonds. Basic Lease Payments due from the Lessee shall be reduced to the extent that investment earnings are credited to the Interest, Principal or Sinking Fund Accounts in accordance with the Trust Agreement and in the order of such payments. Otherwise, there will be no abatement or reduction of the Basic Lease Payments (and Supplemental Lease Payments as required to maintain the balance in the Debt Service Reserve Fund at the required amount) by the Lessee for any reason. (Secs. 3.1, 3.2 and 3.4).

Obligation of Lessee. The Lessee's obligation to make Basic Lease Payments (and Supplemental Lease Payments as required to maintain the balance in the Debt Service Reserve Fund at the required amount) shall constitute Obligation No. 1 under the Master Indenture and shall be secured in the manner and entitled to the benefits thereof. (Sec. 3.3).

Supplemental Lease Payments. In addition to the Basic Lease Payments, the Lessee has also agreed to pay the Trustee the Supplemental Lease Payments specified in the Lease Agreement. Supplemental Lease Payments include, among others, the payments set forth under the caption "The Loan Agreement – Required Payments under the Loan Agreement", all payments and other costs incurred by the Lessee under the Management and Operations Agreement and deficiency payments required by the Lessor under the Assignment Agreement upon default by the Lessee in payment of Basic Lease Payments, among other things, set forth under "The Assignment Agreement — Remedies upon Default". Promptly upon receipt of such Supplemental Lease Payments, the Trustee is required to deposit such payments to the credit of a working capital account established with it by and under the control of the Lessor. (Sec. 3.7).

Lessee's Purchase Option. Upon satisfaction or deemed satisfaction by Lessee of all of its payment obligations under the Lease Agreement and the payment of an additional dollar, the Lessor shall convey to the Lessee all right, title and interest in the Project (Secs. 3.1 and 9.2).

Other Covenants. In the Lease Agreement, the Lessee also covenants, among other things, to: (a) keep, on and after the occupancy date and during the pre Occupancy Date Period, the Project Property free of hazardous materials (as defined by any federal, Commonwealth or local environmental law, ordinance, rule or regulation) and not use the Project Property to generate, manufacture, refine, transport, treat, store, handle, dispose of, transfer, produce or process hazardous materials, except in connection with the normal maintenance and operation of the Project Property as facilities for its use; (b) maintain, conserve and repair the Project Property at its expense; (c) pay all property taxes, municipal excise taxes, personal property taxes, utility and other charges levied, assessed or imposed upon the Project Property; (d) comply at its own cost with all federal, Commonwealth or local laws, ordinances, rules or regulations or requirements of any governmental authority having jurisdiction over the Project Property with regard to its use, occupancy, enjoyment and maintenance; (e) maintain liability insurance covering the Lessor, the Authority, the Lessee and the Trustee against all claims of any and all persons for personal injury, death or property damages in amounts not less than $1,000,000 for any one occurrence, but less than $2,000,000 annual aggregate, and not less than $5,000,000 annual aggregate with respect to any one accident, under umbrella coverage, for property damage and bodily injury; and (f) maintain casualty insurance against loss or damage to any item or portion of the Project Property by such hazards as are normally covered by casualty insurance, in an amount equal to 100% of the replacement cost of the Project Property (except for the Site and subject to deductible clauses of not to exceed $100,000 for any one loss), and provided that in no event shall such insurance be maintained in an amount less than the aggregate principal of the Bonds then outstanding. The Lessee's obligations under this paragraph are treated as being satisfied under the Lease Agreement to the extent of any payments made by the Lessee under the Management and Operations Agreement for any of the purposes set forth in this paragraph. (Secs. 2.1, 4.1-4.4, 4.8-4.9, 4.13 and 4.18).

Events of Default. The following shall be "events of default" under the Lease Agreement:

(a) failure by the Lessee to pay, when due, (i) any Basic Lease Payment or (ii) any Supplemental Lease Payment for deposit to the credit of the Debt Service Reserve Fund;

(b) failure by the Lessee to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed thereunder or otherwise with respect thereto, other than as referred to in clause (a) for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee or such Owners, as the case may be, shall not unreasonably withhold its or their consent, as the case may be, to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected;

(c) the subjection of any right or interest of the Lessee under the Lease Agreement to any execution, garnishment or attachment, or assignment by the Lessee for the benefit of creditors, or the entry by the Lessee into an agreement of composition with creditors; or

(d) failure by the Lessee to pay the principal of or the interest or any redemption premium on any bonds of the Lessee under the 1971 Trust Agreement; or as required by such bonds or the 1971 Trust Agreement; or

(e) the occurrence of an Event of Default under the Master Indenture.

If by reason of Force Majeure, the Lessee is unable to perform any of its obligations under (b) above, the Lessee will not be deemed to be in default during the continuance of such inability, including a reasonable time for the removal of the effect thereof. (Sec. 7.1)

Remedies. Whenever any Event of Default under the Lease Agreement shall have happened and be continuing, any one or more of the following remedial steps may be taken by the Lessor as agent for the holders of the Bonds, provided that written notice of the default has been given to the Lessee by the Lessor or the Trustee and the default has not theretofore been cured and provided further that no remedial steps shall be taken by the Lessor the effect of which would be to entitle the Lessor to funds necessary for the payment of principal of and interest on Bonds which have not yet matured or otherwise become due unless such principal and interest shall have been declared due and payable in accordance with the Trust Agreement and such declaration shall not have been rescinded:

(a) the Lessor may at its option declare the principal portion of all unpaid Basic Lease Payments immediately due and payable without notice to or demand on the Lessee, whereupon the same shall become immediately due and payable;

(b) the Lessor may proceed by appropriate court action to enforce performance by the Lessee of the applicable covenants of the Lease Agreement or to recover for the breach thereof; or

(c) the Lessor may at its option declare the Lessee's rights under the Lease Agreement to be terminated and repossess the Project Property.

In the event that the Lessee is evicted from the Project Property or if the Lessee abandons the Project Property, the Lessor is required under the Lease Agreement to use its best efforts to relet the Project Property to another lessee, at such rental as the Lessor shall determine in its sole discretion. The Lessor shall be required to mitigate damages to the extent required by law, and shall cause rentals and other payments derived from such reletting to be applied in the following order of priority; (i) to reimburse the Lessor for expenses incurred in such reletting, (ii) to the payment of the unpaid Basic Lease Payments payable under the Lease Agreement and any other amounts unpaid under the Lease Agreement, (iii) to the payment of Supplemental Lease Payments payable under the Lease Agreement and (iv) any balance shall be retained by the Lessor. If the Lessee shall have provided assurances satisfactory to the Lessor that the Lessee will carry out its obligations under the Lease Agreement, the Lessor may restore possession of the Project Property to the Lessee, subject to any other agreement or agreements of lease or other contracts which the Lessor may have previously executed with respect to the Project Property, or any part thereof. (Sec. 7.2).

Any amounts collected pursuant to action taken under the foregoing remedies shall be applied in accordance with the Trust Agreement. (Sec. 7.2).

Lessor's Federal Non-Profit Status. The Lessor has filed an application with the Internal Revenue Service to be recognized as an organization described in Section 501(c)(3) of the Code. The Lessor anticipates that it will own and operate the Project as an organization described in Section 501(c)(3) of the Code. The Lessor covenants that subsequent to obtaining status as a 501(c)(3) corporation and prior to operating the Project under any Management and Operations Agreement not constituting a qualified management contract under the Code, it will obtain an opinion from Bond Counsel that ownership and use of the Project by the Lessor as an organization described in Section 501(c)(3) of the Code will not adversely the exclusion from gross income of the recipients thereof of interest on the Bonds for federal income tax purposes.

The provisions of the preceding paragraph shall apply until such time as the opinion referenced in the preceding paragraph is rendered. (Sec. 9.1).

SUMMARY OF ASSIGNMENT AGREEMENT

Assignment of Rent; No Other Liens. Under the Assignment Agreement, to secure further the payment of all liabilities and the performance of all obligations of the Borrower in the Loan Agreement (the "Secured Obligations"), the Borrower unconditionally and continuously pledges and absolutely transfers and assigns to the Trustee and grants a security interest in all of its right, title and interest in the Basic Lease Payments made under the Lease Agreement and any Supplemental Lease Payments made pursuant to Paragraph 3.7(b) of the Lease Agreement (relating to the obligations of the University to insure that the balance in the Debt Service Reserve Fund is maintained at the required amount) (the "Collateral"; such collateral also constituting Obligation No. 1 under the Master Indenture).

In connection with the foregoing assignment, the Trustee has the right: (a) to enforce payment of and to prosecute any action or proceeding, and to defend legal proceedings, with respect to any and all payments of the Collateral under the Lease Agreement; (b) to enter upon and take possession of and operate the Project Property; (c) to lease all or any part of the Project Property; and (d) to enforce all other rights of the Borrower under the Lease Agreement. The Trustee is not, however, responsible or liable for the control, care, maintenance or repair of the Project Property or for any waste committed on the Project Property by anyone, for any dangerous or defective condition of the Project Property, or for any negligence in the management, upkeep, repair or control of the Project Property.

All payments of the Collateral received by the Trustee under the Assignment Agreement must be applied in accordance with the provisions of the Trust Agreement. The Assignment Agreement continues in effect until the Lease Agreement terminates or, if earlier, at such time as all of the obligations of the Borrower under the Loan Agreement have been paid in full.

The Borrower may not, without the prior written consent of the Trustee, create or permit any lien, security interest, or other charge or encumbrance to exist upon the Collateral, except for the assignment, lien and security interest of the Assignment Agreement and except for any Permitted Liens. (Secs. 2 and 4)

Additional Provisions Concerning the Collateral. The Trustee is appointed as the Borrower's attorney-in-fact and proxy, with full authority in the place and in the name of the Borrower, from to time in the Trustee's discretion, to take any action and to execute any instrument that the Trustee may deem necessary or advisable to accomplish the purposes of the Assignment Agreement, including, without limitation, to file any claims or take any action or institute any proceedings which the Trustee may deem necessary or desirable to enforce the rights of the Trustee with respect to the Collateral. (Sec. 5)

Remedies Upon Default. If any Event of Default occurs and is continuing:

(a) The Trustee may exercise in respect of the Collateral, in addition to other rights and remedies available to it at law or in equity, all of the rights and remedies of an assignee on default under the laws of Puerto Rico, including, without limitation, the right to exercise any and all rights and remedies of the Borrower under the Lease Agreement. (See "Remedies" under THE LEASE AGREEMENT above.)

(b) All cash received by the Trustee in respect of the exercise of any such remedies shall be applied:

First: To the payment of a) all taxes, assessments or liens with respect to the Collateral and b) all costs of enforcement of any such remedies, including payment of reasonable compensation to Trustee's agents, attorneys and counsel and all expenses incurred by the Trustee with respect thereto;

Second: To the payment in full of the Secured Obligations in accordance with the Trust Agreement; and

Third: Any surplus then remaining shall be paid to or at the direction of the Borrower, or to whomsoever may be lawfully entitled to receive the same, or as a competent court may direct.

If such proceeds are insufficient to pay all amounts to which the Trustee is legally entitled, the Borrower shall be liable for the deficiency, together with interest thereon at the prime rate provided in the Assignment Agreement plus 2%. (Sec. 6)

Lien Interest Absolute. The rights of the Trustee, the assignment and lien and all obligations of the Borrower under the Assignment Agreement are absolute and unconditional and shall not be affected or released in any way, irrespective of (without limitation):

(a) any lack of validity or enforceability of the Loan Agreement or any other agreement or instrument relating thereto;

(b) any modifications, compromise, settlement or release by the Trustee, or by operation of law or otherwise, collection or other liquidation of the Secured Obligations or the liability of the Borrower or any guarantor, or of any Collateral, in whole or in part, and any refusal of payment by the Trustee, in whole or in part, from anyone in connection with any of the Secured Obligations whether or not with notice to, or further assent by, or any reservation of rights against, the Borrower or any of its affiliates; or

(c) to the fullest extent permitted by law, any other circumstance (including, but not limited to, any statute of limitations) that might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor other than payment in full in cash of the Secured Obligations.

The Assignment Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Secured Obligations is rescinded or must otherwise be returned by the Trustee upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made. (Sec. 8)

Borrower Remains Liable. The exercise by the Trustee of any of the rights under the Assignment Agreement shall not release the Borrower from any of its duties or obligations under the Lease Agreement, and the Trustee shall not have any obligation or liability under the Lease Agreement by reason of the Assignment Agreement, nor shall the Trustee be obligated to perform any of the obligations or duties of the Borrower thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. (Sec. 10)

DEFINITIONS OF CERTAIN TERMS FOR MASTER TRUST INDENTURE

"Affiliate" means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state or territory thereof which (i) is directly or indirectly controlled by the University or (ii) controls, directly or indirectly, the University. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Appraisal" means, with respect to any item of Property, Plant and Equipment, a written appraisal performed by an independent appraiser who is a Member of the Appraisal Institute (MAI), which shall state the fair market value of such item of Property, Plant and Equipment as of the date on which such appraisal was performed.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the aggregate principal payments of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such year.

"Bookstore Net Income" means the excess of revenues recorded in the Financial Statements of all bookstores or similar establishments owned or operated by or on behalf of the University over the current expenses also so recorded of such stores or similar establishments.

"Book Value", (i)(A) when used in connection with any item of Property, Plant and Equipment which has not been the subject of an Appraisal within the past two years or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and (B) when used in connection with any item of Property, Plant and Equipment which has been the subject of an Appraisal within the past two years, the fair market value of such Property, Plant and Equipment as shown in such Appraisal, and (ii) when used in connection with Property, Plant and Equipment or other Property of the University, means the aggregate of the values thereof (without duplication).

"Completion Indebtedness" means any Long-Term Indebtedness incurred by the University for the purpose of financing the completion of facilities for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture.

"Consultant" means a firm or firms which is not, and no member, stockholder, director, officer, trustee, officer or employee of which is, an officer, director, trustee or employee of the University or any Affiliate, and which is a professional management consultant having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears and which is acceptable to the Master Trustee.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness, the proceeds of which refunding Indebtedness are irrevocably deposited in escrow to be applied on the applicable redemption or maturity date to the payment of the refunded Indebtedness, and the earnings on such escrow deposit prior to such application are to be applied to pay interest on such refunding Indebtedness until the Cross-over Date.

"Defeased Obligations" means Obligations issued under a Supplement that have been discharged, or provision for the discharge of which has been made, pursuant to their terms.

"Derivative Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other contract or arrangement that the University determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Agreement Counterparty" means, with respect to a Derivative Agreement, the Person that is identified in such agreement as the counterparty to, or contracting party with, the University.

"Derivative Indebtedness" means Indebtedness for which the University shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness.

"Excess Pledged Revenues" means the balance of Pledged Revenues remaining from time to time after making the deposits required by Section 503 of the 1971 Trust Agreement available for deposit to the credit of the Revenue Fund in accordance with the penultimate paragraph of said Section 503.

"Financial Statements" means the audited consolidated or combined financial statements of the University, which have been reported upon by independent certified public accountants.

"Fiscal Year" means the fiscal year of the University, (currently July 1 through the following June 30) or such other period as to which the Master Trustee is notified in writing thereof.

"Income Available for Debt Service" means the amount of Revenues and investment earnings thereon and on any debt service reserve account or fund established in respect of any Related Bond unless otherwise provided in the corresponding Supplement or Related Bond Indenture, as determined in accordance with generally accepted accounting principles consistently applied, after deducting therefrom any moneys required or estimated to be received during such period under any debt service grant program of the United States Government or any agency thereof. No determination of Income Available for Debt Service shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, or income from investments of funds held in a Qualified Escrow.

"Indebtedness" means (i) all obligations of the University for borrowed money (including all bonds at the time outstanding under and determined in accordance with the provisions of the 1971 Trust Agreement), (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by the University, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include any bonds of the University issued and at the time of determination outstanding under the 1971 Trust Agreement.

"Indenture" or "Master Indenture" means the Master Trust Indenture, dated as of December 1, 2000, by and between the University and State Street Bank and Trust Company, N.A., as amended and supplemented from time to time.

"Insurance Consultant" means a firm or person which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the University or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

"Lien" means (1) the lien and pledge of the 1971 Trust Agreement and (2) any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the University which is not prohibited by the 1971 Trust Agreement and which secures any Indebtedness or any other obligation of the University or which secures any obligation of any Person, other than an obligation to the University.

"Long-Term Debt Service Coverage Ratio" means for any period of time the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

"Long-Term Debt Service Requirement" means, for any period of twelve (12) full consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on all Outstanding Long-Term Indebtedness of the University during such period, also taking into account

(i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof, (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of twenty-five (25) years on a level debt service basis at an interest rate equal to the current market rate for a 25-year obligation set forth in an opinion of a banking institution or an investment banking firm knowledgeable in higher education finance delivered to the Trustee as the interest rate at which the University could reasonably expect to borrow the same by incurring Long-Term Indebtedness with the same term as assumed above; provided, however, that if (w) such Indebtedness also constitutes Put Indebtedness, the amount of principal to be included shall be calculated as if such principal were amortized from the date of incurrence thereof over a period equal to the term of such Indebtedness (not to exceed twenty-five (25) years) on a level debt service basis and (x) the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank, banking association or trust company having a combined capital and surplus of at least seventy-five million dollars ($75,000,000), or insured by an insurance policy issued by any insurance company rated at least "A" by Alfred M. Best Company or its successors in Best's Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may be treated as if such principal payments or deposits were due as specified in any loan agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan agreement or repayment provisions;

(ii) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for such twelve-month period), except that with respect to new Variable Rate Indebtedness the interest on such Indebtedness on the date of its incurrence shall be calculated at the lesser of (a) the initial rate at which such Indebtedness is incurred and (b) the rate certified by an investment banking firm experienced in higher education finance as being the average rate such indebtedness would have borne for the most recent twelve-month period immediately preceding the date of calculation if such Indebtedness had been outstanding for such period, and thereafter shall be calculated as set forth above; and

(iii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period, for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's or S&P and has not defaulted on its payment obligations thereunder, shall be calculated by adding (x) the amount of interest payable by the University on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the University under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement pursuant to the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's or S&P or is in default thereunder, the amount of interest payable by the University shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that the assumed interest rate for any forecast of variable interest payments shall be based on the average interest rate for the most recent twelve-month period immediately preceding such date of calculation for the index or other rate-setting mechanism used in calculating such variable interest payments for which information is available (or shorter period if such information is not available for such twelve-month period), as certified by an investment banking firm experienced in higher education finance;

provided, however, in all cases that (y) interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and (z) the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available (without reinvestment) in a Qualified Escrow (other than principal and interest so payable solely by reason of the University's failure to make payments from other sources).

"Long-Term Indebtedness" means all Indebtedness incurred or assumed by the University, including Guaranties, Short-Term Indebtedness (if a binding commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness), and the current portion of Long-Term Indebtedness, for any of the following: (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one (1) year; (ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one (1) year; and (iii) installment sale or conditional sale contracts having an original term in excess of one (1) year; provided, however, that any Guaranty by the University of any obligation of any Person which guaranteed obligation would, if it were a direct obligation of the University, constitute Short-Term Indebtedness and all Non-Recourse Indebtedness shall be excluded from this definition.

"Master Trustee" means State Street Bank and Trust Company, N.A. and its successors in the trusts created under the Master Indenture.

"Maximum Annual Debt Service" means, at any given time of determination, the highest Long-Term Debt Service Requirement for the then current or any succeeding Fiscal Year.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien, the liability for which is effectively limited to the Property, the purchase, acquisition or improvement of at least 80% of which was financed with the proceeds of such Non-Recourse Indebtedness and which is subject to such Lien with no recourse, directly or indirectly, to any other Property (including Revenues) of the University.

"Outstanding" when used with reference to Indebtedness means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the applicable Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that (A) for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Indenture, Obligations or Related Bonds that are owned by the University or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the University shall be deemed not to be Outstanding and (B) for purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be deemed to be not Outstanding.

"Permitted Liens" means those Liens described in the Master Indenture.

"Person" means an individual, association, unincorporated organization, corporation, partnership, joint venture, business trust or a government or agency or a political subdivision thereof, or any entity.

"Pledged Revenues" is defined under the1971 Trust Agreement as the proceeds, receipts, profits and other income derived or to be derived by or on behalf of the University from (i) tuition fees collected from all students of the University, (ii) student fees collected from all students of the University, (iii) rentals and other charges received for the right of use or occupancy of the facilities in the University System, (iv) bookstore receipts (gross sales less cost of books and supplies sold), (v) interest on investment of University funds (subject to certain limited exclusions), (vi) funds paid to the University in respect of overhead allowances on Federal research projects, (vii) other income, and (viii) amounts received by the University through any debt service grant program of the United States Government or any agency thereof.

"Put Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the principal of which is required, at the option of the owner thereof, to be purchased or redeemed at one time, which portion of the principal is not required to be amortized by redemption prior to such date.

"Qualified Escrow" means a segregated escrow or other similar fund or account which (a) is irrevocably established as security for then Outstanding Long-Term Indebtedness (herein referred to as "Prior Indebtedness") or for Cross-over Refunding Indebtedness, if any, then to be incurred to refund Outstanding Prior Indebtedness, (b) is held by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a fiduciary acting on behalf of such holder, (c) is pledged or subject to a perfected security interest in favor of such holder or fiduciary, (d) is held in cash or invested in Defeasance Obligations, and (e) is required to be applied toward the University's payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Cross-over Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Cross-over Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

"Related Bond Indenture" means any indenture, trust agreement, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" means the issuer of any Related Bonds.

"Related Bonds" means the revenue bonds or other obligations issued by or under the authority of the Government of Puerto Rico or any municipality or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer"), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) the University in consideration of the execution, authentication and delivery to or for the order of such governmental issuer of an Obligation, or (ii) any Person other than the University in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by the University of a Guaranty in respect of such indebtedness or other obligation, which Guaranty is represented by an Obligation.

"Related Bond Trustee" means the trustee and its successors in the trusts created under a Related Bond Indenture.

"Revenues" means Pledged Revenues as defined in the 1971 Trust Agreement.

"Short-Term Indebtedness" means all Indebtedness (other than any Guaranty of an obligation of the University, the current portion of Long-Term Indebtedness and any Non-Recourse Indebtedness) incurred or assumed by the University that is not Long-Term Indebtedness.

"Subordinated Indebtedness" means Indebtedness of the University the terms of which shall provide that it shall be subordinate and junior in right of payment to the prior payment in full of the Obligations as follows:

In the event (a) of any insolvency or bankruptcy proceedings and any receivership, liquidation, reorganization, arrangement or similar proceedings in connection therewith, relating to the University or to its property, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the University whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its expressed maturity because of the occurrence of an event of default and such declaration has not been rescinded and annulled, or (c) any Event of Default under the Master Indenture shall occur and be continuing with respect to Obligations and (1) written notice of such default shall have been given to the University and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal of or interest on Obligations and within 90 days in the case of any other default after the giving of such notice, then in any of the events set forth in clauses (a) through (c) above the Holders of Obligations shall be entitled to receive payment in full of all their Obligations before the holders of the Subordinated Indebtedness are entitled to receive any payment on account of the Subordinated Indebtedness, and to that end the Holders of Obligations shall be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect of such Obligations.

"Supplement" means an indenture executed pursuant to the terms of, and supplemental to, the Master Indenture.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt or the lease of any such asset.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate to its maturity.

SUMMARY OF THE MASTER TRUST INDENTURE

Indebtedness, Authorization, Issuance and Terms of Obligations. There is no limit on the Obligations that may be issued under the Master Indenture, or Indebtedness that may be created under other documents except as limited by the provisions of the Master Indenture including "Limitations on Indebtedness" below or of any Supplement, but no Obligations may be issued or Indebtedness incurred unless the provisions of the Master Indenture are followed. The University must give at least seven (7) days' prior written notice to the Master Trustee of the University's incurrence of Long Tem Indebtedness, including the amount of Indebtedness to be incurred. (Sec. 2.01).

The University and the Master Trustee may from time to time enter into a Supplement in order to create Indebtedness under the Master Indenture, which Supplement will set forth the date thereof, and the date or dates on which the principal of and redemption premium, if any, and interest on an Obligation respecting such Indebtedness will be payable, and the form of such Obligation and such other terms and provisions as will conform with the provisions and conditions of the Master Indenture. (Sec. 2.04).

Security; Payment of Principal and Interest. (a) Each Obligation will be an unconditional obligation of the University payable from moneys on deposit in the Revenue Fund and from other legally available moneys.

So long as no Event of Default (or event which with the giving of notice or passage of time (or both) would become and Event of Default) shall have occurred and be continuing, the University may transfer or encumber all or any part of the moneys held to the credit of the Revenue Fund free of such pledge.

A special fund is created and designated "University of Puerto Rico Master Indenture Revenue Fund". The moneys in such Revenue Fund shall be held by the Master Trustee in trust and applied as provided in the Master Indenture, and pending such application shall be subject to a lien and charge in favor of the holders of the Obligations issued and outstanding under the Master Indenture and for the future security of such holders until paid out or transferred as provided in the Master Indenture. The University covenants and agrees that it will cause the trustee under the 1971 Trust Agreement to transfer all Excess Pledged Revenues pursuant to the 1971 Trust Agreement as received to the Revenue Fund as designated by the Director of Finance of the University. After the release of the 1971 Trust Agreement, the University covenants and agrees to deposit all Revenues to the credit of the Revenue Fund.

(b) The University covenants that it will not pledge or grant a security interest in any of its Property except as provided in (a) above and as may be otherwise provided in the Master Indenture or in the 1971 Trust Agreement.

(c) The University covenants promptly to pay or cause to be paid solely from the Revenue Fund the principal of and redemption premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in the related Supplement and in said Obligation according to the terms of the Master Indenture whether at maturity, upon proceedings for redemption, by acceleration or otherwise. (Sec. 3.01).

Tax-Exempt Status. So long as the Master Indenture remains in force and effect and all amounts due or to become due on any Related Bond (the interest on which is intended to be excluded from gross income of the holders thereof for purposes of federal income taxation) have not been fully paid to the holder thereof, the University will not take any action or suffer any action to be taken by others or fail to take any action which action, sufferance or failure, in the Opinion of Bond Counsel, would result in the interest on any such Related Bond becoming includable in the gross income of the holder thereof for purposes of federal income taxation. (Sec. 3.02).

Insurance. Under the 1971 Trust Agreement, the University is required to maintain, or cause to be maintained, fire and extended coverage insurance on the University System and the various units thereof in amounts sufficient to provide for not less than full recovery whenever the loss from causes covered by such insurance does not exceed 80% of the full insurable value of the damaged property, and each policy shall contain a standard mortgage clause making the proceeds of any loss in excess of $50,000 payable to the trustee under the 1971 Trust Agreement.

The amount of insurance required shall at all times be sufficient to comply with any legal or contractual requirement which, if breached, would result in assumption of the University of a portion of any loss or damage as a co-insurer, and such insurance may provide for the deduction from each such claim for loss or damage (except in case of a total loss) of not more than 2% of the replacement value of the property insured, less depreciation.

Failure by the University to obtain the above-required insurance will not constitute an event of default under the provisions of the 1971 Trust Agreement if the University shall carry such insurance to the extent reasonably obtainable.

The University will also carry at all times public liability and property damage insurance to protect the University from claims of bodily injury or death which may arise from its operation, including any use or occupancy of its grounds, structures and vehicles in such amount as the University shall deem to be reasonable and desirable but in no event less than $100,000 for one person and $300,000 for more than one person involved in one accident and $10,000 for property damage.

The University will employ an Insurance Consultant to review the insurance requirements of the University from time to time (but not less frequently than biennially). If the Insurance Consultant makes recommendations for the increase of any coverage, the University will increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the University Representative that such recommendations, in whole or in part, are in the best interests of the University. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the University may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the University Representative that such recommendations, in whole or in part, are in the best interests of the University and do not violate the provisions of the 1971 Trust Agreement. Notwithstanding the foregoing, the University will have the right, without giving rise to an Event of Default solely on such account (i), to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the University furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of applicable laws now or hereafter in existence. (Sec. 3.03)

Limitation on Creation of Liens. The University agrees that it will not create or suffer to be created or permit the existence of any Lien upon Revenues or upon Property now owned or hereafter acquired by it other than Permitted Liens.

(a) Permitted Liens will consist of the following:

(i) the Lien created under the 1971 Trust Agreement; (ii) Liens arising by reason of good faith deposits with the University in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the University to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; (iii) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements; (iv) any judgment lien against the University so long as such judgment is being contested in good faith and execution thereon is stayed; (v)(A) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors have been due for fewer than ninety (90) days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas, or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) to the extent that it affects title to any Property, the Master Indenture and the 1971 Trust Agreement; and (E) landlord's liens; (vi) any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Indenture and which is described in Schedule 1 of the Master Indenture, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture; (vii) so long as no Event of Default exists under the Master Indenture at the time the Lien is created, any Lien on Property securing Indebtedness (other than Non-Recourse Indebtedness) in an amount not exceeding fifteen percent (15%) of the Book Value of Property, Plant and Equipment of the University as shown on the Financial Statements of the prior Fiscal Year; (viii) any Lien on pledges, gifts or grants to be received in the future including any income derived from the investment thereof; (ix) any Lien on inventory which does not exceed twenty-five percent (25%) of the Book Value thereof; (x) any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds; (xi) any Lien securing all Obligations on a parity basis; (xii) any Liens subordinate to the lien described in clause (xi) above required by a statute under which a Related Bond is issued; (xiii) Liens on Property received by the University through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon; and (xiv) any Lien securing Non-Recourse Indebtedness permitted by the Master Indenture. (Sec. 3.04).

Limitations on Indebtedness. The University covenants and agrees that after the issuance and delivery of Obligation No. 1 it will not incur any Indebtedness if, after giving effect to all other Indebtedness incurred by the University, such Indebtedness could not be incurred pursuant to the provisions of the Master Indenture described in paragraphs (a) through (i), inclusive, below. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in the Master Indenture described in paragraphs (a) though (i) below:

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate certifying that (1) the: Long-Term Debt Service Coverage Ratio, taking all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then to be incurred into account as if it had been incurred at the beginning of such period, but excluding any Long-Term Indebtedness to be refinanced with the proceeds of the Long-Term Indebtedness, for any twelve (12) consecutive calendar months out of the eighteen (18) calendar months preceding the date of delivery of such Officer's Certificate or if lower, the estimated Long-Term Debt Service Coverage Ratio, taking all Outstanding Long-Term Indebtedness, and the Long-Term Indebtedness then to be incurred into account as if it had been incurred at the beginning of such period but excluding any Long-Term Indebtedness to be refinanced with the proceeds of the Long-Term Indebtedness, for the twelve (12) consecutive calendar months beginning with the month following the incurrence of such Long-Term Indebtedness, taking into account all pertinent factors including, but not limited to, the placing in operation during such period of additions to the facilities of the University and any anticipated changes in the schedule of tuition fees, student fees and rentals and of other charges for the right of use or occupancy of the facilities of the University, is not less than 1.25.

In addition, prior to the incurrence of Long-Term Indebtedness for the purpose of financing the acquisition, construction or equipping of facilities of the University (the "Project"), the Officer's Certificate mentioned in clause (a) above under this caption must include a statement to the effect that the amount of such Long-Term Indebtedness together, if applicable, with other available funds, will be sufficient to pay for the costs of the Project.

(b) Completion Indebtedness may be incurred without limit, but prior to the incurrence of Completion Indebtedness, the University Representative must furnish to the Master Trustee: a certificate of an architect estimating the costs of completing the facilities for which Completion Indebtedness is to be incurred; a certificate of the chief financial officer of the University certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities in respect of which Completion Indebtedness is to be incurred; and a certificate from a Consultant to the effect that the Long-Term Indebtedness originally incurred to finance the costs of the construction of the facilities in respect of which Completion Indebtedness is to be incurred was estimated prior to the date of incurrence of the original Long-Term Indebtedness to be sufficient, together with other funds, if applicable, to complete the construction of such facilities, but due to certain factors enumerated in the certificate the costs of constructing such facilities exceeded the amount of such original Indebtedness plus other funds, if applicable.

(c) Long-Term Indebtedness may be incurred for the purpose of refunding any Outstanding Long-Term Indebtedness, but if the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, there is delivered to the Master Trustee an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(d) Short-Term Indebtedness may be incurred in the ordinary course of business if immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all such Indebtedness plus the current portion of Long-Term Indebtedness does not exceed ten percent (10%) of the Revenues for the most recent period of twelve (12) full consecutive calendar months for which Financial Statements are available; provided, however, that there must be a period of at least twenty (20) consecutive calendar days during each such period of twelve (12) full consecutive calendar months during which all Short-Term Indebtedness will not exceed five percent (5%) of such Revenues.

(e) Indebtedness may be incurred without limitation under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit enhancement facility established in connection with the issuance of any Obligations or Related Bonds, but if such liquidity facility is used or drawn upon, then the liability represented by such use or draw by the University will be included in Indebtedness for all purposes of the Master Indenture.

(f) Non-Recourse Indebtedness may be incurred without limitation.

(g) Subordinated Indebtedness may be incurred without limitation.

(h) Put Indebtedness may be incurred, if (I) the conditions described in paragraphs (a) above are met and (II) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase price of such Put Indebtedness for the term of such financing on which the owner of such Put Indebtedness may demand payment thereof pursuant to its terms.

(i) Bonds may be issued under the 1971 Trust Agreement without satisfying any of the conditions set forth under this caption "Limitations on Indebtedness," notwithstanding any other provision in the Master Indenture to the contrary. (Sec. 3.05).

Long-Term Debt Service Coverage Ratio. (a) The University covenants that it will at all times, fix, impose, revise from time to time and collect such tuition fees, student fees and rentals and other charges for the right of use or occupancy of the facilities of the University, so that the Revenues (after deducting any moneys included therein on account of any debt service grant programs of the United States Government or any agency thereof), together with any other funds, available for such purpose, including moneys available to the University by action of the Legislature of Puerto Rico, will be sufficient to make the Long-Term Debt Service Coverage Ratio, calculated at the end of the each Fiscal Year, not less than 1.0; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by paragraph (a) above under this caption is not met, the University covenants immediately to retain a Consultant to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. The University agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as a Consultant is retained and the University follows such Consultant's recommendations to the extent permitted by law, the provisions of this paragraph (b) will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level. (Sec. 3.06).

Sale, Lease or Other Disposition of Property. Property of the University may be disposed of only in the manner and pursuant to the terms set forth in paragraphs (a) to (d) below:

(a) the University agrees that it will not transfer any Property in any Fiscal Year except for Transfers of Property:

(i) to any Person provided there shall be delivered to the Master Trustee prior to such transfer the report of a Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio, taking such Transfer into account, for each of the two (2) periods of twelve (12) full consecutive calendar months succeeding the date on which such Transfer is expected to occur, is (1) not less than it would have been were such Transfer not to take place, or (2) not less than 1.25; provided however, that for the purposes of this clause, if the Long-Term Debt Service Coverage Ratio so calculated for each such period is greater than 1.50, an Officer's Certificate may be substituted for the required Consultant's report, accompanied by a statement of the relevant assumptions upon which such forecasts are based;

(ii) To any Person provided that the University proposing to make such Transfer receives, as consideration for such Transfer, cash, services or property equal to the fair market value of the asset so transferred (the fair market value of real property will be evidenced by an Appraisal that states the fair market value as of a date not more than two (2) years prior to the date as of which such fair market value is being determined).

(b) Notwithstanding the provisions of the Master Indenture described above under this caption "Sales, Lease or Other Disposition of Property", nothing therein will be construed as limiting the ability of the University to purchase or to sell Property or inventory in the ordinary course of business or to transfer cash, securities and other investment properties in connection with ordinary investment transactions where such purchases, sales and transfers are for substantially equivalent value.

(c) Each such transfer referred to under this caption "Sales, Lease or other Disposition of Property" shall also be subject to the provisions of the 1971 Trust Agreement insofar as such provisions may be applicable and to the requirement that to the extent any such transfer consists of Revenues it shall be made only after all current deposit requirements relating to Outstanding Obligations set forth in any Supplement, Related Bond Indenture or otherwise are duly satisfied. (Sec. 3.07).

Filing of Financial Statements, Certificate of No Default and Other Information. The University will: (a) file with the Master Trustee, and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested a copy of the Financial Statements as of the end of such Fiscal Year accompanied by the opinion thereon of independent certified public accountants. Such Financial Statements will be prepared in accordance with generally accepted accounting principles, will include such statements necessary for a fair presentation of unrestricted fund financial position, results of operations and changes in unrestricted fund balance and financial position as of the end of such Fiscal Year and will be so filed within thirty (30) days after receipt of the audit report mentioned below but in no event later than one hundred eighty (180) days after the end of each Fiscal Year;

(b) file with the Master Trustee, and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, an Officer's Certificate and a report of independent certified public accountants setting forth the Long-Term Debt Service Coverage Ratio for such Fiscal Year and stating, to the best knowledge of the signers, whether the University is in default in the performance of any covenant contained in the Master Indenture, and, if so, specifying each such default of which the signers may have knowledge. Such Certificate and report will be so filed within thirty (30) days after the receipt of the audit report mentioned above, but in no event later than one hundred eighty (180) days after the end of each Fiscal Year;

(c) if an Event of Default has occurred and is continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs, as the Master Trustee may from time to time reasonably request, excluding specifically donor records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request;

(d) file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant within thirty (30) days after its receipt thereof; and

(e) file with the Master Trustee within thirty (30) days after the beginning of each Fiscal Year, an Opinion of Counsel which will state whether there are required to be filed in any office within the period of twelve (12) full consecutive calendar months following the date of such Opinion of Counsel financing statements, including continuation statements in order to continue the perfection of the security interests granted under the Master Indenture.

(f) the obligation to file such items with the Master Trustee shall commence with and in respect of the Fiscal Year ending June 30, 2001. (Sec. 3.08).

Events of Default. An Event of Default under the Master Indenture is any of the following events:

(a) the failure by the University to pay the principal of or the redemption premium, if any, or interest on any Outstanding Obligations when due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or of any Supplement; or

(b) the failure of the University to duly perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the University by the Master Trustee, or to the University and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure be such that it cannot be corrected within such thirty (30) day period, it will not constitute an Event of Default if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected; or

(c) an event of default occurs under the 1971 Trust Agreement, under a Related Bond Indenture or upon a Related Bond; or

(d) the failure of the University to pay any Related Bond or Indebtedness (other than Outstanding Obligations) or an event of default as defined in any Related Bond Indenture, mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Related Bond or Indebtedness, which event of default has not been waived, and as a result of such failure to pay or other event of default such Bond or Indebtedness has become or been declared immediately due and payable; provided, however, that such default will not constitute an Event of Default if (i) prompt written notice is delivered to the Master Trustee, signed by the University Representative, that the University is contesting the payment of such Bond or Indebtedness and the amount of such Indebtedness is less than one-half of one percent (1/2%) of Income Available for Debt Service for the immediately preceding Fiscal Year, or (ii) if such Bond or Indebtedness is equal to or greater than one-half of one percent (1/2%) of Income Available for Debt Service for the prior Fiscal Year, within the time allowed for service of a responsive pleading if any proceeding to enforce payment of such Bond or the Indebtedness, the University in good faith commences proceedings to contest the obligation to pay or alleges the nonexistence or payment of such Bond or Indebtedness; or

(e) certain undismissed voluntary or involuntary events of bankruptcy, insolvency or reorganization respecting the University. (Sec. 4.01).

Acceleration; Annulment of Acceleration. (a) Upon the occurrence and during the continuation of any Event of Default under the Master Indenture and the declaration of the principal of all bonds outstanding under the 1971 Trust Agreement being declared due and payable immediately pursuant to the 1971 Trust Agreement, and not otherwise, the Master Trustee may and, upon the written request of (i) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, will, by notice to the University, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will become and be immediately due and payable. If the terms of any Supplement give a Person the right to consent to acceleration of all or a portion of the Obligations issued pursuant to said Supplement, such Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained. In the event Obligations are accelerated, there will be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of such acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) If, at any time after the principal of the Obligations will have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, (i) the University has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations then Outstanding; (ii) the University has paid or caused to be paid the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the University under the Master Indenture have been paid or a sum sufficient to pay the same has been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) has been remedied, then the Master Trustee may, and upon the written request of Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding will, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms; provided, however, that if such declaration occurred pursuant to the provisions summarized in (a)(ii) in the preceding paragraph, then any such annulment will be subject to the consent of the Person exercising the right pursuant the provisions summarized in such subparagraph. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon. (Sec. 4.02).

Additional Remedies and Enforcement of Remedies. Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, upon being indemnified to its satisfaction, will, proceed immediately to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, deems expedient.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding, will, when indemnified to its satisfaction, institute and maintain such suits and proceedings necessary or expedient to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or to preserve or protect the interests of the Holders, provided that such request and action are not in conflict with any applicable law or the provisions of the Master Indenture and, in the Master Trustee's sole judgment, are not unduly prejudicial to the interest of the Holders not making such request. (Sec. 4.03).

Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default all Revenues and other moneys received by the Master Trustee, after payment of (i) all amounts in respect of principal, premium and interest have been paid to the holders of all bonds at the time outstanding under the 1971 Trust Agreement, (ii) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expense and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture and (iii) in the sole discretion of the Master Trustee, the expenses of operating the University, will be applied as follows:

(a) Unless the principal of all Outstanding Obligations has become or has been declared due and payable: First: to the payment of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due, without discrimination or preference; and Second: to the payment of the unpaid principal installments of and premium, if any, on any Obligations then due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available are not sufficient to pay in full the principal of all Obligations and premium, if any, due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, without discrimination or preference.

(b) If the principal of all Outstanding Obligations will then be or have been declared to be due and payable but only after the satisfaction in full of all amounts owing in respect of principal, premium and interest on all bonds at the time outstanding under the 1971 Trust Agreement, then to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without discrimination or preference.

(c) If the principal of all Outstanding Obligations has been declared due and payable, and if such declaration is thereafter rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of the Master Indenture described in paragraph (b) above under this caption, in the event that the principal of all Outstanding Obligations become due or be declared due and payable at a later time, the moneys will be applied in accordance with the provisions of described in paragraph (a) above under this caption. (Sec. 4.04)

Holders' Control of Proceedings. If any Event of Default has occurred and is continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding will have the right, subject to the terms of the Master Indenture, to direct the method and place of conducting any enforcement proceedings. (Sec. 4.07).

Waiver of Event of Default. No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture or before the completion of the enforcement of any other remedy under the Master Indenture. The Master Trustee, upon the written request of the Holders of a majority of the aggregate principal amount of Obligations then Outstanding, will waive any Event of Default under the Master Indenture except a default in the payment of the principal of or premium, if any, or interest on any Obligation, when the same becomes due and payable or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) then Outstanding. In case of such waiver, all parties will be restored to their former positions but no such waiver will extend to any subsequent or other Event of Default. (Sec. 4.09).

Notice of Default. The Master Trustee will, within ten (10) days after it has actual knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default will be cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest on any of the Obligations and the Events of Default specified above in paragraph (e) of "Defaults and Remedies - Events of Default", the Master Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders. (Sec. 4.12).

Removal and Resignation of the Master Trustee. The Master Trustee may resign on its own motion or may be removed at any time by a written instrument signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding, or as long as no Event of Default has occurred and is continuing, by an instrument in writing signed by the University Representative. No such resignation or removal will become effective unless and until a successor Master Trustee (or temporary successor trustee) has been appointed and has assumed the trusts created by the Master Indenture. (Sec. 5.04).

Supplements and Amendments. The Master Indenture may be supplemented or amended without the consent of or notice to any of the Holders, for one or more of the following purposes: to cure an ambiguity or formal defect or omission; to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which will not materially and adversely affect the interests of the Holders; to grant or confer ratably upon all Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them; to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; to create and provide for the issuance of Indebtedness as permitted under the Master Indenture; to obligate a successor to the University; to comply with any applicable securities law. (Sec. 6.01).

All other Supplements may be executed only upon obtaining the written consent of the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding, except that the consent of all Holders of Obligations is required in respect of any Supplement which would:

(a) effect a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon; or (b) permit the preference or priority of any Obligation over any other Obligation; or (c) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement.

All Supplements executed pursuant to the Master Indenture will be binding on all Holders of Obligations. (Sec. 6.02).

Satisfaction and Discharge of Master Indenture. If (a) a University Representative delivers to the Master Trustee for cancellation all Outstanding Obligations, or (b) all Outstanding Obligations have become due and payable and money sufficient to pay the same has been deposited with the Master Trustee or (c) all Outstanding Obligations that have not become due and payable will be Defeased Obligations, and if in all cases the University will also pay or cause to be paid all other sums payable by the University, then the Master Indenture will cease to be of further effect, and the Master Trustee, on demand of the University, and at the cost and expense of the University, will execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. (Sec. 7.01).

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UNIVERSITY OF PUERTO RICO

General Background

The University, the only public university in Puerto Rico, developed from a school for the training of public school teachers which opened in 1900. In 1903, the school was incorporated as the University of Puerto Rico, an independent public corporation, and began operations with 154 students. As of August 2000, enrollment of undergraduate, graduate, and professional school students at the University was approximately 69,773, making it the largest Hispanic university in the United States higher education system.

The University is committed to providing education of the highest quality and widest scope to Puerto Rico students. To this end, the University has formulated the following specific goals: to serve as a center for academic and scientific research; to develop applied research; to expand its educational programs which prepare students for employment in industry and commerce; to capitalize on the location of Puerto Rico in the Caribbean region by developing programs germane to the residents of the region; and to develop the University's position as a member of the international academic community.

The foregoing goals are being accomplished through the creation and revision of academic programs to meet the changing needs of local communities; the establishment of inter-unit transfer programs to broaden the educational opportunities offered to students; the strengthening of graduate programs by revising financial aid options, increasing research through highly selective faculty recruitment, and promoting intercampus collaborative research and teaching; the development of new multidisciplinary academic programs that will provide students with a global vision of the economic, social, and scientific sectors; the creation of focused research centers; the establishment of collaborative agreements with other universities, government agencies, and industries in the United States, the Caribbean, Latin America, and Europe; and an increased participation in Federally sponsored programs for scientific and medical research.

Each campus and college of the University is currently accredited separately by the Middle States Association of Colleges and Schools, a nationally recognized accrediting service, and each unit is in receipt of its current accreditation by the Puerto Rico Council on Higher Education.

The University Campuses and Colleges

The University includes three principal campuses and eight additional university colleges located throughout the island. Many of these units have developed important academic specializations. Each college has developed specific goals which address local needs of the region and future community development. A description of the campuses and colleges including their goals is set forth below.

Río Piedras Campus: Located in the San Juan metropolitan area, it is the oldest and largest of the University's campuses. Enrollment at Río Piedras for academic year 2000-2001 was approximately 21,539 students, of whom 17% were graduate students. The focus of this campus is on the development of undergraduate and graduate programs in the arts and sciences. Academic degrees are granted through the Colleges of Humanities, Natural Sciences, Social Sciences, General Studies, Education, Business Administration and Architecture, and the Schools of Law, Planning, Library Sciences and Public Communications. Research centers exist for the study of the Caribbean, HIV/AIDS Education and Prevention, History, Hispanic Studies, Social Sciences, Labor Relations, Cooperativism, Psychology, Engineering, Math and Sciences, Business, and Law.

Its National Museum houses the most complete archeological collection of pre-Columbian artifacts from indigenous cultures in the Caribbean, and serves as an important research resource. Its main library is the largest on the island. Its theater, in the Spanish revival architecture tradition, hosted the first Casals Music Festival in 1956 and continues to be a center of cultural activity. The tree-lined Quadrangle, dominated by a distinctive clock tower, is listed in the United States National Register of Historic Places.

Mayagüez Campus: Located in the western part of Puerto Rico, it is the second largest campus in the University and had an enrollment of approximately 12,414 students for academic year 2000-2001. It was originally established as a land grant College of Agriculture and Mechanical Arts. Mayagüez now offers graduate and undergraduate programs in engineering, natural sciences, business administration and the liberal arts. The campus has established its credentials in the engineering field, acquiring international recognition. The School of Engineering at Mayagüez has the highest rate of enrollment of female engineering students (35%) in the United States and is the largest annual grantor of engineering degrees (approximately 700 in 2000) to minorities in the United States.

Medical Sciences Campus: Founded as the School of Tropical Medicine in affiliation with Columbia University in 1924, it is located in the San Juan metropolitan area adjacent to the Puerto Rico Medical Center and had an enrollment of approximately 3,255 students for academic year 2000-2001. Its purpose is the development of undergraduate and graduate programs in the health sciences professions. This institutional unit offers two, four and five-year programs at the first professional, graduate and post-graduate levels. Academic degrees are granted through the Schools of Medicine, Dentistry, Allied Health Professions, Pharmacology, Biosocial Sciences and the Graduate School of Public Health. Post-doctoral programs are offered in medicine, dentistry, public health, pharmacy and other health-related fields.

University of Puerto Rico at Aguadilla: Located in the northwestern part of the island, it had an enrollment of approximately 3,218 students for academic year 2000-2001. Although it began as a two-year regional college, it has added four-year programs in manufacturing quality control, business administration, office systems, and technology of electronic engineering.

University of Puerto Rico at Arecibo: Located on the northern coast of the island, approximately 50 miles west of San Juan, it had an enrollment of approximately 4,617 for academic year 2000-2001. The college offers two-year in-transfer programs towards a bachelor degree, two-year associate degrees in technical and other programs and four-year programs mainly in technical areas towards a technological bachelor degree.

University of Puerto Rico at Bayamón: Located in the San Juan metropolitan area, west of San Juan, it had an enrollment of approximately 5,875 students for academic year 2000-2001. It offers two-year in-transfer programs towards a bachelor degree, two-year associate degrees in technical and other programs and four-year programs towards a technological bachelor degree. At this college many of the students study electronics and computer technology. Many students enter industry while in school, providing them with an invaluable work-study experience.

University of Puerto Rico at Carolina: Located in the metropolitan area, east of San Juan, it had an enrollment of approximately 4,198 students for academic year 2000-2001. It offers its students the opportunity to complete their associate degree studies in sixteen months. The college also offers two-year in-transfer programs towards a bachelor degree and bachelor degrees.

University of Puerto Rico at Cayey: Located near the central part of the island, it had an enrollment of approximately 4,089 students for academic year 2000-2001. It offers undergraduate degrees in education, natural sciences, humanities and business. Its Biomedical Research program is a collaborative effort for students to do investigative projects at several laboratories at mainland universities and industrial laboratories while receiving University credit. The Howard Hughes program stimulates first and second year students in natural sciences to participate in research projects. A Center for Women's Studies and gender-related issues collects, studies and publishes information and sponsors many activities which draw participants from Puerto Rico and the Caribbean.

University of Puerto Rico at Humacao: Located in the eastern part of the island, it had an enrollment of approximately 4,591 students for academic year 2000-2001. It stresses the development of two-year technical and four-year baccalaureate degree programs. The development of technical programs is designed to meet local needs. Research and conservation programs focus on endangered species on the island. Humacao University College is also responsible for the Roig House Museum, which is housed in an early twentieth century structure designed by an associate of Frank Lloyd Wright, Antonin Nechodoma, who made Puerto Rico his home. The Roig family donated the house to the University, which uses it as a cultural center and exhibit hall.

University of Puerto Rico at Ponce: Located in the southern part of the island, it had an enrollment of approximately 4,150 students for academic year 2000-2001. It offers two-year associate degrees in technical and other programs, two-year in-transfer programs towards a bachelor degree, and four-year technical programs for a bachelor degree. The college offers bachelor degrees in Elementary Education, Business Administration, Physical Therapy, Occupational Therapy, Technology in Industrial Design or Civil Engineering, Architectural Drawing, and other subjects.

University of Puerto Rico at Utuado: Located in the central region of the island, it had an enrollment of approximately 1,620 students for academic year 2000-2001. It offers two-year in-transfer programs towards a bachelor degree and two-year associate degrees in technical and other programs, primarily in agricultural technology.

Special Projects

Servicios Médicos Universitarios, Inc.: In March 1999, the University purchased three hospital facilities and incorporated a separate not-for-profit corporation, Servicios Médicos Universitarios, Inc. ("SMUI"), to operate and administer these facilities. SMUI will become the primary medical education institution of the University and will offer health services to the public. SMUI is governed by a separate board of directors.

The hospital facilities consist of a hospital located in Carolina and two diagnosis and treatment centers located in Canóvanas and in Trujillo Alto, respectively. SMUI is in the process of acquiring the aforementioned facilities from the University. While the University has to date guaranteed certain debts of SMUI in the amount of approximately $11.0 million and made certain advances in connection with SMUI's commencement of operations, the University expects SMUI to be financially self-sufficient and independent of the University. Consequently, the University does not expect SMUI's operations to have any impact on its budget.

Project Arroyo Virtual Center: The University has intensified its commitment to leading Puerto Rico into the "knowledge generation" through the distance learning alternative. "Project Arroyo" provides the framework and hardware for access to distance learning. The town of Arroyo in the southeast region of the island will be the high technology nerve center of this project that will extend opportunities for sharing knowledge throughout Puerto Rico and beyond. Initially "Project Arroyo" will offer the first two years of academic programs in business administration and natural sciences through the University's interactive television network and will facilitate access to faculty in the various campuses and university colleges for students using the Arroyo premises as well as bring the academic offerings of Project Arroyo to students located throughout the University's campuses and university colleges. The pilot project is expected to transform traditional methods of teaching in the entire University System.

Special Programs

Undergraduate Education: An extensive curriculum review is currently being undertaken throughout the University. Special attention is being given to undergraduate education as a whole and in particular to the General Studies component, led by pilot activities at the Río Piedras and Cayey campuses. Each campus is revising its curriculum with the support of the system-wide Office of Academic Affairs. This initiative is intended to put academic programs more in-tune with the social, economic, and technical needs of today's society. Revised programs will be designed to be more flexible, with a broader emphasis on global and interdisciplinary issues.

Student Exchange Program: The University is strengthening its exchange program to provide a broader, more flexible curriculum. Exchange programs have already been established and agreements are in progress with universities in the mainland United States and in Latin America and Spain. A membership application has been filed with the International Student Exchange Program. It is expected that this reciprocal exchange program will allow the University to receive more international students and to increase the number of its students studying abroad.

Puerto Rico Resource Center for Science and Engineering: Founded in 1980, the Resource Center for Science and Engineering of the University of Puerto Rico is a consortium of the island's major institutions of higher education. The mission of the Resource Center is to improve science, mathematics and engineering education. By following a systemic approach, which envisions the educational system as a whole, the Resource Center promotes the transfer of knowledge among educational levels, thus fostering the coherence and high quality of science, mathematics, engineering and technology education in Puerto Rico.

The Resource Center operates as a virtual organization to reform the educational system and to serve as a catalyst and agent of change. As such, the Center maintains linkages with the national reform movement in education and cognitive science, and it also is linked closely with the industrial and business communities. The information obtained from these links is transferred to the participating institutions and is then converted into educational strategies, specific objectives, and benchmarks to implement and measure progress of the reform.

The Experimental Program to Stimulate Competitive Research ("EPSCoR"): EPSCoR is a science and technology research and development program sponsored by seven Federal agencies. In Puerto Rico, EPSCoR is an island-wide program coordinated by the Resource Center for Science and Engineering. EPSCoR helps researchers, institutions and regions improve the quality and capability of their research in order to compete more effectively for non-EPSCoR research funds. EPSCoR promotes economic development within Puerto Rico by fostering collaborative agreements between industry and academia. EPSCoR research is done primarily at the University's Graduate Centers at the Río Piedras, Mayagüez and Medical Sciences campuses.

Industry University Research Consortium ("INDUNIV"): This consortium was created 15 years ago to promote close and effective interaction between industry and the academic community in the area of applied research. It has provided research grants totaling $2.5 million for approximately 50 different projects. It was also the founder of the Materials Characterization Center which offers specialized analyses to industry and the academic community. INDUNIV also acts as a conduit for funding from other sources such as the National Science Foundation, Puerto Rico Industrial Development Company and the Puerto Rico Community Foundation among others.

Materials Characterization Center, Inc.: The Center provides specialized analyses and the corresponding technical and scientific expertise in the areas of Nuclear Magnetic Resonance, Mass Spectrometry, Surface Microscopy and Spectroscopy, and X-Ray Diffraction. The Center was founded by a joint collaboration between INDUNIV, the Puerto Rico Industrial Development Company and the College of Natural Sciences of the Río Piedras Campus of the University of Puerto Rico. It is a self-supporting, non-profit corporation affiliated with the University. The analytical services are provided to industrial, academic and governmental clients.

Governance and Administration

Act No. 16 of the Legislature of Puerto Rico, approved June 16, 1993 ("Act No. 16"), created a Board of Trustees (the "Board") to act as the governing body of the University. The Board is composed of thirteen members. Two of its members are professors selected by the teaching faculty, one member is a student selected by vote of the student representatives and the remaining ten members are appointed for staggered periods by the Governor with the advice and consent of the Senate. The administration of the University provides both a degree of decentralization responsive to the needs of each institutional unit and a centralized structure through which the activities of each such unit can be coordinated with a view toward the University as a whole. The Board appoints the President, who is the chief executive officer and official representative of the University.

To assist the President in overall planning there is a University Board composed of the President, the chancellors of the several institutional units, the Director of Finance, three members appointed by the President with the approval of the Board, a faculty representative from each of the six Academic Senates, as well as one student representative from each of the six major units. Each chancellor has responsibility for certain institutional units including the establishment of academic policies and the preparation of the budget. There is an Academic Senate composed of administration, faculty and students for each institutional unit which gives advice on academic matters to the chancellor of such unit.

The Central Office of Finance oversees and controls the income and expenses of the consolidated University System to insure that operations are conducted within existing budget requirements. The Central Office of Finance performs functions typical of a university treasurer's office, including income projections, management of the investment portfolio, insurance analysis and management, financial aid, and (in coordination with the Central Office of Planning and Development) the financing of the University's capital improvement program.

The Office of Academic Affairs is the President's main resource for coordinating and supervising the academic policy of the University. To fulfill its function, the Office of Academic Affairs has organized working groups such as the Board of Deans, composed of the Deans of Academic Affairs of the different institutional units, who meet regularly to discuss system-wide issues, plans and policies. The Office of Academic Affairs oversees the accreditation process of the institutional units, acts as consultant and advisor to the President and the units on various matters, and initiates the study of system-wide issues, plans and policies.

The Central Office of Planning and Development is responsible for the planning, programming and supervision of all planning and development activities, such as preparing and maintaining the Strategic Plan; preparing a plan for the maintenance of existing buildings and new construction; identifying external sources of funding; coordinating, with the Central Office of Finance, the preparation of financial projections; financing capital improvements; and establishing and maintaining an information system and a statistical analysis unit. The Central Office of Planning and Development oversees the University's capital improvements program.

The Budget Division of the University, which is part of the Central Office of Planning and Development, reviews budget proposals submitted by each institutional unit. A consolidated University budget is prepared and further revised by the Chancellors of each individual unit and the University President with his staff. It is then presented to the University Board and to the Board of Trustees for approval. The institutional budget is presented to Puerto Rico's Office of Management and Budget and also to the Legislature of Puerto Rico for their information, to be integrated with Puerto Rico's General Budget.

The current members of the Board are listed below.

Name	Occupation	Term Ends
Mr. Salvador E. Alemañy, Chairman	Professor	June 16, 2001
Dr. Francisco Somoza, Vice-Chairman	Dentist	June 16, 2001
Prof. Luis E. González-Vales, Second Vice-Chairman	Retired Professor	June 16, 2001
Dr. Angel A. Cintrón-Rivera, Secretary	Doctor of Medicine	June 16, 2005
Dr. Enrique Lugo-Silva	Professor	June 16, 2005
Dr. Miguel A. Riestra	Retired Professor	June 16, 2003
Dr. Aida Negrón de Montilla	Retired Professor	June 16, 2001
Prof. Angel Sosa, Faculty Representative	Professor	June 30, 2001
Dr. Luz A. Muñiz, Faculty Representative	Professor	June 30, 2001
Mr. Urayoán Camacho, Student Representative	Student	June 30, 2001

There are currently three vacancies on the Board.

The names and biographical summaries of certain members of the administrative staff of the University are as follows:

Dr. Norman I. Maldonado was appointed President in February 1994. He received his M.D. from the University in 1959. Prior to his appointment he was a practicing physician and medical researcher and served as Medical Director at San Juan's Municipal Hospital, as Deputy Secretary of the Puerto Rico Health Department, and as Chancellor of the Medical Sciences campus of the University, where he was responsible for expanding academic offerings, the accreditation of programs, and the establishment of an "in-house" clinical practice for the faculty.

Dr. Manuel Gómez was appointed Vice President for Research and Academic Affairs in July 1997. He holds a Bachelor of Science degree in Physics from the University and a Ph.D. in Theoretical Physics from Cornell University. He is also the Director of the Resource Center for Science and Engineering, the Puerto Rico EPSCoR Program, the Puerto Rico Alliance for Minority Participation project, and the Puerto Rico Statewide Systematic Initiative project, as well as Professor of Physics. Previously, he was Dean of the College of Natural Sciences at the University's Río Piedras Campus. In addition to his many publications and conference presentations in the fields of physics, materials science and educational reform, Dr. Gómez has served on the Governor's Council for Science and Technology and the Governor's Economic Productivity Council, where he represented the science and technology community.

Mrs. Nazeerah Elmadah has been Acting Finance Director since August 1998. She holds a Bachelor's Degree in Business Administration from the University. Prior to her appointment she occupied various positions in the University including Associate Director of the Finance Office and Accounting Supervisor of the Accounting Division. She also held an accountant position in the Treasury Department of Puerto Rico and worked for an insurance company for five years.

Mr. José M. Valentín was appointed Director of Planning and Development of the University in September 1997. He holds a Bachelor's Degree in Humanities from the University and has completed the coursework for a Masters (MS) in Clinical Psychology from the Carlos Albizu University (formerly known as Caribbean Center for Advanced Studies) in San Juan, Puerto Rico. He is licensed as a Professional Planner by the Examining Board of Professional Planners in Puerto Rico. Prior to his appointment he served as Associate Director of the Office of Planning and Development and as Director of Planning at the former Center for Energy and Environmental Research of the University. During the 15 years prior to working with the University, he held different administrative positions at various agencies in Puerto Rico.

Mrs. Edna A. Scharrón was appointed Human Resources Director on September 1, 2000. She holds a Bachelor Degree in Sociology and Psychology from the University. Prior to her appointment, she held the position of Human Resources Associate Director since 1998. She has held various positions in the Human Resources Department of the University since 1984.

Julia María Badillo-Lorenzo, Esq. has been the Director of the Legal Affairs Office since June 30, 1999. She holds a Bachelor's Degree in Humanities and a Juris Doctor from the University. Prior to her appointment she was the Associate Director of the Legal Affairs Office since January 1994 and held various government positions, including Legal Counsel in the Justice Department of the Commonwealth of Puerto Rico.

Mrs. Brunilda Pereira was appointed director of Budget of the University in September 1995. She holds a Bachelor's Degree in Business Administration from the University. Prior to assuming her current position, she occupied the position of Deputy Director of Budget of the University, and has also held various government positions, including Specialist in Budget at the Management and Budget Office of Puerto Rico.

Faculty and Staff

The following table summarizes the academic attainment of the faculty of the University during each of the five academic years through 1999-2000.

FACULTY

	Academic Year				
Degree	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Doctorate	1,938	1,968	2,064	2,173	2,313
Master	2,300	2,369	2,379	2,374	2,382
Bachelor	123	133	137	130	81
Other	7	7	7	15	9
Total	4,368	4,477	4,587	4,692	4,785

For academic year 1999-2000, the University had approximately 9,000 non-academic support personnel on the various campuses and colleges. Contractual letters of agreement set forth terms of employment and are negotiated through three non-teaching labor associations. As of February 2000, 5,937 non-academic support personnel belonged to these associations which have been recognized by the Board. Agreements with two of the associations expire on June 30, 2001 and with the third association on June 30, 2002. The University considers its relationship with its employees to be satisfactory.

Strategic Planning

The Strategic Plan of the University System (the "Strategic Plan") was approved by the Board in early 1996. The Strategic Plan was developed during the period from fiscal 1993-1994 through fiscal 1995-1996 pursuant to a bottom-up process led by senior administrators and faculty representatives from all of the 11 campuses, based on the strengths and goals of each component of the University System, and was designed to provide a focus and direction for growth and development. The Strategic Plan highlights areas of concern and provides guidance on action plans to be adopted by University campuses, colleges, offices and departments.

Strategic planning is an ongoing activity requiring constant monitoring, assessment activities and in-depth studies. Since each campus has developed its own strategic plan in conjunction with the one for the University System, each faculty, department or office has worked to meet its goals and objectives, while concurrently meeting those established in the Strategic Plan for the University System.

Since the commencement of implementation of the Strategic Plan in fiscal 1993-1994, the University has achieved the following results:

- enrollment has increased by approximately 17,000 students;
- 20 new academic programs have been approved and are in place;
- 50 new buildings and capital improvement projects have been completed;
- external grants and contracts have increased by approximately $40 million;
- improvements in technological and telecommunications infrastructure have produced state of the art capabilities in research, distance education and academic networks; and,
- the University has improved its responsiveness to changing societal needs, increased its presence and capability to promote the development of knowledge in a large variety of fields and a broad-based commitment to provide support, recommendations and alternatives to specific needs.

A system-wide committee of faculty and administrators prepared an update to the Strategic Plan during the 1999-2000 academic year. The committee evaluated current strengths, weaknesses, opportunities and threats in order to produce an up-to-date plan responsive to current realities and capabilities of the University System. It also recorded the results attained by each campus while implementing the Strategic Plan approved in 1996. The University Board is currently reviewing the updated version of the Strategic Plan for the University System. Once approved, it will be submitted to the Board for approval.

Admission Requirements and Academic Standards

The University has consistently sought to attract and maintain a student body of high quality by establishing competitive admission standards, requiring maintenance of class standing and setting graduation requirements.

The University has revised its recruitment strategy to promote more aggressively its curricular offerings among prospective candidates. Admission and orientation counselors have visited more high schools, exhibitions have been presented at large shopping malls, and regional orientation meetings have been organized for high school advisors.

Admission Requirements. Candidates for admission to the freshman class of the University must have a high school diploma or its equivalent from an educational institution duly accredited by Puerto Rico's Department of Public Education. Each institutional unit of the University establishes its individual entrance requirements. Admission generally is determined according to an admission index formula which gives consideration to both the candidate's score on an entrance examination sponsored by the College Board and administered by the Educational Testing Service of New Jersey and his or her high school academic grade point average or GPA. The admission formula is designed to reduce attrition, boost enrollment levels, and increase overall student success. The admission formula is periodically reviewed in an effort to refine its predictability by incorporating program-specific requirements where determined necessary. During the past four years the average admission index score of students accepted by the University has increased.

Academic Standards. Each student at the University must maintain the minimum grade point average required by his educational unit. In the event that such average falls below the required level, the student is placed on probation for one year, during which time he receives special assistance to help improve his academic performance. Those students who do not achieve the minimum grade point average at the end of the probation period are suspended for academic deficiency.

Graduation Requirements. In order to receive a degree, diploma or certificate from the University a student must, within the limits established by his institutional unit, complete the specified course of study with the minimum required grade point average of 2.0.

The following table shows the number and types of degrees granted during each of the five academic years through 1999-2000.

DEGREES GRANTED

Degree	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
	Academic Year				
Certificate--Undergraduate	24	24	19	15	28
Certificate--Graduate	156	145	148	120	116
Associate	988	1,030	899	941	996
Bachelor	6,023	6,234	6,317	6,750	7,287
Master	653	629	603	647	712
Doctorate	34	49	58	74	60
First Professional Level(1)	275	238	255	314	261
Total	8,153	8,349	8,299	8,861	9,460

(1) The first professional level includes the academic degrees in architecture, law, medicine and dentistry.

Student Enrollment

For academic year 2000-2001, student body of the University consists of 69,773 students. Based upon recent five year projections, the University's student population is expected to remain stable. The following tables show both historical and projected student enrollment of the University.

HISTORICAL STUDENT ENROLLMENT

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
	Academic Year				
Undergraduate:					
Two year	6,879	7,318	5,829	6,058	5,582
Transfer programs	7,822	7,605	6,701	6,193	5,582
Four and five years	45,976	47,942	50,165	50,929	51,074
Graduate	6,469	6,675	6,582	6,569	7,535
Total	67,146	69,540	69,277	69,749	69,773
Full-time equivalent (based upon a course load of 24 credits per academic year)	61,044	62,714	64,125	64,560	64,674

PROJECTED STUDENT ENROLLMENT[1]

	Academic Year				
	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Undergraduate:					
Two year	5,592	5,600	5,606	5,613	4,994
Transfer programs	5,592	5,600	5,606	5,613	5,748
Four and five years	51,168	51,238	51,298	51,357	51,412
Graduate	7,549	7,560	7,569	7,577	8,066
Total	69,901	69,998	70,079	70,160	70,220
Full-time equivalent (based upon a course load of 24 credits per academic year)	65,007	65,098	65,173	65,248	65,304

(1) Projections based on an ARIMA (Autoregressive integrated moving average) model on the total enrollment time series from 1903 to 1998-99. Total enrollment was projected through academic year academic year 2004-05. The total enrollment projection by academic level (4-years, 2-years, transfer and graduate) was obtained by multiplying the enrollment forecast by the historical adjusted proportion that each academic level represents with respect to the total enrollment. The projections by academic level were then adjusted to reflect structural changes within the University System. The autonomy granted to every academic unit and the conversion of the 2-year colleges into 4-year colleges represents a break from the historical enrollment structure, which is expected to result in an increase in 4-year program enrollment and a decline in 2-year and transfer enrollment. The statistical models cannot reflect the aforementioned effects, because in essence, the projections of these models are determined by extrapolating the historical past. In order to take into account the effect of structural changes, the proportion represented by each academic level with respect to total enrollment was adjusted in accordance with expectations: in general, the proportion of 4-year enrollment was increased, and 2-year and transfers enrollment reduced.

The foregoing enrollment projections are conservative. They respond to the University's policy of raising admissions standards, assuring the on-going quality of existing offerings and increasing the efficiency and effectiveness of its academic programs. Also, the projections are limited to the University's traditional student population, which is between 18 and to 24 years of age.

The University is working to increase services for non-traditional students (over the age of 25), and it expects a material increase in enrollment by this segment of the population during the next five years. Such increase, estimated at an aggregate of 5,000 students by the year 2004, is expected to be reflected not only in the University's regular academic offerings, but also in the specialized programs described below:

Distance Education: All the University's eleven campuses now have the capability to generate, transmit and receive interactive educational courses and produce the required support materials. These electronic capabilities are reinforced by the Virtual Center in Arroyo which began operations in August 2000 and is the cornerstone of virtual (distance) education for the University, with the capability to support academic programs in Puerto Rico and in the Caribbean region. The Arroyo Virtual Center offers traditional and special academic programs.

Continuing Education: The University is promoting the development and offering of continuing education programs for service professionals (health professionals, lawyers, accountants, etc.) and others.

Night School: The University is also promoting the offering of undergraduate and graduate programs at night for working professionals.

The University's policy is to assure quality education with the highest scholarly standards in the nation. Thus, increases in enrollment should occur only in increments and at a pace that is consistent with such policy. It is expected that, as distance education programs are developed and implemented, enrollment at the University may rise to over 100,000 students in ten years.

Tuition and Other Fees

The academic year is divided into two semesters (mid-August to mid-December and mid-January to mid-May) and a shorter summer session (early June to late July). The most recent revision of tuition fees occurred at the beginning of the 1991-92 academic year when rates were raised from $15 to $30 per credit for undergraduate courses and $45 to $75 per credit for graduate level courses. These increases were phased in over a three-year period. At the end of such three-year period, tuition levels at the University were, and as of the date of this Official Statement such tuition levels remain, below comparable tuition levels at all private institutions of higher education in Puerto Rico.

Resident Students

The following table shows the tuition fee per credit and the student and medical fees per semester for students who are residents of Puerto Rico.

TUITION AND OTHER FEES—GENERAL

	First Semester	Second Semester
Tuition fees per credit:		
Technical programs or associate degrees	$ 30	$ 30
Undergraduate students	30	30
Graduate students (excluding medical and dentistry students)	75	75
Student fees:		
Maintenance fee (all students)	35	35
Laboratory fee (per lab)	25	25
Medical fees:		
Basic Medical Plan:		
All students -second semester includes summer session	204	286
Summer session - students not studying during previous second semester		82
Medical Plan including pharmacy:		
All students -second semester includes summer session	298	417
Summer session - students not studying during previous second semester		120
Miscellaneous fees:		
Graduation fee (payable only in the last semester)	20	20
Industrial laboratories (per lab)	25	25
Late registration fees	10	10

Full time undergraduate students (12 credits) pay approximately $847 per semester for tuition and other fees.

**TUITION AND OTHER FEES—
MEDICAL SCHOOL AND DENTAL SCHOOL**

	Per Academic Year
Tuition	$ 5,000
Medical service fee (summer session - $58)	276
Laboratory fee (per lab)	25
Graduation fee (payable in the last semester)	20
Maintenance fee (all students)	105
Total per year	$ 5,426

Nonresident Students

Students who are not residents of Puerto Rico pay a tuition fee in excess of that charged to resident students. The total number of nonresident students attending the University during the 1999-2000 academic year was not significant.

HIGHER EDUCATION IN PUERTO RICO

During the past few decades, Puerto Rico has made significant advances in economic development and industrial growth. These have been matched by similar advances in the field of education, particularly at the college and university level. During the 1970's and 1980's, certain higher wage, high technology industries became more prominent in Puerto Rico. More recently, service sector employment has increased significantly. This has resulted in an increased demand for personnel having a higher level of education in general and greater expertise in various technical fields in particular. During the same time period, enrollment in institutions of higher learning has risen very rapidly. As a result, Puerto Rico has experienced a large increase in the demand for higher education, particularly in technical fields.

This expansion in the demand for highly educated personnel has been related to the accelerated growth rate observed in the colleges and universities enrollment during the 1970's and 1980's. As shown in the table below, enrollment at institutions of higher education in Puerto Rico increased from 57,340 in 1970 to 173,318 in 1998 or 202% during such period. During the same period, enrollment at institutions of higher education in the United States increased from 8,580,887 to 14,590,000 or 70%.

The following table presents college enrollment figures for Puerto Rico and the United States:

PUERTO RICO AND UNITED STATES COLLEGE ENROLLMENT

	Puerto Rico		United States	
	Population 18-24 Years of Age	Higher Education Enrollment	Population 18-24 Years of Age	Higher Education Enrollment
1970	341,448	57,340	23,989,000	8,580,887
1980	397,839	130,105	29,252,000	12,096,895
1990	417,636	156,147	27,038,000	13,820,000
1998	481,366	173,318	25,279,000	14,590,000

Sources: U.S. Department of Education, National Center for Education Statistics, "Fall Enrollment at Colleges and Universities" survey and Integrated Postsecondary Education Data System (IPEDS) surveys; U.S. Department of Commerce, Bureau of the Census, "U.S. Population Estimates, by Age, Sex, Race, and Hispanic Origin: 1980 to 1991, 1990 to 1996, 1995 to 2000, "Current Population Reports." The information in this table differs from that in the table titled "Trend in College Enrollment" in Appendix B due to the difference in the sources for such information.

The following table presents, for each of the periods set forth below, comparative data for Puerto Rico and the United States college age population trends and college enrollment trends:

PUERTO RICO AND UNITED STATES TRENDS IN POPULATION AND COLLEGE ENROLLMENT

	Puerto Rico		United States	
Period	Increase in Population 18-24 Years of Age	Increase in Higher Education Enrollment	Increase (decrease) in Population 18-24 Years of Age	Increase in Higher Education Enrollment
1970-1980	16.51%	126.90%	21.94%	40.97%
1980-1990	4.98	20.02	(7.57)	14.24
1990-1998	15.26	11.00	(6.51)	5.57

In addition to the University, there are seven other public institutions and 41 private institutions of higher education located in Puerto Rico. Such institutions provide programs of study in liberal arts, education, business, natural sciences, technology, secretarial and computer sciences, nursing, medicine and law. Degrees are offered by these institutions at the associate, bachelor, master and doctoral levels. Of the seven public institutions in Puerto Rico, other than the University, only the Puerto Rico Conservatory of Music offers degrees at a level of bachelor or higher.

The following table presents data on higher education enrollment in Puerto Rico for the ten academic years ended 1998-1999.

HIGHER EDUCATION ENROLLMENT IN PUERTO RICO

Academic Year	Total Enrollment	Enrollment in University of Puerto Rico	Enrollment in Other Institutions of Higher Education
1989-1990	156,147	55,567	100,580
1990-1991	157,489	54,330	103,159
1991-1992	160,922	53,748	107,174
1992-1993	161,187	53,982	107,205
1993-1994	162,906	54,310	108,596
1994-1995	167,729	56,002	111,727
1995-1996	170,802	62,767	108,035
1996-1997	173,233	67,146	106,087
1997-1998	173,318	69,540	103,778
1998-1999	174,936	69,277	105,659

Source: Council on Higher Education

Puerto Rico Council on Higher Education

The Puerto Rico Council on Higher Education (the "Council on Higher Education"), created pursuant to Act No. 17 of the Legislature of Puerto Rico, approved June 16, 1993, as amended, is responsible, generally, for the promotion of higher education in Puerto Rico. More specifically, however, the Council on Higher Education is charged with the establishment of information systems and the design of evaluation models and indicators of use for the planning of higher education. It is also responsible for accreditation and licensing of institutions and programs of higher learning in Puerto Rico, including the University, the management of certain Commonwealth, Federal and private funds allocated to support higher education programs and the promotion of continuing professional education programs.

DEBT

The following table sets forth the University Senior Bonds and notes of the University outstanding as of October 31, 2000:

	As of October 31, 2000 (in thousands)
University Senior Bonds	
Publicly Offered	$ 484,871
HUD[1]	1,589
HHS[1]	2,028
Total University Senior Bonds	$ 488,488[3]
Other Notes[2]	510
Total University Senior Bonds and Line of Credit	$ 488,998

(1) Purchased directly by the United States Department of Housing and Urban Development ("HUD") or the United States Department of Health and Human Services ("HHS"), as applicable.

(2) Non-revolving line of credit note due October 1, 2004 in an amount not exceeding $566,000 issued by the University to the order of Government Development Bank for Puerto Rico on August 19, 1999 to finance the acquisition of equipment for the Medical Sciences Campus.

(3) Amount does not include interest on capital appreciation bonds (Series N Term) in the amount of $30,789,000.

PRINCIPAL AND INTEREST REQUIREMENTS

Principal and Interest Requirements as defined in the 1971 Trust Agreement means, for any fiscal year, the sum of the amounts required to pay (a) the interest on all University Senior Bonds which is payable on December 1 and June 1 in such fiscal year, (b) the principal of the serial bonds payable on June 1 in such fiscal year, and (c) the amortization requirement for the term bonds in such fiscal year, less payments under any debt service grant program of the United States Government or any agency thereof.

	Outstanding University Senior Bonds	**University Subordinated Obligations**	**Aggregate University Obligations**(3)
Fiscal Year Ending June 30	**Principal and Interest Requirements**(1)	**Obligation No.1**(2)	
	(in thousands)	**(in thousands)**	**(in thousands)**
2001	$ 41,830	$2,325	$44,155
2002	43,184	4,406	47,590
2003	43,175	4,406	47,581
2004	43,183	5,701	48,884
2005	38,070	5,701	43,771
2006	38,064	5,702	43,766
2007	38,064	5,701	43,765
2008	38,065	5,702	43,767
2009	38,069	5,699	43,768
2010	38,067	5,698	43,765
2011	38,080	5,701	43,781
2012	38,094	5,702	43,796
2013	38,097	5,697	43,794
2014	25,412	5,702	31,114
2015	25,411	5,700	31,111
2016	25,416	5,702	31,118
2017	25,411	5,702	31,113
2018	25,409	5,699	31,108
2019	25,411	5,699	31,110
2020	25,413	5,701	31,114
2021	25,410	5,697	31,107
2022	25,416	5,701	31,117
2023	25,413	5,697	31,110
2024	25,413	5,701	31,114
2025	25,410	5,701	31,111
2026	13,440	5,697	19,137
2027	13,439	5,699	19,138
2028	13,438	5,702	19,140
2029	13,436	5,699	19,135
2030	13,441	5,701	19,142
2031	-	5,701	5,701
2032	-	5,700	5,700
2033	-	5,702	5,702
Total	$ 886,181	$ 182,144	$1,068,325

(1) Although Principal and Interest Requirements as defined in the 1971 Trust Agreement are reduced by payments under any debt service grant program of the United States Government or any agency thereof, this column includes yearly payments of $310,907 under the debt service grant program of HHS.

(2) Obligation No. 1 under the Master Trust Indenture is the basic rent payment obligation under the Lease Agreement.

(3) Aggregate Principal and Interest Requirements under 1971 Trust Agreement and University Subordinated Obligations.

CURRENT FUNDS, REVENUES AND EXPENDITURES

Historical

Basic operations of the University are accounted for in the current funds. Restricted current funds may be expended only for the purposes established by the source of such funds. For example, Federal grants for student scholarships may be used only for that purpose. Federal and Commonwealth grants are the major sources of revenues of the restricted current funds, with a large proportion of such grants earmarked for scholarships and fellowships. Unrestricted current funds, on the other hand, may be used as the University decides in order to achieve its goals.

The predominant source of revenues of the unrestricted current funds is Commonwealth appropriations in accordance with the provisions of Act No. 2 of 1966. See "COMMONWEALTH SUPPORT OF THE UNIVERSITY" in this Appendix B. Other important revenue sources are student tuition and fees, interest on investments and revenues of dormitories, bookstores, and other auxiliary enterprises. Educational and general expenditures are mainly for salaries of faculty, administrative and other personnel, but they also include expenditures for maintenance, materials and supplies and investment in plant. In addition, there are mandatory transfers from the unrestricted current funds for debt service on University Senior Bonds and expenditures of auxiliary enterprises.

The University receives Commonwealth and Federal grants or appropriations for scholarships and other student aid programs. In fiscal 1999-2000, expenditures of current restricted funds for scholarships and fellowships amounted to approximately $125,046,427, including approximately $100,537,919 from Pell Grants for needy undergraduate students. The University does not anticipate material reductions in Commonwealth or Federal grants or appropriations in the near future.

The following table presents, for each of the five fiscal years ended June 30, 2000, the statements of revenues and expenditures of and other changes in the restricted and unrestricted current funds of the University, derived from the audited financial statements of the University. See Appendix C to this Official Statement for the audited financial statements for the fiscal year ended June 30, 2000 and 1999 and the report thereon, dated September 30, 2000, of Ernst & Young LLP.

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Historical Statements of Current Funds Revenues, Expenditures and Other Changes

	Fiscal Year Ended June 30, 1996			Fiscal Year Ended June 30, 1997		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues:						
Tuition and fees	$ 58.508.166	$ 4.631.210	$ 63.139.376	$ 64.188.647	$ 4.979.279	$ 69.167.926
Commonwealth of Puerto Rico appropriations, grants and contracts	455.768.118	76.670.714	532.438.832	488.960.511	66.087.181	555.047.692
Federal grants and contracts	-	137.065.341	137.065.341	-	155.362.526	155.362.526
Private gifts, grants and contracts	-	7.982.212	7.982.212	-	8.892.154	8.892.154
Sales and services of educational departments	1.883.509	4.544.205	6.427.714	619.672	4.624.437	5.244.109
Sales and services of auxiliary enterprises	6.651.887	-	6.651.887	6.902.301	-	6.902.301
Investment income	6.881.153	180.496	7.061.649	7.211.646	137.716	7.349.362
Other sources	2.471.318	3.582.954	6.054.272	5.452.304	7.377.968	12.830.272
Total current revenues	532.164.151	234.657.132	766.821.283	573.335.081	247.461.261	820.796.342
Expenditures and mandatory transfers:						
Education and general:						
Instruction	190.050.719	19.817.006	209.867.725	216.742.531	30.757.866	247.500.397
Research	6.773.239	51.320.663	58.093.902	18.476.584	49.880.918	68.357.502
Public service	1.611.726	43.771.496	45.383.222	11.380.658	38.099.949	49.480.607
Academic Support	60.665.638	7.029.007	67.694.645	65.962.941	9.041.324	75.004.265
Student services	27.109.720	2.035.441	29.145.161	29.846.708	2.333.873	32.180.581
Institutional support	92.253.404	4.639.319	96.892.723	93.247.391	4.865.102	98.112.493
Operation and maintenance of plant	68.610.394	788.155	69.398.549	74.008.138	239.040	74.247.178
Scholarships and fellowships	977.135	98.023.703	99.000.838	1.674.626	100.993.264	102.667.890
Hospitals	-	11.789.233	11.789.233	-	13.168.389	13.168.389
Independent operations	2.562	1.074.101	1.076.663	3.023	930.471	933.494
Other	6.290.912	190.288	6.481.200	1.069.250	2.726.005	3.795.255
Educational and general expenditures	454.345.449	240.478.412	694.823.861	512.411.850	253.036.201	765.448.051
Mandatory transfers for principal and interest	30.018.279	-	30.018.279	29.056.865	-	29.056.865
Restricted current fund matching grant	5.821.280	(5.821.280)	-	5.724.940	(5.574.940)	150.000
Total educational and general expenditures and mandatory transfers	490.185.008	234.657.132	724.842.140	547.193.655	247.461.261	794.654.916
Auxiliary enterprises-expenditures	9.179.828	-	9.179.828	9.067.545	-	9.067.545
Total expenditures and mandatory transfers	499.364.836	234.657.132	734.021.968	556.261.200	247.461.261	803.722.461
Other transfers and additions/(deductions):						
Excess/(deficit) of restricted receipts over transfers to revenues	-	(13.083.011)	(13.083.011)	-	(10.581.392)	(10.581.392)
Refunded to grantors	-	(257.166)	(257.166)	-	(496.909)	(496.909)
Non-mandatory transfers	(28.716.437)	17.762.900	(10.953.537)	(15.286.326)	12.536.004	(2.750.322)
Other Additions	-	-	-	-	-	-
Net increase/(decrease) in fund balances	$ 4.082.878	$ 4.422.723	$ 8.505.601	$ 1.787.555	$ 1.457.703	$ 3.245.258

Historical Statements of Current Funds Revenues, Expenditures and Other Changes

Fiscal Year Ended June 30, 1998			Fiscal Year Ended June 30, 1999			Fiscal Year Ended June 30, 2000		
Unrestricted	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
$ 64,724,938	$ 5,781,629	$ 70,506,027	$ 64,222,478	$ 5,260,539	$ 69,483,017	$ 63,915,059	$ 5,709,994	$ 69,625,053
529,486,774	66,116,131	595,602,905	544,808,000	65,581,073	610,389,073	566,226,000	55,434,878	621,660,878
-	157,517,472	157,517,472	-	164,723,927	164,723,927	-	177,229,824	177,229,824
-	8,803,024	8,803,024	-	9,639,783	9,639,783	-	10,123,368	10,123,368
636,017	33,185,134	33,821,151	559,746	39,203,521	39,763,267	823,442	35,166,408	35,989,850
7,216,114	-	7,216,114	6,843,799	-	6,843,799	7,155,929	-	7,155,929
6,419,242	232,942	6,652,184	6,118,543	170,656	6,289,199	6,311,070	184,742	6,495,812
2,427,595	7,242,354	9,669,949	10,719,736	3,590,851	14,310,587	3,359,214	15,858,986	19,218,200
610,910,140	278,878,686	889,788,826	633,272,302	288,170,350	921,442,652	647,790,714	299,708,200	947,498,914
235,686,950	23,261,079	258,948,029	245,626,379	25,071,777	270,698,156	252,626,553	25,131,649	277,758,202
18,749,656	50,569,322	69,318,978	19,651,154	53,270,585	72,921,739	20,304,811	59,492,786	79,797,597
12,315,990	42,668,034	54,984,024	12,788,568	36,063,622	48,852,190	12,901,748	32,487,758	45,389,506
68,349,381	8,281,332	76,630,713	66,478,554	7,357,336	73,835,890	67,337,949	5,929,745	73,267,694
31,979,916	2,034,640	34,014,556	33,577,300	2,050,050	35,627,350	33,381,024	2,800,306	36,181,330
103,038,353	3,669,198	106,707,551	102,660,028	4,445,609	107,105,637	105,491,996	5,280,378	110,772,374
76,306,237	212,049	76,518,286	75,809,250	409,898	76,219,148	80,675,297	442,182	81,117,479
1,745,097	118,957,406	120,702,503	1,698,124	122,916,052	124,614,176	1,718,762	125,046,427	126,765,189
-	29,339,681	29,339,681	-	32,482,894	32,482,894	-	32,035,104	32,035,104
2,259	861,694	863,953	3,877	1,150,292	1,154,169	22,157	1,537,162	1,559,319
4,258,457	3,415,811	7,674,268	-	10,349,086	10,349,086	5,038,238	15,555,100	20,593,338
552,432,296	283,270,246	835,702,542	558,293,234	295,567,201	853,860,435	579,498,535	305,738,597	885,237,132
31,169,953	-	31,169,953	31,214,697	-	31,214,697	34,664,046	-	34,664,046
4,473,560	(4,391,560)	82,000	7,646,851	(7,396,851)	250,000	6,030,398	(6,030,398)	-
588,075,809	278,878,686	866,954,495	597,154,782	288,170,350	885,325,132	620,192,979	299,708,199	919,901,178
9,371,256	-	9,371,256	9,222,687	-	9,222,687	10,181,822	-	10,181,822
597,447,065	278,878,686	876,325,751	606,377,469	288,170,350	894,547,819	630,374,801	299,708,199	930,083,000
-	2,178,782	2,178,782	-	(4,418,211)	(4,418,211)	-	(5,644,102)	(5,644,102)
-	(281,136)	(281,136)	-	(1,457,656)	(1,457,656)	-	(1,467,584)	(1,467,584)
(16,736,521)	15,209,929	(1,526,592)	(17,233,939)	15,284,898	(1,949,041)	(14,728,175)	12,447,592	(2,280,583)
-	-	-	-	(36,000,000)	(36,000,000)	-	-	-
$ (3,273,446)	$ 17,107,575	$ 13,834,129	$ 9,660,894	$ (26,590,969)	$ (16,930,075)	$ 2,687,738	$ 5,335,907	$ 8,023,645

Management Discussion and Analysis

During fiscal year 1999-2000, the Unrestricted Fund had a net increase of $2.7 million. Revenues to the Unrestricted Fund increased by $14.5 million mainly as a result of a $21.4 million increase in Commonwealth appropriations and a ($7.4) million decrease in revenues from other sources. Expenditures and mandatory transfers from the Unrestricted Fund increased by $24.0 million mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants. The Restricted Fund had a net increase of $5.5 million. Revenues to the Restricted Fund increased by $11.6 million, mainly as a result of increases in Federal grants and contracts. Expenditures and mandatory transfers from the Restricted Fund increased by $11.5 million, mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants.

During fiscal year 1998-99, the Unrestricted Fund had a net increase of $9.6 million. Revenues to the Unrestricted Fund increased by $22.3 million or 3.6% as a result of a $15.3 million increase in Commonwealth appropriations and an $8.3 million increase in revenues from other sources, notwithstanding a reduction of approximately $8 million in Commonwealth appropriations under Act No. 64 of June 24, 1969 ("Act 64"). See "COMMONWEALTH SUPPORT OF THE UNIVERSITY," below. Expenditures and transfers from the Unrestricted Fund increased by $8.9 million or 1.5%, mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants. The Restricted Fund had a net decrease of $26.5 million, as a consequence of a transaction between the University and Health Facilities and Services Administration (AFASS), in which the University acquired three hospital facilities in exchange for $36 million worth of receivables due the University from AFASS on the effective date of the transaction. AFASS obligations still outstanding after the transaction were assumed by the Puerto Rico Department of Health and are part of the $41.1 million receivable therefrom, which are included as accounts receivable in the Restricted Fund. Revenues to the Restricted Fund increased by $9.3 million or 3.3%, mainly as a result of (i) increases in Federal grants and contracts ($7.2 million), (ii) increases in revenues and medical practice ($6 million), and (iii) increases in private gifts, grants and contracts ($800,000). Expenditures and transfers from the Restricted Fund increased by $9.3 million or 3.3%, mainly as a result of increases in salaries, fringe benefits, equipment, travels, and grants.

During fiscal year 1997-1998, the Unrestricted Fund had a net decrease of $3,273,446 attributable mainly to the enactment of Act No. 156 approved by the Legislature of Puerto Rico on August 20, 1996, which increased the University's liability with respect to fringe benefits due to its employees (compensation for accumulated vacation time), and there was an increase in the legal reserve of $1.3 million. Revenues to the Unrestricted Fund during such fiscal year increased by $37.6 million or 6.5% as a result of a $40.5 million increase in Commonwealth appropriations and a $600,000 increase in tuition and fees revenues. Expenditures and transfers from the Unrestricted Fund increased by $41.2 million or 7.4%, mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants. The Restricted Fund had a net increase of $17,107,575. Revenues to the Restricted Fund increased by $31.4 million or 12.7%. This increase was a result mainly of (i) a $2.1 million increase in Federal grants and contracts, (ii) a $28.6 million increase in revenues from the University's medical practice and (iii) an $800,000 increase in tuition and fees revenues. Expenditures and transfers increased by $31.4 million or 12.7%, mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants.

During fiscal year 1996-1997, the Unrestricted Fund had a net increase of $1,787,555. Such net increase resulted from increased Unrestricted Fund revenues of $41.2 million or 7.7%, directly related to (i) an increase of $5.7 million in tuition and fees revenues, (ii) a $33.2 million increase in Commonwealth appropriations for the University, and (iii) a $3 million increase in revenues from other sources. Commencing with this fiscal year, the percentage of the Commonwealth General Fund revenues appropriated for the University increased from 9.33% to 9.6%. See "COMMONWEALTH SUPPORT OF THE UNIVERSITY," below. The whole amount of the increase, however, is restricted for use by the Agricultural Extension Service and the Agricultural Experimental Station of the University. Expenditures and transfers from the Unrestricted Fund increased by $56.9 million or 11.4%, mainly as a result of increases in salaries, fringe benefits, equipment, travel and grants. The Restricted Fund had a net increase of $1.4 million. Revenues to the Restricted Fund increased by $12.8 millions or 5.5% as a result of increases in Federal Grants and Contracts ($18.3 million) and in revenues from other sources ($3.8 million). Expenditures and transfers from the Restricted Fund increased by $12.8 millions or 5.5%. This increase is a main result of increases in salaries, fringe benefits, equipment, travel and grants.

During fiscal year 1995-1996, the Unrestricted Fund had a net increase of $4,082,878. Revenues to the Unrestricted Fund increased by $58.4 million or 12.3% as a result of (i) a $7.4 million increase in tuition and fees revenues, (ii) a $47.8 million increase in Commonwealth appropriations for the University and (iii) a $3 million increase in investment income. Expenditures and transfers increased by $59.8 million or 13.6% mainly a result of increases in salaries, fringe benefits, equipment, travel and grants. The Restricted Fund had a net increase of $4.4 million. Revenues to the

Restricted Fund increased by $17 million or 7.8% as a result of increases in Federal Grants and Contracts ($11.5 million) and Commonwealth appropriations ($4.9 million.) Expenditures and transfers from the Restricted Fund increased by $17 million or 7.8% attributable also to increases in salaries, fringe benefits, equipment, travel and grants.

Projected

The following table presents, for each of the fiscal years ending June 30, 2001, 2002 and 2003, the University's estimates of revenues and expenditures of and other changes in the restricted and unrestricted current funds of the University.

Unrestricted Commonwealth appropriations, the most important source of revenues of the current funds, are expected to increase to approximately $617,779,000 in fiscal 2001, $668,160,000 in fiscal 2002 and $707,786,000 in fiscal 2003, reflecting projected increases in Commonwealth internal revenues in those years. See "PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES" in the Commonwealth Report incorporated by reference to this Official Statement. Revenues from student tuition and fees, auxiliary enterprises and other sources and activities are expected, with minor exceptions, to remain stable in fiscal 2001, 2002 and 2003. See "PLEDGED REVENUES AND COVERAGE — Projected" in this Appendix B.

Educational and general expenditures of the current funds are projected to increase in fiscal 2001, 2002 and 2003, as the scope of operations increases approximately in accordance with projected increases in enrollments. Estimated expenditures also reflect annual salary increases and efforts to achieve tighter control of expenses of auxiliary enterprises. In addition, mandatory transfers for retirement of indebtedness will increase in each year reflecting the expansion of debt to finance capital improvements.

There can be no assurance that the current funds revenues actually received during the period covered by the table will not be lower than those shown or that expenditures and charges for such period will not vary from those shown.

UNIVERSITY OF PUERTO RICO

Projected Statements of Current Funds Revenues, Expenditures and Other Changes

	Fiscal Year Ending June 30, 2001 (in thousands)		
	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	$ 64,475	$ 6,805	$ 71,280
Commonwealth appropriations, grants and contracts	617,779	63,661	681,440
Federal grants and contracts	-	200,749	200,749
Private gifts, grants and contracts	-	10,208	10,208
Sales and services of educational departments	620	48,623	49,243
Sales and services of auxiliary enterprises	6,908	-	6,908
Investment income	6,000	3,402	9,402
Other sources	5,600	6,805	12,405
Total current revenues	701,382	340,253	1,041,635
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	275,736	29,515	305,251
Research	22,063	62,711	84,774
Public services	14,359	42,455	56,814
Academic support	74,636	8,660	83,296
Student services	37,698	2,413	40,111
Institutional support	114,457	5,234	119,691
Operation and maintenance of plants	85,112	483	85,595
Scholarships and fellowships	1,907	144,700	146,607
Hospitals	-	38,240	38,240
Independent operations	4	1,354	1,358
Other deductions	-	12,443	12,443
Subtotal Educational Expenditures	625,972	348,208	974,180
Mandatory transfers for:			
Principal and interest	39,128	-	39,128
Restricted current fund matching grants	7,956	(7,956)	-
Subtotal Educational and General	673,056	340,252	1,013,308
Auxiliary enterprises - expenditures	9,594	-	9,594
Total expenditures and mandatory transfers	682,650	340,252	1,022,902
Other transfers and additions/(deductions):			
Excess (deficit) of restricted receipts over transfers to revenues	-	(4,596)	(4,596)
Refunded to grantors	-	(1,516)	(1,516)
Nonmandatory transfers	(17,700)	17,700	-
Net increase in fund balances	$ 1,032	$ 11,589	$ 12,621

UNIVERSITY OF PUERTO RICO

Projected Statements of Current Funds Revenues, Expenditures and Other Changes

Fiscal Year Ending June 30, 2002 (in thousands)			Fiscal Year Ending June 30, 2003 (in thousands)		
Unrestricted	**Restricted**	**Total**	**Unrestricted**	**Restricted**	**Total**
$ 64,550	$ 7,393	$ 71,943	$ 64,675	$ 8,039	$ 72,714
668,160	67,722	735,882	707,786	68,342	776,128
-	218,108	218,108	-	237,142	237,142
-	11,091	11,091	-	12,058	12,058
650	54,271	54,921	680	57,174	57,854
6,958	-	6,958	7,008	-	7,008
6,000	3,697	9,697	6,000	4,019	10,019
5,900	7,679	13,579	6,200	8,039	14,239
752,218	369,961	1,122,179	792,349	394,813	1,187,162
293,106	32,024	325,130	319,013	34,746	353,759
23,784	68,041	91,825	25,805	73,825	99,630
15,479	46,064	61,543	16,794	49,979	66,773
80,458	9,397	89,855	85,297	10,195	95,492
40,638	2,618	43,256	44,093	2,841	46,934
123,385	5,679	129,064	127,673	6,162	133,835
91,751	524	92,275	96,549	568	97,117
2,056	153,999	156,055	2,231	162,967	165,198
-	44,490	44,490	-	45,272	45,272
5	1,469	1,474	5	1,594	1,599
-	13,771	13,771	-	14,942	14,942
670,662	378,076	1,048,738	717,460	403,091	1,120,551
44,505	-	44,505	44,494	-	44,494
8,115	(8,115)	-	8,277	(8,277)	-
723,282	369,961	1,093,243	770,231	394,814	1,165,045
9,786	-	9,786	9,982	0	9,982
733,068	369,961	1,103,029	780,213	394,814	1,175,027
-	(4,687)	(4,687)	-	(4,782)	(4,782)
-	(1,546)	(1,546)	-	(1,577)	(1,577)
(17,800)	17,800	-	(10,900)	10,900	-
$ 1,350	$ 11,567	$ 12,917	$ 1,236	$ 4,540	$ 5,776

Pension Plan

The University of Puerto Rico Retirement System (the "Retirement System"), a separate trust fund, administers a pension plan which provides retirement and death benefits for all employees. The fund is financed by fixed contributions by the University and the employees and by income from invested reserves. As of June 30, 2000, the date of the most recent actuarial valuation, the actuarial present value of accumulated plan benefits of the Retirement System was $1,212,559,037 and the actuarially computed unfunded accrued liability was $458,279,207.

In 1996, the University adopted Statement No. 27 of the Governmental Accounting Standards Board, "Accounting for Pensions by State and Local Governmental Employers" ("GASB No. 27"). Such adoption of GASB No. 27 was applied retroactively to July 1, 1994. GASB No. 27 establishes the measurement, recognition and disclosure of pension expenditures and related liabilities for governmental employers.

Although the University is supposed to contribute at an actuarially determined rate, which was determined to be 11.0% of the total payroll as of July 1, 2000, it actually contributed 15% during fiscal year 1999 and 14.3% during fiscal year 2000 and expects to contribute 14.6% of the total payroll during fiscal year 2001.

PLEDGED REVENUES AND COVERAGE

Historical

The following table presents the Pledged Revenues plus Reserve Account earnings for the five fiscal years ended June 30, 2000, and the ratio of such amounts to Principal and Interest Requirements for the University Senior Bonds.

HISTORICAL REVENUES AND DEBT SERVICE COVERAGE

	Fiscal Year Ended June 30				
	1996	1997	1998	1999	2000
	(dollars in thousands)				
Tuition fees	$53,744	$58,715	$59,260	$59,049	$58,876
Student fees	4,764	5,473	5,464	5,173	5,039
Rentals of residence facilities of the University System	952	1,022	1,191	1,237	1,254
Net bookstore receipts	1,221	1,076	810	488	504
Interest income(1)	6,891	7,212	6,419	6,119	6,311
Overhead allowance on Federal research projects	6,134	8,102	7,361	7,805	10,018
Other income(2)	38,282	35,651	35,053	27,666	3,335
Federal debt service grant payments(3)	311	246	0	0	0
Total Pledged Revenues	$112,299	$117,497	$115,558	$107,537	$85,337
Interest earned on Reserve Account	1,420	1,696	2,041	1,833	2,358
Total Pledged Revenues plus interest earned on Reserve Account	$113,719	$119,193	$117,599	$109,370	$ 87,695
UNIVERSITY SENIOR BONDS					
Principal and Interest Requirements	29,737	29,732	29,732	29,742	29,735
Debt Service Coverage Ratio(4)	3.82	4.01	3.96	3.68	2.95
Excess Pledged Revenues(5)	$ 83,982	$ 89,461	$ 87,867	$ 79,628	$57,960

(1) Represents earnings on investment of funds, excluding the Construction Fund and the Sinking Fund.

(2) Commencing with fiscal year 1999-2000, the University no longer receives any revenues under Act 64 or from slot machine operations. See "COMMONWEALTH SUPPORT OF THE UNIVERSITY" in this Appendix B.

(3) See footnote (1) to table under Principal and Interest Requirements.

(4) Ratio of Total Pledged Revenues plus interest earned on Reserve Account to Principal and Interest Requirements for the University Senior Bonds.

(5) Represents Pledged Revenues plus interest earned on the Reserve Account under the 1971 Trust Indenture less the amounts used to pay the debt service on the University Senior Bonds.

Projected

The following table presents the University's estimates of Pledged Revenues plus interest earned on the Reserve Account for each of the five fiscal years ending June 30, 2005, and the ratio of such projected amounts to Principal and Interest Requirements on the University Senior Bonds.

The University has no present intention of raising tuition fees or student fees during the period covered by the table, and it has been assumed that revenues from such fees will remain close to current levels in line with projected enrollment. See "UNIVERSITY OF PUERTO RICO — Student Enrollment" and "CAPITAL IMPROVEMENTS PROGRAM — Projected" in this Appendix B.

The estimates shown below are subject to periodic review and may be adjusted to reflect changes in interest rates, economic conditions in Puerto Rico and other factors. There can be no assurance that the Pledged Revenues actually received will not be lower than those shown below.

PROJECTED REVENUES AND DEBT SERVICE COVERAGE

	Fiscal Year Ended June 30				
	2001	2002	2003	2004	2005
	(dollars in thousands)				
Tuition fees	$59,250	$59,300	$59,400	$59,500	$59,600
Student fees	5,225	5,250	5,275	5,329	5,350
Rentals of residence facilities of the University System	1,300	1,300	1,300	1,300	1,500
Net Bookstore Receipts	500	500	500	500	500
Interest income [1]	6,000	6,000	6,000	6,000	6,000
Overhead allowance on Federal research projects	7,805	8,000	8,000	8,250	8,500
Other income	2,000	2,000	2,000	2,000	2,000
Federal debt service grant payments	0	0	0	0	0
Total Pledged Revenues	$82,080	$82,350	$82,475	$82,879	$83,450
Interest earned on Reserve Account	1,995	2,206	2,417	2,628	2,839
Total Pledged Revenues plus interest return earned on Reserve Account	$84,075	$84,556	$84,892	$85,507	$86,289
UNIVERSITY SENIOR BONDS					
Principal and interest requirements [2]	$41,830	$43,184	$43,175	$43,183	$38,070
Debt service coverage ratio[3]	2.01	1.96	1.97	1.98	2.27
Excess Pledged Revenues[4]	$42,245	$41,372	$41,717	$42,324	$48,219
UNIVERSITY SUBORDINATED OBLIGATIONS					
Debt service[5]	$ 2,325	$ 4,406	$ 4,406	$ 5,701	$ 5,701
Debt service coverage ratio[6]	18.17	9.39	9.47	7.42	8.46
SENIOR AND UNIVERSITY SUBORDINATED OBLIGATIONS					
Aggregate debt service[7]	$44,155	$47,590	$47,581	$48,884	$43,771
Aggregate debt service coverage ratio[8]	1.90	1.78	1.78	1.75	1.97

(1) Represents earnings on investment of funds, excluding the Construction Fund and the Sinking Fund (each, as defined under the 1971 Trust Agreement).

(2) Includes actual Principal and Interest Requirements for the University Senior Bonds.

(3) Ratio of Total Pledged Revenues plus interest earned on Reserve Account to Principal and Interest Requirements for the University Senior Bonds.

(4) Represents total Pledged Revenues plus interest earned on Reserve Account less principal and interest requirements for the University Senior Bonds.

(5) Basic rent payments due under the Lease Agreement; does not account for any other University Subordinated Obligations.

(6) Equals ratio of Excess Pledged Revenues available to pay University Subordinated Obligations to debt service on University Subordinated Obligations.

(7) Represents the sum of principal and interest requirements for the University Senior Bonds and debt service on University Subordinated Obligations for the fiscal year in question.

(8) Total Pledged Revenues plus interest earned on Reserve Account divided by aggregate debt service.

COMMONWEALTH SUPPORT OF THE UNIVERSITY

The University receives a high level of financial support from Puerto Rico for operating purposes. The major source of such support is Act No. 2 of 1966. Under Act No. 2 of 1966, Puerto Rico currently appropriates for the University an amount equal to 9.6% of the average total amount of annual revenues collected under the laws of Puerto Rico in the two fiscal years immediately preceding the current fiscal year. The 9.6% level will continue unless the Legislature of Puerto Rico determines otherwise (through the fiscal year ended June 30, 1996, the percentage had been 9.33% and through the fiscal year ended June 30, 1993 the percentage had been 9.00%). See "PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES" in the Commonwealth Report incorporated by reference to this Official Statement. In addition, Puerto Rico has in recent years appropriated additional restricted funds for loans and financial assistance to students.

Under Act 64, the University had been receiving 50% of the amounts remaining each fiscal year on deposit in the Educational Fund held by the Secretary of the Treasury of Puerto Rico after distribution of an amount not in excess of 15% of the total monies deposited in the Educational Fund for the annual operating expenses of the Council on Higher Education. The University also received a percentage of the income generated from slot machine operations in Puerto Rico. The amounts received by the University through fiscal year 1998-1999 from those sources are included as Other Income in the calculation of Pledged Revenues. Commencing with fiscal year 1999-2000, the University no longer receives any revenues under Act 64 or from slot machine operations. Although the University has not identified a specific source of revenues to replace the Act 64 and slot machine revenues, it has made corresponding adjustments to its budget and it does not anticipate that such reduction in revenues will affect its operations or Capital Improvements Program.

The following table shows the appropriations to the University from the government of Puerto Rico (including Act No. 2 and Act 64 appropriations) in each of the five fiscal years ended June 30, 2000, and the amounts estimated to be appropriated in the fiscal years ending June 30, 2001, 2002 and 2003.

COMMONWEALTH APPROPRIATIONS

Fiscal Year Ended June 30	Current Unrestricted Funds	Current Restricted Funds	Total Current Funds
	(in thousands)		
Actual			
1996	$ 455,768	$ 76,671	$ 532,439
1997	488,961	66,087	555,048
1998	529,487	66,116	595,603
1999	544,808	65,581	610,389
2000	566,226	55,435	621,661
Estimated			
2001	617,779[1]	63,661	681,440
2002	668,160[1]	67,722	735,882
2003	707,786[1]	68,342	776,128

(1) Expected to be appropriated under Act No. 2 of 1966.

In addition to the amounts shown above, the Legislature of Puerto Rico and the municipalities from time to time appropriate funds for specific capital improvements for the University. See "CAPITAL IMPROVEMENTS PROGRAM," below.

CAPITAL IMPROVEMENTS PROGRAM

Historical

Major capital improvements projects completed during the five-year period ended June 30, 2000 include: (i) a new $4.4 million, three-story, 33,930 square-foot Botanical Gardens, University Press and Newspaper Building located at the University's Central Administration; (ii) a new $25 million, four-story, reinforced concrete Chemistry Building at the Mayagüez Campus, which houses classrooms, research laboratories, offices and student services; (iii) several new facilities in Bayamón, which include a $5.6 million, two-story, 52,000 square-foot Library Building, a $2.2 million, 16,000 square-foot Sports Center with capacity for 550 persons, and a $600,000 Field Track, (iv) new facilities in Carolina, which include a $6.1 million, three-story, reinforced concrete building which houses biology, chemistry, physics and computer laboratories and a $3.2 million, 25,000 square-foot, two-story Operations and Maintenance Building and Automobile Technology Building; (v) in Arecibo, a new $5 million, two-story Library Building, accommodating student services, an audio-visual laboratory and administrative offices; and (vi) in Humacao, a new $8 million, 85,000 square foot, three-story Library Building, which, in addition to a traditional library, houses computer and communications laboratories.

The following table summarizes the capital improvements of the University and their funding sources for the five fiscal years ended June 30, 2000.

HISTORICAL CAPITAL IMPROVEMENTS PROGRAM

	Fiscal Year Ended June 30,					
	1996	1997	1998	1999	2000	Total
	(in thousands)					
Capital improvements(1)						
Central Administration	$5,801	$5,702	$14,036	$9,173	$4,576	$39,287
Río Piedras Campus	6,292	7,566	7,529	11,100	13,899	46,386
Mayagüez Campus	4,262	5,707	3,503	4,132	10,430	28,035
Medical Sciences Campus	1,118	4,660	5,987	9,324	3,046	24,135
University of Puerto Rico at						
Aguadilla	182	214	813	1,901	1,242	4,352
Arecibo	1,577	3,450	1,840	722	280	7,869
Bayamón	3,316	2,604	2,141	1,984	895	10,940
Carolina	1,741	4,259	3,522	541	605	10,668
Cayey	1,265	1,211	1,453	3,478	3,002	10,409
Humacao	2,054	2,292	1,516	2,140	3,659	11,661
Ponce	652	1,086	1,756	546	814	4,854
Utuado	322	580	586	548	414	2,450
Regional College Administration	147	254	226	153	0	780
Total	$28,729	$39,585	$44,908	$45,742	$42,862	$201,826
Sources of funds						
Internally generated funds(2)	$ 540	$ 1,400	$ 734	$ 536	$ 1,368	$ 4,578
Grants:						
Commonwealth grants(3)	1,639	3,530	472	6,385(5)	7,533	19,560
Federal grants	296	88	256	412	567	1,619
Insurance proceeds	80	0	5	0	41	125
Private Contributions	11	8	49	52	75	195
Borrowed funds(4)	26,163	34,559	43,392	38,357	33,278	175,749
Total	$28,729	$39,585	$44,908	$45,742	$42,862	$201,826

(1) Excluding expenditures of current funds for the normal replacement of movable equipment and library books, as well as interest during construction, but including major repairs and extraordinary maintenance.

(2) Used for major repairs and extraordinary maintenance.

(3) Includes grants from Puerto Rico, municipalities and other governmental entities or instrumentalities of Puerto Rico.

(4) Includes $90.6 million proceeds from the sale of the University's Series M Bonds and monies borrowed under a Government Development Bank for Puerto Rico line of credit.

(5) Includes grant monies allocated to the University in fiscal-year 1997-1998 but spent in fiscal year 1998-1999 as well as monies allocated and spent in fiscal year 1998-1999.

Projected

The Capital Improvements Program of the University for the five-year period from July 1, 2000 to June 30, 2005 includes the construction of new facilities, the renovation and rehabilitation of existing structures and the development of infrastructure. During such five year period the University plans to invest approximately $204.9 million in capital improvements projects, approximately 89% of which will be financed from borrowed funds and lines of credit.

The University's master development plan (the "Master Plan"), which was commissioned by the President of the University and its Chancellors and is subject to Board approval, is a blueprint designed to direct the future growth of and to establish organizational and design principles for each of the University's campuses. It reviews existing facilities, determines types of uses to be developed, and provides phasing and implementation strategies for the future. The Master Plan serves as a roadmap for the Capital Improvements Program; any exceptions to the Master Plan are subject to specific approval by the Board. To date, the Master Plan has been completed and approved by the Board for the Río Piedras, Mayagüez, Medical Sciences and Bayamón campuses.

The following table summarizes currently planned capital improvements and the estimated sources of funds for such improvements for the five fiscal years ending June 30, 2005.

PROJECTED CAPITAL IMPROVEMENTS PROGRAM

	Fiscal Year Ending June 30					
	2001	**2002**	**2003**	**2004**	**2005**	**Total**
			(in thousands)			
Capital Improvements:(1)						
Central Administration	$ 1,860	$ 1,526	$ 0	$ 0	$ 0	$ 3,386
Río Piedras Campus	11,506	17,084	13,436	7,746	3,367	53,139
Mayagüez Campus	6,828	19,557	4,866	5,000	0	36,251
Medical Sciences Campus	3,183	7,042	4,812	4,112	3,888	23,037
University of Puerto Rico at						
Aguadilla	1,089	0	0	0	0	1,089
Arecibo	0	600	0	0	0	600
Bayamón	8,414	16,303	12,805	2,000	0	39,522
Carolina	350	1,000	698	0	50	2,098
Cayey	5,771	4,618	2,100	0	0	12,489
Humacao	1,789	1,280	693	2,207	0	5,969
Ponce	1,085	0	0	0	0	1,085
Utuado	100	1,000	2,900	1,000	0	5,000
Special Projects	3,875	5,898	2,973	4,000	4,500	21,246
Total	$45,850	$75,908	$45,283	$26,065	$11,805	$204,911
Sources of funds:(2)						
Borrowed funds(3)	$41,450	$71,508	$40,883	$21,665	$7,405	$182,911
Commonwealth grants	3,600	3,600	3,600	3,600	3,600	18,000
Federal grants	800	800	800	800	800	4,000
Total	$45,850	$75,908	$45,283	$26,065	$11,805	$204,911

(1) Excluding expenditures for major repairs and extraordinary maintenance and expenditures of restricted current funds for normal replacement of movable equipment and library books, as well as interest during construction.

(2) Extraordinary repairs and maintenance, which are funded from internally generated funds, are not included in this table.

(3) Includes proceeds from the sale of the University Senior Bonds.

Included in the table are ongoing and new projects having various completion dates. Estimated capital improvement costs reflect, among other factors, construction contingency allowances of approximately 3.6%. Approximately 42% of projected capital improvement expenditures are for the purpose of upgrading facilities or to correct plant deficiencies and the remaining 58% for expansion of or new facilities.

The major capital improvement projects planned for the Río Piedras Campus are a new $17 million, 104,000 square-foot, two-story building to house the School of Architecture, which will include classrooms, exhibit spaces, an architecture library and technology components for the school's curriculum, as well as a 200-seat auditorium, design studios and faculty and administration office space. The Natural Sciences Research Department will also be moved to a new 231,000 square-foot building expected to cost approximately $40 million, which will be funded with a combination of University, Federal grant and private sector funds. The first phase of this project, a 12,000 square-foot laboratory, is expected to cost $2 million. Other projects planned for the Río Piedras campus include a new five-level, 900-space parking building next to the Sports Center and a new Social Work Building, among others.

At the Mayagüez Campus construction of a new $24.4 million, four-story, 200,000 square-foot Biology Building is in progress and will include a research and teaching laboratory, administrative office space, faculty and research office space , class and computer rooms and other student facilities. Plans for a new $10.5 million, 80,000 square-foot, four-story Business Administration Department building are being revised in order to begin construction. Renovation and improvements to add 20,000 square feet to the existing Mechanical Engineering facilities at Mayagüez, at a cost of $2 million, are also expected to commence during this period.

Construction of a $15.1 million, seven-level, 1,600 space parking structure at the Medical Sciences Campus is underway. Plans have begun for the design and construction of a new Pharmacy and Learning Center, conceived as the centerpiece of the Medical Sciences Campus. It is expected to comprise 100,000 square feet of state-of-the-art teaching facilities and office space for both the Campus and the School of Pharmacy and is projected to cost approximately $16.2 million. Renovation and improvements are in progress at the Campus' animal care facility as well as major repairs to its air conditioning system and are expected to cost $6 million.

A new $5.2 million, 115,000 square-foot Natural Sciences Building is under construction at the Cayey Campus, while at Aguadilla a 44,000 square-foot Information Services facility, costing approximately $5.2 million, is near completion. Utuado will commence construction of a new library. In Ponce a multi-level parking structure is being built and a gym is nearing completion.

The Bayamón campus will start construction of its new 83,000 square-foot Student Center with two parking lots providing about 2,000 parking spaces. This phase also includes an Energy Center, Computer and Engineering and Natural Sciences Buildings with a total cost of approximately $42 million.

At Carolina, a multi-use building comprising a gym and office space for academic and administrative endeavors is under design.

The capital improvements program is subject to periodic review and adjustment to reflect changes in the University's goals, construction costs, grants and other factors.

In addition to projects contemplated by the Capital Improvements Program, the University intends to lease certain facilities within the Project, as described in this Official Statement.

APPENDIX C

Audited Financial Statements

University of Puerto Rico

June 30, 2000

University of Puerto Rico

Audited Financial Statements

June 30, 2000

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Ernst & Young

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Report of Independent Auditors

Board of Trustees
University of Puerto Rico

We have audited the accompanying balance sheets of the University of Puerto Rico (the University), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2000 and 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended, and the statements of activities and changes in net assets, and cash flows for the discretely presented component unit for the year ended June 30, 2000 and the period from March 12 to June 30, 1999. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, 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, 2000 and 1999, and the changes in its fund balances, and its current fund revenues, expenditures and other changes for the years then ended, and changes in net assets, and cash flows for the discretely presented component unit for the year ended June 30, 2000 and the period from March 12 to June 30, 1999 in conformity with generally accepted accounting principles.

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 other financial information included in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2000 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GAS and should be read in conjuction with this report in considering the results of our audit.

Ernst + Young LLP

September 30, 2000

Stamp No. 1676664
affixed to
original
of this report.

University of Puerto Rico

Balance Sheets

	June 30 2000	June 30 1999
Assets		
Current funds:		
Unrestricted:		
Cash and cash equivalents	$ 69,693,509	$ 79,041,480
Accounts receivable from students, less allowance for doubtful accounts of $1,444,600 in 2000 and $1,430,883 in 1999	1,199,443	1,193,299
Other accounts receivable, less allowance for doubtful accounts of $3,842,870 in 2000 and $2,241,520 in 1999	2,724,161	2,670,816
Due from Commonwealth of Puerto Rico	18,042	16,519
Due from other funds	57,902,891	39,111,740
Due from discretely presented component unit	-	2,700,000
Inventories	5,015,250	5,686,811
Other assets	74,528	66,635
Total unrestricted	136,627,824	130,487,300
Restricted:		
Cash equivalents	966,254	272,281
Investments	1,565,158	1,719,063
Accounts receivable, less allowance for doubtful accounts of $23,636,019 in 2000 and $34,188,962 in 1999	86,849,070	67,935,084
Due from Federal Government	17,452,952	12,637,522
Inventories	58,667	62,827
Total restricted	106,892,101	82,626,777
Total current funds	$243,519,925	$213,114,077
Loan funds:		
Cash	$ 2,687,860	$ 2,095,711
Investments	856,388	-
Loans to students, less allowance for loan losses of $10,574,912 in 2000 and $2,024,878 in 1999	1,052,637	1,387,675
Total loan funds	$ 4,596,885	$ 3,483,386

	2000	1999
Liabilities and Fund Balances		
Current funds:		
Unrestricted:		
Accounts payable and accrued expenses	$116,170,202	$110,017,416
Note payable	-	2,700,000
Fund balance	20,457,622	17,769,884
Total unrestricted	136,627,824	130,487,300
Restricted:		
Accounts payable and accrued expenses	24,480,034	23,741,768
Due to other funds	57,302,891	39,111,740
Fund balance	25,109,176	19,773,269
Total restricted	106,892,101	82,626,777
Total current funds	$243,519,925	$213,114,077
Loan funds:		
Fund balances:		
U.S. Government grants refundable	$ 2,217,392	$ 2,277,647
University funds-restricted	2,379,493	1,205,739
Total fund balances	4,596,885	3,483,386
Total loan funds	$ 4,596,885	$ 3,483,386

See accompanying notes.

University of Puerto Rico

Balance Sheets - Continued

	June 30 2000	June 30 1999
Assets		
Endowment and similar funds:		
Cash and cash equivalents	$ 3,334,989	$ 1,480,827
Investments	20,200,463	18,203,586
Accounts receivable	243,670	118,557
Total endowment and similar funds	$ 23,779,122	$ 19,802,970
Plant funds:		
Unexpended:		
Cash and cash equivalents	$ 8,848,407	$ 1,723,080
Account receivable – other	885,595	-
Total unexpended	9,734,002	1,723,080
Renewal and replacement:		
Cash	18,582,118	9,844,850
Account receivable	-	15,000,000
Total renewal and replacement	18,582,118	24,844,850
Retirement of indebtedness:		
Cash and cash equivalents	877	85,040
Investments	36,730,448	33,265,586
Interest receivable	358,506	426,841
Total retirement of indebtedness	37,089,831	33,777,467
Investment in plant:		
Land	34,095,872	32,218,593
Buildings	357,954,269	333,152,065
Site improvements	52,073,824	44,828,703
Equipment and library books, net of accumulated depreciation of $1,152,077 in 2000 and $1,062,103 in 1999	246,342,880	249,226,120
Construction in progress	122,570,377	113,195,248
Deferred issuance costs	2,424,351	2,532,455
Total investment in plant	815,461,573	775,153,184
Total plant funds	$880,867,524	$835,498,581

	June 30	
	2000	1999
Liabilities and Fund Balances		
Endowment and similar funds:		
Accounts payable	$ 153,927	$ -
Fund balance:		
Endowment	3,141,785	2,726,670
Term endowment	20,130	-
Quasi-endowment, unrestricted	20,463,280	17,076,300
Total endowment and similar funds	$ 23,779,122	$ 19,802,970
Plant funds:		
Unexpended:		
Accounts payable	$ 14,854,466	$ 12,932,714
Fund deficit	(5,120,464)	(11,209,634)
Total unexpended	9,734,002	1,723,080
Renewal and replacement:		
Reserve for future replacements	17,476,235	24,404,780
Due from other funds	600,000	-
Fund balance	505,883	440,070
Total renewal and replacement	18,582,118	24,844,850
Retirement of indebtedness:		
Interest payable	1,460,188	1,516,949
Account payable	-	844,735
Fund balance	35,629,643	31,415,783
Total retirement of indebtedness	37,089,831	33,777,467
Investment in plant:		
Note payable	74,929,040	36,151,632
Bonds payable	287,741,185	300,756,788
Net investment in plant	452,791,348	438,244,764
Total investment in plant	815,461,573	775,153,184
Total plant funds	$880,867,524	$835,498,581

See accompanying notes.

University of Puerto Rico

Balance Sheets - Continued

	June 30 2000	June 30 1999
Assets		
Agency funds:		
Cash	$ 18,981	$ 16,505
Investments	30,201,673	25,340,802
Total agency funds	$30,220,654	$25,357,307
Discretely presented component unit (Servicios Médicos Universitarios, Inc.):		
Current assets:		
Cash	$ -	$ 437,865
Receivables:		
Patient accounts receivable, less allowance for doubtful accounts of $7,597,306 in 2000 and $108,860 in 1999	4,017,073	3,052,740
Other receivables	1,638,942	171,344
	5,656,015	3,224,084
Inventories	709,654	728,541
Prepaid expenses	434,859	379,026
Total current assets	6,800,528	4,769,516
Property and equipment:		
Building improvements	209,611	-
Machinery and equipment	2,432,768	168,148
Construction in progress	280,181	-
	2,922,560	168,148
Less accumulated depreciation and amortization	(583,380)	(28,584)
	2,339,180	139,564
Total discretely presented component unit	$9,139,708	$ 4,909,080

	June 30 2000	1999
Liabilities and fund balances		
Agency funds:		
Accounts payable and accrued expenses	$ 11,554	$ 9,693
Deferred compensation payable	30,201,673	25,340,802
Assets held in custody for others	7,427	6,812
Total agency funds	$ 30,220,654	$25,357,307
Discretely presented component unit (Servicios Médicos Universitarios, Inc.):		
Current liabilities:		
Bank overdraft	$ 129,385	$ -
Accounts payable	7,789,728	3,719,318
Accrued expenses	5,006,707	291,900
Interest payable	310,474	-
Current portion of capital lease obligation	162,245	-
Current long-term debt	147,527	-
Total current liabilities	13,546,066	4,011,218
Capital lease obligation, less current portion	822,695	-
Long-term debt, less current portion	9,657,673	-
Due to primary government	-	2,700,000
Total liabilities	24,026,434	6,711,218
Deficiency in unrestricted net assets	(14,886,726)	(1,802,138)
Total discretely presented component unit	$ 9,139,708	$ 4,909,080

See accompanying notes.

University of Puerto Rico
Statements of Changes in Fund Balances
Years ended June 30, 2000 and 1999

	2000							
	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment In Plant
Revenues and other additions:								
Unrestricted current fund revenues	$ 647,790,714	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commonwealth of Puerto Rico appropriations, grants and contracts	-	49,790,776	-	-	810,000	-	-	-
Federal grants and contracts	-	177,229,824	-	-	277,846	-	-	-
Private gifts, grants and contracts	-	10,123,368	-	420,380	-	-	-	-
Investment income	-	184,742	37,335	3,387,429	71,704	-	2,223,296	-
Interest on loans receivable	-	-	653,867	-	-	-	-	-
Expended for plant facilities, including $31,877,900 charged to current expenditures	-	-	-	-	2,969,702	7,022,881	-	32,920,504
Retirement of indebtedness	-	-	-	-	-	-	-	14,652,000
Other	-	56,735,388	3,137,250	-	356,505	19,992	-	-
Total revenues and other additions	647,790,714	294,064,098	3,828,452	3,807,809	4,485,757	7,042,873	2,223,296	47,572,504
Expenditures and other deductions:								
Educational and general expenditures	579,498,535	305,738,597	-	-	-	-	-	-
Auxiliary enterprises expenditures	10,181,822	-	-	-	-	-	-	-
Refunded to grantors	-	1,467,584	41,320	-	-	-	-	-
Loan cancellations and assignments	-	-	2,354,506	-	-	-	-	-
Administrative and collection costs	-	-	5,608	-	-	-	-	-
Expended for plant facilities	-	-	-	-	-	6,964,060	-	4,071,127
Retirement of indebtedness	-	-	-	-	-	-	14,652,000	-

University of Puerto Rico
Statements of Changes in Fund Balances (continued)
Years ended June 30, 2000 and 1999

	2000							
	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment In Plant
Interest on indebtedness	-	-	-	-	-	-	18,021,482	-
Disposal of plant facilities	-	-	-	-	-	-	-	28,738,708
Other	-	-	989,273	-	-	-	-	216,085
Total expenditures and other deductions	589,680,357	307,206,181	3,390,707	-	-	6,964,060	32,673,482	33,025,920
Transfers among funds - additions/(deductions):								
Mandatory:								
Principal and interest	(34,664,046)	-	-	-	-	-	34,664,046	-
Restricted current matching grants	(6,030,398)	6,030,398	-	-	-	-	-	-
Other transfers:								
Unrestricted current funds	(14,728,175)	12,447,592	675,754	14,416	1,603,413	(13,000)	-	-
Total transfers	(55,422,619)	18,477,990	675,754	14,416	1,603,413	(13,000)	34,664,046	-
Net increase for the year	2,687,738	5,335,907	1,113,499	3,822,225	6,089,170	65,813	4,213,860	14,546,584
Fund balances (deficit) at the beginning of year	17,769,884	19,773,269	3,483,386	19,802,970	(11,209,634)	440,070	31,415,783	438,244,764
Fund balances (deficit) at end of year	$20,457,622	$25,109,176	$4,596,885	$23,625,195	$(5,120,464)	$505,883	$35,629,643	$452,791,348

See accompanying notes.

University of Puerto Rico
Statements of Changes in Fund Balances
Years ended June 30, 2000 and 1999

	1999							
	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment In Plant
Revenues and other additions:								
Unrestricted current fund revenues	$633,272,302	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commonwealth of Puerto Rico appropriations, grants and contracts	-	61,162,862	-	-	-	-	-	-
Federal grants and contracts	-	164,723,927	-	-	533,704	-	-	-
Private gifts, grants and contracts	-	9,639,783	-	1,233,741	-	-	-	-
Investment income	-	170,656	36,056	2,005,262	136,104	-	1,724,334	-
Interest on loans receivable	-	-	100,768	-	-	-	-	-
Expended for plant facilities, including $28,639,347 charged to current expenditures	-	-	-	-	-	-	-	34,101,541
Retirement of indebtedness	-	-	-	-	-	-	-	13,878,000
Other	-	48,054,911	78,003	-	-	19,835	-	-
Total revenues and other additions	633,272,302	283,752,139	214,827	3,239,003	669,808	19,835	1,724,334	47,979,541
Expenditures and other deductions:								
Educational and general expenditures	558,293,234	295,567,201	-	-	-	-	-	-
Auxiliary enterprises expenditures	9,222,687	-	-	-	-	-	-	-
Refunded to grantors	-	1,457,656	844,712	-	-	-	545,259	-
Loan cancellations and assignments	-	-	71,502	-	-	-	-	-
Administrative and collection costs	-	-	8,605	-	-	-	-	-
Expended for plant facilities	-	-	-	-	4,014,034	-	-	1,501,510
Retirement of indebtedness	-	-	-	-	-	-	13,878,000	-

University of Puerto Rico
Statements of Changes in Fund Balances (continued)
Years ended June 30, 2000 and 1999

	1999							
	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment In Plant
Interest on indebtedness	-	-	-	-	-	-	16,553,695	-
Disposal of plant facilities	-	-	-	-	-	-	-	12,207,785
Other	-	-	-	-	-	-	-	173,811
Total expenditures and other deductions	567,515,921	297,024,857	924,819	-	4,014,034	-	30,976,954	13,883,106
Transfers among funds - additions/(deductions):								
Mandatory:								
Principal and interest	(31,214,697)	-	-	-	-	-	31,214,697	-
Restricted current matching grants	(7,646,851)	7,396,851	-	-	-	-	-	-
Other transfers:								
Other funds	-	(36,000,000)	-	-	-	-	-	36,000,000
Unrestricted current funds	(17,233,939)	15,284,898	(40)	17,445	1,438,944	(2,039)	494,731	-
Total transfers	(56,095,487)	(13,318,251)	(40)	17,445	1,438,944	(2,039)	31,709,428	36,000,000
Net increase (decrease) for the year	9,660,894	(26,590,969)	(710,032)	3,256,448	(1,905,282)	17,796	2,456,808	70,096,435
Fund balances (deficit) at the beginning of year	8,108,990	46,364,238	4,193,418	16,546,522	(9,304,352)	422,274	28,958,975	368,148,329
Fund balances (deficit) at end of year	$ 17,769,884	$ 19,773,269	$ 3,483,386	$ 19,802,970	$ (11,209,634)	$ 440,070	$ 31,415,783	$438,244,764

See accompanying notes.

University of Puerto Rico
Statements of Current Funds Revenues, Expenditures, and Other Changes
Years ended June 30, 2000 and 1999

	2000			1999		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues:						
Tuition and fees	$ 63,915,059	$ 5,709,994	$ 69,625,053	$ 64,222,478	$ 5,260,539	$ 69,483,017
Commonwealth of Puerto Rico appropriations, grants and contracts	566,226,000	55,434,878	621,660,878	544,808,000	65,581,073	610,389,073
Federal grants and contracts	-	177,229,824	177,229,824	-	164,723,927	164,723,927
Private gifts, grants and contracts	-	10,123,368	10,123,368	-	9,639,783	9,639,783
Sales and services of education departments	823,442	35,166,408	35,989,850	559,746	39,203,521	39,763,267
Sales and services of auxiliary enterprises	7,155,929	-	7,155,929	6,843,799	-	6,843,799
Investment income	6,311,070	184,742	6,495,812	6,118,543	170,656	6,289,199
Other sources	3,359,214	15,858,986	19,218,200	10,719,736	3,590,851	14,310,587
Total current revenues	647,790,714	299,708,200	947,498,914	633,272,302	288,170,350	921,442,652
Expenditures and mandatory transfers:						
Educational and general expenditures:						
Instruction	252,626,553	25,131,649	277,758,202	245,626,379	25,071,777	270,698,156
Research	20,304,811	59,492,786	79,797,597	19,651,154	53,270,585	72,921,739
Public service	12,901,748	32,487,758	45,389,506	12,788,568	36,063,622	48,852,190
Academic support	67,337,949	5,929,745	73,267,694	66,478,554	7,357,336	73,835,890
Student services	33,381,024	2,800,306	36,181,330	33,577,300	2,050,050	35,627,350
Institutional support	105,491,996	5,280,378	110,772,374	102,660,028	4,445,609	107,105,637
Operation and maintenance of plant	80,675,297	442,182	81,117,479	75,809,250	409,898	76,219,148
Scholarships and fellowships	1,718,762	125,046,427	126,765,189	1,698,124	122,916,052	124,614,176
Hospitals	-	32,035,104	32,035,104	-	32,482,894	32,482,894
Independent operations	22,157	1,537,162	1,559,319	3,877	1,150,292	1,154,169
Other deductions	5,038,238	15,555,100	20,593,338	-	10,349,086	10,349,086
Educational and general expenditures	579,498,535	305,738,597	885,237,132	558,293,234	295,567,201	853,860,435

University of Puerto Rico
Statements of Current Funds Revenues, Expenditures, and Other Changes (continued)
Years ended June 30, 2000 and 1999

	2000			1999		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Mandatory transfers:						
Principal and interest	34,664,046	-	34,664,046	31,214,697	-	31,214,697
Restricted current fund matching grants	6,030,398	(6,030,398)	-	7,646,851	(7,396,851)	250,000
Total educational and general expenditures and mandatory transfers	620,192,979	299,708,199	919,901,178	597,154,782	288,170,350	885,325,132
Auxiliary enterprises - expenditures	10,181,822	-	10,181,822	9,222,687	-	9,222,687
Total educational and mandatory transfers	630,374,801	299,708,199	930,083,000	606,377,469	288,170,350	894,547,819
Other transfers and additions/(deductions):						
Excess/(deficit) of restricted receipts over transfers to revenues	-	(5,644,102)	(5,644,102)	-	(4,418,211)	(4,418,211)
Refunded to grantors	-	(1,467,584)	(1,467,584)	-	(1,457,656)	(1,457,656)
Nonmandatory transfers	(14,728,175)	12,447,592	(2,280,583)	(17,233,939)	15,284,898	(1,949,041)
Other	-	-	-	-	(36,000,000)	(36,000,000)
Net increase (decrease) in fund balances	$ 2,687,738	$ 5,335,907	$ 8,023,645	$ 9,660,894	$ (26,590,969)	$ (16,930,075)

See accompanying notes.

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

Statements of Activities and Changes in Net Assets

	Year ended June 30, 2000	Period from March 12, 1999 to June 30, 1999
Revenues:		
Net patient service revenue	$29,765,921	$ 5,044,536
Other revenue	890,914	82,374
Total revenues	30,656,835	5,126,910
Expenses:		
Salaries and benefits	13,259,870	2,503,289
Contract labor	3,681,507	1,854,731
Professional fees	4,586,144	625,209
Supplies	6,378,223	487,666
Utilities	1,626,904	218,037
Management fees	1,333,334	509,409
Depreciation and amortization	554,797	28,584
Provision for doubtful accounts	8,730,807	108,860
Other	4,550,750	593,263
Total expenses	44,702,336	6,929,048
Decrease in unrestricted net assets from operations	(14,045,501)	(1,802,138)
Interest expense	539,087	-
Decrease in unrestricted net assets	(14,584,588)	(1,802,138)
Gain on early extinguishment of debt with a related party	1,500,000	-
Net assets at beginning of period	(1,802,138)	-
Deficiency in unrestricted net assets at end of period	$(14,886,726)	$(1,802,138)

See accompanying notes.

Discretely Presented Component Unit
(Servicios Médicos Universitarios, Inc.)
Statements of Cash Flows

	Year ended June 30, 2000	Period from March 12, 1999 to June 30, 1999
Cash flows from operating activities		
Decrease in unrestricted net assets from operations	$(14,045,501)	$ (2,044,772)
Adjustments to reconcile decrease in unrestricted net assets from operations to net cash used in operating activities:		
Depreciation and amortization	554,797	28,584
Interest	(539,087)	-
Provision for doubtful accounts	8,730,807	108,860
Changes in operating assets and liabilities:		
Receivables	(11,162,738)	(3,332,944)
Inventories	18,887	(710,541)
Prepaid expenses	357,395	(379,026)
Accounts payable	3,657,182	3,839,753
Accrued expenses	4,430,653	396,099
Interest payable	310,474	-
Net cash used in operating activities	(7,687,131)	(2,093,987)
Cash flows from capital and related financing activities		
Purchases of equipment	(1,103,964)	(168,148)
Payments under capital lease obligation	(66,209)	-
Payments under equipment finance agreement	(144,648)	-
Net cash used in capital and related financing activities	(1,314,821)	(168,148)
Cash flows from non capital financing activities		
Net borrowing under line-of-credit agreement	9,634,702	-
Bank overdraft	129,385	-
Payments to the University of Puerto Rico	(2,700,000)	-
Advances from University of Puerto Rico	1,500,000	2,700,000
Net cash provided by non capital and related activities	8,564,087	2,700,000
Net (decrease) increase in cash	(437,865)	437,865
Cash at beginning of the period	437,865	-
Cash at the end of the period	$ -	$ 437,865
Supplemental disclosure of cash flow information:		
Interest paid	$ 228,613	$ -
Supplemental noncash disclosure of financing activities:		
Capital lease obligations for equipment acquired	$ 1,051,149	$ -
Insurance policy premium financed	$ 413,228	$ -
Acquisition of equipment, $315,846 was financed and $284,154 included in accrued expenses.	$ 600,000	$ -

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 original members were appointed by the Governor 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 and is presented as a public university fund in the general purpose financial statements of the Commonwealth.

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

Appropriations from the Commonwealth are the principal source of revenues of the University and are supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. Other appropriations are received under various laws which assign certain percentages of Commonwealth revenues obtained from racetrack pari - mutual bets and a certain percentage of net income from slot machine operations. In addition, the Commonwealth has appropriated amounts for general current obligations for capital improvement programs, and for loans and financial assistance to students.

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

Servicios Médicos Universitarios, Inc.:

During March 1999, the University purchased three hospital facilities and created a separate non-profit corporation, "Servicios Médicos Universitarios, Inc." (the Hospital), which is fiscally dependent on the University, to operate and administer the three facilities acquired by the University. The Hospital will become the primary medical education institution of the University and will offer health services to the people of Puerto Rico. The Hospital is legally separated from the University and is governed by a separate board. Complete financial statements of Servicios Médicos Universitarios, Inc. can be obtained directly by contacting the Hospital's administrative offices.

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

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

Basis of Presentation

The financial statements of the University of Puerto Rico have been prepared on the accrual basis of accounting following the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants, Industry Audit Guide - Audits of Colleges and Universities, as amended. Such guidance is in accordance with generally accepted accounting principles. Depreciation is provided on equipment used on auxiliary enterprises. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present either the results of operations nor the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

Interest revenue on loans in the loan funds is recognized as revenue when collected, as the amounts involved are not significant.

Basis of Presentation - Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available to the University, its accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. Within each fund group, fund balances restricted by external sources are so indicated and are distinguished from unrestricted funds allocated for specific purposes by action of the University's Administration.

Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the University's Administration retains full control of their use in achieving any of its institutional purposes.

Endowment funds are subject to restrictions requiring that the principal be invested in perpetuity and only the income be utilized. While quasi-endowment funds have been established by the University's Administration for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

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

Basis of Presentation - Fund Accounting (continued)

To the extent that the current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest; and (3) transfers of a nonmandatory nature in all other cases.

All other unrestricted revenues are accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The responsibility of the University for the management, accounting and reporting for agency funds is only that of fiscal agent.

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, 2000 and 1999, cash equivalents of $114,888,658 and $119,540,463, respectively, consist of certificates of deposit and time deposits.

As of June 30, 2000 and 1999, the Board of Trustees has designated cash equivalents and investments in excess of liabilities and open commitments for the future development of the University's activities, such as the capital improvement program, academic support, and research and development. Therefore, the funds are not available for other uses other than those for which they are designated. The Board of Trustees has the power to redesignate these funds as it may consider necessary.

Investments

Investments are reported at fair value in the balance sheet. The changes in the fair value of investments are reported in the statement of changes in fund balances and current fund revenues, expenditures and other charges.

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.

Investment in Plant

Physical plant and equipment are stated at cost or fair value as of date of donation in the case of gifts. Interest costs for fixed asset construction are capitalized. Interest capitalized amounted to approximately $7,642,211 and $1,585,065 during 2000 and 1999, respectively.

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

Investment in Plant (continued)

Depreciation on physical plant and equipment is not recorded, except for equipment in auxiliary enterprises. Depreciation is computed on a straight line basis over the estimated useful lives of the related equipment.

Inventories

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

Encumbrances

Encumbrances represent outstanding purchase orders, contracts and other commitments for services not received. Encumbrances are not reported as reserves of fund balance in the current funds at year-end since they do not constitute expenditures or liabilities.

Reserve for encumbrances of the current unrestricted fund balance amounted to $16,296,842 and $14,862,714 at June 30, 2000 and 1999, respectively. Reserve for encumbrances of the current restricted fund balance amounted to $14,134,272 and $13,330,281 at June 30, 2000 and 1999, respectively.

Interfund Borrowings

Interfund borrowings represent temporary advances between the various funds of the University. These borrowings are payable currently and without interest.

Bond Premium/Discount and Deferred Issuance Costs

Bond premium and/or discount and deferred issuance costs are presented in the net investment in plant. These 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),

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

Deferred Compensation Plan (continued)

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, 2000 and 1999, the cost of the excess of 90 days of the accumulated sick leave was $5,641,018 and $5,177,401, respectively.

2. Cash

All the operating cash of the University and its Retirement System (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.

2. Cash (continued)

As of June 30, 2000 and 1999, the carrying value of cash and cash equivalents amounted to $103,746,501 and $93,859,726, respectively, and the cash deposited in the banks amounted to $121,219,288 and $127,083,622, respectively. The University's deposits are the following:

	June 30	
	2000	**1999**
Insured by the United States and Puerto Rico insurance Corporations or collateralized by securities pledged with the Department of the Treasury (University's agent)	$ 57,951,779	$ 55,988,973
Uncollateralized (mainly deposits in GDB and EDB)	63,267,509	71,094,649
	$121,219,288	$127,083,622

3. Investments

Investments of endowment and similar funds and plant funds - retirement of indebtedness consist of the following:

	June 30			
	2000		**1999**	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Endowment and similar funds:				
Certificates of deposit	$ 1,022,452	$ 1,022,452	$ 2,497,992	$ 2,497,992
Common stock	9,142,853	9,142,853	6,135,351	6,135,351
U.S. treasury bonds and notes	3,984,381	3,984,381	4,225,621	4,225,621
U.S. government agencies	1,812,652	1,812,652	1,155,005	1,155,005
Corporate bonds	3,885,125	3,885,125	3,836,617	3,836,617
Mortgage notes	3,000	3,000	3,000	3,000
Real estate held for sale	350,000	350,000	350,000	350,000
	$20,200,463	$20,200,463	$18,203,586	$18,203,586
Restricted fund:				
Certificates of deposit	$ 105,110	$ 105,110	$ 325,536	$ 325,536
U.S. government agencies	1,460,048	1,460,048	1,393,527	1,393,527
	$ 1,565,158	$ 1,565,158	$ 1,719,063	$ 1,719,063
Plant funds - retirement of indebtedness:				
U.S. treasury notes	$36,730,448	$36,730,448	$33,265,586	$33,265,586

3. Investments (continued)

Investments in the Endowment and similar funds, Restricted fund and the Plant Funds-retirement of indebtedness consisting of certificates of deposit, mortgage notes 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.

The investments of the loan fund consist of certificates of deposit held by the University, which are insured by the United States and Puerto Rico insurance corporations or collateralized by securities pledged with the Department of the Treasury. The fair value of these investments approximates their carrying value.

4. Due from Commonwealth of Puerto Rico

The amount due from the Commonwealth of Puerto Rico as of June 30, 2000 and 1999 is mainly related to the University's participation in the net income from slot machine operations.

5. Accounts Receivable - Current Restricted Funds

Accounts receivable of the current restricted fund at June 30, are as follows:

	2000	1999
Puerto Rico Department of Health	$52,819,582	$ 41,191,288
Other	61,766,888	60,932,758
	114,586,470	102,124,046
Less allowance for doubtful accounts	27,737,400	34,188,962
Accounts receivable, net	$86,849,070	$ 67,935,084

During March 1999, the University entered into a transaction with the Health Facilities and Services Administration (AFASS) in which the University acquired three hospital facilities in exchange for $36 million of the amount receivable outstanding at the transaction date. The remaining balance of the receivable was assumed by the Puerto Rico Department of Health and is included as part of the $41,191,288. During 2000, the legislature of Puerto Rico approved a resolution to pay $60,392,714 to the University on behalf of the Department of Health, over the course of eight years.

6. Due from Federal Government (continued)

The University was notified by the U.S. Department of Education (the Department) during award year 1988-89 that $3,222,352 of Pell Grant Program funds had been deobligated. The Department's basis for the deobligation of the Pell Grant Program funds was that the University had not provided sufficient documentation to reconcile the University's disbursements to the Federal Pell cash authorization awards for award years 1980-81 through 1983-84. The University compiled documentation to substantiate $3,060,415 of Pell Grant Program disbursements in accordance with all applicable federal requirements in effect during the award periods aforementioned. A request was made to the Department to restore the University's authorization level in the amount of $3,060,415 and such amount was recorded as due from federal government in fiscal year 1993. During 1996, the University received a payment from the Department amounting to $1,721,135. The Department is in the process of reviewing the documentation submitted by the University for the amount not remitted.

Due from federal government includes the following:

	2000	1999
Restoration of award years 1980-81 to 1983-84 Pell Grant Program funds	$ 1,339,280	$ 1,339,280
Unreimbursed expenditures related to federal grants	17,452,952	12,637,522
	18,792,232	13,976,802
Less valuation allowance	1,339,280	1,339,280
	$17,452,952	$12,637,522

7. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses of the current funds and agency fund at June 30, are as follows:

	2000	1999
Current unrestricted fund:		
Accrued vacation and sick leave	$ 70,887,391	$ 69,076,804
Accounts payable	29,252,169	20,730,202
Claims liability	13,355,128	11,789,483
Net pension obligation	2,675,514	8,420,927
Total	$116,170,202	$110,017,416
Current restricted fund:		
Accrued vacation and sick leave	$16,861,405	$ 16,731,930
Accounts payable	7,618,629	7,009,838
Total	$ 24,480,034	$ 23,741,768
Agency fund:		
Accounts payable	$ 11,554	$ 9,693

8. Notes Payable

The following is a summary of the University's notes payable at June 30, 2000 and 1999:

Current Unrestricted Fund:	2000	1999
Note payable under a line of credit agreement with a commercial bank under which the University may borrow $5,000,000. The line of credit has no fixed repayment terms and bears interest at 5.8%. This note was repaid during 2000.	$ -	$ 2,700,000
Net Investment in Plant:		
Note payable to Government Development Bank for Puerto Rico (GDB) under two lines of credit agreement under which the University may borrow $83,700,000 and $2,070,000. The lines of credit are due on July 1, 2001 and bear a variable interest determined by GDB. The interest rate as of June 30, 2000 and 1999 was 4.81% and 4.42%, respectively. This note will be repaid with the proceeds obtained from an issuance of bonds.	74,929,040	36,151,632
Total notes payable	$74,929,040	$38,851,632

A summary of changes in notes payable follows:

	Balance as of June 30, 1999	Proceeds	Payments	Balance as of June 30, 2000
Note payable to commercial bank	$ 2,700,000	$ -	$2,700,000	$ -
Note payable to GDB	36,151,632	38,777,408	-	74,929,040
Total notes payable	$38,851,632	$38,777,408	$2,700,000	$74,929,040

9. Bonds Payable - Plant Funds

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:

Series	June 30 2000	June 30 1999	Annual interest rate (%)	Due Date
B – Serial	$ -	$ 2,000	3.125	1972 - 2000
C – Serial	1,589,000	1,709,000	3	1972 - 2011
D – Serial	2,028,000	2,178,000	3.75	1972 - 2011
F – Term	16,875,000	17,650,000	5.5	2012
M – Serial	36,630,000	39,810,000	4.35 - 5.45	1996 - 2009
M – Term	127,215,000	127,215,000	5.25 - 5.5	2015 - 2025
N – Serial	82,960,000	93,385,000	4.35 - 5.45	1996 - 2008
N – Capital Appreciation Serial Bonds	51,980,000	51,980,000	5.6 - 5.75	2009 - 2013
	319,277,000	333,929,000		
Less unamortized bond discount	(9,756,853)	(10,210,179)		
Plus unaccreted premium	2,036,546	2,381,890		
Less future appreciated principal	(23,815,508)	(25,343,923)		
	$287,741,185	$300,756,788		

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

9. Bonds Payable - Plant Funds (continued)

B. Debt Service Requirement

At June 30, 2000, bonds payable require payments of principal and interest as follows:

	Principal	Interest	Total
2001	$ 15,340,000	$ 14,402,250	$ 29,742,250
2002	16,075,000	13,671,013	29,746,013
2003	16,850,000	12,886,125	29,736,125
2003	17,685,000	12,059,293	29,744,293
2004	13,615,000	11,018,030	24,633,030
Thereafter	239,712,000	101,079,905	340,791,905
	$319,277,000	$165,116,616	$484,393,616

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 years ended June 30, 2000 and 1999:

	2000	**1999**
Tuition and other fees collected	$ 58,876,193	$ 59,049,034
Student fees collected	5,038,866	5,173,155
Rental and other charges received for the right of use and occupancy of the facilities in the University system	1,253,420	1,237,099
Bookstore receipts (gross sales less cost of books and supplies sold)	503,877	487,869
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	6,311,070	6,118,543
Funds paid to the University in respect to overhead allowance on federal research projects	10,017,756	7,805,239
Other income (including revenues from slot machines operations and racetrack pari – mutual bets)	3,335,423	27,666,179
	$ 85,336,605	$107,537,118

Interest earned on investments in the sinking fund reserve account amounted to $2,358,234 and $1,832,820 for 2000 and 1999, respectively.

9. Bonds Payable - Plant Funds (continued)

C. Pledged Revenues (continued)

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

D. Plant Funds - Retirement of Indebtedness

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.

10. Commitments And Contingent Liabilities

A. Capital Program

The University's capital construction program for educational facilities for the fiscal year ended June 30, 2000 and 1999 amounts to approximately $7,068,089 and $9,557,000, respectively.

10. Commitments And Contingent Liabilities (continued)

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 2000 and 1999 were:

	2000	1999
Claims payable - July 1	$11,789,483	$ 8,855,128
Incurred claims and changes in estimates	2,681,990	5,301,743
Payments for claims and adjustment expenses	(1,116,345)	(2,367,388)
	$13,355,128	$11,789,483

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.

During 1997, the University implemented Statement No. 30 of the Governmental Accounting Standards Boards, "Risk Financing Omnibus". This Statement requires the inclusion of specific, incremental claim adjustment expenditures/expenses and estimated recoveries (such as salvage and subrogation) in the determination of the liability for unpaid claims.

10. Commitments And Contingent Liabilities (continued)

C. Federal Assistance Programs

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

D. Other

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

On May 11, 2000 the University's Board of Trustees ratified a Memorandum of Agreement (the Agreement) to establish a contractual agreement between the University and the Corporation. The Agreement, dated May 22, 1998, states among other things the following: (1) the University will lease to, or otherwise grant to, the Corporation the right for the long-term use of the land, for the sole purpose of developing, constructing and operating Plaza Universitaria, (2) the Corporation shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line credit and/or any other structure or credit facility, (3) the Corporation will own the Plaza Universitaria improvements and will lease them exclusively to the University, during the life of the AFICA Bonds, (4) the University shall have the right to prepay or refinance the Bonds at any time, consistent with the restrictions on refinancing contained in the financing documents, (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.

Currently, the University and the Corporation are negotiating the terms of the lease agreement.

10. Commitments And Contingent Liabilities (continued)

D. Other (continued)

Servicios Médicos Universitarios, Inc. (the Hospital) is a nonprofit corporation organized to operate and administer one hospital and two outpatient medical facilities located in the Carolina area of Puerto Rico. On March 12, 1999, the University acquired these facilities, and the related land and medical equipment existing at these facilities, from the Department of Health of Puerto Rico, as well as other government agencies in Puerto Rico, for $36 million. The University has title to these properties. Effective March 12, 1999, the Hospital began operating and administering these facilities.

The principal objectives of the Hospital are to constitute the principal medical education institution of the University and offer health care services to the residents of Puerto Rico.

On December 3, 1999, 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. Of such amount, not to exceed $8 million, will be available to provide working capital to the Hospital (the Working Capital Loan) and not to exceed $9 million will be available for repair and improvement of the Hospital facilities (the Improvement Loan). Each drawing bears variable interest, as defined in the Agreement, and is due the first day of January, April, July and October of each year. As part of the Agreement, the University (the Guarantor) agreed to guaranty payment obligations.

On May 25, 2000, the Agreement was amended to increase the amount of the Working Capital Loan to $12 million and to decrease the Improvement Loan to $5 million. 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.

11. University of Puerto Rico Retirement System

A. Plan Description

The University of Puerto Rico Retirement System (the System) is the administrator of a single-employer defined benefit pension plan that was created by Act No. 135, approved on May 7, 1942. The System started operations on January 1, 1945 at which date contributions by employees and the University of Puerto Rico commenced.

The responsibility for the proper operation and administration of the System is vested in a Board of Trustees, composed of certain members of the University of Puerto Rico Board of Trustees. The following are the significant accounting policies followed by the System in the preparation of its financial statements.

11. University of Puerto Rico Retirement System (continued)

A. Plan Description (continued)

In 2000 the annual pension cost and contribution for the pension fund were $43,898,038 and $49,651,679, respectively.

Annual pension cost and contribution information for the last three fiscal years follows:

Year ended September 30	Annual Pension Cost	Contributions Made	Percentage Contributed
2000	$43,898,038	$49,651,679	113%
1999	38,630,974	53,041,795	137%
1998	40,329,775	48,856,041	121%

Actuarial Methods, Significant Assumptions and Contributions:

Actuarial Methods:	
Valuation date	6/30/2000
Actuarial frequency	Annual
Actuarial cost method	Entry age
Amortization method	Level dollar amount on a declining basis from 40 years to 30 years starting June 30, 1995
Remaining amortization period	35 years
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Investment rate of return	8%
Projected salary increases*	5%
Mortality table	UP - 1984
Contributions:	
Actuarial rate	12.6%
Actual University rate	14.3%

11. University of Puerto Rico Retirement System (continued)

B. Contribution

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 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 elected: 7% of monthly compensation
- If full supplement 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 elected: 7% of monthly compensation up to $2,917
- If full supplement 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 actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund.

C. Funding Policy

The University contributed 14% and 15% of participants' payroll in 2000 and 1999, respectively. The University contributions together with the members contributions and the income of the System should, theoretically, be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System. The contributions of the University were originally designed to fund, together with the contributions of the members, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the System over a forty-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fell short of accomplishing the necessary funding.

11. University of Puerto Rico Retirement System (continued)

C. Funding Policy (continued)

The valuation report as of June 30, 2000 indicates that in order to fund the annual employer normal cost, and to make a payment toward the unfunded accrued liability that would amortize it over the next 35 years, the University should contribute $37,718,446 as of July 1, 2000. The University contributed $49,651,679 in 2000.

The valuation report as of June 30, 1999 indicates that in order to fund the annual employer normal cost, and to make a payment toward the unfunded accrued liability that would amortize it over the next 36 years, the University should contribute $41,864,341 as of July 1, 1999. The University contributed $53,041,795 in 1999.

Although the University has not expressed any intent to terminate the Plan, it may do so at any time. In the event of termination of the Plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the Plan shall be non-forfeitable to the extent funded.

D. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)**	UAAL as a Percentage of Covered Payroll (b)-(a)/(c)
6/30/00	$754,279,830	$1,212,559,037	$458,279,207	62.2%	$341,871,667	134.5%
6/30/99	650,294,843	1,161,100,932	510,806,089	56.0%	333,153,432	153.3%
6/30/98	586,095,318	1,037,281,510	451,186,192	56.5%	322,232,048	140.0%
6/30/97***	505,466,931	957,716,124	452,249,193	52.8%	305,498,420	148.0%
6/30/96	427,435,099	912,242,254	484,807,155	46.9%	283,798,140	170.8%
6/30/95*	382,934,691	856,494,515	473,559,824	44.7%	261,466,451	181.1%
6/30/93*	343,302,357	748,243,399	404,941,042	45.9%	221,986,837	182.4%

* Changes in plan benefit provisions.
** Rate of pay as of valuation date.
***Includes effect of early retirement window.

11. University of Puerto Rico Retirement System (continued)

E. Cash and Short-Term Investments, Investments and Loans

Cash and short-term investments as of June 30, 2000 and 1999 are as follows:

	June 30 2000	June 30 1999
Cash	$ 2,177,090	$13,250,542
Short-term investments	50,801,424	39,172,458
Total cash and short-term investments	$52,978,514	$52,423,000

In 2000 and 1999, 8% and 79%, respectively, of the System's cash balance is included as part of the cash pooled under the custody of the University.

Temporary investments are reported at cost, which approximates fair value.

The following table presents the cost and fair value of investments as of June 30, 2000 and 1999:

	2000		1999	
	Fair Value	Unrealized Gain (loss)	Fair Value	Unrealized Gain (loss)
Investments, at fair value as determined by quoted market prices:				
U.S. Government obligations	$ 25,607,293	$ 775,606	$ 24,589,667	$ 407,547
U.S. Government agencies' obligations	46,267,243	(1,603,252)	41,349,059	(561,498)
Foreign bonds	23,046,983	(1,864,646)	21,651,356	(1,770,997)
Corporate bonds and other debentures	58,110,451	(1,687,244)	53,768,918	(331,541)
Foreign common stock	30,103,261	3,810,819	27,077,390	1,847,838
Common stock	381,959,807	129,405,239	318,653,105	105,572,618
Mortgage-backed securities	30,529,564	(109,091)	34,256,182	(112,046)
Foreign securities certificates	23,298,260	14,103,710	3,730,763	637,929
Investments, at estimated fair value:				
Limited partnership investment	1,156,838	171,680	-	-
FHA mortgage loans purchased	1,101,408	(2,490)	1,711,175	16,779
Certificate of deposit	1,456,586	-	1,456,586	-
Cash in pooled account under the custody of the Secretary of the Treasury	68,628	-	72,638	-
Total	$622,706,322	$143,000,331	$528,316,839	$105,706,629

11. University of Puerto Rico Retirement System (continued)

E. Cash and Short-Term Investments, Investments and Loans (continued)

No more than 5% of any debt issue may be purchased as an investment, with the exception of the U.S. government or its agencies. No more than 10% of the assets at cost may be invested in the securities of a single issuer, with the exception of the U.S. government or its agencies.

The custody of these investments is held by the trust department of a commercial bank in the name of the System and the portfolio is managed by eight brokerage firms.

The System's Regulations authorize the System to invest a percentage of total assets, with certain limitations, in the following types of investments; not less than 30% and no more than 65% in fixed income securities, not less than 35% and no more than 65% in equity securities. On international equity and private equity no more than 10% and 5%, respectively, and on non-U.S. fixed income securities no more than 10%. More complete information is available in the regulations.

The investments in bonds must be classified, at the time of purchase, within the highest three classifications designated by one of the principal agencies that classifies securities and the bond portfolio average due date must be seven years.

The investments in bonds collateralized by mortgages must be a first mortgage on properties within the United States.

Common stock must only be purchased when they are classified within the first four categories of Standard and Poor's and the first three of Value Line. The System's cash reserve should be invested in high quality short term investments including negotiable instruments, U.S. Treasury obligations, certificates of deposit, bank acceptances and repurchase agreements. Cash under the custody of the Secretary of the Treasury amounting to $68,628 as of June 30, 2000 and $72,638 as of June 30, 1999, is deposited with the Government Development Bank for Puerto Rico and is uncollateralized.

The System's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered with securities held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments, with securities held by the trustee or agent in the System's name. Category 3 includes uninsured or unregistered investments, with securities held by the trustee or agent but not in the System's name.

The System's investments except for the cash in pooled account under the custody of the Secretary of the Treasury are classified in Category 2.

11. University of Puerto Rico Retirement System (continued)

E. Cash and Short-Term Investments, Investments and Loans (continued)

The System's investments appreciated in value by $38,866,233 in 2000 and $22,502,202 in 1999 as follows:

	2000	1999
Investments, at fair value as determined by quoted market prices:		
Common stock	$23,832,621	$22,866,351
Foreign bonds	(93,649)	(1,509,459)
United States Government agencies obligations	(1,041,754)	(1,015,826)
Corporate bonds and other debentures	(1,355,703)	(1,405,871)
United States Government obligations	368,059	(574,654)
Mortgage-backed securities	2,955	(68,886)
Foreign common stock	1,962,981	2,253,139
Foreign securities certificates	13,465,781	637,929
Total	37,141,291	21,182,723
Investments, at estimated fair value:		
FHA mortgage loans purchased	(19,269)	16,779
First mortgage loans from participants	1,215,720	1,289,846
Private equity funds	356,805	12,854
Limited partnership investment	171,686	-
	$38,866,233	$22,502,202

The fair value of investments held in foreign currencies is translated into U.S. dollars generally using current rates of exchange and the related translation adjustments in addition to the unrealized appreciation (depreciation) in fair value of investments is recorded in the statement of changes in plan net assets as unrealized appreciation (depreciation) in fair value of the investments.

First mortgage loans from participants are stated at their fair value. Personal installment loans are carried at their unpaid principal balance which approximates their fair value given the relatively short period of time between their origination and their expected realization. The personal loans are collateralized by the participant's contribution to the pension plan and the first mortgage loans by liens on the underlying properties.

F. Early Retirement

During 1997, the University offered to employees with 30 years of service an early retirement as follows:

a) Effective September 1, 1997 for employees that elect early retirement as of August 31, 1997.
b) Effective January 1, 1998 for employees that elect early retirement as of December 31, 1997.

11. University of Puerto Rico Retirement System (continued)

F. Early Retirement (continued)

c) Effective August 1, 1998 for employees that elect early retirement as of July 31, 1998.
d) Effective January 1, 1999 for employees that elect early retirement as of December 31, 1999.

12. Post-Retirement Benefits

In addition to the pension benefits described in Note 11, 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 $75 per month for each retiree. During the years ended June 30, 2000 and 1999, the payments of health care benefits amounted to $4,108,350 and $4,030,985, respectively. The Christmas bonus paid to the retired employees during the years ended June 30, 2000 and 1999 was $200 per retiree and the total amount was $1,571,128 and $997,386, respectively. These benefits are recorded as expenditures when granted and paid. The plan covers approximately 5,608 retirees.

13. Fund Deficit - Unexpended Plant Fund

The University substantially finances its capital improvement program with lines of credit and/or bond issuances. As of June 30, 2000, the fund deficit of $5,120,464 in the unexpended plant fund resulted from the continuous efforts of the University in completing the capital improvement program. The University finances the deficit with advances from a line of credit with GDB, which are received in a reimbursement method.

14. Subsequent Event

On August 24, 2000 the University issued the University System Revenue Bonds, Series O for $200,000,000 to finance a portion of the costs of various projects included in the University's current capital improvements program, to refinance $75,999,337 aggregate principal amount of notes held by the Government Development Bank for Puerto Rico as of the date of the issuance, and to pay for the costs of issuance.

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Other Financial Information

University of Puerto Rico
Revenues and Expenditures of Auxiliary Enterprises
Years ended June 30, 2000 and 1999

	2000				
			Housing and Student Center		
	Publishing	Bookstore	Río Piedras	Mayagüez	Total
Revenues:					
Sales	$822,946	$5,195,042	$ -	$ -	$6,017,988
Rent	-	-	846,098	291,843	1,137,941
Total revenues	822,946	5,195,042	846,098	291,843	7,155,929
Expenditures:					
Cost of sales	393,701	4,959,734	-	-	5,353,435
General and administrative expenses:	-	-	-	-	-
Administrative salaries	30,650	795,972	1,620,684	363,711	2,811,017
Postage and freight	26,712	21,440	44	37	48,233
Electricity and water	-	10,233	150,884	142,203	303,260
Rent	41,670	498	1,790	-	43,958
Maintenance and repairs	14,102	5,115	92,447	250,495	362,159
Office cleaning and other supplies	30,104	25,758	85,307	930	142,159
Insurance	436	-	-	-	436
Fringe benefits	7,919	227,692	575,081	108,104	918,796
Telephone and telegraph	12,843	1,452	468	3,204	17,967
Advertising	32,753	-	-	-	32,753
Miscellaneous expenses	138,419	9,014	217	-	147,650
Total general and administrative expenses	335,608	1,097,174	2,526,922	868,684	4,828,388
Total expenditures	729,309	6,056,908	2,526,922	868,684	10,181,823
Excess/deficiency of revenues over/(under) expenditures	$ 93,637	$ (861,866)	$(1,680,874)	$(576,841)	$(3,025,894)

University of Puerto Rico
Revenues and Expenditures of Auxiliary Enterprises (continued)
Years ended June 30, 2000 and 1999

	1999				
			Housing and Student Center		
	Publishing	Bookstore	Río Piedras	Mayagüez	Total
Revenues:					
Sales	$799,572	$4,937,444	$ -	$ -	$ 5,737,016
Rent	-	-	718,265	388,517	1,106,782
Total revenues	799,572	4,937,444	718,265	388,517	6,843,798
Expenditures:					
Cost of sales	342,635	4,525,168	-	-	4,867,803
General and administrative expenses:					
Administrative salaries	34,356	868,915	1,485,644	173,097	2,562,012
Postage and freight	24,537	34,787	137	573	60,034
Electricity and water	931	11,915	225,728	126,043	364,617
Rent	17,074	119	3,500	-	20,693
Maintenance and repairs	11,052	6,088	70,930	178,702	266,772
Office cleaning and other supplies	18,098	12,349	56,749	3,236	90,432
Insurance	317	-	-	-	317
Fringe benefits	7,642	268,843	539,380	74,630	890,495
Telephone and telegraph	33,086	1,004	3,132	2,499	39,721
Advertising	825	-	-	-	825
Miscellaneous expenses	41,182	9,303	8,226	255	58,966
Total general and administrative expenses	189,100	1,213,323	2,393,426	559,035	4,354,884
Total expenditures	531,735	5,738,491	2,393,426	559,035	9,222,687
Excess/deficiency of revenues over/(under) expenditures	$267,837	$ (801,047)	$(1,675,161)	$(170,518)	$(2,378,889)

University of Puerto Rico
Investments

	June 30			
	2000		1999	
	Endowment and similar funds	Plant funds retirement of indebtedness	Endowment and similar funds	Plant funds retirement of indebtedness
U.S. Treasury notes	$ 3,984,381	$36,730,448	$ 4,225,621	$33,265,586
U.S. Government agencies	1,812,652	-	1,155,005	-
Certificates of deposit	1,022,452	-	2,497,992	-
Corporate bonds	3,885,125	-	3,836,617	-
Real estate held for sale	350,000	-	350,000	-
Common stock	9,142,853	-	6,135,351	-
Mortgage notes	3,000	-	3,000	-
Total	$20,200,463	$36,730,448	$18,203,586	$33,265,586

University of Puerto Rico
Changes in Sinking Fund Reserves

	Year ended June 30 2000		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from bond reserve account	$ 1,300,766	$ -	$ 1,300,766
Transfer from bond service account	-	10,764	10,764
Transfer from unrestricted current funds	33,464,812	1,199,234	34,664,046
Interest earned on investments	618,343	1,739,891	2,358,234
Total receipts	35,383,921	2,949,889	38,333,810
Deductions:			
Payment of bond interest	2,994,850	-	2,994,850
Payment of note interest	15,083,394	-	15,083,394
Payment of bond principal	14,652,000	-	14,652,000
Transfer to reserve account	10,764	-	10,764
Transfer to bond service account	-	1,300,766	1,300,766
Net decrease in fair market value of investments	26,736	108,201	134,937
Reimbursement of Federal Debt Service Grant	844,735	-	844,735
Total disbursements	33,612,479	1,408,967	35,021,446
Net increase for the year	1,771,442	1,540,922	3,312,364
Balance at beginning of year	3,101,942	30,675,525	33,777,467
Balance at end of year	$ 4,873,384	$32,216,447	$37,089,831

University of Puerto Rico
Changes in Sinking Fund Reserves (continued)

	Year ended June 30 1999		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Federal debt service grant	$ 299,477	$ -	$ 299,477
Transfer from unrestricted current funds	29,531,568	1,683,129	31,214,697
Interest earned on investments	150,828	1,681,992	1,832,820
Total receipts	29,981,873	3,365,121	33,346,994
Deductions:			
Payment of bond interest	15,864,016	-	15,864,016
Payment of bond principal	13,878,000	-	13,878,000
Net decrease in fair market value of investments	-	108,487	108,487
Total disbursements	29,742,016	108,487	29,850,503
Net increase for the year	239,857	3,256,634	3,496,491
Balance at beginning of year	2,862,085	27,418,891	30,280,976
Balance at end of year	$ 3,101,942	$30,675,525	$33,777,467

University of Puerto Rico
Student Tuition and Fees in Effect

Year ended June 30, 2000

	First Semester	Second Semester
Tuition fees:		
Technical programs or associate degrees	$ 30*	$ 30*
Undergraduate students	30*	30*
Graduate students (excluding medical and dentistry students)	75*	75*
Students fees:		
Maintenance fee (all students)	35	35
Laboratory fee (per lab)	25	25
Medical fee:		
Basic Medical Plan:		
All students-second semester includes summer session	204	286
Summer session-students not studying during previous second semester	-	82
Medical Plan including pharmacy:		
All students-second semester includes summer session	298	417
Summer session-students not studying during previous second semester	-	120
Graduation fees (payable in the last semester)	20	20
Industrial laboratories (per lab)	25	25
Late registration	10	10

*Per credit

University of Puerto Rico
Student Tuition and Fees in Effect (continued)

Years ended June 30, 2000

	Academic Year 1998 - 1999
Medical and Dentistry Students:	
Tuition	$5,000
Medical service fee (summer session - $58)	276
Laboratory fee (per lab)	25
Graduation fees (payable in the last semester)	20
Maintenance fee (all students)	105
	$5,426

In the case of foreign students, tuition fees are $10,500 per year for medical and dentistry students, $3,500 per year for graduate students and $2,400 per year for undergraduate students. All other fees are the same as those charged to resident students.

ERNST & YOUNG LLP

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Report of 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, 2000, and have issued our report thereon dated September 30, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the University in a separate letter dated September 30, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University in a separate letter dated September 30, 2000.

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

Ernst + Young LLP

September 30, 2000

Stamp No. 1676678
affixed to
original
of this report.

[Form of Opinion of Bond Counsel] **APPENDIX D**

BROWN & WOOD LLP

ONE WORLD TRADE CENTER
NEW YORK, N.Y. 10048-0557

TELEPHONE: 212-839-5300
FACSIMILE: 212-839-5599

December __, 2000

Puerto Rico Industrial, Tourist,
Educational, Medical and Environmental
Control Facilities Financing Authority
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 121 of the Legislature of Puerto Rico, approved June 27, 1977, as amended (hereinafter called the "Act"), creating Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (the "Authority"), a body corporate and politic constituting a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth").

We have also examined certified copies of the resolution of the Authority authorizing the execution and delivery of the Trust Agreement and the Loan Agreement, each hereinafter referred to, and certified copies of the proceedings and other proofs submitted relative to the authorization, issuance and sale of the following bonds (the "Bonds"):

$86,735,000
PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
2000 SERIES A
(PLAZA UNIVERSITARIA PROJECT)

Dated: December 1, 2000.

Maturing on the dates, bearing interest at the rates, subject to redemption and having such other details, all as set forth in a Trust Agreement, dated as of December 1, 2000 (the "Trust Agreement"), by and between the Authority and The Bank of New York, Jacksonville, Florida, as trustee (the "Trustee"), and the resolution of the Authority authorizing the issuance and sale of the Bonds.

The Bonds are being issued, among other things, for the purpose of providing funds, together with other available funds, to (i) pay a portion of the cost of the acquisition and construction by Desarrollos Universitarios, Inc. (the "Borrower") of certain dormitory facilities, an administration building, a multi-story parking facility and related improvements (the "Project") across from the main entrance to the Rio Piedras campus of the University of Puerto Rico (the "University") to be leased to the University, (ii) make a deposit to the Debt Service Reserve Fund (as defined in the Trust Agreement) in the amount set forth in the Trust Agreement and (iii) pay certain costs and expenses incurred in connection with the issuance of the Bonds.

The Authority will lend the proceeds of the Bonds to the Borrower pursuant to a Loan Agreement, dated as of December 1, 2000 (the "Loan Agreement"), by and between the Authority and the Borrower. Pursuant to the Loan Agreement, the Borrower is obligated to make payments in installments sufficient to pay the principal of and redemption premium, if any, and the interest on the Bonds as the same shall become due and payable. Under the Loan Agreement, the Borrower will pay said installments directly to the Trustee. The Loan Agreement, except for certain rights of the Authority, has been pledged and assigned to the Trustee.

The Borrower will enter into a Lease Agreement, dated December 21, 2000 (said lease agreement together with all supplements and amendments thereto being herein called the "Lease Agreement"), with the University pursuant to which the Borrower will lease the Project (except for certain commercial space) to the University and the satisfaction of certain other conditions. Under the Lease Agreement, the University will make rent payments directly to the Trustee. The Borrower has assigned, among other things, its right to receive rent payments corresponding to the principal of and premium, if any, and interest on the Bonds and to provide a reserve therefor to the Trustee (the "Basic Lease Payments"). Under the Trust Agreement, the Basic Lease Payments made by the University under the Lease Agreement sufficient in the aggregate to pay the principal of and redemption premium, if any, and interest on all Bonds issued and outstanding under the Trust Agreement as the same shall become due and payable and to provide a reserve therefor, shall be deposited to the credit of a special fund designated "Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority Educational Facilities Revenue Bonds (Plaza Universitaria Project) Bond Fund", which special fund is equally and ratably pledged to and charged with the payment of the principal of and interest on all Bonds.

Upon the delivery of the Bonds, the Borrower will manage the Project (except for the commercial space thereof) pursuant to a management and operations agreement with the University, which agreement will comply with the requirements of Revenue Procedure 97-13, 1997-1 C.B. 632 ("Revenue Procedure 97-13"). The Borrower has advised the University that it intends to obtain status as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). If the Borrower obtains such status, said management and operations agreement will be replaced by another management and operations agreement with the University, which agreement will no longer comply with the requirements of Revenue Procedure 97-13 (a "Noncomplying Agreement").

The University's obligations under the Lease Agreement to make the Basic Lease Payments constitute Obligation No. 1 issued under a Master Trust Indenture, dated as of December 1, 2000 (the "Master Indenture"), by and between the University and State Street Bank and Trust Company, N.A. (the "Master Trustee"), as supplemented by Supplemental Indenture for Obligation No. 1, dated as of December 1, 2000 ("Supplement No. 1"), by and between the University and the Master Trustee. Each obligation issued by the University under the Master Indenture, including said Obligation No. 1, constitutes an unconditional obligation of the University payable from and secured by a pledge of the portion of Pledged Revenues (as defined in the 1971 Agreement hereinafter mentioned) remaining after the payment of current debt service on the University's outstanding revenue bonds issued under that certain Trust Agreement, dated as of June 1, 1971, as amended (the "1971 Agreement"), by and among the University, State Street Bank and Trust Company, N.A., successor trustee and Banco Popular de Puerto Rico, co-trustee.

We have also examined one of the Bonds as executed and authenticated.

From such examination, we are of the opinion that:

1. The Act is valid.

2. The proceedings of the Authority in connection with the authorization, issuance and sale of the Bonds and the authorization, execution and delivery of the Loan Agreement and the Trust Agreement have been validly and legally taken.

3. The Trust Agreement has been duly authorized, executed and delivered by the Authority and the Trustee and constitutes a legal, valid and binding obligation enforceable in accordance with its terms.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and the Borrower and constitutes a legal, valid and binding obligation enforceable in accordance with its terms.

5. The Lease Agreement has been duly authorized, executed and delivered by the University and the Borrower and constitutes a legal, valid and binding obligation enforceable in accordance with its terms.

6. The Master Indenture and Supplement No.1 have been duly authorized, executed and delivered by the University and the Master Trustee and constitute legal, valid and binding obligations enforceable in accordance with their terms.

7. The Bonds have been duly authorized, executed and delivered by the Authority and constitute legal, valid, binding and enforceable limited obligations of the Authority, payable solely from the Bond Fund and other available funds to the extent provided in the Trust Agreement, and are entitled to the benefit and security of the Trust Agreement.

8. All rights, title and interest of the Authority in and to the Loan Agreement (except certain rights of the Authority, including its rights to payment of expenses and indemnity) have been validly assigned to the Trustee.

9. The Bonds are not a debt of either the Commonwealth or any of its political subdivisions, other than the Authority, and neither the Commonwealth nor any such political subdivisions, other than the Authority, shall be liable thereon.

10. Under the provisions of the Acts of Congress now in force, and under existing regulations, rulings and judicial decisions, (i) subject to continuing compliance with the covenant referred to below and requirements of the Code, regarding the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if any, interest on the Bonds is not includable in gross income for federal income tax purposes, and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. No opinion is rendered, however, as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes (i) in the event and on or after the effective date on which the Trust Agreement, the Loan Agreement or the Lease Agreement shall have been modified or amended in any manner which affects the exclusion of interest on the Bonds for federal income tax purposes, without our approval or (ii) on or after the effective date on which any change contemplated by said documents occurs or action is taken upon the approval of counsel other than ourselves.

In rendering the opinion in clause (i) of the first sentence of the preceding paragraph, we have relied, among other things, upon representations made by the Borrower in the Tax Certificate executed by the Borrower, the University and the Authority in connection with the issuance of the Bonds with respect to the Borrower's current status and prospective status as a not-for-profit corporation organized under the laws of the Commonwealth. We have been advised by the Borrower that it expects to apply to the Internal Revenue Service to be recognized as an entity described in section 501(c)(3) of the Code. Prior to the management of the Project by the Borrower pursuant to a Noncomplying Agreement, the Lease Agreement requires the delivery of an opinion of González-Nieto García Feliciano & Balzac, San Juan, Puerto Rico, counsel to the Borrower, in the form set forth in the Lease Agreement, to the effect that the Borrower is an organization described in section 501(c)(3) of the Code. In rendering the opinion in clause (i) of the first sentence of the preceding paragraph as applicable in the event that the Project (except for the commercial space) is managed by the Borrower pursuant to a Noncomplying Agreement, we are relying upon the receipt of such opinion in substantially such form.

Interest on the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax on individuals and corporations imposed by the Code. Such interest will, however, be includable in the computation of the alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

The Authority and the University have covenanted to comply, to the extent permitted by the Constitution and law of the Commonwealth of Puerto Rico, and the Borrower has covenanted to comply, with the requirements of the Code so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution and laws of the Commonwealth of Puerto Rico which would prevent such compliance.

The enforceability of the Trust Agreement, the Loan Agreement, the Master Indenture and Supplement No.1 and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency, fraudulent conveyance and other laws affecting creditors' rights generally. To the extent that the remedies under the Trust Agreement, the Loan Agreement and the Master Indenture require or may require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

In rendering this opinion, we have relied upon the opinion of González-Nieto García Feliciano & Balzac, San Juan, Puerto Rico, with respect to the authorization, execution and delivery by the Borrower of the Loan Agreement and the Lease Agreement and upon the opinion of Cancio Nadal Rivera Díaz & Berrios, San Juan, Puerto Rico, with respect to the authorization, execution and delivery by the University of the Lease Agreement, the Master Indenture and Supplement No. 1.

Respectfully submitted,

[To be signed "Brown & Wood LLP"]

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MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

IBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby nconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment equired to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the rincipal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the bligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of e due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any dvancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such mes as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment hich is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an voidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the receding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Jpon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of vritten notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount or which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after eceipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., n New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and urrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of ssignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect he appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. hall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium vhich may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the ssuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED:

MBIA Insurance Corporation

Resident Licensed Agent

President

SPECIMEN

Attest:

City, State

Assistant Secretary

STD-RCS-6
4/95

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