Monitoring Report to the Middle States Commission on Higher Education

From

University of Puerto Rico Arecibo

José J. Rodríguez Vázquez, Acting Chancellor

Uroyoán R. Walker-Ramos, President

Delia M. Camacho-Feliciano, Vice President for Academic Affairs

April 1, 2014

Monitoring Report in Response to the Commission's Action of November 21, 2013

Subject of the Monitoring Report:

"To request a monitoring report, due April 1, 2014, documenting evidence of an independent audit for FY2013, with evidence of follow-up on any concerns cited in the audit's accompanying management letter for both FY2012 and FY 2013 (Standard 3)¹. To remind the institution of its obligation to ensure timely production of audited financial statements..."

¹ Standard 3 of *Characteristics of Excellence on Higher Education* issued by the MSCHE.



Universidad de Puerto Rico en Arecibo

PO Box 4010 • Arecibo, Puerto Rico 00614-4010 Teléfono (787) 815-0000 exts. 1000 / 1005 • Facsimil (787) 880-2245 E-mail rectoria@upra.edu



April 1, 2014

Dr. Tito Guerrero Middle States Commission on Higher Education 3624 Market Street Philadelphia, PA 19104-2680

Dear Dr. Guerrero:

Enclosed is the *Monitoring Report* submitted by the University of Puerto Rico at Arecibo for the corresponding evaluation of the Middle States Commission on Higher Education. The report reflects our Institution's commitment to continuous enhancement.

As Chancellor of the University of Puerto Rico at Arecibo, I consider the report to be an accurate analysis of our assessment and planning efforts, subsequent to our last on-site evaluation. I endorse the *Monitoring Report* and submit it for your consideration.

You may contact Dr. Geissa R. Torres, Accreditation and License Coordinator, at (787) 815-0000 Ext. 1106 or at (787) 878-2714.

Cordially,

Jose J. Rodkiguez Vázquez, Ph.D

Acting Chancellor

grt

Table of Contents

Institutional Overview	1
Institutional Context	2
Standard 3: Institutional Resources	2
Upr Audited Financial Statements Process	3
Actions Taken to Produce Timely Audited Financial Statements	4
Steps Taken by the Central Administration	5
Meetings Between Central Administration and Campuses.	5
Closing the Trial Balance	5
Reinforcement of Accounting Personnel	5
Steps Taken by Upra	6
Closing Comments	7
University System	7
University of Puerto Rico at Arecibo	7
Supplemental Information	8

Institutional Overview

The University of Puerto Rico at Arecibo (UPRA) is one of the eleven campuses of the University of Puerto Rico (UPR), the state-supported system of higher education. The UPRA was founded in 1967 as the Arecibo Regional College responding to the need for providing access to higher education to the citizens of the North-Central area of Puerto Rico. The Puerto Rico's Council on Higher Education, (Certification No. 323-1980-1981), authorized the institution to expand its offerings to include four-year baccalaureate degree programs. As stated in its mission, UPRA is an institution devoted to the production and dissemination of knowledge through teaching and research in the areas of the arts, sciences and technologies. It seeks to impart a quality university education that furthers the integral development at its students as professionals and citizens.

Student enrollment at UPRA for the Fall Semester of academic year 2012-2013 was 3,693 with a full- and part-time faculty of 254. It offers 14 bachelor degree programs, three associate degree programs, and 33 articulated transfer programs. Of these, the following six programs are unique in the UPR System: Bachelor's degree in Science with a concentration in Microbiology, including three areas of emphasis: Industrial Microbiology, Environmental Microbiology and Medical Microbiology; Bachelor's degree in Social Sciences with a major in Industrial Organizational Psychology; Bachelor's degree in Social Sciences with a concentration in Iberian-American Studies; Bachelor's degree in Technology in Industrial Chemical Processes; Associate Degree in Chemical Engineering Technology; and Associate Degree in Veterinary Technology. In the area of curricular renovation, as from the fall semester 2013-2014, the Bachelor's degree program in Tele-Radial Communications will offer six areas of emphasis including Digital Film, Photography, Strategic Communication (Publicity and Public Relations), Multimedia, Film Production, and Direction and News.

At present, UPRA has the following academic programs accredited by prestigious accrediting professional agencies: Tele-Radial Communication by the Accrediting Council on Education Journalism and Mass Communications (ACEJMC); Business Administration and Office Systems by the Association of Collegiate Business Schools and Programs (ACBSP); Industrial Chemical Processes by the Accreditation Board of Engineering and Technology-Technology Accreditation Commission (ABET-TAC); Computer Sciences by the Accreditation Board of Engineering and Technology-Computing Accreditation Commission (ABET-CAC); Elementary Education by the National Council for Accreditation of Teacher Education (NCATE)-Association for Childhood Education International (ACEI) SPA; Physical Education for the Elementary Level by the National Council for Accreditation of Teacher Education (NCATE)-National Association for Sports and Physical Education (NASPE) SPA; and the Nursing Program by the Accreditation Commission for Education in Nursing (ACEN) (formerly the National League for Nursing Accrediting Commission, NLNAC). The UPRA library has been evaluated by the professional association the Library Association of College and Research Libraries (ACRL).

Institutional Context

One of the fundamental elements of Standard 3 calls for an accredited institution to conduct an annual independent audit confirming financial responsibility, with evidence of follow-up on any concerns cited in the audit's accompanying management letter. The Commission's concern is relative to the University's annual independent audits.

UPRA submits this *Monitoring Report* as requested by the Middle States Commission on Higher Education (MSCHE) to address the issue of timely production of audited financial statements and evidence of follow-up of concerns cited in the audits' accompanying management letters for FY2012 and 2013. Specifically, the request stated:

To request a monitoring report, due April 1, 2014, documenting evidence of an independent audit for FY2013, with evidence of follow-up on any concerns cited in the audit's accompanying management letter for both FY2012 and FY2013 (Standard 3). To remind the institution of its obligation to ensure timely production of audited financial statements.

Considerable portions of this report were prepared by the UPR Central Administration, inasmuch as campuses do not issue audited financial statements separately. UPRA produced those sections focusing on its individual circumstances and actions taken by the campus to contribute to the timeliness of the UPR System's statements. As requested, UPRA submits the *University of Puerto Rico Audited Financial Statements for the Year Ended June 30*, 2013, which were produced on time (Exhibit I). The specific issues and the auditors' recommendations are summarized below.

UPRA strongly believes that significant progress has been made to strengthen financial, technical, facilities, and other resources necessary to comply with standard 3, as evidenced in this Monitoring Report. This process has also served as an introspection and self-renewal to be better prepared for the Institution's next Self-Study 2015-16.

Standard 3: Institutional Resources

The human, financial, technical, facilities, and other resources necessary to achieve an institution's mission and goals are available and accessible. In the context of the institution's mission, the effective and efficient uses of the institution's resources are analyzed as part of ongoing outcomes assessment.

UPR Audited Financial Statements Process

For financial reporting purposes, the University of Puerto Rico (UPR), as a whole, issues a single set of audited financial statements which includes its eleven (11) campuses: Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado, and the Central Administration. Therefore, the UPRA does not issue audited financial statements separately. Its financial results are presented in the UPR's financial statements.

The UPR's financial statements are subject to an annual audit leading to an independent auditor's report. For such external audit, a trial balance of the UPR as a whole, rather than on an individual campus basis, is evaluated. Over the last ten years, the UPR independent auditors have been Ernst & Young.

The UPR's financial statements are generally due by the 9th month following the year-end close (since they are filed as part of the OMB-133A report). Over the past years, the University was unable to file the audited financial statements on a timely basis. The delays were due to several factors, but mainly to the implementation of a new accounting system that did not include various important modules making the accounting closing process cumbersome with interfaces coming in from outside systems. Additional factors relative to available human resources and financial accounting infrastructure contributed to the delay.

The administrative and support structure of the UPR, including its campuses, is a complex one in which each campus has a Finance Department and an Accounting Department with a Finance Director and an Accounting Sub-Director or Supervisor. In this decentralized structure, the campus personnel account for all transactions in the campus. The complexity of the financial infrastructure has been a limiting factor for timely and effective communication among the campuses and the Central Administration, where the UPR's audited financial statements are prepared.

In an effort to improve efficiency, the UPR has invested approximately \$82 million in an ERP system (Oracle e-Business). The modules already implemented include General Ledger, Accounts Payable, and Purchasing. However, some important modules such as: Accounts Receivable, Capital Assets, Payroll, Cash Management, and Billings, among others, are not yet implemented.

The multiple factors mentioned above have led to various deficiencies pointed out by external auditors. They indicate that the lack of adequate controls during the implementation of the Oracle accounting system and the Central Administration finance and accounting functions have resulted in an ineffective and inefficient financial statements closing process. In addition, they mentioned that the lack of integration between the campuses and the Central Administration finance and accounting functions has had an adverse impact in the financial reporting of the University as a whole.

Regarding the Finance structure, the external auditors recommended to the University a change or reinforcement on the organizational structure to improve monitoring controls over the accounting and financial reporting functions of campuses. The accounting and financial reporting responsibilities should be centralized and campuses should respond directly, timely and effectively to the Central Administration Finance Director and Comptroller.

Finally, it was recommended that an effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively.

The institution acknowledges the external auditors' recommendations and concurs with them that by implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be reinforced.

Actions Taken to Produce Timely Audited Financial Statements

The UPR has given utmost priority to complying with conducting an independent audit confirming financial responsibility, with evidence of follow-up on any concerns cited by the external auditor. Special consideration was given to the fiscal year 2011-2012 Financial Statements. On August 23, 2013, the University issued these along with the independent auditors' report (Exhibit II).

On September 23, 2013, MSCHE held a meeting at the University of Puerto Rico Central Administration in which the Commission's concern about the delays of the UPR audited financial statements was discussed. The meeting was held with Elizabeth H. Sibolski, Tito Guerrero, and Andrea Lex representing MSCHE and Celeste Freytes, Acting President, Delia Camacho, Acting Vice President for Academic Affairs and Angel Vega, Director of Finance representing the UPR. University plans for preparing the financial statements for fiscal year 2012-2013 on schedule were well received.

As a follow-up to the August 2013 Supplemental Report, in November 2013, the Middle States Commission on Higher Education (MSCHE) sent letters to all UPR campuses accepting the supplemental information report and requesting a monitoring report.

As mentioned, subsequent to the completion of the 2011-2012 audits, the UPR immediately started its closing process of fiscal year 2012-2013. Since the current year closing started so close to the previous year submission of the financial statements, most, if not all, of the same issues of concern still existed.

Notwithstanding that scenario, the UPR committed to the goal of issuing its audited Financial Statements for fiscal year 2012-2013 on time by March 31, 2014.

Steps Taken by the Central Administration

Meetings between Central Administration and Campuses. Immediately after the issuance of the 2011-2012 Audited Financial Statements, a meeting among all Finance Directors was held at the Central Administration to discuss a work plan for the 2012-2013 audit and the lessons learned during the process (Exhibit III).

On September 23, 2013, the UPR hired a new Finance Director for the Central Administration. This met one of the recommendations of the external auditors. In October 2013, the 2012-2013 audit work plan was revised to consider having a final draft of the Financial Statements by February 28, 2014. The plan was extremely aggressive as it considered reducing by half the time spent on the closing and prior year audit (2011-2012 vs. 2012-2013).

Several meetings were held throughout the course of the process between the Central Administration and the campuses to follow-up on meeting deadlines and deliverables.

Closing the trial balance. For fiscal year 2012-2013, the University closed its books prior to delivering a trial balance to the external auditors in order to reduce the volume of adjustments. In the past, delivering an incomplete trial balance was one of the causes of numerous audit adjustments and time delays due to corrections that had to be made during the course of such audit. With this approach, the UPR expects to be in a better position to have an efficient audit.

Reinforcement of accounting personnel. The University contracted the services of the CPA firm named BDO, to assist with the closing of the books and to perform pre-audit services. These consultants were assigned to review all campus figures but most of the support went to the Mayagüez and Medical Sciences campuses. The pre-audit procedures were designed to detect and correct errors before delivering the final trial balance to the external auditors in order to reduce hours incurred by them during the course of the audit. In addition to the above, a group of certified public accountants and retired employees were contracted to assist in the closing.

The UPR also started the process of contracting a Comptroller or Chief Accounting Officer for the entire institution. The main responsibilities of this position will be to standardize procedures and establish controls that will strengthen the financial close process.

Lastly, an industrial engineering consulting firm was contracted to evaluate the finance organizational structure and make recommendations on the design for a more efficient one. The final report and recommendations is expected by the end of April 2014.

Steps Taken by UPRA

To comply with all the auditors' recommendations in the foreseeable future, UPRA is in the process of strengthening and restructuring the Finance Office. The new structure will allow UPRA's to have five new positions to fulfill its needs. Two of those positions will be for the Finance Office. It will also guide in establishing more effective communication with its constituents to streamline processes and thus comply with its obligations in a timely manner.

In addition, the experience and knowledge acquired while working to comply with the Financial Statements and Single Audit for FY2012 and FY2013 have strengthened the personnel's capacity to effectively prepare future Financial Statements and Single Audits. It has also served to train new staff in the process.

After this experience, UPRA is planning to develop workshops for the professional development of finance and administrative personnel, which will continue on a regular basis. These measures, along with those taken by the Central Administration, will enable the Institution to attend the auditors' recommendations.

Closing Comments

University System

The timely closing of fiscal year 2012-2013 and having issued the financial statements with the corresponding audit reports represents a significant accomplishment for the University. Having complied with the corresponding deadlines, the UPR goal is geared towards issuing its audited financial statements for fiscal year 2013-2014 by December 31, 2014. Meeting this goal will affirm its commitment with MSCHE Standard 3. As part of this commitment, the UPR has already initiated the implementation of two new Oracle modules, i.e., Human Resources (including Payroll) and Cash Management. Also, a contract is underway for the implementation of the Fixed Assets Module for all campuses. The institution is currently reviewing the checklists and guidelines for the year-end close of 2013-2014.

The University has also set the goal to compete for the Certificate of Achievement for Financial Reporting issued by the Government Finance Officers Association of the Campuses States and Canada. This award is issued to government campuses whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting.

The University expects to achieve these goals by reinforcing the finance organizational structure, establishing standardized financial guidelines and procedures for all campuses, and by investing in information technology. All these measures will assure timely issuance of the financial statements and eliminate accounting errors.

University of Puerto Rico at Arecibo

UPRA is fully committed to address all the major findings pointed out by the external auditors of the University of Puerto Rico in a timely and efficient manner. Thanks to the commitment of the Financial Office personnel, UPRA has successfully complied with the auditors' recommendations. The Institution is currently in the process of hiring highly qualified personnel, reinforcing the Financial Office, and addressing many of the recommendations. In addition, UPRA's Financial Office has started a systematic restructuring process to expedite the proper review of documentation required by internal and external audits.

UPRA will continue to work alongside the Central Administration to ensure the most efficient integration of its financial information with the rest of the University of Puerto Rico system. UPRA is committed to producing financial reports that reflects the institution's dedication, excellence, and transparency of financial processes.

Supplemental Information

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL SCHEDULES

University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Years Ended June 30, 2013 and 2012 With Report of Independent Auditors

Ernst & Young LLP





University of Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information and Supplemental Schedules

Years Ended June 30, 2013 and 2012

Contents

Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	4
Financial Statements as of and for the Years Ended June 30, 2013 and 2012:	
Statements of Net Position	
Statements of Revenues, Expenses and Changes in Net Position Statements of Cash Flows	
Notes to Financial Statements	
Required Supplementary Information	
Schedules of Funding Progress (Unaudited)	84
Other Financial Information	
Schedules of Changes in the University's Sinking Fund Reserve (Unaudited)	85
Report on Internal Control	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with <i>Government Auditing Standards</i>	86



Ernst & Young LLP 1000 Scotiabank Plaza 273 Ponce de León Avenue San Juan, PR 00917-1951 Tel: +1 787 759 8212 Fax: +1 787 753 0808 ev.com

Report of Independent Auditors

Governing Board University of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University"), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Desarrollos Universitarios, Inc., a blended component unit of the University, which financial statements reflect total assets constituting 1.31% in 2013 and 1.27% in 2012, total net position constituting 1.57% in 2013 and 1.39% in 2012, and total revenues constituting 0.03% in 2013 and 2012 of the related University's totals. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Desarrollos Universitarios, Inc., is based solely on the report of the other auditors. We also did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the "Hospital"), University of Puerto Rico Parking System, Inc. and Material Characterization Center, Inc. (collectively, the "Companies"), which represent 100% of the aggregate discretely presented component units, as of and for the years ended June 30, 2013 and 2012. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 29 and the schedule of funding progress on page 83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The other financial information on page 84 (the Schedules), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the Schedules.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 30, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Ernst + Young LLP

March 30, 2014

Stamp No. E98645 affixed to original of this report.



Introduction

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

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a thirteen-member Governing Board, of which nine members were appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board. The Governor appointed the original members for a term of six years. The terms for the student and professors are one year.

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

The University is the largest institution of higher education in Puerto Rico. Commonwealth appropriations are the principal source of the University revenues, but additional revenues are derived from tuitions, federal grants, patient services, auxiliary enterprises, interest income, and other sources. The University is in good accreditation standing with the Middle States Commission on Higher Education, the regional accreditation entity of the eleven units that comprise the University of Puerto Rico system.

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

The financial reporting entity consists of the University and its Component Units which are legally separate organizations for which the University is financially accountable. Primary government consists of the University and its blended component unit.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. The primary government may also be financially accountable for organizations that are fiscally dependent on it if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the

1403-1211889 4



primary government regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The University is financially accountable for all of its Component Units.

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

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

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

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

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

UPRPS and MCC's assets, liabilities, revenues, expenses and changes in their net positions were not significant as of and for the years ended June 30, 2013, 2012 and 2011.

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

The following discussion presents an overview of the financial position and financial activities of the Primary Government (hereafter referred as the "University") for the years ended June 30, 2013, 2012 and 2011. It excludes its discretely presented component units. This discussion and analysis was prepared by the University's management and should be read in conjunction with the basic financial statements of the University, including the notes thereto.



Financial Highlights

As of June 30, 2013, the University has total assets of \$1.53 billion, total liabilities of \$1.04 billion and net position of \$496.0 million. The University's net position increased by \$17.0 million or 4% when compared to prior year. The reason for this change is explained in the section entitled "Analysis of Net Position and Changes in Net Position." An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2013, 2012 and 2011, follows:

Condensed Statements of Net Position (In thousands)

Condensed Statemen	ts of Net Posi	ition (In thou	ısan			
	2013			June 30 2012		2011
Assets	Φ.		Φ		Φ	
Current assets Noncurrent assets:	\$	399,051	\$	402,822	\$	376,908
Due from Commonwealth of Puerto Rico		5,000		11,720		24,720
Capital assets, net		957,358		953,054		965,908
Other assets		173,314		169,240		161,252
Total		1,534,723		1,536,836		1,528,788
Liabilities Current liabilities		163,411		168,661		189,406
Noncurrent liabilities		875,320		889,136		907,786
Total liabilities		1,038,731		1,057,797		1,097,192
Net position						
Net investment in capital assets		391,506		352,904		337,292
Restricted:		02.125		00.605		07.072
Nonexpendable		92,127		89,695		87,973
Expendable Unrestricted (deficit)		68,968 (56,609)		70,890 (34,450)		75,050 (68,710)
Unrestricted (deficit)	ф.	`			Φ	(68,719)
Total net position	\$	495,992	\$	479,039	\$	431,596



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

	Year Ended June 30					
		2013	2012	2011		
Operating revenues						
Tuition and fees, net	\$,	\$ 72,475 \$			
Governmental grants and contracts, net		129,913	174,166	161,547		
Patient services, net		65,478	86,819	71,466		
Other operating revenues, net		36,222	36,730	47,872		
Total operating revenues		299,407	370,190	354,336		
Operating expenses						
Salaries and benefits		864,988	828,079	860,079		
Scholarships and fellowships		184,484	203,959	215,205		
Supplies and other services and utilities		212,492	221,998	205,706		
Other operating expenses		71,308	66,993	69,418		
Total operating expenses		1,333,272	1,321,029	1,350,408		
Operating loss		(1,033,865)	(950,839)	(996,072)		
Nonoperating revenues (expenses)						
Commonwealth appropriations		902,040	834,097	839,372		
Federal Pell Grant program		161,651	174,139	179,160		
Federal ARRA program		_	_	15,000		
Other nonoperating revenues (expenses), net		(20,774)	(12,530)	4,759		
Net nonoperating revenues		1,042,917	995,706	1,038,291		
Income before other revenues		9,052	44,867	42,219		
Capital appropriations		5,219	465	5,580		
Additions to term and permanent endowments		2,054	1,817	11,044		
Transfers in		628	294	134		
Change in net position		16,953	47,443	58,977		
Net Position						
Beginning of year, as restated		479,039	431,596	372,619		
End of year	\$	495,992	\$ 479,039 \$	431,596		

Refer to next section "Overview of the Basic Financial Statements" - New Accounting Standards Adopted, for changes in the financial reporting entity as required by Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, and in the basic financial statements presentation as required by GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.



Overview of the Basic Financial Statements

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

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

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

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

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



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

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

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

The required supplementary information consists of two schedules concerning the following: (1) the supplementary information of the University's Employees Retirement Plan as required by the GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, and (2) the supplementary information of the University's Postemployment Benefits Other Than Pensions Program as required by the GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

The other financial information consists of the University's schedules of changes in sinking fund reserves.

New Accounting Standards Adopted

The University implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* ("GASB Statement No. 61") in fiscal year 2013. The Statement modifies certain requirements for inclusion of Component Units in the financial reporting entity. For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, GASB Statement No. 61 requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of

1403-1211889 **9**



the primary government has operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB Statement No. 61 requires a primary government to report its equity interest in a Component Unit as an asset.

As a result of the analysis performed by the University in the course of implementing GASB Statement No. 61, a managerial decision was made to change the reporting of Desarrollos Universitarios, Inc. ("DUI") and to incorporate two additional component units of the University: the University of Puerto Rico Parking System, Inc. ("UPRPS") and Materials Characterization Center, Inc. ("MCC"). The effect on the University's basic financial statements is to report DUI as a Blended Component Unit of the University and to report UPRPS and MCC as Discretely Presented Component Units of the University. DUI was formerly reported as a discretely presented component unit of the University. UPRPS and MCC were not included in prior year financial statements because their assets, liabilities, revenues, expenses and changes in their net positions were not significant as of and for the years ended June 30, 2012 and 2011. For the financial statements, the financial reporting impact of this change in the primary government is an increase of \$4.5 million to the "Net Position - Beginning of year" and an increase of \$1.0 million to the "Change in net position" in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2011. The financial reporting impact of this change in the discretely presented component units' financial statements is a decrease of \$3.3 million to the "Net Position -Beginning of year" and a decrease of approximately \$515,000 million to the "Change in net position" in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2011.

The University has also implemented, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB Statement No. 63") in fiscal year 2013. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. The Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of *Net Position* and the term "net assets" is changed to "net position" throughout the financial statements. The Statement also amends the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.



Analysis of Net Position and Changes in Net Position

Statements of Net Position

Assets

Total assets amounted to \$1.53 billion, \$1.54 billion and \$1.53 billion at June 30, 2013, 2012 and 2011, respectively. Total assets decreased by \$2.1 million or less than 1% in 2013 and increased by \$8.0 million or less than 1% in 2012, when compared with the prior year balances.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2013, cash and cash equivalents, investments and accounts receivable, including due from Commonwealth and from University of Puerto Rico Retirement System (Retirement System), comprise approximately 21%, 41% and 37%, respectively, of the current assets; meanwhile 84% of the noncurrent assets are capital assets. As of June 30, 2012, cash and cash equivalents, investments and accounts receivable comprise approximately 27%, 37% and 35%, respectively, of the current assets; meanwhile 84% of the noncurrent assets are capital assets.

Cash and cash equivalents (mainly certificates of deposit) amounted to \$87.2 million, \$112.3 million and \$111.1 million at June 30, 2013, 2012 and 2011, respectively. The decrease in the University's cash position of \$25.1 million or 22% in 2013 mainly resulted from \$22.3 million in advances to the University of Puerto Rico Retirement System. The increase in the University's cash position of \$1.2 million in 2012 mainly resulted from the advances taken from the lines of credit, collection of \$14.4 million of old accounts receivable from a Commonwealth's component unit, the stabilization fee established by the former Board of Trustees of the University starting in fiscal year 2011 and the strict cost control measures implemented to address the University's budgetary deficit issues.

In October 2010, the University obtained a \$100 million revolving line of credit facility with the Government Development Bank for Puerto Rico ("GDB") for working capital purposes. This line of credit was increased to \$125 million in October 2011. In addition, the University obtained a \$5 million non-revolving line of credit with GDB in June 2011, which was increased to \$75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2013 and 2012. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$71.9 million and \$12.9 million, respectively, at June 30, 2013.

Also, to address the University's budgetary deficit issues, on June 30, 2010, the former Board of Trustees of the University established a stabilization fee to be charged to all students in addition to tuition charges and other fees already in place in the University. The stabilization fee amounted to \$400 per student per semester and had no set termination date. The stabilization fee, which is included in revenue from tuitions and fees, amounted to \$42.9 million and \$44.2 million in the fiscal years ended June 30, 2013 and 2012, respectively. On January 26, 2013, the stabilization fee was repealed by the former Board of Trustees of the University effective July 1, 2013.



In addition, by virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico (the "Commonwealth") had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. Proceeds of this fund received by the University in fiscal years 2013 and 2012 amounted to \$30.0 million, of which \$21.3 million and \$25.9 million were granted as scholarships during the fiscal years ended June 30, 2013 and 2012, respectively. Unused fund balance at June 30, 2013 and 2012 amounted to \$12.1 million and \$10.9 million, respectively. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University.

Total investments amounted to \$253.6 million at June 30, 2013, an increase of \$15.6 million or 7% when compared to a balance of \$238.0 million at June 30, 2012. In 2012, total investments increased by \$9.9 million or 4%, from \$228.1 million at June 30, 2011. The increases in 2013 and 2012 were mainly due to the increases in investments designated to fund the University's Healthcare Deferred Compensation Plan.

Accounts receivable, net decreased by \$14.5 million or 11% from \$126.6 million at June 30, 2012 to \$112.1 million at June 30, 2013. In 2012, accounts receivable, net increased by \$38.2 million or 43% from \$88.4 million at June 30, 2011. Gross accounts receivable decreased by \$1.9 million or less than 1% from \$258.6 million at June 30, 2012 to \$256.7 million at June 30, 2013. In 2012, gross accounts receivable increased by approximately \$723,000 or less than 1% from \$257.9 million at June 30, 2011. The decrease in 2013 mainly resulted from an increase in the allowance for doubtful accounts as result of the aging deterioration of the accounts receivable. The allowance for doubtful accounts increased by \$12.4 million or 9% from \$132.1 million at June 30, 2012 to \$144.5 million at June 30, 2013. In 2012, the allowance for doubtful accounts decreased by \$37.4 million or 22% from \$169.5 million at June 30, 2011. In addition, the decrease of gross accounts receivable in 2013 mainly resulted from collections of \$20.0 million from a Commonwealth's agency as a result of contracts for professional development of public school teachers obtained in 2012 and net collections of \$6.2 million from a Commonwealth's component unit related to unremitted distributions of income to be received by the University under the Gambling Law. The increase of the accounts receivable, net, in 2012 mainly resulted from the increases in the due from Commonwealth's agencies of \$14.8 million and in the due from medical plans of \$17.6 million. Due from Commonwealth's agencies at June 30, 2012 includes an account receivable from a Commonwealth's agency of \$20.0 million as a result of contracts for professional development of public school teachers obtained in 2012. Due from medical plans increased in 2012 as a result of more services rendered to patients. During the year ended June 30, 2012, the University forgave amounts due by the Hospital and fully reserved by the University of \$34.5 million.

Due from Commonwealth decreased by \$8.0 million or 29% from \$27.2 million at June 30, 2012, to \$19.2 million at June 30, 2013. In 2012, due from Commonwealth decreased by \$29.1 million or 52% from \$56.3 million at June 30, 2011. Due from Commonwealth mainly decreased in 2013 and 2012 as a result of collections received of \$13.0 million and \$31.6 million, respectively, under two payment plans.



Due from University of Puerto Rico Retirement System (the "Retirement System") amounted to \$22.3 million at June 30, 2013. The balance resulted from unpaid advances given by the University to the Retirement System in fiscal year 2013. The amount due from the Retirement System is unsecured, non-interest bearing and is payable upon demand.

Capital assets increased by \$4.3 million or less than 1% from \$953.1 million at June 30, 2012 to \$957.4 million at June 30, 2013. In 2012, capital assets decreased by \$12.8 million or 1% from \$965.9 million at June 30, 2011. The changes in both years mainly resulted from the University's investment in construction projects and other capital assets for educational facilities that amounted to \$54.8 million in fiscal year 2013 and \$36.0 million in fiscal year 2012, which effect was partially (or totally) offset by the depreciation and amortization expense of \$49.5 million in fiscal year 2013 and \$46.5 million in fiscal year 2012.

Liabilities

Total liabilities amounted to \$1.04 billion, \$1.06 billion and \$1.10 billion at June 30, 2013, 2012 and 2011, respectively, a decrease of \$19.1 million or 2% in 2013 and a decrease of \$39.4 million or 4% in 2012, when compared with the prior year balances.

Current liabilities consist primarily of accounts payable and accrued liabilities, the current portion of long-term debt and other liabilities. Noncurrent liabilities primarily consist of long-term debt obligations and compensated absences.

Accounts payable and accrued liabilities decreased by \$1.6 million or 2% from \$99.2 million at June 30, 2012 to \$97.6 million at June 30, 2013. In 2012, these current liabilities decreased by \$10.4 million or 10% from \$109.6 million at June 30, 2011. The decrease in 2013 mainly resulted from the decrease in unpaid medical plan invoices and a decrease in amounts due to another Commonwealth's component units as a result of lower unpaid utilities invoices, which were partially offset by the increase in the Due to Commonwealth's component units related to unpaid medical services offered to the University's patients. The decrease in 2012 is mainly related to the decrease in amounts due to a Commonwealth's component units as a result of lower unpaid utilities invoices.

Long-term debt obligations decreased by \$23.5 million or 3% from \$692.1 million at June 30, 2012 to \$668.6 million at June 30, 2013. In 2012, long-term debt obligations decreased by \$45.3 million or 6% from \$737.4 million at June 30, 2011. The decrease in 2013 mainly resulted from principal paid on long-term debt of \$32.3 million, net of advances of \$9.6 million obtained from the lines of credit with GDB. The decrease in 2012 mainly resulted from principal paid on long-term debt obligations of \$57.5 million, net of advances of \$12.7 million obtained from the lines of credit with GDB and a commercial bank. In June 2011, the University obtained a \$5 million non-revolving line of credit with GDB, which was increased to \$75 million in August 2011, to complete certain construction projects of the



University's Program for Permanent Improvements. In October 2010, the University obtained a \$100 million revolving line of credit facility with GDB for working capital purposes, which was increased to \$125 million in October 2011. These lines of credit improved the University's cash positions at June 30, 2013 and 2012. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$71.9 million and \$12.9 million, respectively, at June 30, 2013. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. The balance outstanding of the two term loans amounted to \$1.9 million at June 30, 2013.

Long-term debt obligations include the University's revenue bonds amounted to \$509.3 million and \$540.1 million as of June 30, 2013 and 2012, respectively. These bonds are currently rated "Ba3" by Moody's Investors Service (Moody's) and "BB+" by Standard & Poor's Ratings Services (S&P). In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds) amounted to \$72.5 million and \$74.4 million as of June 30, 2013 and 2012, respectively. The AFICA bonds are currently rated "B1" by Moody's and "BB+" by S&P.

Compensated absences amounted to \$165.6 million, \$167.1 million and \$156.7 million at June 30, 2013, 2012 and 2011, respectively, a decrease of \$1.5 million or 1% in 2013 and an increase of \$10.4 million or 7% in 2012, when compared with prior year balances. Changes in compensated absences are mainly related to variations on the use of vacations by employees and total employees at the end of periods.

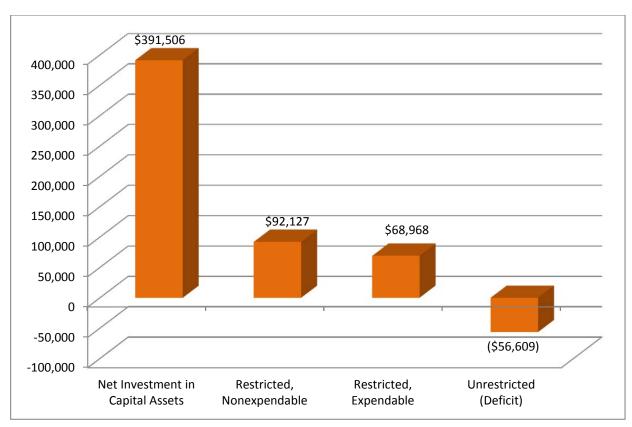
Net Position

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to \$496.0 million, \$479.0 million and \$431.6 million at June 30, 2013, 2012 and 2011, respectively, an increase of \$17.0 million or 4% in 2013 and of \$47.4 million or 11% in 2012, when compared with the prior year balances. These changes are explained in the section entitled "Statements of Revenues, Expenses and Changes in Net Position".



The major classifications of the net position at June 30, 2013 are shown in the following illustration:

Chart 1 – Net Position (Dollars in thousands)



Net investment in capital assets consists of the University's capital assets less accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position. To the extent proceeds from issuance of debt has been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.



Restricted, nonexpendable net position consists of restricted, nonexpendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net position consists of restricted, expendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Governing Board, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose.

Statements of Revenues, Expenses and Changes in Net Position

Approximately 89% of the operating revenues and nonoperating revenues of the University are Federal and Commonwealth appropriations, grants and contracts. The remainder consists primarily of tuition and fees and patient services.

Operating Revenues

Total operating revenues amounted to \$299.4 million, \$370.2 million and \$354.3 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of \$70.8 million or 19% in 2013 and an increase of \$15.9 million or 4% in 2012. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in patient services revenues.

Tuitions and fees decreased by approximately \$4.7 million or 6% from \$72.5 million in 2012 to \$67.8 million in 2013, mainly as result of an increase in the scholarship allowances, which was partially offset by a slight increase in the student enrollment at the University. Scholarship allowances increased by \$3.9 million or 6% from \$67.0 million in 2012 to \$70.9 million in 2013. For fiscal year 2013, the student body of the University consisted of approximately 56,943 students, an increase of 284 students when compared with approximately 56,659 students for fiscal year 2012. In 2012, tuitions and fees increased by approximately \$976,000 or 1%, from \$73.5 million in 2011, mainly as a result of a lower student enrollment at the University. For fiscal year 2012, the student body of the University decreased



by 5,130 students or 8% when compared with approximately 61,789 students for fiscal year 2011. In fiscal year 2010, a student conflict interrupted operations of the University campuses for up to 62 days. Historical data demonstrate that a decrease in applicants and enrollment always follows labor or student conflicts, recuperating thereafter to normal rates. The University tuition is among the lowest in Puerto Rico and in the United States of America. In accordance with a Board of Trustees Resolution, tuition cost per credit has been increased 4% annually per incoming class since academic year 2007-2008 to academic year 2012-2013. A stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the University up to June 30, 2013. The stabilization fee amounted to \$400 per student per semester. This stabilization fee increased revenue from tuitions and fees by \$42.9 million and \$44.2 million in fiscal years ended June 30, 2013 and 2012, respectively. On January 26, 2013, the stabilization fee was repealed by the former Board of Trustees of the University effective July 1, 2013. On July 30, 2013, the Governing Board of the University declared a moratorium period of one year to the 4% annual increase per incoming class in the tuition cost per credit.

In 2013, revenues from governmental grants and contracts decreased by \$44.3 million or 25% from \$174.2 million in 2012 to \$129.9 million in 2013. In 2012, revenues from governmental grants and contracts increased by \$12.7 million or 8% from \$161.5 million in 2011. The decrease in 2013 and the increase in 2012 mainly resulted from a Commonwealth's grant and contract for professional development of public school teachers and other purposes which increased these revenues by approximately \$26.3 million in 2012. No such grant was obtained in 2013. Also, the provision for doubtful accounts related to the Commonwealth grants and contracts increased by \$8.5 million from a credit to provision of \$5.3 million in 2012 to a provision of \$3.2 million in 2013. In addition, federal grants and contracts decreased by \$15.9 million or 13% from \$125.0 million in 2012, to \$109.1 million in 2013. In 2012, revenues from federal grants and contracts decreased by \$9.2 million or 7% from \$134.2 million in 2011. The decrease in 2013 mainly resulted from a situation related to the National Science Foundation (NSF) federal awards and the increase of \$2.8 million in the provision for doubtful accounts related to the federal grants and contracts. Effective April 23, 2012, NSF, an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayaguez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the Suspension Status continue with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayaguez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University. NSF federal awards amounted to \$4.6 million and \$14.1 million for the years ended June 30, 2013 and 2012, respectively.



Patient services revenue amounted to \$65.5 million, \$86.8 million and \$71.5 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of \$21.3 million or 25% in 2013 and an increase of \$15.3 million or 21% in 2012. Patient service revenue depends on medical services, including laboratories, rendered to the University's patients. Also, the provision for doubtful patient accounts increased by \$8.4 million in 2013.

Non-operating Revenues

Total non-operating revenues amounted to \$1.04 billion, \$995.7 million and \$1.04 billion for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of \$47.2 million or 5% in 2013 and a decrease of \$42.6 million or 4% in 2012.

The Commonwealth appropriations amounted to \$902.0 million, \$834.1 million and \$839.4 million for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of \$67.9 million or 8% in 2013 and a decrease of \$5.3 million or less than 1% in 2012.

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations amounted to \$756.8 million, \$685.9 million and \$691.5 million for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of \$70.9 million or 10% in 2013 and a decrease of \$5.6 million or 1% in 2012. On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, and revised the formula for the Commonwealth appropriations effective July 1, 2013.

Appropriations from the Commonwealth also include unremitted distributions of income received by the University from the Puerto Rico Tourism Company ("PRTC") under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. PRTC appropriations for the years ended June 30, 2013, 2012 and 2011 amounted to approximately \$67.9 million, \$70.9 million and \$72.4 million, respectively, a decrease of \$3.0 million or 4% in 2013 and a decrease of \$1.5 million or 2% in 2012.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to \$77.4 million, \$77.2 million and \$75.4 million for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of approximately \$144,000 in 2013 and an increase of \$1.8 million in 2012. In 2013, 2012 and 2011, these Commonwealth's appropriations included \$30 million from appropriations received from the Special Scholarship Fund. By virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum



amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University.

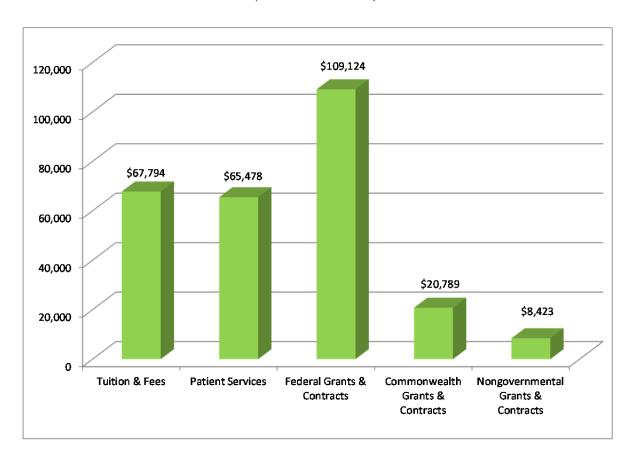
Federal Pell Grant program revenues amounted to \$161.7 million in 2013, \$174.1 million in 2012 and \$179.1 million in 2011, a decrease of \$12.4 million or 7% in 2013 and a decrease of \$5.0 million or 3% in 2012. The decreases in 2013 and 2012 were mainly due to the decrease in the Federal Pell Grant assistance along with a decrease in the number of eligible participants. Federal Pell Grant program assistance was reduced as a result of changes in the eligibility requirements such as: the minimum expected family contribution that qualifies for the maximum Pell Grant was reduced from \$30,000 to \$23,000 and the Pell lifetime eligibility period was reduced from 18 to 12 semesters, among other changes.

Capital appropriations amounted to \$5.2 million in 2013, \$465,000 in 2012 and \$5.6 million in 2011, an increase of \$4.8 million in 2013 and a decrease of \$5.1 million in 2012. The changes in 2013 and 2012 mainly related to capital contributions of \$4.3 million in 2013 and of \$4.0 million in 2011 received from the Puerto Rico Science, Technology and Research Trust (the "Trust") for the construction of the University's Molecular Science Building and purchase and installation of laboratory and other equipment to make it operational. These funds came from the Centennial Fund. The University and the Puerto Rico Industrial Development Company ("PRIDCO") entered into an agreement to create the Centennial Fund on June 30, 2004. As part of the agreement, the University will receive from the Centennial Fund \$40 million over a ten-year period of which Centennial Fund has granted \$24.5 million as of June 30, 2013. The University expects to collect the remaining balance.



The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2013:

Chart 2 – Major Sources of Operating Revenues (Dollars in thousands)

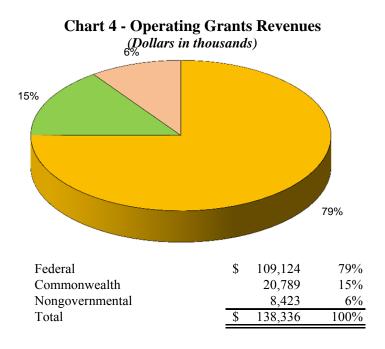




\$902,040 1,000,000 600,000 400,000 200,000 Commonwealth Federal Pell Grant Gifts Appropriations

Chart 3 – Major Sources of Nonoperating Revenues (Dollars in thousands)

Federal grants represent 79% of the University operating grants revenues. The following illustration presents the operating grants revenues of the University of Puerto Rico for the year ended June 30, 2013:





Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to \$1.33 billion, \$1.32 billion and \$1.35 billion for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of \$12.2 million or 1% in 2013 and a decrease \$29.4 million or 2% in 2012. The increase of operating expenses in 2013 is mainly resulted from the increase in fringe benefits. The reduction of operating expenses in 2012 was the result of the cost control measures taken by University.

Salaries and benefits, the most significant component of operating expenses, amounted to \$865.0 million, \$828.1 million and \$860.1 million for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of \$36.9 million or 4% in 2013 and a decrease of \$32.0 million or 4% in 2012. In August and September 2012, the University granted approximately \$29.8 million in special bonuses to all its employees as a result of the negotiations of the collective bargaining agreements and the certifications approved by the former Board of Trustees of the University. In addition, the University increased its contribution rate to the retirement plan from 14.7% in 2012 to 15.8% in 2013 and made an additional contribution to the retirement system of \$10.0 million, which resulted in an increase of \$14.1 million in the contribution benefit to the retirement plan in 2013. The increases in above fringe benefits were partially offset by a decrease in salaries expense mainly in exempt staff of \$5.2 million. In 2013, the University reduced about 140 positions of retired employees and of employees under contracted services. In 2012, these expenses decreased as a result of strict control measures taken by Management which includes the replacement of no more than 33% of retired employees, reductions in employees' benefits such as excess compensated absences, among others. In 2012, the University reduced about 250 positions of retired employees and of employees under contracted services. Notwithstanding that salary expense decreased in 2012, the University increased its contribution rate to the retirement plan from 13.0% in 2011 to 14.7% in 2012, which resulted in an increase of \$4.3 million in the contribution benefit to the retirement plan in 2012.

Scholarships and fellowships amounted to \$184.5 million, \$204.0 million and \$215.2 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of \$19.5 million or 10% in 2013 and a decrease of \$11.2 million or 5% in 2012. The decreases in 2013 and 2012 resulted from a decrease in the number of eligible participants mainly as a result of changes in the eligibility requirements in the Federal Pell Grant program.

Supplies and other services and utilities amounted to \$212.5 million, \$222.0 million and \$205.7 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of \$9.5 million or 4% in 2013 and an increase of \$16.3 million or 8% in 2012. The decrease in 2013 mainly resulted from the decrease in the uses of educational, medical and printing materials and the decrease in the utilities expense category (mainly electricity). The increase in 2012 mainly resulted in the utilities expense category (mainly electricity), in the use of educational and medical materials and in additional professional services. Utilities amounted to \$54.4 million, \$58.2 million and \$50.6 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of \$3.8 million or 6% in 2013 and an

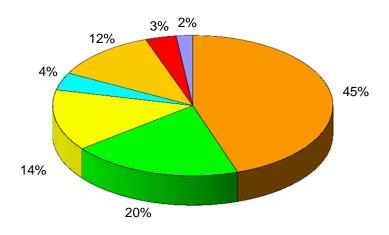
1403-1211889 22



increase of \$7.6 million or 15% in 2012. The decrease in utilities in 2013 mainly resulted from lower electricity cost. The increase in utilities in 2012 mainly resulted from higher electricity cost as a result of significant oil prices increases experienced.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2013:

Chart 5 - Operating Expenses (Dollars in thousands)

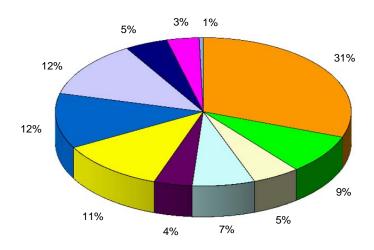


Salaries	\$ 601,174	45%
Benefits	263,814	20%
Scholarships and fellowships	184,484	14%
Supplies and other services	158,053	12%
Utilities	54,439	4%
Depreciation and amortization	49,532	3%
Other expenditures	21,776	2%
Total	\$ 1,333,272	100%



Functional expense classification presents University expenses in the operational categories they benefit. The following illustration presents the major uses of University revenues (both operating and nonoperating) on a functional basis for the year ended June 30, 2013:

Chart 6 - Expenses by Function (Dollars in thousands)



Instruction	\$ 410,162	31%
Research	115,525	9%
Public service	69,469	5%
Academic support	91,634	7%
Student services	56,305	4%
Institutional support	149,662	11%
Operation and maintenance	161,535	12%
Student aid	160,880	12%
Patient service	62,648	5%
Depreciation and amortization	49,532	3%
Other	 5,920	1%
Total	\$ 1,333,272	100%



Operating Loss and Net Change in Net Position

For the year ended June 30, 2013, the University reported an operating loss of \$1.04 billion. After adding nonoperating revenues of \$1.04 billion, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations, additions to term and permanent endowments and transfers in of \$7.9 million, the net position increased by \$17.0 million for the year ended June 30, 2013 or 4% of last year net position.

For the year ended June 30, 2012, the University reported an operating loss of \$950.8 million. After adding nonoperating revenues of \$995.7 million, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations, additions to term and permanent endowments and transfers in of \$2.5 million, the net position increased by \$47.4 million for the year ended June 30, 2012 or 11% of last year net position.

Statements of Cash Flows

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

Subsequent Events

Subsequent events were evaluated through March 30, 2014, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2013 financial statements.

On July 30, 2013, the Governing Board of the University declared a moratorium period of one year to the 4% annual increase per incoming class in the tuition cost per credit.

In September 2013, the Federal Centers for Disease Control and Prevention issued a preliminary report, which indicated that a bacterial affected several patients in the Hospital's Intensive Care Unit during a period of time, which include several months of the year ended June 30, 2013. The Hospital may be subject to penalties or sanctions as a result of this situation. Also, as of March 30, 2014, which is the date the University's financial statements were available to be issued, there are known judicial and extra-judicial claims related with this matter. As permitted by Law Number 98 of August 24, 1994, maximum claims loss against the Hospital is limited to \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes



of action. It is the opinion of the Hospital's management and its legal counsel that the outcome of these claims would not have a material effect on the Hospital's financial statements. Refer to Note 11 to the basic financial statements, "Commitments and Contingent Liabilities" Section G, "The University's Component Units."

On November 21, 2013, the National Science Foundation lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University. Refer to "Federal Assistance Programs" Section.

In January 2014, the \$75 million line of credit facility with the Government Development Bank for Puerto Rico was amended to extend its maturity date to January 31, 2016.

On February 4, 2014, Standard & Poor's Rating Services (S&P) downgraded the University's revenue bonds and the DUI's AFICA bonds from BBB- to BB+. On February 10, 2014, Moody's Investors Service (Moody's) downgraded the University's revenue bonds from Ba1 to Ba3 and the DUI's AFICA bonds from Ba2 to B1. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds.

Both rating actions followed the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth of Puerto Rico (the Commonwealth) and the Government Development Bank for Puerto Rico ("GDB")'s bonds, which it has generally mirrored given the University's significant dependence on Commonwealth's appropriations. The outlook is negative. The University is highly reliance on the Commonwealth for operating revenues and for governance coupled with reliance on GDB for liquidity and financial management support. The University has weak liquidity and limited ability to grow other revenue sources.

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 amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the University's financial statements.

Effective April 23, 2012, the National Science Foundation ("NSF"), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the



Suspension Status continue with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System ("ERS") policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University.

Capital Assets and Debt Administration

Capital assets, net increased by \$4.3 million in 2013

Capital assets are comprised of buildings used to provide high quality education and create new knowledge in the Arts, Sciences and Technology and equipment and assets under capital lease. Significant capital assets additions for the year ended June 30, 2013, consisted mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes. Capital assets increased by \$4.3 million or less than 1% from \$953.1 million at June 30, 2012 to \$957.4 million at June 30, 2013. The change in 2013 mainly resulted from the University's investment in construction projects and other capital assets for educational facilities that amounted to \$54.8 million, which effect was partially (or totally) offset by the depreciation and amortization expense of \$49.5 million. Construction commitments at June 30, 2013, entered into by the University, amounted to approximately \$36.6 million. Refer to Note 7 to the financial statements for further information regarding the University's net capital assets.

• Long-term debt obligations decreased by \$23.5 million or 3% in 2013

The decrease in 2013 mainly resulted from principal paid on long-term debt obligations of \$32.3 million, net of advances of \$9.6 million obtained from the lines of credit with GDB.

Long-term debt obligations include the University's revenue bonds and amounted to \$509.3 million as of June 30, 2013. 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. These bonds are currently rated "Ba3" by Moody's Investors Service (Moody's) and "BB+" by Standard & Poor's Ratings Services (S&P).

In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the "AFICA bonds") amounted to \$72.5 million as of June 30, 2013. The AFICA bonds are currently rated "B1" by Moody's and "BB+" by S&P. The AFICA bonds were principally issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University. In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc. for the use of Project. The lease payments from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to



guarantee to bondholders the payment of principal and interest on the AFICA Bonds as 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.

In October 2010, the University obtained a \$100 million revolving line of credit facility with the Government Development Bank for Puerto Rico ("GDB") for working capital purposes. This line of credit was increased to \$125 million in October 2011. In addition, the University obtained a \$5 million non-revolving line of credit with GDB in June 2011, which was increased to \$75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2013 and 2012. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$71.9 million and \$12.9 million, respectively, at June 30, 2013.

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. The balance outstanding of the two term loans amounted to \$1.9 million at June 30, 2013.

Refer to Notes 6, 8, 9 and 10 to the basic financial statements for further information regarding the University's long-term debt obligations.

Economic Outlook

The University's business activities are conducted in Puerto Rico. Its operating results are mainly funded by nonoperating revenues mainly from the Commonwealth of Puerto Rico appropriations and from the United States of America Government grants (Federal Pell Grant Program).

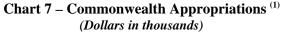
Puerto Rico uses the U.S. currency and forms part of the U.S. financial system. Factors affecting the U.S. economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, the rate of inflation, and tourist expenditures, among others. In the past, the economy of Puerto Rico has generally followed economic trends in the overall U.S. economy.

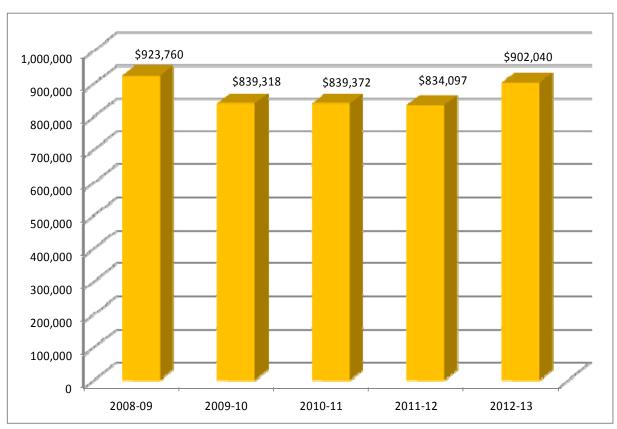
The Puerto Rico economy is currently in a recession that began officially in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5%. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in tourism and retail sales, budget shortfalls and diminished consumer buying power driven by the implementation of a sales tax.



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 general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students.

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





⁽¹⁾Includes restricted funds for special activities.



In February 2014, Standard & Poor's Rating Services ("S&P") and Moody's Investors Service (Moody's) downgraded the University's revenue bonds and the DUI's AFICA bonds. Both rating actions followed the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth of Puerto Rico (the "Commonwealth") and the Government Development Bank for Puerto Rico ("GDB")'s bonds, which it has generally mirrored given the University significant dependence on Commonwealth's appropriations. The outlook is negative. The University is highly reliant on the Commonwealth for operating revenues and for governance coupled with reliance on GDB for liquidity and financial management support.

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

Request for Information

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



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Net Position as of June 30, 2013

		Primary G	overnment				onent Units	
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total
Assets	T derio Rico	IIIC.	Limmations	Total	IIIC.	System, Inc.	Center, me.	Total
Current assets:								
Cash and cash equivalents	\$ 65,751,085	\$ 704,823	s –	\$ 66,455,908	\$ 11,019,042	\$ 1,097,965	\$ 434,995	\$ 12,552,002
Restricted cash and cash equivalents	16,891,473	_	-	16,891,473	-	-	_	_
Investments at fair value	92,872,001	-	_	92,872,001	_	_	_	_
Restricted investments at fair value- deposited with trustee	54,666,234	15,495,443		70,161,677				
Accounts receivable, net	112,112,022	13,493,443		112,112,022	12,775,164	86,902	223,162	13,085,228
Internal balance- net investment in	112,112,022			112,112,022	12,773,104	80,902	223,102	13,083,228
direct financing lease, current portion	_	1,586,188	(1,586,188)	_				
Due from Commonwealth of Puerto Rico	14,220,255			14,220,255	_	_	_	_
Due from University of Puerto Rico Retirement System	22,338,674	_	_	22,338,674	_	_	_	_
Due from University of Puerto Rico	_	1,658,665	(1,658,665)	-	8,644,837			8,644,837
Inventories	3,373,836		-	3,373,836	1,182,105			1,182,105
Prepaid expenses and deferred charges	606,860	18,351	_	625,211	189,868	8,505	64,420	262,793
Total current assets	382,832,440	19,463,470	(3,244,853)	399,051,057	33,811,016	1,193,372	722,577	35,726,965
Noncurrent assets:								
Restricted cash and cash equivalents	1,773,715	2,081,241	-	3,854,956	-	-	-	-
Restricted investments at fair value	90,520,654	_	-	90,520,654	-	_	_	_
Internal balance- net investment in		61 772 222	(61,772,223)					
direct financing lease, net of current portion Due from Commonwealth of Puerto Rico	5,000,000	61,772,223	(61,772,223)	5,000,000	182,983			182,983
Prepaid pension asset and other assets	72,498,825	1,841,477		74,340,302	102,703			182,983
Notes receivable, net	4,598,317	1,041,477	_	4,598,317	_	_	_	_
Capital assets (net of accumulated depreciation and amortization):	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				
Land and other nondepreciable assets	96,483,400	_	_	96,483,400	832,638	_	_	832,638
Depreciable assets	860,874,328	_	_	860,874,328	6,061,091	167,870	93,264	6,322,225
Total noncurrents assets	1,131,749,239	65,694,941	(61,772,223)	1,135,671,957	7,076,712	167,870	93,264	7,337,846
Total assets	1,514,581,679	85,158,411	(65,017,076)	1,534,723,014	40,887,728	1,361,242	815,841	43,064,811
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	94,399,583	4,841,355	(1,658,665)	97,582,273	19,121,214	74,032	39,927	19,235,173
Current portion of long-term debt	27,311,037	1,960,000	-	29,271,037	1,517,029	-	_	1,517,029
Internal balance- obligation under								
capital lease, current portion	1,586,188	_	(1,586,188)	-		-	_	
Due to University of Puerto Rico Other current liabilities	36,557,623	_	_	36,557,623	17,242,579	_	_	17,242,579
Total current liabilities	159,854,431	6,801,355	(3,244,853)	163,410,933	37,880,822	74,032	39,927	37,994,781
Noncurrent liabilities:								
Long-term debt, net of current portion	568,750,111	70,546,461	-	639,296,572	16,169,582	-	_	16,169,582
Internal balance- obligation under								
capital lease, net of current portion	61,772,223 236.023.815	-	(61,772,223)	236,023,815	1,348,296	-	_	1,348,296
Other long-term liabilities								
Total noncurrent liabilities	866,546,149	70,546,461	(61,772,223)	875,320,387	17,517,878	_		17,517,878
Total liabilities	1,026,400,580	77,347,816	(65,017,076)	1,038,731,320	55,398,700	74,032	39,927	55,512,659
Net position (deficit):								
Net investment in capital assets	391,506,505	_	_	391,506,505	_	167,870	93,264	261,134
Restricted, nonexpendable:								
Scholarships and fellowships	35,287,567	_	-	35,287,567	-	-	_	_
Research	45,871,152	_	_	45,871,152	_	-	_	_
Other	10,967,693	_	_	10,967,693	_	-	-	_
Restricted, expendable: Loans	8,322,723			8,322,723				
Capital projects	8,322,723 1,210,064	2,140,146		8,322,723 3,350,210	_	_	_	
Debt service	48,694,269	8,600,661	_	57,294,930	_	_	_	_
Unrestricted (deficit)	(53,678,874)	(2,930,212)	_	(56,609,086)	(14,510,972)	1,119,340	682,650	(12,708,982)
Total net position (deficit)	\$ 488,181,099	\$ 7,810,595	\$ –	\$ 495,991,694	\$ (14,510,972)	\$ 1,287,210	\$ 775,914	\$ (12,447,848)
<u> </u>	,,	,,			. (,,>,2)	,=::,=10		. (==, : : , ; ; ; ; ;)

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Net Position as of June 30, 2012

		Primary G	Government				onent Units	
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total
Assets Current assets:								
Cash and cash equivalents	\$ 94,529,117	\$ 527,488	s –	\$ 95,056,605	\$ 7,240,915	\$ 981,691	\$ 389,980	\$ 8,612,586
Restricted cash and cash equivalents	12,056,085	- 327,100	_	12,056,085	- 7,210,515	- 501,051	- 305,500	- 0,012,500
Investments at fair value	80,135,053	_	_	80,135,053	_	_	_	_
Restricted investments at fair value- deposited with trustee	54,649,587	15,059,470	_	69,709,057	_	-	_	_
Accounts receivable, net	126,562,190	-	_	126,562,190	15,378,692	179,797	246,476	15,804,965
Internal balance- net investment in								
direct financing lease, current portion	-	1,472,628	(1,472,628)	45 500 000	-	-	-	-
Due from Commonwealth of Puerto Rico Due from University of Puerto Rico	15,500,000	1 605 751	(1.695.751)	15,500,000	9,318,328	_	_	9,318,328
Inventories	3,311,406	1,685,751	(1,685,751)	3,311,406	1,008,543	_	_	1,008,543
Prepaid expenses and deferred charges	476,496	14,818	_	491,314	229,368	8,857	57,939	296,164
Total current assets	387,219,934	18,760,155	(3,158,379)	402,821,710	33,175,846	1,170,345	694,395	35,040,586
	507,215,554	10,700,122	(0,100,075)	402,021,710	25,172,010	1,170,010	054,050	22,040,200
Noncurrent assets: Restricted cash and cash equivalents	3,170,788	1,965,583		5,136,371				
Restricted investments at fair value	88,120,242	1,705,505		88,120,242				
Internal balance- net investment in	00,120,212			00,120,212				
direct financing lease, net of current portion	_	63,220,500	(63,220,500)	_	_	_	_	_
Due from Commonwealth of Puerto Rico	11,720,254	_		11,720,254	155,636	_	_	155,636
Prepaid pension asset and other assets	70,118,269	1,920,252	_	72,038,521	-	_	_	-
Notes receivable, net	3,940,201	-	_	3,940,201	-	_	_	-
Capital assets (net of accumulated depreciation and								
amortization):	100.001.010			100 001 010	4 000 440			1 000 110
Land and other nondepreciable assets	109,024,213 844,029,672	4,433	_	109,024,213 844,034,105	1,083,642 4,767,399	124,425	134,836	1,083,642
Depreciable assets								5,026,660
Total noncurrents assets	1,130,123,639	67,110,768	(63,220,500)	1,134,013,907	6,006,677	124,425	134,836	6,265,938
Total assets	1,517,343,573	85,870,923	(66,378,879)	1,536,835,617	39,182,523	1,294,770	829,231	41,306,524
Liabilities Current liabilities:								
Accounts payable and accrued liabilities	96.017.574	4,841,754	(1,685,751)	99,173,577	22,344,401	82,011	51,578	22,477,990
Current portion of long-term debt	30,404,791	1,860,000	(1,005,751)	32,264,791	1,791,641	02,011	51,576	1,791,641
Internal balance- obligation under	30,101,771	1,000,000		32,201,731	1,771,011			1,771,011
capital lease, current portion	1,472,628	_	(1,472,628)	_	_	_	_	_
Due to University of Puerto Rico	-	_		_	16,596,452	-	_	16,596,452
Other current liabilities	37,222,070	_	_	37,222,070		_	_	
Total current liabilities	165,117,063	6,701,754	(3,158,379)	168,660,438	40,732,494	82,011	51,578	40,866,083
Noncurrent liabilities:								
Long-term debt, net of current portion	587,328,733	72,490,252	_	659,818,985	17,653,223	_	_	17,653,223
Internal balance- obligation under								
capital lease, net of current portion Other long-term liabilities	63,220,500 229,317,139		(63,220,500)	229,317,139	1,215,796	_	_	1,215,796
Total noncurrent liabilities	879,866,372	72,490,252	(63,220,500)	889,136,124	18,869,019	_	_	18,869,019
Total liabilities	1,044,983,435	79,192,006	(66,378,879)	1,057,796,562	59,601,513	82,011	51,578	59,735,102
N. ((1 (1								
Net position (deficit): Net investment in capital assets	352,899,491	4,433		352,903,924		124,425	134,836	259,261
Restricted, nonexpendable:	352,899,491	4,433	_	352,903,924	-	124,425	134,836	259,261
Scholarships and fellowships	32,041,023			32,041,023				
Research	46,733,728			46,733,728				
Other	10,920,969	_	_	10,920,969	_	_	_	_
Restricted, expendable:				-,,				
Loans	8,008,289	_	_	8,008,289	_	_	_	_
Capital projects	-	2,104,511	-	2,104,511	-	-	_	-
Debt service	52,564,612	8,212,375	-	60,776,987		-	-	-
Unrestricted (deficit)	(30,807,974)	(3,642,402)		(34,450,376)	(20,418,990)	1,088,334	642,817	(18,687,839)
Total net position (deficit)	\$ 472,360,138	\$ 6,678,917	\$ -	\$ 479,039,055	\$ (20,418,990)	\$ 1,212,759	\$ 777,653	\$ (18,428,578)

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2013

		Primary Go	vernment		Component Units						
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total			
Revenues	Tuerto Inco		- Imminutions			буженц инст	Center, Inc.				
Operating revenues:											
Tuitions and fees (net of scholarship allowances and others of \$72,275,333)	\$ 67,793,717	\$ —	\$ -	\$ 67,793,717	s –	s –	\$ -	s –			
Net patient services revenue and other (net of provision to allowances of \$12,548,658) Federal grants and contracts (net of provision	65,477,636	-	-	65,477,636	49,213,741	-	-	49,213,741			
to allowances of \$2,771,539) Commonwealth grants and contracts (net of provision	109,123,980	-	-	109,123,980	-	-	-	-			
to allowances of \$3,189,597) Nongovernmental grants and contracts (net of provision	20,789,467	-	-	20,789,467	_	-	_	-			
to allowances of \$503,990)	8,423,102	_	_	8,423,102		_	_	_			
Sales and services of educational departments Auxiliary enterprises (net of provision	11,871,220	=	=	11,871,220	_	_	Ξ	=			
to allowances of \$932,237)	1,348,063	_	_	1,348,063	_	_	_	_			
Other operating revenues	14,580,045	3,234,986	(3,234,986)	14,580,045	2,211,183	1,451,110	480,964	4,143,257			
Total operating revenues	299,407,230	3,234,986	(3,234,986)	299,407,230	51,424,924	1,451,110	480,964	53,356,998			
Operating expenses: Salaries:											
Faculty	341,883,809	_	_	341,883,809	-	-	_	-			
Exempt staff	258,274,590	_	_	258,274,590	4,246,213	-	=	4,246,213			
Nonexempt wages	740,902	274,569	-	1,015,471	9,593,566	315,952	93,343	10,002,861			
Benefits	263,760,805	53,021	_	263,813,826	3,627,119	56,035	15,912	3,699,066			
Scholarships and fellowships Supplies and other services	184,484,054 158,946,614	2,341,231	(3,234,986)	184,484,054 158,052,859	20,565,893	337,937	292,251	21,196,081			
Utilities	54,255,329	183,626	(3,234,760)	54,438,955	3,541,540	11,949	797	3,554,286			
Depreciation and amortization	49,527,495	4,433	_	49,531,928	1,557,158	17,911	47,123	1,622,192			
Other expenses	21,720,981	56,438		21,777,419	2,487,558	13,223	33,277	2,534,058			
Total operating expenses	1,333,594,579	2,913,318	(3,234,986)	1,333,272,911	45,619,047	753,007	482,703	46,854,757			
Operating income (loss)	(1,034,187,349)	321,668	-	(1,033,865,681)	5,805,877	698,103	(1,739)	6,502,241			
Nonoperating revenues (expenses):											
Commonwealth and other appropriations Federal Pell Grant program	902,040,122	_	-	902,040,122	-	-	_	-			
Gifts	161,651,248 8.888.503	_	_	161,651,248 8,888,503	_	_	=	-			
Net investment income	3,885,624	427,926	_	4,313,550	_	4,359		4,359			
Interest on capital assets - related debt	(28,873,961)	(3,834,233)	4,216,317	(28,491,877)	(864,526)	-	_	(864,526)			
Interest on notes payable Interest income from internal balance- investment	(4,218,935)		-	(4,218,935)	· -	_	-	-			
in direct financing lease Other nonoperating revenues (expenses), net	(1.265.547)	4,216,317	(4,216,317)	(1,265,547)	966.667	-	-	966.667			
	1,042,107,054	810,010			102,141	4,359		106,500			
Net nonoperating revenues				1,042,917,064							
Income (loss) before other revenues	7,919,705	1,131,678	_	9,051,383	5,908,018	702,462	(1,739)	6,608,741			
Capital appropriations	5,219,203	-	_	5,219,203	=	_	_	-			
Additions to term and permanent endowments	2,054,042	-	-	2,054,042	-	-	=	-			
Transfers in (out)	628,011			628,011		(628,011)		(628,011)			
Change in net position	15,820,961	1,131,678	=	16,952,639	5,908,018	74,451	(1,739)	5,980,730			
Net position (deficit): Beginning of year	472,360,138	6,678,917	_	479,039,055	(20,418,990)	1,212,759	777,653	(18,428,578)			

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2012

		Primary G	overnment		Component Units							
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total				
Revenues												
Operating revenues:												
Tuitions and fees (net of scholarship		_			_	_	_	_				
allowances of \$66,985,162)	\$ 72,474,954	\$ -	\$ -	\$ 72,474,954	\$ -	\$ -	\$ -	\$ -				
Net patient services revenue and other	86,819,429	_	_	86,819,429	43,263,543	_	_	43,263,543				
Federal grants and contracts Commonwealth grants and contracts (net of credit	125,037,138	_	_	125,037,138	_	_	_	_				
to allowances \$5,322,450)	49,128,919			49,128,919				_				
Nongovernmental grants and contracts	13.823.194	_		13.823.194	_	_	_	_				
Sales and services of educational departments	11,620,001			11,620,001								
Auxiliary enterprises (net of provision to	11,020,001			11,020,001				_				
allowances of \$136,405)	2,986,223	_	_	2,986,223	_	_	_	_				
Other operating revenues	8,299,862	3,286,245	(3,286,245)	8,299,862	1,830,992	1,262,830	466,099	3,559,921				
Total operating revenues	370,189,720	3,286,245	(3,286,245)	370,189,720	45,094,535	1,262,830	466,099	46,823,464				
Operating expenses:												
Salaries:												
Faculty	342,326,653	_	_	342,326,653	_	_	_	-				
Exempt staff	263,976,483	_	_	263,976,483	4,085,276	_	_	4,085,276				
Nonexempt wages	811,761	267,261	_	1,079,022	9,692,343	272,740	96,337	10,061,420				
Benefits	220,640,249	56,597	_	220,696,846	2,175,430	59,276	23,655	2,258,361				
Scholarships and fellowships	203,958,904	_	_	203,958,904	_	_	_	_				
Supplies and other services	164,710,063	2,381,195	(3,286,245)	163,805,013	19,660,431	315,223	303,524	20,279,178				
Utilities	58,027,211	165,817	_	58,193,028	3,323,787	12,759	1,003	3,337,549				
Depreciation and amortization	46,473,333	8,659	-	46,481,992	1,551,374	14,856	46,225	1,612,455				
Other expenses	20,448,034	62,962		20,510,996	337,787	2,766	17,253	357,806				
Total operating expenses	1,321,372,691	2,942,491	(3,286,245)	1,321,028,937	40,826,428	677,620	487,997	41,992,045				
Operating income (loss)	(951,182,971)	343,754	-	(950,839,217)	4,268,107	585,210	(21,898)	4,831,419				
Nonoperating revenues (expenses):												
Commonwealth and other appropriations	834,097,217	_	_	834,097,217	_	_	_	_				
Federal Pell Grant program	174,139,169	_	_	174,139,169	_	_	_	_				
Gifts	12,166,408	_	_	12,166,408	_	_	_	_				
Net investment income	2,381,749	426,263	_	2,808,012	_	1,605	_	1,605				
Interest on capital assets - related debt	(23,477,739)	(3,939,910)	4,310,412	(23,107,237)	(974,053)	_	_	(974,053)				
Interest on notes payable	(4,570,254)	_	_	(4,570,254)	_	_	_	_				
Interest income from internal balance- investment												
in direct financing lease	_	4,310,412	(4,310,412)	_	_	_	_	-				
Other nonoperating revenues, net	173,075			173,075								
Net nonoperating revenues (expenses)	994,909,625	796,765		995,706,390	(974,053)	1,605		(972,448)				
Income (loss) before other revenues	43,726,654	1,140,519	-	44,867,173	3,294,054	586,815	(21,898)	3,858,971				
Capital appropriations	465,279	_	-	465,279	_	_	_	-				
Additions to term and permanent endowments	1,817,010	_	_	1,817,010	_	_	_	-				
Transfers in (out)	293,668			293,668	34,496,756	(293,668)		34,203,088				
Change in net position	46,302,611	1,140,519	-	47,443,130	37,790,810	293,147	(21,898)	38,062,059				
Net position (deficit):												
Beginning of year, as restated (Note 1)	426,057,527	5,538,398		431,595,925	(58,209,800)	919,612	799,551	(56,490,637)				
End of year	\$ 472,360,138	\$ 6,678,917	\$	\$ 479,039,055	\$ (20,418,990)	\$ 1,212,759	\$ 777,653	\$ (18,428,578)				

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Cash Flows

	Prima	ry Government for the	Year Ended June 30, 2	013	Primar	y Government for the	Year Ended June 30, 20	12
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total
Cash flows from operating activities								
Tuition and fees	\$ 67.711.964	s –	• _	\$ 67.711.964	\$ 72.089.231	S -	\$ _	\$ 72.089.231
Grants and contracts	158,288,427	φ – –		158.288.427	169,312,230	• – –		169,312,230
Patient services	59,745,490	_	_	59,745,490	70,853,228	_	_	70,853,228
Auxiliary enterprises	2,280,300	_	_	2,280,300	2,986,223	_	_	2,986,223
Sales and services educational departments and other	26,451,265	_	_	26,451,265	20,213,531	_	_	20,213,531
Payments to suppliers	(180,252,145)	(2,601,294)	3,430,316	(179,423,123)	(178,868,605)	(2,614,564)	3,248,548	(178,234,621)
Payments to employees	(590,151,788)	(333,579)	-	(590,485,367)	(601,788,241)	(322,354)	_	(602,110,595)
Payments for benefits	(268,914,339)	-	-	(268,914,339)	(220,710,086)	=	_	(220,710,086)
Payments for utilities	(58,998,903)	-	-	(58,998,903)	(55,745,561)	-	-	(55,745,561)
Payments for scholarships and fellowships	(184,484,053)	-	_	(184,484,053)	(203,958,903)	-	_	(203,958,903)
Loans issued to students, net of repayments	(658,116)	_	_	(658,116)	(627,807)			(627,807)
Other receipts (payments)	(0<0.001.000)	3,424,877	(3,430,316)	(5,439)	(1,723,492)	3,233,151	(3,248,548)	(1,738,889)
Net cash provided by (used in) operating activities	(968,981,898)	490,004	-	(968,491,894)	(927,968,252)	296,233	=	(927,672,019)
Cash flows from noncapital financing activities								
Commonwealth appropriations	910,040,121	-	-	910,040,121	857,037,324	=-	-	857,037,324
Federal Pell program	161,651,248	-	-	161,651,248	174,139,169	-	_	174,139,169
Endowment gifts	2,054,042	-	-	2,054,042	1,817,010	-	_	1,817,010
Proceeds from noncapital debt	6,927,749	-	-	6,927,749	- (20.704 (40)	-	_	(20.706.660)
Principal paid on noncapital debt	- (4.102.00.6)	_	-	(4.402.005)	(28,706,660)	_	_	(28,706,660)
Interest paid on notes payable	(4,182,096)	_	_	(4,182,096)	(4,629,396)	_	_	(4,629,396)
Gifts and grants for other than capital purposes	8,888,503 (1,265,547)	-	-	8,888,503 (1,265,547)	12,166,408 173.075	-	_	12,166,408 173,075
Other non-operating receipts (payments) Net cash provided by noncapital financing activities	1,084,114,020			1,084,114,020	1,011,996,930			1,011,996,930
	1,004,114,020	_	_	1,004,114,020	1,011,550,530	=	=	1,011,550,530
Cash flows from capital and related financing								
activities	5 210 202			5,219,203	465,279			465.270
Capital appropriations Purchases of capital assets	5,219,203 (53,831,338)	_	_	(53,831,338)	(35,965,027)	-	_	465,279 (35,965,027)
Proceeds from sales of capital assets	(33,631,336)	_	-	(33,031,330)	231,413	_	_	231,413
Proceeds from capital debt	2,669,942	_	-	2,669,942	12,674,324	_	_	12,674,324
Principal paid on capital debt and lease	(31,737,441)	(1,860,000)	1,480,983	(32,116,458)	(28,462,025)	(1,760,000)	1,391,520	(28,830,505)
Interest paid on capital debt and lease	(29,813,159)	(3,789,625)	4,216,317	(29,386,467)	(24,469,100)	(3,891,438)	4,310,412	(24,050,126)
Decrease (increase) in deposit with trustee	(16,647)	(435,973)	-	(452,620)	26	(437,797)		(437,771)
Net cash provided by (used in) capital and related	(==,===)	(102):10)		(111)		(14,,,,,,)		(101,111)
financing activities	(107,509,440)	(6,085,598)	5,697,300	(107,897,738)	(75,525,110)	(6,089,235)	5,701,932	(75,912,413)
Cash flows from investing activities								
Proceeds from sales and maturities of investments	65,648,824	_	_	65,648,824	35,790,786	_	_	35,790,786
Purchases of investments	(80,786,186)	-	_	(80,786,186)	(45,229,314)	-	_	(45,229,314)
Collections of interest and dividend income on investments	3,885,626	429,864	_	4,315,490	2,381,749	429,120	_	2,810,869
Advances to the University of Puerto Rico Retirement System	(22,338,674)	-	-	(22,338,674)	_	=	_	-
Contribution from component unit	628,011	-	-	628,011	293,668	-	_	293,668
Principal collected from internal balance- investment in								
direct financing lease	_	1,480,983	(1,480,983)	-	_	1,391,520	(1,391,520)	-
Interest collected from internal balance- investment in								
direct financing lease	_	4,216,317	(4,216,317)	-	_	4,310,412	(4,310,412)	-
Other receipts (payments)		(238,577)		(238,577)		(888,459)		(888,459)
Net cash provided by (used in) investing activities	(32,962,399)	5,888,587	(5,697,300)	(32,771,112)	(6,763,111)	5,242,593	(5,701,932)	(7,222,450)
Net change in cash and cash equivalents	(25,339,717)	292,993	-	(25,046,724)	1,740,457	(550,409)	-	1,190,048
Cash and cash equivalents:								
Beginning of year	109,755,990	2,493,071		112,249,061	108,015,533	3,043,480		111,059,013
End of year	\$ 84,416,273	\$ 2,786,064	\$ -	\$ 87,202,337	\$ 109,755,990	\$ 2,493,071	\$ -	\$ 112,249,061

(Continued)



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Cash Flows (continued)

		Primary Gov	Primary Government for the Year Ended June 30, 2012									
	_	University of Puerto Rico	_	esarrollos versitarios, Inc.	_	Total		University of Puerto Rico	_	esarrollos iversitarios, Inc.		Total
Reconciliation of operating income (loss) to net cash												
provided by (used in) operating activities	Φ.	(1.024.107.240)	٨	221 ((0	Φ	(1.022.005.001)	¢.	(051 102 071)	¢.	242.754	¢.	(050 020 215)
Operating income (loss)	\$	(1,034,187,349)	\$	321,668	\$	(1,033,865,681)	\$	(951,182,971)	\$	343,754	\$	(950,839,217)
Adjustments to reconcile operating income (loss) to net cash												
provided by (used in) operating activities:						40 ==4 0=0						
Depreciation and amortization		49,527,495		4,433		49,531,928		46,473,333		8,659		46,481,992
Provision for doubtful accounts		12,464,377		-		12,464,377		7,104,484		_		7,104,484
Changes in operating assets and liabilities:												
Decrease (increase) in:												
Grants and contracts receivables		1,985,792		-		1,985,792		(29,062,334)		_		(29,062,334)
Prepaid expenses, inventories and other		(3,231,466)		(3,533)		(3,234,999)		(844,756)		(11,755)		(856,511)
Increase (decrease) in:												
Accounts payable and accrued liabilities		(6,288,260)		173,425		(6,114,835)		(7,884,460)		(45,928)		(7,930,388)
Accrued salaries, wages, benefits and other liabilities		10,747,513		(5,989)		10,741,524		7,428,452		1,503		7,429,955
Net cash provided by (used in) operating activities	\$	(968,981,898)	\$	490,004	\$	(968,491,894)	\$	(927,968,252)	\$	296,233	\$	(927,672,019)
Supplemental schedule of noncash investing, capital and financing activities: Due from Servicios Médicos Universitarios, Inc. forgiven by the University of Puerto Rico	\$		\$		\$		S	34,496,756	\$		\$	34,496,756
longition of the oniversity of 1 delto Neo	φ		Ψ		Ψ		Ψ	37,770,730	Ψ		Ψ	57,70,730

See accompanying notes.



Notes to Financial Statements June 30, 2013

1. Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

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

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a thirteen-member Governing Board, of which nine members were appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board. The Governor appointed the original members for a term of six years. The terms for the student and professors are one year.

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

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 general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students.

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

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

THE POLICY OF TH

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

A. Reporting Entity (continued)

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

Blended Component Unit: The following component unit, although legally separate, is reported as if it was part of the primary government because its debt is expected to be repaid entirely or almost entirely with resources of the University:

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

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

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. (the "Hospital") is a legally separate entity from the University and is governed by a separate board. The Hospital is a not-for-profit acute care corporation, organized under the Laws of the Commonwealth of Puerto Rico, on February 11, 1998, to operate and administer healthcare units. The principal objectives of the Hospital are to constitute it as the principal medical education institution of the University and to offer healthcare services to the residents of Puerto Rico. The University appoints a voting majority of the Hospital board and is also financially accountable for the Hospital. Complete financial statements of the Hospital can be obtained directly by contacting the Hospital's administrative offices.

OF STATE OF

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

A. Reporting Entity (continued)

University of Puerto Rico Parking System, Inc.

University of Puerto Rico Parking System, Inc. ("UPRPS") is a legally separate entity from the University and is governed by a separate board. UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. Actually, UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses. The University appoints a voting majority of UPRPS board and is also financially accountable for UPRPS. UPRPS's assets, liabilities, revenues, expenses and changes in its net positions were not significant as of and for the years ended June 30, 2013 and 2012. Complete financial statements of UPRPS can be obtained directly by contacting the UPRPS's administrative offices.

Materials Characterization Center, Inc.

Materials Characterization Center, Inc. ("MCC") is a legally separate entity from the University and is governed by a separate board. MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Science of the Rio Piedras Campus of the University. The University appoints a voting majority of MCC board and is also financially accountable for MCC. MCC's assets, liabilities, revenues, expenses and changes in its net positions were not significant as of and for the years ended June 30, 2013 and 2012. Complete financial statements of MCC can be obtained directly by contacting the MCC's administrative offices.

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

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

B. Measurement Focus and Basis of Accounting

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

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



Notes to Financial Statements (continued) June 30, 2013

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

C. Estimates and Assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Reclassifications

Reclassifications of prior year balances have been made to conform to the current year presentation.

E. Cash Equivalents

Cash equivalents include all highly liquid debt instruments with original maturities of three months or less from the date of acquisition.

F. Investments

Investments are reported at fair value, except for money market investments which are carried at cost, in the statements of net position. Fair value is based on quoted market prices. The changes in the fair value of investments are reported in the statements of revenues, expenses and changes in net position as a component of net investment income (non-operating activities).

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value, except for investment positions in 2a-7 like external pools which are carried at the pool's share price, which approximates amortized cost.

G. Allowance for Doubtful Accounts

The allowance for uncollectible accounts and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

H. Interfund Balances and Transactions

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

I. Inventories

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

TO DE VILLE DE VILLE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

J. Capital Assets

All capital expenditures of \$1,000 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment, library materials and software, and 7 to 30 years for land improvements.

Renovations to buildings and other assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense has been incurred.

K. Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the University should be reported at the lower of carrying value or fair value. No impairment charges were recorded during the years ended June 30, 2013 and 2012.

L. Bond Premium/Discount, Deferred Issuance Costs and Deferred Refunding Loss

The University amortizes bond premium and/or discount and deferred issuance costs using the effective interest method. Deferred refunding loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. DUI amortizes bond premium and/or discount and deferred issuance costs using a method which approximates the effective interest method.

M. Deferred Compensation Plan

The University offers certain employees a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair 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.

N

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

N. 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. At June 30, 2013 and 2012, the cost of the excess of 90 days of the accumulated sick leave was approximately \$9,867,000 and \$10,886,000, respectively, which is included in other current liabilities in the accompanying statements of net position.

O. Classification of Net Position

The University's net position is classified as follows:

- Net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position. To the extent proceeds from issuance of debt has been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.
- Restricted, nonexpendable component of net position consists of restricted, nonexpendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- Restricted, expendable component of net position consists of restricted, expendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted component of net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty

TEODS OF THE PROPERTY OF THE P

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

O. Classification of Net Position (continued)

and staff. While unrestricted net position may be designated for specific purposes by action of management or the Governing Board, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose.

P. Classification of Revenues

The University and its component units have classified their revenues as either operating or nonoperating revenues. Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state and local grants and contracts; and, hospital patient service revenues, net of allowances for contractual adjustments and doubtful accounts. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Federal Pell Grants and other revenue sources that are defined as nonoperating revenues, such as state appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

Q. Scholarship Allowances and Student Financial Aid

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

R. Net Patient Service Revenue

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



Notes to Financial Statements (continued) June 30, 2013

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

S. Grants and Contracts

The University has been awarded grants and contracts for which the funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed and for grants without either of the above requirements, the revenue is recognized as it is received.

T. Gifts and Pledges

Pledges of financial support from organizations and individuals representing unconditional promises to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promises, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

U. Pension

Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contribution ("ARC") to the plan, calculated in accordance with certain parameters. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and the statutorily required contributions.

V. Postemployment Benefits Other Than Pensions

Other postemployment benefits ("OPEB") are measured and disclosed using the accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

W. New Accounting Standards Adopted

In fiscal year 2013, the University adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board ("GASB"):

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (GASB Statement No. 60)
- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 (GASB Statement No. 61)

Notes to Financial Statements (continued) June 30, 2013

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

W. New Accounting Standards Adopted (continued)

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB Statement No. 62)
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB Statement No. 63)

GASB Statement No. 60 establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangement is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties. A transferor reports the facility subject to a Service Concession Arrangement as its Capital Asset. New Capital Assets constructed or acquired by the operator or improvements to existing Capital Assets made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 61 modifies certain requirements for inclusion of Component Units in the financial reporting entity. For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, GASB Statement No. 61 requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB Statement No. 61 requires a primary government to report its equity interest in a Component Unit as an asset.

OF STATE OF

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

W. New Accounting Standards Adopted (continued)

As a result of the analysis performed by the University in the course of implementing GASB Statement No. 61, a managerial decision was made to change the reporting of Desarrollos Universitarios, Inc. ("DUI") and to incorporate two additional component units of the University: the University of Puerto Rico Parking System, Inc. ("UPRPS") and Materials Characterization Center, Inc. ("MCC"). The effect on the University's basic financial statements is to report DUI as Blended Component Unit of the University and to report UPRPS and MCC as Discretely Presented Component Units of the University. DUI was formerly reported as a discretely presented component unit of the University. UPRPS and MCC were not included in prior year financial statements because their assets, liabilities, revenues, expenses and changes in their net position were not significant as of and for the years ended June 30, 2012 and 2011. For the financial statements, the financial reporting impact of this change in the primary government is an increase of \$5.5 million to the "Net Position - Beginning of year" and an increase of \$1.1 million to the "Change in net position" in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012. For the financial statements, the financial reporting impact of this change in the discretely presented component units is a decrease of \$3.8 million to the "Net Position - Beginning of year" and a decrease of approximately \$869,000 million to the "Change in net position" in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012.

The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure. GASB Statement No. 62 also supersedes Statement No. 20, Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements, can continue to apply those pronouncements as other accounting literature. There was no impact on the University's financial statements as a result of the implementation of GASB Statement No. 62.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. The Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the *Statement of Net Assets* to what is now referred to as the *Statement of Net Position* and the term "net assets" is changed to "net position" throughout the financial statements. The Statement also amends the reporting of the "net investment in capital assets" component of net position. This component consists



Notes to Financial Statements (continued) June 30, 2013

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

W. New Accounting Standards Adopted (continued)

of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

X. Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 66, *Technical Corrections- 2012- an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, Financial Reporting for Pension Plans an Amendment of GASB Statement No. 25, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 68, Accounting and Financial Reporting for Pension an Amendment of GASB Statement No. 27, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date an Amendment of GASB Statement No. 68, which is effective for periods beginning after June 15, 2014.

Management is evaluating the impact that these statements will have on the University's financial statements.



Notes to Financial Statements (continued) June 30, 2013

2. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2013 and 2012 consisted of the following:

				2013	
	U	nrestricted		Restricted	Total
Cash on hand and due from commercial banks	\$	1,128,382	\$	14,877,546	\$ 16,005,928
Cash equivalents: Deposit accounts, mainly certificates of deposits, with: Commercial banks Economic Development Bank for Puerto Rico Money market funds		5,849,551 58,636,618 136,534		- - 3,787,642	5,849,551 58,636,618 3,924,176
Total cash equivalents		64,622,703		3,787,642	 68,410,345
Total	\$	65,751,085	\$	18,665,188	\$ 84,416,273
		nrestricted	1	2012 Restricted	 Total
Cash on hand and due from commercial banks	\$	620,308	\$	11,732,281	\$ 12,352,589
Cash equivalents:					
Certificates of deposit with: Commercial banks Economic Development Bank for Puerto Rico Money market funds		34,681,394 57,910,294 1,317,121		3,494,592	34,681,394 57,910,294 4,811,713
Total cash equivalents		93,908,809		3,494,592	97,403,401
Total	\$	94,529,117	\$	15,226,873	\$ 109,755,990

OF OTHER PROPERTY.

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

2. Cash and Cash Equivalents (continued)

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and its discretely presented component units are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico ("Treasury"), and such deposits are maintained in separate bank accounts in the name of the University and its discretely presented component units. Such authorized depositories, except for the Economic Development Bank for Puerto Rico ("EDB"), collateralize the amount deposited in excess of federal depository insurance (\$250,000 at June 30, 2013) with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. At June 30, 2013, the University and its component units do not have balances in cash accounts with commercial banks outside of Puerto Rico. The deposits at EDB, a public corporation of the Commonwealth of Puerto Rico, and in money market funds are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

Cash equivalents of the University's permanent endowment funds amounted to \$1,773,715 and \$3,170,788 as of June 30, 2013 and 2012, respectively. Refer to Note 3.

As of June 30, 2013 and 2012, the University's cash deposited in the banks amounted to \$114,834,603 and \$132,705,486, respectively.

A. Blended Component Unit's Cash and Cash Equivalents

DUI's cash and cash equivalents as of June 30, 2013 and 2012 amounted to \$2,786,064 and \$2,493,071, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. These deposits are insured up to \$250,000 per bank by the federal depository insurance and the excess over the federal depository insurance is uncollateralized. These deposits are exposed to custodial credit risk. As of June 30, 2013 and 2012, DUI's cash deposited in the banks amounted to \$3,219,170 and \$2,846,674, respectively. DUI's uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to \$2,969,170 and \$2,596,674 as of June 30, 2013 and 2012, respectively.

B. Component Units's Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2013 and 2012 amounted to \$12,552,002 and \$8,612,586, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2013 and 2012, the discretely presented component units' cash deposited in the banks amounted to \$13,712,584 and \$9,527,731, respectively.

DE ALL S

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

3. Investments

The primary government's investments held at June 30, 2013 and 2012 are summarized in the following table:

	2013	2012
University:		
U.S. Treasury notes	\$ 67,381,728	\$ 70,305,383
U.S. sponsored agencies bonds and notes	4,886,166	3,770,662
U.S. municipal bonds	2,458,056	1,303,912
Foreign government bonds	1,538,076	2,768,432
Mortgage-backed securities	17,031,690	11,496,782
Corporate bonds	18,504,956	20,927,772
Common stock and convertibles	30,018,330	27,600,192
External investment pools	88,560,626	77,011,969
Certificates of deposit	7,349,286	7,383,407
Guaranteed investment certificate	329,975	327,881
Others		8,490
Total University's Investments	238,058,889	222,904,882
DUI:		
U.S. sponsored agency notes	5,848,000	5,848,000
Money market funds	9,647,443	9,211,470
Total DUI's Investments	15,495,443	15,059,470
Total Primary Government	\$ 253,554,332	\$ 237,964,352

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

Restricted Investments in Sinking Funds

The University and DUI are required to maintain sinking funds for the retirement of the "University System Revenue Bonds" and the "DUI AFICA Bonds". The Trustees shall, upon the receipt of the pledged revenues, make deposits to the credit of the sinking fund accounts.

The University's funds held by trustee at June 30, 2013 and 2012 amounted to \$54,666,234 and \$54,649,587, respectively, and consisted of U.S. Treasury notes purchased with remaining maturities of six months or less.

DUI's funds held by trustee at June 30, 2013 and 2012 amounted to \$12,429,317 and \$11,993,344, respectively, and consisted of money market funds and an U.S. sponsored agency notes purchased with remaining maturities of six months or less.

DE POST

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

3. Investments (continued)

Restricted Investments in Construction Fund

DUI maintains a Construction Fund account, related to the issuance of the AFICA bonds. As of June 20, 2013 and 2012, the account balance amounted to \$3,066,126 and consisted of a money market fund.

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2013 and 2012 amounted to \$90,520,654 and \$88,120,242, respectively. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended.

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

As of June 30, 2013 and 2012, almost all the University's endowment funds only authorize the realized portion of the net appreciation of their investments (including interest and dividend income on investment and cash equivalents) to be spent in amounts that range from 85% to 100% in accordance with the donor specific instructions. Unrealized net appreciation on investments of the endowment funds are not available for authorization for expenditure by the Governing Board. As of June 30, 2013, net appreciation of approximately \$3,716,389 is restricted to specific purposes.

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, amounted to \$88,560,626 and \$77,011,969 as of June 30, 2013 and 2012, respectively. 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. These investments are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant.

DE DO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

3. Investments (continued)

Credit Risk

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

As of June 30, 2013, the primary government's credit quality distribution for securities is as follows:

					Qualit	y R	ating	
	 Carrying Value	_	AAA to A-	В	BB+ to B-		Unrated	No Risk
U.S. Treasury notes	\$ 67,381,728	\$	_	\$	_	\$	_	\$ 67,381,728
U.S. sponsored agencies bonds and notes	10,734,166		10,734,166		_		_	· · · -
U.S. municipal bonds	2,458,056		2,212,493		245,563		_	_
Foreign government bonds	1,538,076		1,538,076		_		_	_
Mortgage-backed securities	17,031,690		14,340,597		_		_	2,691,093
Corporate bonds	18,504,956		18,504,956		_		_	_
Guaranteed investment certificate	329,975		_		_		329,975	_
Common stock and convertibles	30,018,330		_		_		30,018,330	_
External investment pools	88,560,626		_		_		88,560,626	-
Certificates of deposit	7,349,286		_		_		7,349,286	_
Money market funds	9,647,443		9,647,443		_			
Total	\$ 253,554,332	\$	56,977,731	\$	245,563	\$	126,258,217	\$ 70,072,821

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and DUI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2013, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolio is managed by brokerage firms.

O DE DO DE D

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

3. Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. Government and the ING Life Insurance and Annuity Company – Fixed Account (external investment pool), represented 5% or more of the total investment portfolio at June 30, 2013.

The following table summarizes the type and maturity of investments held by the University at June 30, 2013:

	 Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	No Stated Maturity Date	Total Fair Value
U.S. Treasury notes	\$ 54,666,234	\$ 5,269,827	\$ 7,445,667	\$ - :	\$ -	\$ 67,381,728
U.S. sponsored agencies bonds and notes	5,852,079	4,882,087	_	_	_	10,734,166
U.S. municipal bonds	_	_	381,474	2,076,582	_	2,458,056
Foreign government bonds	_	1,538,076	_	_	_	1,538,076
Mortgage-baked securities	_	_	1,781,318	15,250,372	_	17,031,690
U.S. corporate bonds	1,466,603	11,036,681	5,384,534	617,138	_	18,504,956
Certificates of deposit	7,349,286	-	-	-	-	7,349,286
Guaranteed investment certificate	329,975	-	-	-	-	329,975
External investment pools	69,556,549	400,794	-	1,062,815	17,540,468	88,560,626
Common stock and convertibles	-	-	-	-	30,018,330	30,018,330
Money market funds	 9,647,443	-	_	_	_	9,647,443
Total	\$ 148,868,169	\$ 23,127,465	\$ 14,992,993	\$ 19,006,907	\$ 47,558,798	\$ 253,554,332

At June 30, 2013, the University has variable rate interest investments amounting to \$2,193,913, which reset in a semiannual basis at 100% of an interest rate index plus a spread.



Notes to Financial Statements (continued) June 30, 2013

4. Accounts Receivable

The University's accounts receivable as of June 30, 2013 and 2012 are as follows:

	 2013	2012
Due from Commonwealth's:		
Agencies	\$ 30,902,670	\$ 42,516,956
Component units	43,552,776	44,897,357
Municipalities	2,997,112	2,641,867
Due from Federal Government	29,140,619	30,023,749
Due from Servicios Médicos Universitarios, Inc.	21,768,072	16,651,040
Due from medical plans	99,897,527	99,770,106
Other	 28,391,723	22,135,215
	 256,650,499	258,636,290
Less allowance for doubtful accounts	 (144,538,477)	(132,074,100)
Accounts receivable, net	\$ 112,112,022	\$ 126,562,190

Due from Commonwealth's component units includes accounts receivable from the Puerto Rico Medical Service Administration ("PRMSA") amounted to \$27,492,766 and \$21,931,104 as of June 30, 2013 and 2012, respectively. These accounts receivable mainly come from unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA's patients.

In addition, due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company ("PRTC"), a component unit of the Commonwealth, of \$6,008,192 and \$12,224,736 at June 30, 2013 and 2012, respectively. This account receivable includes unremitted distributions of income to be received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. PRTC appropriations (nonoperating revenues) for the years ended June 30, 2013 and 2012 amounted to \$67,863,614 and \$70,940,139, respectively, and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses and changes in net position.

Due from Servicios Médicos, Inc. (the "Hospital") mainly comes from unpaid medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital's patients. During the year ended June 30, 2012, the University forgave amounts due by the Hospital and fully reserved by the University of \$34,496,756.

TSOS ...

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

4. Accounts Receivable (continued)

A. Component Units

The Component Units' accounts receivable as of June 30, 2013 and 2012 are as follows:

	2013	2012		
The Hospital:				
Patient accounts	\$ 40,102,694	\$ 36,961,879		
Others	2,833,798	2,454,016		
UPRPS- others	86,902	179,797		
MCC- others	234,631	263,376		
	43,258,025	39,859,068		
Less allowance for doubtful accounts:				
The Hospital	(30,161,328)	(24,037,203)		
MCC	(11,469)	(16,900)		
	(30,172,797)	(24,054,103)		
Accounts receivable, net	\$ 13,085,228	\$ 15,804,965		

5. Due from Commonwealth of Puerto Rico, Due from University of Puerto Rico Retirement System and Other Related-Party Transactions

Due from Commonwealth of Puerto Rico

As of June 30, 2013 and 2012, the University has a due from Commonwealth of Puerto Rico (the Commonwealth) of \$19,220,255 and \$27,220,254, respectively. Due from the Commonwealth balance will be received as follows: \$14,220,255 in fiscal year 2014 and \$5,000,000 in fiscal year 2015.

Due from Commonwealth as of June 30, 2013 and 2012 includes \$10,000,000 and \$15,000,000, respectively, related to revenue from the Commonwealth legislative scholarships for fiscal years 2008 and 2009, which the Commonwealth is paying to the University in annual payments of \$5.0 million.

Due from Commonwealth also includes a payment plan approved on September 7, 2004 in which the Commonwealth agreed to pay \$94,710,382 to the University on behalf of the Puerto Rico Department of Health and the Commonwealth of Puerto Rico, over the course of ten years. As of June 30, 2013, the University has received \$92,990,127 from this amount. Due from Commonwealth under this payment plan amounted to \$1,720,255 and \$9,720,254 as of June 30, 2013 and 2012, respectively. Due from Commonwealth as of June 30, 2013 will be received in fiscal year 2014.

In addition, due from Commonwealth includes \$7,500,000 and \$2,500,000 as of June 30, 2013 and 2012, respectively, for funds to be received from the Special Scholarship Fund by virtue of Act No. 176 of November 2010 which are payable upon demand.

TO DE DO DE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

5. Due from Commonwealth of Puerto Rico, Due from University of Puerto Rico Retirement System and Other Related-Party Transactions (continued)

Due from University of Puerto Rico Retirement System

The University has a due from University of Puerto Rico Retirement System (the "Retirement System") of \$22,338,674 as of June 30, 2013, which resulted from unpaid advances given by the University to the Retirement System. The amount due by the Retirement System is unsecured, non-interest bearing and is payable upon demand.

Other Related-Party Transactions

The University's accounts payable and accrued liabilities include the following related-party transactions as of June 30, 2013 and 2012:

	2013			2012		
Due to the Commonwealth's:						
Agencies	\$	973,787	\$	2,364,101		
Component units		25,318,827		23,007,124		
Due to Servicios Médicos Universitarios, Inc.		8,644,640		9,318,327		
Total		34,937,254	\$	34,689,552		

Due to Commonwealth's component units includes accounts payable to the Puerto Rico Medical Service Administration (PRMSA) of \$11,862,878 and \$6,241,045 as of June 30, 2013 and 2012, respectively. These accounts payable mainly come from unpaid medical services provided by the PRMSA to the University's patients.

Due to Servicios Médicos Universitarios, Inc. (the "Hospital") mainly comes from rental income owned by the University to the Hospital and unpaid medical services provided by the Hospital to the University's patients.

The Hospital's accounts payable and accrued liabilities include amounts due to the Commonwealth's component units of \$10,900,820 and \$12,673,208 as of June 30, 2013 and 2012.

For additional related-party transactions see Notes 2, 4, 6, 8, 9, 10, 11 and 12.



Notes to Financial Statements (continued) June 30, 2013

6. Interfund Balances and Transactions

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

Capital Lease Agreement

In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc., a nonprofit corporation and a blended component unit of the University. The agreement is for the use of Plaza Universitaria, a residential and commercial facility for the use of students and other persons or entities conducting business with the University. The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2013 and 2012 on this capital lease is \$63,358,411 and \$64,693,128, respectively. The effective interest rate was determined at 6.60%.

The future minimum lease payments under the capital lease are as follows:

Year Ending June 30,	Amount			
2014	\$	5,702,063		
2015		5,700,344		
2016		5,702,156		
2017		5,701,938		
2018		5,699,406		
2019-2023		28,495,531		
2024-2028		28,499,500		
2029-2033		28,502,506		
Total future minimum lease payments		114,003,444		
Less amounts representing interest costs		(50,645,033)		
Present value of minimum lease payments	\$	63,358,411		



Notes to Financial Statements (continued) June 30, 2013

6. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

The activity of the principal balance of the capital lease obligation for the years ended June 30, 2013 and 2012 is as follows:

	 2013	 2012
Beginning Balance Additions	\$ 64,693,128	\$ 66,076,436
Reductions	 (1,334,717)	(1,383,308)
Ending Balance	63,358,411	64,693,128
Less current portion	 1,586,188	 1,472,628
Total noncurrent portion	\$ 61,772,223	\$ 63,220,500

During the years ended June 30, 2013 and 2012, the University paid \$5,697,312 and \$5,701,938, respectively, under the capital lease agreement.

Other Transactions

In addition, the University and DUI have entered into other internal balance transactions related to DUI operations of Plaza Universitaria facilities. Amount due from and due to under the operations and management agreement amounted to \$1,658,665 and \$1,685,751 as of June 30, 2013 and 2012, respectively.

During the years ended June 30, 2013 and 2012 the University incurred the following expenditures under the operations and management agreement:

	 2013	2012		
Fixed management fee Reimbursable expenditures fee	\$ 900,000 2,334,986	\$	900,000 2,386,245	
Total	\$ 3,234,986	\$	3,286,245	

Refer to Note 11, "Commitments and Contingent Liabilities" Section F "Blended Component Unit", for a description of the operations and management agreement between the University and DUI.

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



Notes to Financial Statements (continued) June 30, 2013

7. Capital Assets

Changes in the primary government's capital assets for the years ended June 30, 2013 and 2012 are as follows:

	2013								
					Disposals				
		Beginning						and	Ending
		Balance		Additions		Transfers		Others	Balance
Capital assets not being depreciated:									
Land	\$	49,615,849	\$	_	\$	-	\$	- \$	49,615,849
Construction in progress		59,408,364		32,358,095		(44,898,908)		_	46,867,551
		109,024,213		32,358,095		(44,898,908)		-	96,483,400
Other capital assets:									
Land improvements		36,280,227		_		650,238		_	36,930,465
Building, fixed equipment, improvements									
and infrastructure		1,021,640,972		_		41,997,400		_	1,063,638,372
Equipment, software and library materials		284,670,797		22,227,019		2,251,270		(8,371,123)	300,777,963
Building and equipment under capital lease		99,298,249		191,087		_		_	99,489,336
		1,441,890,245		22,418,106		44,898,908		(8,371,123)	1,500,836,136
Less accumulated depreciation and									
amortization for:									
Land improvements		(19,613,137)		(1,305,025)		_		_	(20,918,162)
Buildings, fixed equipment,		(== ,===,===)		(=,===,===)					(,,)
improvements and infrastructure		(339,837,124)		(23,907,228)		_		_	(363,744,352)
Equipment, software and library materials		(221,516,740)		(21,571,027)		_		7,426,260	(235,661,507)
Building and equipment under capital lease		(16,889,139)		(2,748,648)				.,.=-,=	(19,637,787)
		(597,856,140)		(49,531,928)		_		7,426,260	(639,961,808)
Other capital assets, net		. , , ,		, , , ,				, ,	. , , ,
of accumulated depreciation		844,034,105		(27,113,822)		44,898,908		(944,863)	860,874,328
Capital assets, net	\$	953,058,318	\$	5,244,273	\$		\$	(944,863) \$	957,357,728



Notes to Financial Statements (continued) June 30, 2013

7. Capital Assets (continued)

			2012		
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	\$ 49,615,849	\$ -	\$ -	\$ -	\$ 49,615,849
Construction in progress	109,213,590	23,843,784	(73,649,010)	_	59,408,364
	158,829,439	23,843,784	(73,649,010)	-	109,024,213
Other capital assets:					
Land improvements	35,706,696	_	573,531	_	36,280,227
Building, fixed equipment, improvements					
and infrastructure	954,420,659	_	69,322,109	(2,101,796)	1,021,640,972
Equipment, software and library materials	274,299,987	12,121,243	3,753,370	(5,503,803)	284,670,797
Building and equipment under capital lease	99,298,249	_	_	_	99,298,249
	1,363,725,591	12,121,243	73,649,010	(7,605,599)	1,441,890,245
Less accumulated depreciation and amortization for:					
Land improvements	(18,318,975)	(1,294,162)	_	_	(19,613,137)
Buildings, fixed equipment,					. , , ,
improvements and infrastructure	(316,862,597)	(22,974,527)	_	_	(339,837,124)
Equipment, software and library materials	(207,559,466)	(19,229,664)	_	5,272,390	(221,516,740)
Building and equipment under capital lease	(13,905,500)	(2,983,639)			(16,889,139)
	(556,646,538)		_	5,272,390	(597,856,140)
Other capital assets, net	(, , , ,	. , , , ,		, ,	(, , , ,
of accumulated depreciation	807,065,961	(34,360,749)	73,649,010	(2,333,209)	844,034,105
Capital assets, net	\$ 965,908,492	\$ (10,516,965)	\$ -	\$ (2,333,209)	\$ 953,058,318
		·			

As of June 30, 2013 and 2012, the carrying value of the University's assets recorded under capital leases amounted to approximately \$79,852,000 and \$82,409,000, respectively. Amortization expense on these assets amounted to approximately \$2,748,000 and \$2,984,000 in 2013 and 2012, respectively. In addition, the carrying value of the University's medical equipments that collateralized the term notes payable to a commercial bank (see Note 8) amounted to approximately \$1,941,000 as of June 30, 2013.

Capitalized interest on construction in progress amounted to approximately \$2,677,000 and \$5,267,000 for the years ended June 30, 2013 and 2012, respectively.



Notes to Financial Statements (continued) June 30, 2013

7. Capital Assets (continued)

A. Component Units

Changes in the Component Units' capital assets for the years ended June 30, 2013 and 2012 are as follows:

					2	2013			
							Dis	sposals	
	Beginning							and	Ending
		Balance		Additions		Transfers	C	Others	Balance
Capital assets not being depreciated:									
Construction in progress	\$	1,083,642	\$	1,351,259	\$	(1,602,263)	\$		\$ 832,638
		1,083,642		1,351,259		(1,602,263)		_	832,638
Other capital assets:									
Fixed equipment and building improvements		2,899,288		448,853		626,739		_	3,974,880
Equipment and software		16,395,197		866,639		975,524		_	18,237,360
		19,294,485	-	1,315,492		1,602,263		-	22,212,240
Less accumulated depreciation and amortization for:									
Fixed equipment and building improvements		(2,190,284)		(214,595)		_		_	(2,404,879)
Equipment and software		(12,077,541)		(1,407,597)		_		2	(13,485,136)
• •		(14,267,825)		(1,622,192)		_		2	(15,890,015)
Other capital assets, net									
of accumulated depreciation		5,026,660		(306,700)		1,602,263		2	6,322,225
Capital assets, net	\$	6,110,302	\$	1,044,559	\$		\$	2	\$ 7,154,863

	2012									
	Beginning Balance			Additions	Transfers			sposals and Others		Ending Balance
Capital assets not being depreciated:										
Construction in progress	\$	260,842	\$	2,132,282	\$	(1,309,482)	\$	-	\$	1,083,642
		260,842		2,132,282		(1,309,482)		-		1,083,642
Other capital assets:										
Fixed equipment and building improvements		2,685,861		122,894		90,533		-		2,899,288
Equipment and software		14,784,139		392,109		1,218,949				16,395,197
		17,470,000		515,003		1,309,482				19,294,485
Less accumulated depreciation and amortization for:										
Fixed equipment and building improvements		(1,964,693)		(225,591)		_		_		(2,190,284)
Equipment and software		(10,690,676)		(1,386,864)		_		(1)		(12,077,541)
		(12,655,369)		(1,612,455)		-		(1)		(14,267,825)
Other capital assets, net										
of accumulated depreciation		4,814,631		(1,097,452)		1,309,482		(1)		5,026,660
Capital assets, net	\$	5,075,473	\$	1,034,830	\$		\$	(1)	\$	6,110,302



Claims liability

Compensated absences

Total University's other long-term liabilities

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

8. Noncurrent Liabilities

Changes in the primary government's noncurrent liabilities for the years ended June 30, 2013 and 2012 are as follows:

				20	13							
	Beginning		Additions		D - d		Other		Ending	Less Due]	Noncurrent Liabilities
L ong-term debt: The University: Notes payable Bonds payable	\$ 77,634,716 540,098,808	\$	9,597,691	\$	(472,723) (29,930,000)	\$	Otner	\$	86,759,684 509,301,464	\$ 9,201,037 18,110,000	\$	77,558,64' 491,191,46
Total University's long-term debt	 617,733,524	_	9,597,691		(30,402,723)		(867,344)		596,061,148	 27,311,037		568,750,11
OUI's long-term debt	 74,350,252				(1,860,000)		16,209		72,506,461	 1,960,000		70,546,461
Total Primary Government's long-term debt	\$ 692,083,776	\$	9,597,691	\$	(32,262,723)	\$	(851,135)	\$	668,567,609	\$ 29,271,037	\$	639,296,572
The University's other long-term liabilities: Deferred compensation payable Claims liability Compensated absences	\$ 77,011,969 22,401,000 167,126,240	\$	11,548,657	\$	- (1,640,551) (1,509,628)	\$	- (2,356,249) -	\$	88,560,626 18,404,200 165,616,612	\$ - 1,640,551 34,917,072	\$	88,560,626 16,763,649 130,699,546
Total University's other long-term liabilities	\$ 266,539,209	\$	11,548,657	\$	(3,150,179)	\$	(2,356,249)	\$	272,581,438	\$ 36,557,623	\$	236,023,815
	 Beginning Balance		Additions	2	012 Reductions		Other		Ending Balance	 Less Due (ithin One Year		Noncurrent Liabilities
Long-term debt: The University: Notes payable Bonds payable	\$ 93,705,769 567,641,248	\$	12,674,324	\$	(28,745,377) (27,040,000)	s	- (502,440)	\$	77,634,716 540,098,808	\$ 474,791 29,930,000	s	77,159,95 510,168,86
Total University's long-term debt	661,347,017		12,674,324		(55,785,377)		(502,440)		617,733,524	30,404,791		587,328,73
DUI's long-term debt	 76,093,144	_		_	(1,760,000)	_	17,108		74,350,252	 1,860,000	_	72,490,2
Total Primary Government's long-term debt	\$ 737,440,161	\$	12,674,324	\$	(57,545,377)	\$	(485,332)	\$	692,083,776	\$ 32,264,791	\$	659,818,98
The University's other long-term liabilities: Deferred compensation payable	\$ 69,561,616	\$	7,450,353	\$	-	s	-	s	77,011,969	\$ -	s	77,011,9

(2,107,714)

(3,524,226)

677,892

22,401,000 167,126,240

266,539,209 \$

2,107,714

35,114,356

20,293,286 132,011,884

Notes payable and bonds payable are further discussed in Notes 9 and 10, respectively.

13,900,646

21,350,999

23,830,822

156,749,820

To DE DITTO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

9. Notes Payable

The University obtained a \$125 million line of credit with the Government Development Bank for Puerto Rico ("GDB"), a public corporation of the Commonwealth, for working capital purposes. This line of credit was converted into a ten year term loan in October 2011 payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan is collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. This term loan matures on October 1, 2022 and bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2013). The balance outstanding of this term loan amounted to \$71,926,858 and \$64,999,109 at June 30, 2013 and 2012, respectively.

In addition, the University has a \$75.0 million non-revolving line of credit facility with GDB to complete certain construction projects of the University's Program for Permanent Improvements. This line of credit bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2013). The balance outstanding of this line of credit amounted to \$12,918,266 and \$10,248,324 at June 30, 2013 and 2012, respectively. The unused balance of this line of credit amounted to \$62.1 million at June 30, 2013. As disclosed in Note 15, this line of credit was amended in January 2014 to extend the maturity date to January 31, 2016.

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. These term loans are payable in 60 monthly payments as follows: three interest only payments and 57 principal and interest payments amounting to \$46,803. These term loans are collateralized with the acquired medical equipment, mature on February 1, 2017 and bear interest per annum equal to 4%. The balance outstanding of these terms loan amounted to \$1,914,560 and \$2,387,283 at June 30, 2013 and 2012, respectively.

The table that follows represents debt service payments on notes payable as of June 30, 2013. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2013 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ 9,201,037	\$ 4,921,381	\$ 14,122,418
2015	21,018,830	4,084,168	25,102,998
2016	8,121,512	3,155,897	11,277,409
2017	7,957,587	2,679,818	10,637,405
2018	7,586,385	2,219,017	9,805,402
2019-2023	32,874,333	4,355,849	37,230,182
	\$ 86,759,684	\$ 21,416,130	\$ 108,175,814
2015 2016 2017 2018	21,018,830 8,121,512 7,957,587 7,586,385 32,874,333	4,084,168 3,155,897 2,679,818 2,219,017 4,355,849	25,102,998 11,277,409 10,637,405 9,805,402 37,230,182

DE DOUGH

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

9. Notes Payable (continued)

A. Notes Payable – Component Unit

Servicios Médicos Universitarios, Inc. (the "Hospital") has notes payable amounting to \$17,686,611 and \$19,444,864 as of June 30, 2013 and 2012, respectively. A summary of the Hospital's notes payable at June 30, 2013 and 2012 follows:

	2013		 2012
Term loan payable with GDB	\$	16,337,669	\$ 17,588,844
Non-revolving line of credit with GDB		_	638,932
Non-interest bearing note payable to Puerto Rico Aqueduct and Sewer Authority		990,000	_
Term loan payable in 76 biweekly payments of principal and interest of \$30,000, bears fixed interest of 5.5% and matures on October 24, 2013.		233,173	950,942
Term loan payable in 36 monthly payments of principal and interest of \$12,000, bears fixed interest of 5.5% and matures on March 31, 2014.		103,064	237,362
Other		22,705	 28,784
		17,686,611	19,444,864
Less: current portion Noncurrent portion	\$	1,517,029 16,169,582	\$ 1,791,641 17,653,223

The Hospital operates and administers the healthcare unit located in Carolina. This facility was acquired by the University and includes land, building and medical equipment. During 2009, the Hospital restructured its line of credit facility with GDB and accrued interest in the aggregated amount of \$23,360,913 into a term loan and extended the maturity date to June 30, 2025. As part of the term loan agreement, the Hospital was required to make a down payment of \$2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately \$171,637 and bears interest per annum equal to prime rate plus 150 basis points (4.75 % at June 30, 2013). The loan is guaranteed by the University.

The non-interest bearing note payable to Puerto Rico Aqueduct and Sewer Authority ("PRASA"), a component unit of the Commonwealth, resulted from trade accounts payable to PRASA amounting to \$1,052,904 that were restructured into an unsecured long-term debt in fiscal year 2013. This note is payable in 70 monthly installments of approximately \$15,000. The note matures on December 15, 2018.



Notes to Financial Statements (continued) June 30, 2013

9. Notes Payable (continued)

A. Notes Payable –Component Unit (continued)

The activity of the principal balance of the long- term debt for the years ended June 30, 2013 and 2012 is as follows:

 2013		2012		
\$ 19,444,864	\$	20,903,613		
1,052,904		561,787		
(2,811,157)		(2,020,536)		
\$ 17,686,611	\$	19,444,864		
	\$ 19,444,864 1,052,904 (2,811,157)	\$ 19,444,864 \$ 1,052,904 (2,811,157)		

The table that follows represents debt service payments on long-term debt as of June 30, 2013. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2013 will remain the same for their term.

Fiscal Year Ending June 30	<u>Principal</u>	Interest	Total
2014	\$ 1,517,029	\$ 1,072,643	\$ 2,589,672
2015	1,245,650	1,003,759	2,249,409
2016	1,310,334	934,191	2,244,525
2017	1,379,293	860,348	2,239,641
2018	1,457,704	781,937	2,239,641
2019-2023	7,846,317	2,541,888	10,388,205
2024-2025	2,930,284	260,411	3,190,695
	\$ 17,686,611	\$ 7,455,177	\$ 25,141,788

MCC has a \$250,000 unsecured line of credit facility with a commercial bank at prime rate plus 250-basis points. At June 30, 2013 and 2012, there is no outstanding balance on this line of credit.



Notes to Financial Statements (continued) June 30, 2013

10. Bonds Payable

A. University's Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of the university's bonds payable as of June 30, 2013 and 2012:

Series	Balance as of June 30, 2013		_	Salance as of une 30, 2012	Annual Interest Rate (%)	Due Date June 30, 2013		
P - Serial	\$	209,935,000	\$	221,865,000	5.00%	2014-2026		
P - Term		47,645,000		47,645,000	5.00%	2027-2030		
Q - Serial		98,890,000		104,205,000	5.00%	2014-2026		
Q - Term		132,415,000		132,415,000	5.00%	2027-2036		
N - Capital Appreciation Serial Bonds		_		12,685,000	5.75%			
		488,885,000		518,815,000				
Plus unamortized premium		23,541,744		25,425,293				
Less:								
Future appreciated principal		_		(703,476)				
Deferred refunding loss		(3,125,280)		(3,438,009)				
•	\$	509,301,464	\$	540,098,808				

At June 30, 2013, the University's bonds payable require payments of principal and interest as follows:

Fiscal Year Ending June 30	Principal		 Interest	Total		
2014	\$	18,110,000	\$ 24,444,250	\$	42,554,250	
2015		19,015,000	23,538,750		42,553,750	
2016		19,970,000	22,588,000		42,558,000	
2017		20,965,000	21,589,500		42,554,500	
2018		22,010,000	20,541,250		42,551,250	
2019 to 2023		127,720,000	85,024,250		212,744,250	
2024 to 2028		125,280,000	51,591,750		176,871,750	
2029 to 2033		89,115,000	23,496,750		112,611,750	
2034 to 2036		46,700,000	4,745,750		51,445,750	
	\$	488,885,000	\$ 277,560,250	\$	766,445,250	

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



Notes to Financial Statements (continued) June 30, 2013

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds

On December 21, 2000, the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority ("AFICA"), a component unit of the Commonwealth, issued, on behalf of Desarrollos Universitarios, Inc., Educational Facilities Revenue Bonds, 2000 Series A, in the amount of \$86,735,000. The bonds were issued to (i) finance the development, construction and equipment of the Plaza Universitaria Project (the Projects), (ii) repay a portion of certain advances made by the Government Development Bank for Puerto Rico under a line of credit facility for the purpose of paying certain costs of the development and construction of the Projects, (iii) make a deposit to the Debt Service Reserve fund and, (iv) pay the costs and expenses incurred in connection with the issuance and sale of bonds. The principal and interest on the bonds are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation, and by the assignment of the lease agreement with the University.

The blended component unit's AFICA bonds payable at June 30, 2013 and 2012, consist of:

	Interest		2013	2012
Description	Rate	Maturity	Face Amount	Face Amount
Serial Bonds	5.63%	July 1, 2012	\$ -	\$ 1,860,000
Serial Bonds	5.63%	July 1, 2013	1,960,000	1,960,000
Serial Bonds	5.63%	July 1, 2014	2,075,000	2,075,000
Serial Bonds	5.63%	July 1, 2015	2,190,000	2,190,000
Serial Bonds	5.63%	July 1, 2016	2,315,000	2,315,000
Serial Bonds	5.63%	July 1, 2017	2,445,000	2,445,000
Serial Bonds	5.63%	July 1, 2018	2,580,000	2,580,000
Serial Bonds	5.63%	July 1, 2019	2,725,000	2,725,000
Serial Bonds	5.00%	July 1, 2020	2,880,000	2,880,000
Serial Bonds	5.00%	July 1, 2021	3,020,000	3,020,000
Serial Bonds	5.00%	July 1, 2033	50,520,000	50,520,000
Total			72,710,000	74,570,000
Less unaccreted interest			(203,539)	(219,748)
Total			\$ 72,506,461	\$ 74,350,252

DE DOUGH

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds (continued)

At June 30, 2013, the blended component unit's AFICA bonds payable require payment of principal and interest as follows:

Fiscal Year Ending June 30	Principal	Interest		Total
2014	\$ 1,960,000	\$	3,682,188	\$ 5,642,188
2015	2,075,000		3,568,703	5,643,703
2016	2,190,000		3,448,750	5,638,750
2017	2,315,000		3,322,047	5,637,047
2018	2,445,000		3,188,172	5,633,172
2019 to 2023	14,380,000		13,741,609	28,121,609
2024 to 2028	18,410,000		9,624,750	28,034,750
2029 to 2033	23,505,000		4,410,125	27,915,125
2034	 5,430,000		135,750	 5,565,750
Total	\$ 72,710,000	\$	45,122,094	\$ 117,832,094

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

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

Redemption Period	Amount
July 1, 2022	\$ 3,175,000
July 1, 2023	3,330,000
July 1, 2024	3,500,000
July 1, 2025	3,675,000
July 1, 2026	3,855,000
July 1, 2027	4,050,000
July 1, 2028	4,255,000
July 1, 2029	4,465,000
July 1, 2030	4,690,000
July 1, 2031	4,925,000
July 1, 2032	5,170,000
July 1, 2033	5,430,000
Total	\$ 50,520,000

TOOS OF THE PERSON OF THE PERS

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

10. Bonds Payable (continued)

C. Pledged Revenues

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

In addition, the DUI's AFICA bonds are subordinated to the University's bonds and are collateralized by the pledge of, and a second lien on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued.

The University's revenues pledged were as follows for the years ended June 30, 2013 and 2012:

		2013	 2012
Pledged Revenues: Tuition and other fees collected Student fees collected Stabilization Fee Rental and other charges received for the right of use	\$	80,982,014 4,506,499 42,879,106	\$ 78,529,284 4,881,215 44,186,568
and occupancy of the facilities in the University system Interest on investment of University funds, excluding funds		1,828,936	1,784,483
invested pursuant to Article VI of the Trust Agreement Funds paid to the University in respect to overhead		390,970	369,158
allowance on federal research projects Other income		13,056,276 29,286,608	19,529,583 31,415,272
Total Pledged Revenues		172,930,409	180,695,563
Sinking Fund Reserve Interest		181,010	 234,771
Total Pledged Revenues Plus Interest	\$	173,111,419	\$ 180,930,334
Aggregate Debt Service:			
Principal and Interest Requirement	\$	55,236,500	\$ 53,321,245
Senior Debt Service Coverage Ratio	_	3.13	 3.39
DUI's AFICA Bonds (Subordinate to the University's Bonds)	\$	5,597,313	\$ 5,601,938
Aggregate Debt Service	\$	60,833,813	\$ 58,923,183
Total Debt Service Ratio		2.85	 3.07

The Trust Agreements governing the bonds issued required a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2013, the University was in compliance with the total debt service coverage ratio requirement.



Notes to Financial Statements (continued) June 30, 2013

10. Bonds Payable (continued)

C. Pledged Revenues (continued)

On January 26, 2013, the stabilization fee was repealed by the former Board of Trustees of the University effective July 1, 2013.

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

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

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

The University complied with the sinking fund requirements at June 30, 2013.

In addition, the blended component unit's term bonds are subject to mandatory redemption in part commencing on July 1, 2022 to the extent of the sinking fund requirement for said bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The blended component unit complied with the sinking fund requirements at June 30, 2013.

DE DOS

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

11. Commitments and Contingent Liabilities

A. Claims Liability

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The University was insured through January 1993 under claims-made insurance policies with respect to medical malpractice risks for \$250,000 per occurrence up to an annual aggregate of \$500,000. 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. The process used in computing claims liabilities does not necessarily result in an exact amount, because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount for medical malpractice in the years ended June 30, 2013 and 2012 were:

	 2013	 2012
Claims payable - July 1	\$ 11,956,000	\$ 12,254,000
Incurred claims and changes in estimates	(1,083,865)	894,075
Payments for claims and adjustments expenses	 (1,300,135)	(1,192,075)
Claims payable - June 30	\$ 9,572,000	\$ 11,956,000

In addition, the University is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of \$8,832,200 and \$10,445,000 as of June 30, 2013 and 2012, respectively, to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

B. 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 amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the University's financial statements.

To DE DITTO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

11. Commitments and Contingent Liabilities (continued)

B. Federal Assistance Programs (continued)

Effective April 23, 2012, the National Science Foundation ("NSF"), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the Suspension Status continue with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System ("ERS") policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University.

C. Construction Commitments

Construction commitments at June 30, 2013, entered by the University, amounted to approximately \$36.6 million.

D. Operating Lease Agreements

The University rents a building of an outside clinic of the medical practice plan of the Medical Sciences Campus under non-cancelable long-term operating lease agreement which expires in July 2018. This lease contains escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2013 and 2012 amounted to approximately \$1,344,000. At June 30, 2013, the minimum annual future rentals, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30	Amount	
2014	\$	1,339,000
2015		1,339,000
2016		1,339,000
2017		1,339,000
2018		1,339,000
2019		112,000
	\$	6,807,000

TO DE DOTO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

11. Commitments and Contingent Liabilities (continued)

D. Operating Lease Agreements (continued)

Servicios Médicos Universitarios, Inc. (the "Hospital") is obligated under the terms and conditions of various non-cancelable long-term operating lease agreements for equipment which expire in fiscal year 2016. Aggregate rent expense was approximately \$97,000 and \$159,000 for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013, the minimum annual future rentals, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30	Amount		
2014	\$	47,000	
2015		45,000	
2016		21,000	
	\$	113,000	

In addition, the Hospital leases to physicians and other third parties office facilities located in the Hospital's premises under rent agreements, some of which are renewed annually. Rent income for the years ended June 30, 2013 and 2012 amounted to approximately \$512,000 and \$517,000, respectively. At June 30, 2013, total future minimum rental income on operating leases, are approximately as follows:

Fiscal Year Ending June 30	Amount	
2014	\$	300,000
2015		115,000
2016		115,000
2017		44,000
2018		14,000
	\$	588,000

E. Guaranty Commitment

The University guarantees the Hospital long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to \$16,337,669 at June 30, 2013. See Note 9A.

F. Blended Component Unit

Desarrollos Universitarios, Inc. ("DUI") operates the Plaza Universitaria facilities 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.

DE DIVINO DE LA COMPANSA DEL COMPANSA DEL COMPANSA DE LA COMPANSA

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

11. Commitments and Contingent Liabilities (continued)

F. Blended Component Unit (continued)

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

In October 2003, the Plaza Universitaria Project's general contractor submitted a claim for extended overhead (field and main office) and subsequently a Proposal for Settlement for an amount exceeding \$10 million. It is DUI's legal counsel's opinion that some of the allegations are invalid under the terms of the contract and that the general contractor has already been compensated for some of the claimed amounts by DUI approved change orders. Management of DUI believes, based on the advice of counsel, that there is a minimal financial exposure to DUI in connection with this claim. DUI has also been named as a defendant in various collections of monies claims entered by subcontractors of the general contractor. DUI has requested, in such instances, to retain from any sums due to the general contractor, after final liquidation, the amounts owed by the general contractor to these subcontractors.

THE RESERVE THE PROPERTY OF TH

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

11. Commitments and Contingent Liabilities (continued)

G. Component Unit

Since inception, the Hospital, based on the opinion of its legal counsel, is considered an instrumentality of the Commonwealth. Under Law Number 98 of August 24, 1994, the responsibility of the Hospital for claim losses is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of these facts and circumstances, the Hospital's management has recorded a provision for claims losses of \$150,000 for the fiscal years ended June 30, 2013 and 2012 and has recorded an accrual of \$1,348,296 and \$1,215,796 as of June 30, 2013 and 2012, respectively, to cover claims and lawsuits that may be assessed against the Hospital.

Medical malpractice claims have been asserted against the Hospital and are currently at various stages of litigations. It is the opinion of the Hospital's legal counsel and the Hospital's management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigations, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

12. University of Puerto Rico Retirement System

Plan Description and Membership – The University of Puerto Rico Retirement System (the "System") is a single-employer, defined benefit pension plan that covers all employees of the University of Puerto Rico (the "University") with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 "(ERISA"). The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

The System provides retirement, disability and death benefits to participants and beneficiaries. Cost-of-living adjustments are provided to participants and beneficiaries at the discretion of the Governing Board the University (Governing Board). Participants who have completed 20 years of service by July 1, 1979, are entitled to annual retirement benefits at any age after 30 years of service. Otherwise, participants are entitled to annual retirement benefits at age 55 after 30 years of service. Participants may elect to receive their retirement benefits at age 58 after 10 years of service, or at age 55 after 25 years of service. The amount of the service retirement annuity is based on the applicable retirement formula, as defined.

1403-1211889 75

DE DITTO DE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

12. University of Puerto Rico Retirement System (continued)

A participant whose employment terminates after ten years of service, and who does not withdraw his or her contributions, receives a retirement annuity payable beginning at age 60 based on the applicable retirement formula. If termination of employment occurs prior to completing ten years of service, participant is entitled to a refund of his or her own contributions. Refund of a participant's own contributions can also be obtained after attainment of ten years of service but in that event the vested benefit is forfeited.

At June 30, 2013, membership in the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,863
Terminated plan participants entitled to but not yet receiving benefits	453
Terminated non-vested plan participants entitled to return of their contributions	7,941
Current participating employees	11,008
Total membership	27,265

Funding Policy – The contribution requirements of participants and the University are established and may be amended by the Governing Board. Plan members are required to contribute from 7% to 11% of their annual covered salary up to certain specified amounts, as defined. The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2013 and 2012 was 15.8% and 14.70%, respectively, of annual covered payroll. The actuarially determined employer contribution rate comes from actuarial valuation at start of the fiscal year. It takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the plan fund.

Annual Pension Cost and Prepaid Pension Asset – The University's annual pension cost and prepaid pension asset movement for the years ended June 30, 2013 and 2012, were as follows:

		2013	2012
Annual required contribution (ARC)	\$	77,771,923	\$ 72,186,223
Interest on the net pension asset		(5,111,358)	(4,727,071)
Adjustments to ARC		3,110,932	2,877,043
Annual cost (expense)		75,771,497	70,336,195
Employer contribution		78,481,031	75,139,790
Change in the net pension asset	<u>-</u>	2,709,534	4,803,595
Prepaid pension asset beginning of year		63,891,980	59,088,385
Prepaid pension asset- end of year	\$	66,601,514	\$ 63,891,980
Percentage of annual cost contributed		103.58%	106.83%

Prepaid pension asset has been recorded in prepaid pension asset and other assets in the University's accompanying statements of net position.

1908 - CONTRACTOR OF THE PROPERTY OF THE PROPE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

12. University of Puerto Rico Retirement System (continued)

The three-year trend information is as follows:

Fiscal Year Ending		Annual Pension ost (APC)	Employer ontribution	Percentage of APC Contributed		Net Pension Obligation (Asset)
6/30/2013 6/30/2012	\$ \$	75,771,497 70,336,195	78,481,031 75,139,790	103.6% 106.8%	\$ \$	(66,601,514) (63,891,980)
6/30/2011	\$	66,761,754	\$ 70,761,490	106.0%	\$	(59,088,385)

Funded Status and Funding Progress – The following table shows the University's funded status of the System as of June 30, 2013, the most recent actuarial valuation date:

Actuarial Accrued Liability (AAL)	\$ 2,622,367,510
Actuarial Value of Assets	 1,070,402,499
Unfunded AAL (UAAL)	\$ 1,551,965,011
Funded Ratio	 40.8%
Covered Payroll	\$ 491,291,305
UAAL as a Percentage of Covered Payroll	 315.9%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions –The actuarial methods and assumptions as of the latest actuarial valuation follow:

Actuarial valuation date	6/30/2013
Actuarial cost method	Entry age normal (traditional)
Amortization method	Level percentage of payroll
Remaining amortization period	30 years constant (open basis)
Asset valuation method	Market value adjusted to reflect investment gain
	and losses over a five (5) year period.
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5.00%
*Includes inflation at	3.50%
Postretirement benefit increases	3% every two (2) years applicable to salary cap
	or Certification 139, no postretirement benefit
	increases are assumed.
Mortality table	RP-2000 with projection

DE DOUGH

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

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

The University provides the following OPEB:

- Medical Subsidy: Fixed subsidy of \$125 per month (\$1,500 per year) per participant (\$0 for spouse) is paid by the University for the life of the participant at retirement to insurance companies whose premiums are paid by the retiree and by the University or directly to the participant with proof of coverage.
- Tuition Remission: Tuition fees for classes at the University are waived for life after retirement.

At June 30, 2013, membership in the OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,447
Current participating employees	11,168
Total membership	18,615

Funding Policy and Annual OPEB Cost – The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the "ARC"). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 45. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.

1403-1211889 78



Notes to Financial Statements (continued) June 30, 2013

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

The following tables show the components of the University's annual OPEB cost for the fiscal years ended June 30, 2013 and 2012, the amount actually contributed to the OPEB Program, the change in the University's net obligation and the funded status of the OPEB Program.

	 2013	 2012
ARC	\$ 10,128,465	\$ 10,128,465
Interest on the net OPEB obligation	103,000	98,530
Adjustments to ARC	 (89,267)	(85,392)
Annual OPEB cost (expense)	10,142,198	 10,141,603
Employer contribution	 (9,530,285)	(10,029,846)
Change in the net OPEB obligation	 611,913	111,757
Net OPEB obligation- beginning of year	 2,574,999	2,463,242
Net OPEB obligation- end of year	\$ 3,186,912	\$ 2,574,999
Percentage of annual OPEB cost contributed	 93.97%	98.90%

Net OPEB obligations have been recorded in accounts payable and accrued liabilities in the University's accompanying statements of net position.

The following table shows the University's funded status of the OPEB Program:

Actuarial Valuation Date	Ju	ly 1, 2011
Actuarial Accrued liability (AAL)	\$	197,323,686
Unfunded AAL	\$	197,323,686
Funded ratio		0%

The three-year trend information is as follows:

 Fiscal Year Ended	o	P Annual PEB Cost	Percentage of Annual OPEB Cost Contributed	Net EB Obligation
6/30/2013	\$	10,142,198	94.0%	\$ 3,186,912
6/30/2012	\$	10,141,603	98.9%	\$ 2,574,999
6/30/2011	\$	9,665,376	101.1%	\$ 2,463,242

DE DITTO DE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

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

OPEB Actuarial Valuation – The University's other Post-Employment Benefits Program actuarial valuation was conducted by Deloitte Consulting LLP as of July 1, 2011, members of the American Academy of Actuaries. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

Significant Actuarial Methods and Assumptions:

Actuarial Valuation Date July 1, 2011
Actual Cost Method Projected Unit Credit

Amortization Method Level Dollar amortization over 30 Years

Medical Subsidy 85%

Tuition Remission \$497 per retiree in fiscal 2012

increasing 4.0% per year

Mortality RP-2000 Healthy Combined Mortality Table for healthy

RP-2000 Healthy Combined Mortality Table

lives set forward 10 years for disabled lives

Payroll Growth 4%
Discount Rate 4%

The University does not pre-fund its OPEB Program and retiree benefits are paid out of the University's general assets each year. Accordingly, the discount rate is based on the long-term rates of return that the University expects to earn on general assets which are used to pay plan benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets.

1908

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2013

14. The Hospital's Management Business Plan and Operation - Component Unit

During most of the preceding years (up to June 30, 2009), the Hospital experienced significant operating losses having an accumulated net position deficiency of \$14,510,972 as of June 30, 2013. The Hospital has received advances from the University to cover its cash needs from operations. Most of these accumulated losses are mainly related to the fact that, as a former public hospital operated by the Puerto Rico Department of Health, it provides a significant amount of services to indigent population for which the Hospital does not obtain a payment. Most of these patients are indigent persons not subscribed to the Health Reform Program, homeless and resident aliens without medical insurance coverage, among others. The medical services provided to these patients were supposed to be paid to the Hospital by the Puerto Rico Department of Health. However, since the beginning of the operations, the Puerto Rico Department of Health has been unable to pay for such services. As shown in the accompanying financial statements, the Hospital has provided allowances for uncollectible accounts receivable in the approximated amount of \$30,161,328 as of June 30 2013.

The Hospital's management believes that all these factors had a material impact in the Hospital's results of operations during its years of operations and, consequently, has resulted in the accumulated deficit at June 30, 2013.

The Hospital's management, with the assistance of its Board of Directors, is working with a management plan toward its operational activities as well as the Hospital's ability to generate sufficient cash flows to cover its current obligations.

Some of these measures had an impact in the Hospital's operations and as a result, the Hospital's operations reported an income before other revenues of approximately \$5,908,000 and \$3,294,000 during the years ended June 30, 2013 and 2012, respectively.

The University has expressed its commitment to provide the Hospital with the necessary financial support, if needed, to continue its operations. During the year ended June 30, 2012, the University forgave amounts due by the Hospital of \$34,496,756. This amount is presented in the Hospital's Statement of Activities and Changes in Unrestricted Net Position for the year ended June 30, 2012 as a Contribution from the University of Puerto Rico.



Notes to Financial Statements (continued) June 30, 2013

15. Functional Information

The primary government's operating expenses by functional classification during the years ended June 30, 2013 and 2012 were as follows:

						2013							
Functional Classification	Salaries and Benefits		Scholarships and Fellowships		Supplies and other Services		Utilities		Depreciation and Amortization		Other Expenses		Total
Instruction	\$	382,330,131	\$	7,541,155	\$	16,563,245	\$ 48,993	\$	_	\$	3,679,058	\$	410,162,582
Research		59,011,883		17,108,989		31,455,590	701,765		_		7,246,606		115,524,833
Public service		49,569,441		1,343,360		16,899,126	1,657,630		_		_		69,469,557
Academic support		70,458,474		712,571		18,974,705	66,514		_		1,422,242		91,634,506
Student service		42,413,533		639,290		10,689,057	7,791		_		2,555,216		56,304,887
Institutional support		130,182,355		253,070		11,663,937	4,107,015		_		3,455,440		149,661,817
Operation & maintenance		83,306,966		13,462		28,570,348	47,609,379		_		2,034,625		161,534,780
Student aid		3,572,970		156,312,924		820,271	442		_		173,198		160,879,805
Independent operation		57,321		10,074		129,531	_		_		12,576		209,502
Patient service		42,979,053		509,579		17,963,918	53,496		_		1,142,020		62,648,066
Auxiliary enterprises		758,967		39,580		1,981,900	2,304		_		_		2,782,751
Depreciation and amortization		_		-		_	_		49,531,928		_		49,531,928
Other		346,602		_		2,341,231	183,626		_		56,438		2,927,897
	\$	864,987,696	\$	184,484,054	\$	158,052,859	\$ 54,438,955	\$	49,531,928	\$	21,777,419	\$	1,333,272,911

			2012				
Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	\$ 371,243,905	\$ 7,508,214	\$ 21,616,847	\$ 1,692,724	\$ -	\$ 839,171	\$ 402,900,861
Research	55,693,981	17,903,923	26,587,888	892,748	_	7,209,386	108,287,926
Public service	47,422,479	1,477,919	6,164,090	1,858,240	-	555,527	57,478,255
Academic support	66,352,678	878,245	17,762,673	98,031	-	1,896,247	86,987,874
Student service	40,849,116	570,791	10,306,767	7,220	_	1,923,474	53,657,368
Institutional support	118,345,663	747,590	27,139,556	2,329,318	_	3,313,539	151,875,666
Operation & maintenance	81,292,467	5,577	25,961,353	51,123,707	_	977,536	159,360,640
Student aid	2,869,135	174,380,779	1,231,910	435	_	144,627	178,626,886
Independent operation	36,073	9,788	55,719	_	_	12,989	114,569
Patient service	41,847,866	397,476	22,414,908	22,478	_	3,344,781	68,027,509
Auxiliary enterprises	967,414	78,602	2,182,107	2,310	-	230,757	3,461,190
Depreciation and amortization	-		_	_	46,481,992	_	46,481,992
Other	1,158,227	_	2,381,195	165,817	_	62,962	3,768,201
	\$ 828,079,004	\$ 203,958,904	\$ 163,805,013	\$ 58,193,028	\$ 46,481,992	\$ 20,510,996	\$ 1,321,028,937

16. Subsequent Events

Subsequent events were evaluated through March 30, 2014, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2013 financial statements.

On July 30, 2013, the Governing Board of the University declared a moratorium period of one year to the 4% annual increase per incoming class in the tuition cost per credit.



Notes to Financial Statements (continued) June 30, 2013

16. Subsequent Events (continued)

In September 2013, the Federal Centers for Disease Control and Prevention ("CDC") issued a preliminary report, which indicated that a bacterial affected several patients in the Hospital's Intensive Care Unit during a period of time, which include several months of the year ended June 30, 2013. The Hospital may be subject to penalties or sanctions as a result of this situation. Also, as of March 30, 2014, which is the date the University's financial statements were available to be issued, there are known judicial and extra-judicial claims related with this matter. As permitted by Law Number 98 of August 24, 1994, and indicated in Note 11, "Commitments and Contingent Liabilities", Section G, "The University's Component Units", maximum claims loss against the Hospital is limited to \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is the opinion of the Hospital's management and its legal counsel that the outcome of these claims would not have a material effect on the Hospital's financial statements.

On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University. Refer to "Federal Assistance Programs" Section.

In January 2014, the \$75 million line of credit facility with the Government Development Bank for Puerto Rico was amended to extend the maturity date to January 31, 2016.

On February 4, 2014, Standard & Poor's Rating Services ("S&P") downgraded the University's revenue bonds and the DUI's AFICA bonds from BBB- to BB+. On February 10, 2014, Moody's Investors Service (Moody's) downgraded the University's revenue bonds from Ba1 to Ba3 and the DUI's AFICA bonds from Ba2to B1. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds.

Both rating actions followed the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth of Puerto Rico (the "Commonwealth") and the Government Development Bank for Puerto Rico ("GDB")'s bonds, which it has generally mirrored given the University significant dependence on Commonwealth's appropriations. The outlook is negative. The University is highly reliance on the Commonwealth for operating revenues and for governance coupled with reliance on GDB for liquidity and financial management support. The University has weak liquidity and limited ability to grow other revenue sources.

Required Supplementary Information



University of Puerto Rico Schedules of Funding Progress (Unaudited)

Employees Retirement Plan

	Actuarial	Actuarial Accrued	Unfunded			UAAL as a
Actuarial Valuation Date	Value of Assets (a)	Liability (AAL) - Entry Age (b)	AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	Percentage of Covered ((b – a) / c)
6/30/2013	\$ 1,070,402,499	\$ 2,622,367,510	\$ 1,551,965,011	40.8%	\$ 491,291,305	315.9%
6/30/2012	\$ 1,039,441,000	\$ 2,617,989,147	\$ 1,578,548,147	39.7%	\$ 499,027,788	316.3%
6/30/2011	\$ 1,041,628,000	\$ 2,542,444,021	\$ 1,500,816,021	41.0%	\$ 510,706,620	293.9%
6/30/2010	\$ 1,028,918,000	\$ 2,436,913,244	\$ 1,407,995,244	42.2%	\$ 540,867,018	260.3%
6/30/2009	\$ 1,034,645,000	\$ 2,331,619,466	\$ 1,296,974,466	44.4%	\$ 570,122,184	227.5%
6/30/2008	\$ 1,024,987,000	\$ 2,223,219,684	\$ 1,198,232,684	46.1%	\$ 542,603,556	220.8%

Postemployment Benefits Other Than Pensions Program

Actuarial Valuation Date	Actual value of Assets (a)	Actual Accrued Liability (AAL) (b)	UAAL (b - a)	Funded Ratio (a / b)
7/1/2011	\$ -	\$ 197,323,686 \$	(197,323,686)	0%
7/1/2009	\$ -	\$ 189,417,225 \$	(189,417,225)	0%
7/1/2007	\$ -	\$ 184,232,820 \$	(184,232,820)	0%

1403-1211889 84

Other Financial Information



University of Puerto Rico Schedules of Changes in the University's Sinking Fund Reserve (Unaudited)

	 Bond Service Account	2013 Bond Reserve Account	Total
Additions: Transfer from Reserve Account Transfer from unrestricted current funds Interest earned on investments	\$ 53,976 55,172,137 29,606	\$ - - 151,404	\$ 53,976 55,172,137 181,010
Total receipts	55,255,719	151,404	55,407,123
Deductions: Payments of bond interest Payments of bond principal Net increase in fair value of investments Transfer to Reserve Account Total disbursements	 25,306,500 29,930,000 19,219 - 55,255,719	92,524 53,976 146,500	25,306,500 29,930,000 111,743 53,976 55,402,219
Net increase for the year	_	4,904	4,904
Balances at beginning of year	 _	54,673,487	54,673,487
Balance at end of year	\$ _	\$ 54,678,391	\$ 54,678,391

Bond Service Account		Bond Reserve Account		Total
\$ 28,825	\$	_	\$	28,825
53,289,191		_		53,289,191
34,944		199,827		234,771
53,352,960		199,827		53,552,787
26,281,245		_		26,281,245
27,040,000		_		27,040,000
31,715		183,125		214,840
_		28,825		28,825
 53,352,960		211,950		53,564,910
_		(12,123)		(12,123)
 _		54,685,610		54,685,610
\$ _	\$	54,673,487	\$	54,673,487
\$	\$ 28,825 53,289,191 34,944 53,352,960 26,281,245 27,040,000	\$ 28,825 \$ 53,289,191 34,944 53,352,960 26,281,245 27,040,000 31,715 -	Service Account Reserve Account \$ 28,825 \$ - 53,289,191	Service Account Reserve Account \$ 28,825 \$ - \$ 53,289,191 - 34,944 199,827 - 199,827 \$ 26,281,245 - 27,040,000 - 31,715 183,125 - 28,825 - 28,825 \$ 53,352,960 211,950 - (12,123) - 54,685,610

Report on Internal Control



Ernst & Young LLP 1000 Scotiabank Plaza 273 Ponce de León Avenue San Juan, PR 00917-1951 Tel: +1 787 759 8212 Fax: +1 787 753 0808 ev.com

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

Governing Board University of Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Servicios Medicos Universitarios, Inc. (the "Hospital"), Desarrollos Universitarios, Inc., University of Puerto Rico Parking System, Inc. and Materials Characterization Center, Inc. (collectively, the "Companies") as described in our report on the University's financial statements. The financial statements of the Hospital and the Companies were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material a weakness.



2013-001 - Financial Statement Close Process

Criteria

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

Condition

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

- Multiple audit/post-closing entries that were not initially identified by the University's internal
 controls were required to properly record revenue and expense activity, accounts receivable
 activity, cash activity, prepaid expenses activity and certain liabilities. These entries were
 considered material to the financial statements
- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.
- The accounting and financial reporting operations of certain units of the University, specifically the Medical Sciences Campus and the Mayagüez Campus, are not able to detect or prevent accounting errors effectively nor efficiently which resulted in multiple audit adjustments.

Cause

The lack of adequate controls during the implementation of the new accounting system has resulted in an ineffective and inefficient financial statements close process. In addition, the lack of integration between the units and the central administration finance and accounting functions has an adverse impact in the financial reporting of the University as a whole.

Effect

There were numerous post-closing and audit adjustments that were recorded by the University as noted above

Recommendations

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



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

The University should consider changing or reinforcing the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities should be centralized and units should report directly, timely and effectively to the Central Administration Finance Director and Controller.

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

Management's Response

Management will improve the annual closing process, by designing and implementing effective monitoring controls over the financial information. General ledger accounts will be timely reviewed and properly supported with reconciliations, roll-forward schedules and other appropriate documentation.

All accounting judgments and estimates will be properly supported and reviewed. The University will ensure that its accounting personnel in all Units have the appropriate training to effectively perform the financial statement close process.

The University will evaluate changing or reinforcing the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities will also be evaluated to determine if all units should respond directly, timely and effectively to the Central Administration Finance Director and Controller.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported in accordance with *Government Auditing Standards*.



The University's Response to Finding

The University's response to the finding identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Ernst & Young LLP

March 30, 2014

Stamp No. E98646 affixed to original of this report.

EY | Assurance | Tax | Transactions | Advisory

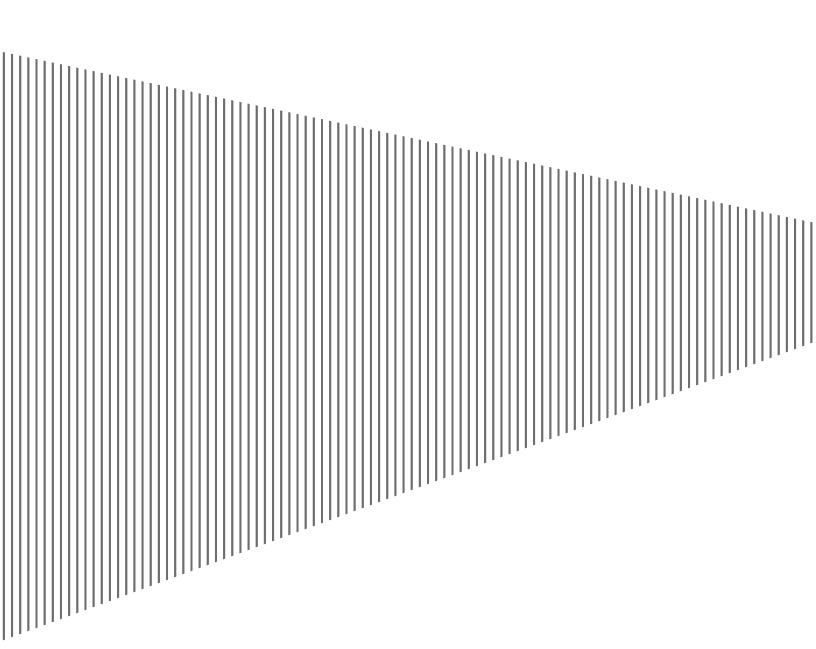
About EY

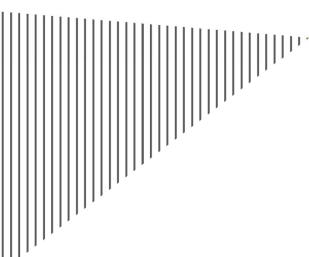
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2013 Ernst & Young LLP. All Rights Reserved.

ey.com





FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL SCHEDULES

University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Years Ended June 30, 2012 and 2011 With Report of Independent Auditors

Ernst & Young LLP



(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information and Supplemental Schedules

Years Ended June 30, 2012 and 2011

Contents

Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements as of and for the Years ended June 30, 2012 and 2011:	
Statements of Net Assets	26
Statements of Revenues, Expenses and Changes in Net Assets	
Statements of Cash Flows	
Statements of Net Assets (Deficit) – Discretely Presented Component Unit	
(Servicios Médicos Universitarios, Inc.)	31
Statements of Revenues, Expenses and Changes in Net Assets (Deficit) – Discretely	
Presented Component Unit (Servicios Médicos Universitarios, Inc.)	32
Statements of Net Assets – Discretely Presented Component Unit	
(Desarrollos Universitarios, Inc.)	33
Statements of Revenues, Expenses and Changes in Net Assets – Discretely Presented	
Component Unit (Desarrollos Universitarios, Inc.)	34
Notes to Financial Statements	
Required Supplementary Information	
T	
Schedules of Funding Progress (Unaudited)	73
Other Financial Information	
Schedules of Changes in Sinking Fund Reserve (Unaudited)	74
Report on Internal Control over Financial Reporting and on Compliance	
and Other Matters Based on an Audit of Financial Statements performed	
in Accordance with Government Auditing Standards	75



Ernst & Young LLP 1000 Scotiabank Plaza 273 Ponce de León Avenue San Juan, PR 00917-1951

Tel: 787 759 8212 Fax: 787 753 0808 www.ey.com

Report of Independent Auditors

Board of Trustees University of Puerto Rico

We have audited the accompanying basic financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the University), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital) and Desarrollos Universitarios, Inc. (the Company), which represent 100% of the aggregate discretely presented component units, as of and for the years then ended June 30, 2012 and 2011. These financial statements were audited by other auditors whose reports thereon have been furnished to us. Our opinion insofar as it relates to amounts included for the Hospital and the Company, is solely based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, 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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 25 and the schedule of funding progress on page 73 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The other financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Ernst + Young LLP

August 22, 2013

Stamp No. E82081 affixed to original of this report.



Introduction

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

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a seventeen-member Board of Trustees, of which fourteen members were appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Board consisted of one full-time student and two tenured professors.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1966, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the University of Puerto Rico (the "Governing Board"), the new governing body of the University. Act No. 13 substitutes the Board of Trustees of the University with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

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

The University is the largest institution of higher education on Puerto Rico. Commonwealth appropriations are the principal source of the University revenues, but additional revenues are derived from tuitions, federal grants, patient services, auxiliary enterprises, interest income, and other sources. The University is in good accreditation standing with the Middle States Commission on Higher Education, the regional accreditation entity of the eleven units that comprise the University of Puerto Rico system.

The financial reporting entity of the University consists of the campuses at Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado, and the Central Administration.

The financial operations and position of two not-for-profit organizations, Servicios Médicos Universitarios, Inc. and Desarrollos Universitarios, Inc. are considered component units of the University and are discretely presented in the University's financial statements. An annual audit of each organization's financial statement is conducted by independent certified public accountants. Financial statements and information relating to the component units may be obtained from their respective administrative officers.



The following discussion presents an overview of the financial position and financial activities of the University, excluding its component units, for the years ended June 30, 2012, 2011 and 2010. This discussion and analysis was prepared by University management and should be read in conjunction with the basic financial statements of the University, including the notes thereto.

Financial Highlights

As of June 30, 2012, the University has total assets of \$1.52 billion, total liabilities of \$1.04 billion and net assets of \$472.4 million. The University's net assets increased by \$46.3 million or 11% when compared to prior year. The reason for this change is explained in the section entitled "Analysis of Financial Position and Changes in Financial Position." An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2012, 2011 and 2010 follow:

Condensed Statements of Net Assets (In thousands)

	June 30				
		2012		2011	2010
Assets					
Current assets	\$	387,220	\$	360,562	\$ 233,452
Noncurrent assets:					
Due from Commonwealth of Puerto Rico		11,720		24,720	56,609
Capital assets		953,054		965,895	961,168
Other assets		165,349		157,929	172,950
Total assets		1,517,343		1,509,106	1,424,179
Liabilities					
Current liabilities		165,117		184,902	204,944
Noncurrent liabilities		879,866		898,146	851,142
Total liabilities		1,044,983		1,083,048	1,056,086
Net assets					
Invested in capital assets, net of related debt		352,899		337,279	309,055
Restricted:					
Nonexpendable		89,696		87,973	78,591
Expendable		60,573		65,152	72,205
Unrestricted (deficit)		(30,808)		(64,346)	(91,758)
Total net assets	\$	472,360	\$	426,058	\$ 368,093

1303-1040742 4



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

Condensed Statements of Revenues, Expe		Ended June 30	
	2012	2011	2010
Operating revenues			
Tuition and fees, net	\$ 72,475	\$ 73,451	\$ 41,809
Governmental grants and contracts	174,166	161,547	131,682
Patient services	86,819	71,466	51,449
Other operating revenues	37,023	48,007	40,118
Total operating revenues	370,483	354,471	265,058
Operating expenses			
Salaries and benefits	827,755	860,079	933,653
Scholarships and fellowships	203,959	215,205	211,831
Supplies and other services and utilities	222,737	206,562	198,742
Other operating expenses	66,922	68,792	78,585
Total operating expenses	1,321,373	1,350,638	1,422,811
Operating loss	 (950,890)	(996,167)	(1,157,753)
Nonoperating revenues (expenses)			
Commonwealth appropriations	834,097	839,372	839,318
Federal Pell Grant program	174,139	179,160	179,165
Federal ARRA program	_	15,000	105,000
Other nonoperating revenues (expenses), net	(13,326)	3,976	1,066
Net nonoperating revenues	994,910	1,037,508	1,124,549
Income (loss) before other revenues	44,020	41,341	(33,204)
Capital appropriations	465	5,580	1,288
Additions to term and permanent endowments	1,817	11,044	9,251
Changes in net assets	46,302	57,965	(22,665)
Net Assets			
Beginning of year	 426,058	 368,093	 390,758
End of year	\$ 472,360	\$ 426,058	\$ 368,093

Overview of the Basic Financial Statements

This discussion and analysis is required supplementary information to the basic financial statements of the University and is intended to serve as introduction to the basic financial statements of the University.



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

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting.

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

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

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



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

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

The required supplementary information consists of two schedules concerning the following: (1) the supplementary information of the University's Employees retirement Plan as required by the GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, and (2) the supplementary information of the University's Postemployment Benefits Other Than Pensions Program as required by the GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

The other financial information consists of the schedules of changes in sinking fund reserves.

Analysis of Financial Position and Changes in Financial Position

Statements of Net Assets

Assets

Total assets amounted to \$1.52 billion, \$1.51 billion and \$1.42 billion at June 30, 2012, 2011, and 2010, respectively. Total assets increased by \$8.2 million or less than 1% in 2012 and by \$84.9 million or 6% in 2011 when compared with the prior year balances.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2012, cash and cash equivalents, investments and accounts receivable comprise approximately 28%, 35% and 37%, respectively, of the current assets; meanwhile 84% of the noncurrent assets are capital assets. As of June 30, 2011, cash and cash equivalents, investments and accounts receivable comprise approximately 29%, 36% and 33%, respectively, of the current assets; meanwhile 84% of the noncurrent assets are capital assets.

Cash and cash equivalents (mainly certificates of deposit) amounted to \$109.8 million, \$108.0 million and \$3.4 million at June 30, 2012, 2011, and 2010, respectively. The increases in the University's cash position of \$1.8 million in 2012 and \$104.6 million in 2011 mainly resulted from the advances taken from the lines of credit obtained during the fiscal years 2012 and 2011, collection of \$14.4 million of old accounts receivable from a Commonwealth's component unit in 2012, the stabilization fee established by the Board of Trustees of the University starting in fiscal year 2011 and the strict cost control measures implemented during the fiscal years 2012 and 2011 to address the University's budgetary deficit issues.



In October 2010, the University obtained a \$100 million revolving line of credit facility with the Government Development Bank for Puerto Rico (GDB) for working capital purposes. This line of credit was increased to \$125 million in October 2011. In addition, the University obtained a \$5 million non-revolving line of credit with GDB in June 2011, which was increased to \$75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2012 and 2011. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$65.0 million and \$10.2 million, respectively, at June 30, 2012. Refer to Subsequent Events Section.

Also, to address the University's budgetary deficit issues, on June 30, 2010, the Board of Trustees of the University established a stabilization fee to be charged to all students in addition to tuition charges and other fees already in place in the University. The stabilization fee amounted to \$400 per student per semester and had no set termination date. The stabilization fee, which is included in revenue from tuitions and fees, amounted to \$44.2 million and \$41.3 million in the fiscal years ended June 30, 2012 and 2011, respectively. On January 26, 2013, the stabilization fee was repealed by the Board of Trustees of the University effective July 1, 2013. Refer to Subsequent Events Section.

In addition, by virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico (the Commonwealth) had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. Proceeds of this fund received by the University in fiscal years 2012 and 2011 amounted to \$30.0 million, of which \$25.9 million and \$23.4 million were granted as scholarships during the fiscal years ended June 30, 2012 and 2011, respectively. Unused fund balance at June 30, 2012 and 2011 amounted to \$10.7 million and \$6.6 million, respectively. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University. Refer to Subsequent Events Section.

On the other hand, the ARRA funds, designated for operational purposes, decreased by \$15.0 million in 2012 and \$90.0 million in 2011. No such funds were received in 2012. Management compensated the decreases in the ARRA funds with the line of credit with GDB, the stabilization fee and the cost control measures which resulted in a reduction of operating expenses by \$29.3 million or 2% in 2012 and \$72.2 million or 5% in 2011, when compared with prior year balances.

Total investments at June 30, 2012 amounted to \$222.9 million, an increase of \$9.4 million or 4% as compared to a balance of \$213.5 million at June 30, 2011. In 2011, total investments decreased by \$12.0 million or 5% as compared to a balance of \$225.5 million at June 30, 2010. The increase in 2012 was mainly due to the increase in investments designated to fund the University's Healthcare Deferred Compensation Plan. The decrease in 2011was mainly due to the disposition of the investments designated to fund the University's construction projects, which was partially offset by the increase in investments designated to fund the University's Healthcare Deferred Compensation Plan.



Accounts receivable, net, including due from the Commonwealth of Puerto Rico increased by \$9.1 million or 6% from \$144.7 million at June 30, 2011 to \$153.8 million at June 30, 2012. In 2011, accounts receivable, net decreased by \$22.5 million or 13% from \$167.2 million at June 30, 2010. The increase in 2012 mainly resulted from the increases in the due from Commonwealth's agencies of \$14.8 million and in the due from medical plans of \$17.6 million, which were partially offset by the decrease of \$29.1 million in the due from Commonwealth. Due from Commonwealth's agencies include an account receivable from a Commonwealth's agency of \$20.0 million as a result of contracts for professional development of public school teachers obtained in 2012. Due from medical plans increased in 2012 as a result of more services rendered to patients. Due from Commonwealth decreased in 2012 as a result of collections of \$31.6 million under two payment plans. During the year ended June 30, 2012, the University forgave amounts due by the Hospital and fully reserved by the University of \$34,496,756. The decrease in 2011 mainly resulted from collections of \$12.9 million in the due from Commonwealth and increased provisions for doubtful accounts of \$8.8 million for the year ended June 30, 2011.

Capital assets decreased by \$12.8 million or 1% from \$965.9 million at June 30, 2011, to \$953.1 million at June 30, 2012. For 2011, capital assets increased by \$4.7 million or less than 1% from \$961.2 million at June 30, 2010. The changes in both years mainly resulted from the University's investment in construction projects and other capital assets that amounted to \$36.0 million in fiscal year 2012 and \$49.2 million in fiscal year 2011, which effect was partially (or totally) offset by the depreciation and amortization expense of \$46.5 million in fiscal year 2012 and \$43.9 million in fiscal year 2011.

Liabilities

Total liabilities amounted to \$1.04 billion, \$1.08 billion and \$1.06 billion at June 30, 2012, 2011, and 2010, respectively, a decrease of \$38.1 million or 4% in 2012 and an increase of \$27.0 million or 3% in 2011 when compared with the prior year balances.

Current liabilities consist primarily of accounts payable and accrued liabilities, the current portion of long-term debt and other liabilities. Noncurrent liabilities primarily consist of long-term debt and leases and compensated absences.

Accounts payable and accrued liabilities decreased by \$9.5 million or 9% from \$105.5 million at June 30, 2011 to \$96.0 million at June 30, 2012. In 2011, these current liabilities decreased by \$37.9 million or 26% from \$143.4 million at June 30, 2010. The decrease in 2012 is mainly related to the decrease in amounts due to the Commonwealth's component units as a result of lower unpaid utilities invoices. The decrease in 2011 is mainly related to the University's positive cash position in fiscal year 2011 which offset the excess of outstanding checks over bank balance of \$10.9 million at June 30, 2010 and reduced the unpaid health and medical benefit costs, accounts payable to suppliers and other accounts payable.



Long-term debt and capital lease obligations decreased by \$45.0 million or 6% from \$727.4 million at June 30, 2011, to \$682.4 million at June 30, 2012. In 2011, long-term debt and lease increased by \$61.3 million or 9% from \$666.1 million at June 30, 2010. The decrease in 2012 mainly resulted from principal paid on long-term debt and capital leases of \$57.2 million, net of advances of \$12.7 million obtained from the lines of credit with GDB and a commercial bank. In June 2011, the University obtained a \$5 million non-revolving line of credit with GDB, which was increased to \$75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. In October 2010, the University obtained a \$100 million revolving line of credit facility with GDB for working capital purposes, which was increased to \$125 million in October 2011. These lines of credit improved the University's cash positions at June 30, 2012 and 2011. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$65.0 million and \$10.2 million, respectively, at June 30, 2012. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. The increase in 2011 mainly resulted from the \$100 million line of credit obtained from GDB in October 2010 which was partially offset by principal paid on capital debt and leases of \$28.9 million during the fiscal year ended June 30, 2011. The balance outstanding under this line of credit amounted to \$93.7 million at June 30, 2011.

Long-term debt includes the University's revenue bonds amounted to \$540.1 million and \$567.6 million as of June 30, 2012 and 2011, respectively. These bonds are currently rated "Ba1" by Moody's Investors Service and "BBB-" by Standard & Poor's Ratings Services.

Compensated absences amounted to \$167.1 million, \$156.7 million and \$163.1 million at June 30, 2012, 2011 and 2010, respectively, an increase of \$10.4 million or 7% in 2012 and of \$6.4 million or 4% in 2011 when compared with prior year balances. Changes in compensated absences are mainly related to variations on the use of vacations by employees and total employees at the end of periods.

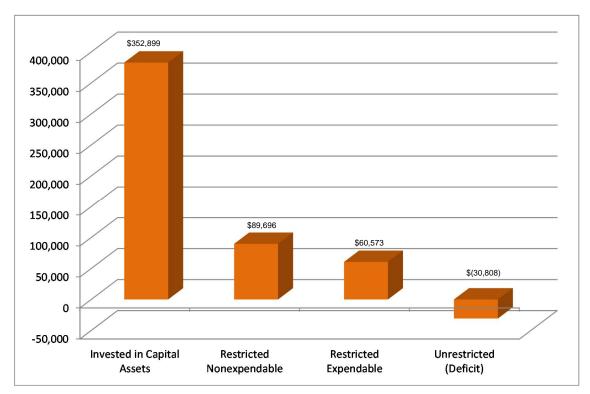
Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. Net assets amounted to \$472.4 million, \$426.1 million and \$368.1 million at June 30, 2012, 2011, and 2010, respectively, an increase of \$46.3 million or 11% in 2012 and of \$58.0 million or 16% in 2011 when compared with the prior year balances. These changes are explained in the section entitled "Statements of Revenues, Expenses and Changes in Net Assets".



The major classifications of the net assets at June 30, 2012 are shown in the following illustration:

Chart 1 – Net Assets (Dollars in thousands)



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

Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended. Restricted expendable net assets are subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans and scholarship purposes.

Unrestricted net assets represent those balances from operational activities that have not been restricted by parties external to the University such as donors or grant agencies.



Statements of Revenues, Expenses and Changes in Net Assets

Approximately 87% of the operating revenues and non-operating revenues of the University are Federal and Commonwealth appropriations, grants and contracts. The remainder consists primarily of tuition and fees and patient services.

Operating Revenues

Total operating revenues amounted to \$370.5 million, \$354.5 million and \$265.1 million for the years ended June 30, 2012, 2011, and 2010, respectively, an increase of \$16.0 million or 5% in 2012 and an increase of \$89.4 million or 34% in 2011. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in patient services revenues.

Tuitions and fees decreased by \$976,000 or 1%, from \$73.4 million in 2011 to \$72.5 million in 2012, mainly as a result of a lower student enrollment at the University. For fiscal year 2012, the student body of the University consisted of approximately 56,659 students, a decrease of 5,130 students or 8% when compared with approximately 61,789 students for fiscal year 2011. For fiscal year 2010, the student body of the University consisted of approximately 65,026 students. In fiscal year 2010, a student conflict interrupted operations of the University campuses for up to 62 days. Historical data demonstrate that a decrease in applicants and enrollment always follows labor or student conflicts, recuperating thereafter to normal rates. The University tuition is among the lowest in Puerto Rico and in the United States of America. In accordance with a Board of Trustees Resolution, tuition cost per credit has been increased 4% annually per incoming class since academic year 2007-2008 to academic year 2011-2012. In 2011, tuitions and fees increased by \$31.6 million or 76%, from \$41.8 million in 2010, mainly as a result of the stabilization fee established by the Board of Trustees of the University on June 30, 2010 to address the University's budgetary deficit issues. This stabilization fee is charged to all students in addition to tuition charges and other fees already in place in the University. The stabilization fee amounts to \$400 per student per semester. This stabilization fee increased revenue from tuitions and fees by \$41.3 million in fiscal year ended June 30, 2011. However, the positive effect of the stabilization fee on the revenue from tuitions and fees in 2011 was partially offset by the increase in the scholarship allowances of \$22.8 million or 46%, from \$49.7 million in 2010 to \$72.6 million in 2011.

In 2012, revenues from governmental grants and contracts increased by \$12.7 million or 8% from \$161.5 million in 2011, to \$174.2 million in 2012. In 2011, these revenues increased by \$29.8 million or 23% from \$131.7 million in 2010. The increase in 2012 mainly resulted from the increase in the Commonwealth's grants and contracts for professional development of public school teachers and other purposes. The increase in 2011 mainly resulted from the increases in the federal and in the Commonwealth's grants and contracts for agricultural station services and other purposes.

Patient services revenue amounted to \$86.8 million, \$71.5 million and \$51.4 million for the years ended June 30, 2012, 2011, and 2010, respectively, an increase of \$15.3 million or 21 % in 2012 and an increase of \$20.1 million or 39 % in 2011. In 2012 and 2011, patient service revenue increased as a result of more services rendered to patients.



Non-operating Revenues

Total non-operating revenues amounted to \$994.9 million, \$1.04 billion and \$1.12 billion for the years ended June 30, 2012, 2011, and 2010, respectively, a decrease of \$42.6 million or 4% in 2012 and a decrease of \$87.0 million or 8% in 2011.

In 2011, the University received nonrecurring revenues from the American Reinvestment and Reconstruction Act (ARRA funds) of \$15.0 million when in 2010 it received \$105.0 million, a decrease of \$90 million. No such funds were received in 2012.

In addition, the Commonwealth appropriations amounted to \$834.1 million, \$839.4 million and \$839.3 million for the years ended June 30, 2012, 2011 and 2010, a decrease of \$5.3 million or less than 1% in 2012. They remained flat in 2011.

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The non-operating revenues were negatively impacted by the continued reduction in the Commonwealth formula appropriations as a result of the reduction in the Commonwealth's general funds revenues. The Commonwealth formula appropriations amounted to \$685.9 million, \$691.5 million and \$729.1 million for the years ended June 30, 2012, 2011, and 2010, respectively, a decrease of \$5.6 million or less than 1% in 2012 and a decrease of \$37.6 million or 5% in 2011. On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, and revised the formula for the Commonwealth appropriations effective July 1, 2013. Refer to Subsequent Events Section.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to \$148.2 million, \$147.9 million and \$110.2 million for the years ended June 30, 2012, 2011, and 2010, respectively, an increase of \$284,000 in 2012 and an increase of \$37.7 million or 34% in 2011. These appropriations remained flat in 2012. In 2011, the increase mainly resulted from the appropriations received from the Special Scholarship Fund. By virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. Proceeds of this fund received by the University in 2012 and 2011 amounted to \$30 million, of which \$25.9 million and \$23.4 million were granted as scholarships during the fiscal years ended June 30, 2012 and 2011, respectively. Unused fund balance at June 30, 2012 and 2011 amounted to \$10.7 million and \$6.6 million, respectively. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University. Refer to Subsequent Events Section.



Federal Pell Grant program revenues amounted to \$174.1 million in 2012 and \$179.2 million in 2011 and in 2010, a decrease of \$5.1 million or 3% in 2012 and remained flat in 2011. The decrease in 2012 was mainly due to the decrease in the Federal Pell Grant assistance along with a decrease in the number of eligible participants.

The following illustration presents the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2012:

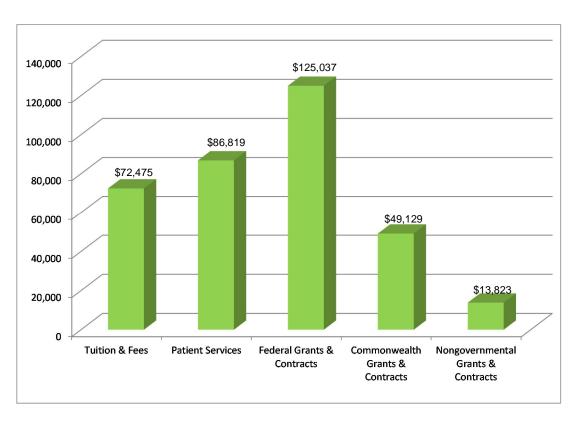
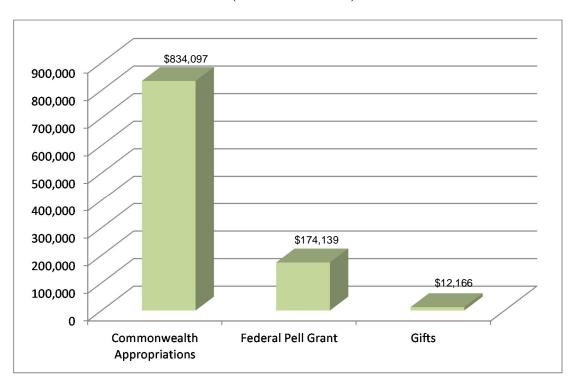


Chart 2 – Major Sources of Operating Revenues (Dollars in thousands)

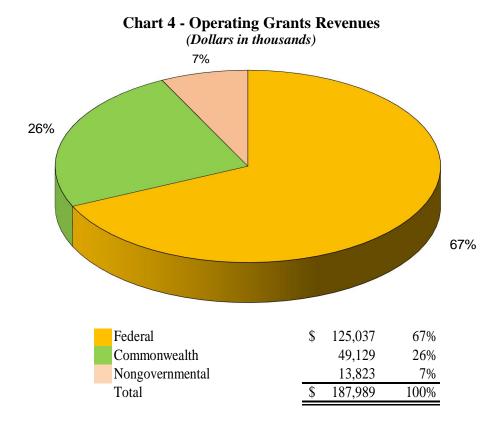


Chart 3 – Major Sources of Nonoperating Revenues (Dollars in thousands)





Federal grants represent 67% of the University operating grants revenues. The following illustration presents the operating grants revenues of the University of Puerto Rico for the year ended June 30, 2012:



Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to \$1.32 billion, \$1.35 billion and \$1.42 billion for the years ended June 30, 2012, 2011, and 2010, respectively, a decrease of \$29.3 million or 2% in 2012 and a decrease of \$72.2 million or 5% in 2011. The reduction in operating expenses is the result of the cost control measures taken by University in the fiscal years 2012 and 2011.



Salaries and benefits, the most significant component of operating expenses, amounted to \$827.8 million, \$860.1 million and \$933.6 million for the years ended June 30, 2012, 2011 and 2010, respectively, a decrease of \$32.3 million or 4% in 2012 and a decrease of \$73.6 million or 8% in 2011. In 2012 and 2011, these expenses decreased as a result of strict control measures taken by Management which includes the replacement of no more than 33% of retired employees, reductions in employees' benefits such as excess compensated absences, among others. In 2012, the University reduced about 250 positions of retired employees and of employees under contracted services. Notwithstanding that salary expense decreased in 2012, the University increased its contribution rate to the retirement plan from 13.0% to 14.7% which resulted in an increase of \$4.3 million in the contribution benefit to the retirement plan. In 2011, the University reduced about 800 positions of retired employees and of employees under contracted services. Notwithstanding that salary expense decreased in 2011, the University increased its contribution rate to the retirement plan from 11.4% to 13.0% which resulted in an increase of \$10.0 million in the contribution benefit to the retirement plan.

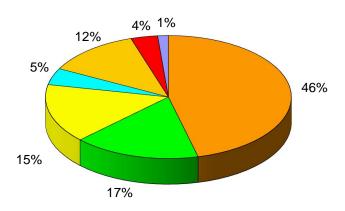
Scholarships and fellowships amounted to \$204.0 million, \$215.2 million and \$211.8 million for the years ended June 30, 2012, 2011 and 2010, respectively, a decrease of \$11.2 million or 5% in 2012 and an increase of \$3.4 million or 2% in 2011. The decrease in 2012 mainly resulted from a decrease in the number of eligible participants. The increase in 2011 mainly resulted from \$24.0 million in scholarships granted under the Special Scholarship Fund approved by Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, which was partially offset by a decrease in the number of eligible participants.

Supplies and other services and utilities amounted to \$222.7 million, \$206.5 million and \$198.7 million for the years ended June 30, 2012, 2011 and 2010, respectively, an increase of \$16.2 million or 8% in 2012 and an increase of \$7.8 million or 4% in 2011. The increases in 2012 and 2011 mainly resulted in the utilities expense category (mainly electricity), in supplies for educational and medical purposes and in additional professional services. Utilities amounted to \$58.0 million, \$50.6 million and \$48.5 million for the years ended June 30, 2012, 2011 and 2010, respectively, an increase of \$7.4 million or 15% in 2012 and of \$2.1 million or 4% in 2011. Such increases in utilities mainly resulted from significant oil prices increases experienced during the both periods.



The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2012:

Chart 5 - Operating Expenses (Dollars in thousands)

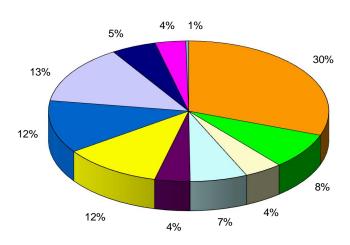


Salaries	\$ 607,115	46%
Benefits	220,640	17%
Scholarships and fellowships	203,959	15%
Supplies and other services	164,710	12%
Utilities	58,027	5%
Depreciation and amortization	46,474	4%
Other expenditures	 20,448	1%
Total	\$ 1,321,373	100%



Functional expense classification presents University expenses in the operational categories they benefit. The following illustration presents the major uses of University revenues (both operating and nonoperating) on a functional basis for the year ended June 30, 2012:

Chart 6 - Expenses by Function (Dollars in thousands)



Instruction	\$ 402,901	30%
Research	108,288	8%
Public service	57,478	4%
Academic support	86,988	7%
Student services	53,657	4%
Institutional support	155,162	12%
Operation and maintenance	159,361	12%
Student aid	178,627	13%
Patient service	68,027	5%
Depreciation and amortization	46,474	4%
Other	 4,410	1%
Total	\$ 1,321,373	100%



Operating Loss and Net Change in Net Assets

For the year ended June 30, 2012, the University reported an operating loss of \$950.8 million. After adding nonoperating revenues of \$994.9 million, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations and additions to term and permanent endowments of \$2.3 million, the net assets increased by \$46.3 million for the year ended June 30, 2012 or 11% of last year net assets.

For the year ended June 30, 2011, the University reported an operating loss of \$996.2 million. After adding nonoperating revenues of \$1.04 billion, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations and additions to term and permanent endowments of \$16.6 million, the net assets increased by \$58.0 million for the year ended June 30, 2011 or 16% of last year net assets.

Statements of Cash Flows

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

Subsequent Events

Subsequent events were evaluated through August 22, 2013, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2012 financial statements.

In January 2013, the \$75 million line of credit facility with the Government Development Bank for Puerto Rico was amended to extend the maturity date to January 31, 2014.

On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, to revise the formula for the Commonwealth appropriations, an amount equal to 9.60% of the average total amount of annual general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. Act No.7 is effective on July 1, 2013. Management expects to receive approximately \$77 million in additional Commonwealth formula appropriations in fiscal year 2014 as a result of Act No. 7.



In addition, Act No. 7 of April 7, 2013 derogated Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, in which the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. Management expects a reduction in the Commonwealth appropriations and in scholarships expense of approximately \$30.0 million in fiscal year 2014 as a result of the derogation of Act. No. 176.

On January 26, 2013, Board of Trustees of the University approved Certification No. 41 (2012-2013) which derogated the stabilization fee established by the Board of Trustees of the University on June 30, 2010 to address the University's budgetary deficit issues. This stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the University. The stabilization fee amounted to \$400 per student per semester. Board of Trustees Certification No. 41 is effective on July 1, 2013. Management expects a reduction in tuitions and fees of approximately \$47 million in fiscal year 2014 as a result of the derogation of the stabilization fee.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1966, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the University of Puerto Rico (the "Governing Board"), the new governing body of the University. Act No. 13 substitutes the Board of Trustees of the University with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

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.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in the Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the Suspension Status continue with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. The University is actively working with NSF to achieve full compliance and lift the administrative suspension.



The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the University's financial statements.

Capital Assets and Debt Administration

• Capital assets, net decreased by \$12.8 million or 1% in 2012

Capital assets are comprised of buildings used to provide high quality education and create new knowledge in the Arts, Sciences and Technology, equipments and assets under capital lease. Significant capital assets additions for the year ended June 30, 2012, consisted mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes. Capital assets decreased by \$12.8 million or 1% from \$965.9 million at June 30, 2011, to \$953.1 million at June 30, 2012. The change in 2012 mainly resulted from the University's investment in construction projects and other capital assets that amounted to \$36.0 million, which effect was partially (or totally) offset by the depreciation and amortization expense of \$46.5 million. Construction commitments at June 30, 2012, entered into by the University, amounted to approximately \$46.6 million. Refer to Note 5 to the financial statements for further information regarding the University's net capital assets.

Long-term debt and capital lease obligation decreased by \$45.0 million or 6% in 2012

The decrease in 2012 mainly resulted from principal paid on long-term debt and capital leases of \$57.2 million, net of advances of \$12.7 million obtained from the lines of credit with GDB and a commercial bank.

Long-term debt includes the University's revenue bonds and amounted to \$540.1 million as of June 30, 2012. 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. These bonds are currently rated "Ba1" by Moody's Investors Service (Moody's) and "BBB-" by Standard & Poor's Ratings Services (S&P). On December 14, 2012, Moody's downgraded the rating of the University's revenue bonds from Baa2 to Ba1. This rating action followed the downgrade on December 13, 2012 of the Commonwealth of Puerto Rico (the Commonwealth) and the Government Development Bank for Puerto Rico Rico's bonds. In March 2013, S&P and Moody's revised their outlook perspectives of the University's revenue bonds to negative mainly as a result of the downgrade and negative outlook of the Commonwealth, which it has generally mirrored given the University significant dependence on Commonwealth's appropriations. While this strong link to the Commonwealth has historically benefited the University in terms of annual appropriations growth, its revenue stream is concentrated and vulnerable to the Commonwealth's economic slowdowns.



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

In June 2011, the University obtained a \$5 million non-revolving line of credit with GDB, which was increased to \$75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. In October 2010, the University obtained a \$100 million revolving line of credit facility with GDB for working capital purposes, which was increased to \$125 million in October 2011. The balances outstanding under the \$125 million and \$75 million lines of credit amounted to \$65.0 million and \$10.2 million, respectively, at June 30, 2012. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipment to be used in the Medical Sciences Campus.

Refer to Notes 6, 7, 8 and 9 to the financial statements for further information regarding the University's long-term debt and capital lease obligation.

Economic Outlook

The University's business activities are conducted in Puerto Rico. Its operating results are mainly funded by nonoperating revenues mainly from the Commonwealth of Puerto appropriations and from the United States of America Government grants (Federal Pell Grant Program).

Puerto Rico uses the U.S. currency and forms part of the U.S. financial system. Factors affecting the U.S. economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, the rate of inflation, and tourist expenditures, among others. In the past, the economy of Puerto Rico has generally followed economic trends in the overall U.S. economy.

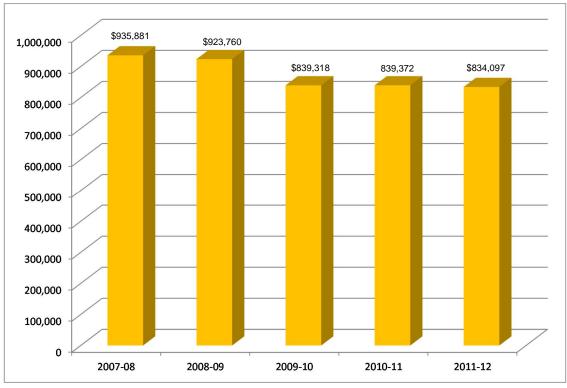
The Puerto Rico economy is currently in a recession that began officially in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5%. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in tourism and retail sales, budget shortfalls and diminished consumer buying power driven by the implementation of a sales tax.

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 general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students.



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

Chart 7 – Commonwealth Appropriations (1) (Dollars in thousands)



⁽¹⁾Includes restricted funds for special activities.

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

The University and the Puerto Rico Industrial Development Company (PRIDCO) entered into an agreement to create the "Fondo de Investigación del Centenario de la Universidad de Puerto Rico" on June 30, 2004. As part of the agreement, the University will receive from PRIDCO \$40 million on a tenyear period of which PRIDCO has granted \$24.2 million as of June 30, 2012. The University expects to collect the remaining balance.

1303-1040742 24



Request for Information

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



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Net Assets

	Jun	e 30	
	2012		2011
Assets		<u> </u>	
Current assets:			
Cash and cash equivalents	\$ 94,529,117	\$	96,139,332
Restricted cash and cash equivalents	12,056,085		8,396,509
Investments at fair value	80,135,053		73,997,945
Restricted investments at fair value- deposited with trustee	54,649,587		54,649,613
Accounts receivable (less allowances for doubtful accounts of \$132,074,100 and \$169,503,873 for 2012			
and 2011, respectively)	126,562,190		88,408,504
Due from Commonwealth of Puerto Rico	15,500,000		31,598,442
Inventories	3,311,406		3,518,775
Prepaid expenses and deferred charges	 476,496		3,853,165
Total current assets	387,219,934		360,562,285
Noncurrent assets:			
Restricted cash and cash equivalents	3,170,788		3,479,692
Restricted investments at fair value	88,120,242		84,818,821
Due from Commonwealth of Puerto Rico	11,720,254		24,720,254
Prepaid pension asset and other assets	70,118,269		66,317,282
Notes receivable, net	3,940,201		3,312,394
Capital assets (net of accumulated depreciation and			
amortization):			1.50.000.100
Land and other nondepreciable assets	109,024,213		158,829,439
Depreciable assets	 844,029,672		807,065,961
Total noncurrents assets	 1,130,123,639	- —	1,148,543,843
Total assets	1,517,343,573		1,509,106,128
Liabilities			
Current liabilities:	07.017.574		105 402 000
Accounts payable and accrued liabilities	96,017,574		105,482,890
Current portion of long-term debt	30,404,791		45,056,638
Obligation under capital lease, current portion Other current liabilities	1,472,628		1,383,308
Total current liabilities	 37,222,070		32,979,704
Total current natinues	165,117,063		184,902,540
Noncurrent liabilities:	597 229 722		616 200 270
Long-term debt, net of current portion	587,328,733		616,290,379
Obligation under capital lease, net of current portion Other long-term liabilities	63,220,500		64,693,128
Total noncurrent liabilities	 229,317,139 879,866,372		217,162,554 898,146,061
Total liabilities	 1,044,983,435		1,083,048,601
1 Otal Habilities	 1,044,980,435		1,003,048,001

(Continued)

1303-1040742 26



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Net Assets (continued)

	June 30				
	 2012		2011		
Net assets					
Invested in capital assets, net of related debt	\$ 352,899,491	\$	337,279,006		
Restricted, nonexpendable:					
Scholarship and fellowships	32,041,023		33,093,435		
Research	46,733,728		53,175,807		
Other	10,920,969		1,703,227		
Restricted, expendable:					
Loans	8,008,289		7,675,624		
Capital projects	_		5,388,897		
Debt service	52,564,612		52,087,812		
Unrestricted (deficit)	 (30,807,974)		(64,346,281)		
Total net assets	\$ 472,360,138	\$	426,057,527		

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Revenues, Expenses and Changes in Net Assets

Revenues Operating revenues: Tuitions and fees (net of scholarship allowances of \$66,985,162 and \$72,584,268 for 2012 and 2011, respectively) Net patient services revenue and other Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	\$ 72,474,954 86,819,429 125,037,138 49,128,919	\$ 73,451,284 71,465,562 134,209,649
Operating revenues: Tuitions and fees (net of scholarship allowances of \$66,985,162 and \$72,584,268 for 2012 and 2011, respectively) Net patient services revenue and other Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	86,819,429 125,037,138	\$ 73,451,284 71,465,562
Tuitions and fees (net of scholarship allowances of \$66,985,162 and \$72,584,268 for 2012 and 2011, respectively) Net patient services revenue and other Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	86,819,429 125,037,138	71,465,562
and \$72,584,268 for 2012 and 2011, respectively) Net patient services revenue and other Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	86,819,429 125,037,138	71,465,562
Net patient services revenue and other Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	86,819,429 125,037,138	71,465,562
Federal grants and contracts Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	125,037,138	
Commonwealth grants and contracts (net of provision (credit) to allowances of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)		134,209,649
of (\$5,322,450) and \$2,394,595 for 2012 and 2011, respectively)	49,128,919	
	49,128,919	
		27,337,138
Nongovernmental grants and contracts	13,823,194	15,106,195
Sales and services of educational departments	11,620,001	8,991,008
Auxiliary enterprises (net of scholarship allowances of \$136,405		
and \$85,476 for 2012 and 2011, respectively)	2,986,223	3,000,567
Other operating revenues	8,593,530	20,909,278
Total operating revenues	370,483,388	354,470,681
Operating expenses:		
Salaries:		
Faculty	342,326,653	345,848,868
Exempt staff	263,976,483	275,398,975
Nonexempt wages	811,761	733,512
Benefits	220,640,249	238,097,899
Scholarships and fellowships	203,958,904	215,204,518
Supplies and other services	164,710,063	155,972,533
Utilities	58,027,211	50,588,808
Depreciation and amortization	46,473,333	43,921,130
Other expenses	20,448,034	24,871,422
Total operating expenses	1,321,372,691	1,350,637,665
Operating loss	(950,889,303)	(996,166,984)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	834,097,217	839,372,106
Federal Pell Grant program	174,139,169	179,160,009
Federal ARRA program	_	15,000,000
Gifts	12,166,408	15,666,211
Net investment income	2,381,749	2,568,356
Interest on capital assets - related debt	(23,477,739)	(13,828,789)
Interest on notes payable	(4,570,254)	(1,787,458)
Other nonoperating revenues, net	173,075	1,357,205
Net nonoperating revenues	994,909,625	1,037,507,640
Income before other revenues	44,020,322	41,340,656
Capital appropriations	465,279	5,579,578
Additions to term and permanent endowments	1,817,010	11,044,066
Change in net assets	46,302,611	57,964,300
Net assets:		
Beginning of year	426,057,527	368,093,227
End of year	\$ 472,360,138	\$ 426,057,527

See accompanying notes.



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Cash Flows

	Year Ende	d June 30		
	2012	2011		
Cash flows from operating activities				
Tuition and fees	\$ 72,089,231	\$ 71,155,116		
Grants and contracts	169,312,230	186,752,877		
Patient services	70,853,228	65,391,480		
Auxiliary enterprises	2,986,223	3,000,567		
Sales and services educational departments and other	20,213,531	29,900,284		
Payments to suppliers	(178,868,605)	(216,840,623)		
Payments to employees	(601,788,241)	(618,868,343)		
Payments for benefits	(220,710,086)	(238,665,640)		
Payments for utilities	(55,745,561)	(54,815,847)		
Payments for scholarships and fellowships	(203,958,903)	(215,204,517)		
Loans issued to students, net of repayments	(627,807)	(196,627)		
Other receipts (payments)	(1,429,824)	405,590		
Net cash used in operating activities	(927,674,584)	(987,985,683)		
Cash flows from noncapital financing activities				
Commonwealth appropriations	857,037,324	852,231,723		
Federal ARRA program	_	15,000,000		
Pell grant	174,139,169	179,160,009		
Endowment gifts	1,817,010	11,044,066		
Proceeds from noncapital debt	_	93,705,769		
Principal paid on noncapital debt	(28,706,660)	_		
Interest paid on notes payable	(4,629,396)	(1,334,547)		
Other non-operating revenues	173,075	1,357,205		
Gifts and grants for other than capital purposes	12,166,408	15,666,211		
Net cash provided by noncapital financing activities	1,011,996,930	1,166,830,436		
Cash flows from capital and related financing activities				
Capital appropriations	465,279	5,579,578		
Purchases of capital assets	(35,965,027)	(49,217,333)		
Proceeds from sales of capital assets	231,413	1,126,820		
Proceeds from capital debt	12,674,324	_		
Principal paid on capital debt and lease	(28,462,025)	(28,946,245)		
Interest paid on capital debt and lease	(24,469,100)	(17,420,460)		
Decrease (increase) in deposit with trustee	26_	(26,740)		
Net cash used in capital and related financing activities	(75,525,110)	(88,904,380)		
Cash flows from investing activities				
Proceeds from sales and maturities of investments	35,790,786	69,666,116		
Purchases of investments	(45,229,314)	(57,551,068)		
Collections of interest and dividend income on investments	2,381,749	2,568,356		
Net cash provided by (used in) investing activities	(7,056,779)	14,683,404		
Net change in cash and cash equivalents	1,740,457	104,623,777		
Cash and cash equivalents:				
Beginning of year	108,015,533	3,391,756		
End of year	\$ 109,755,990	\$ 108,015,533		

(Continued)



University of Puerto Rico (A Component Unit of the Commonwealth of Puerto Rico) Statements of Cash Flows (continued)

	Year End	led June 30			
	2012		2011		
Reconciliation of operating loss to net cash used in operating activities					
Operating loss	\$ (950,889,303)	\$	(996,166,984)		
Adjustments to reconcile operating loss to net cash used in operating activities:					
Depreciation and amortization	46,473,333		43,921,130		
Provision for doubtful accounts	7,104,484		8,831,226		
Changes in operating assets and liabilities: Decrease (increase) in:					
Grants and contracts receivables	(29,062,334)		793,251		
Prepaid expenses, inventories and other	(844,756)		(10,148,345)		
Increase (decrease) in:					
Excess of outstanding checks over bank balance	_		(10,920,460)		
Accounts payable and accrued liabilities	(7,884,460)		(27,408,513)		
Accrued salaries, wages, benefits and other liabilities	 7,428,452		3,113,012		
Net cash used in operating activities	\$ (927,674,584)	\$	(987,985,683)		
Supplemental schedule of noncash investing, capital and financing activities: Due from Servicios Médicos Universitarios, Inc.					
forgiven by the University of Puerto Rico	\$ 34,496,756	\$	_		

See accompanying notes.



Discretely Presented Component Unit Servicios Médicos Universitarios, Inc. Statements of Net Assets (Deficit)

	June 30		
	2012	e su	2011
Assets	 2012		As Restated
Current assets:		_	
Cash and cash equivalents	\$ 7,240,915	\$	3,142,686
Patient accounts receivable, net of allowance for doubtful	, ,		, ,
accounts of \$24,037,203 for 2012 and \$14,885,379 for 2011	12,924,676		13,215,573
Accounts receivable - other	2,009,910		1,118,160
Due from related parties	9,318,328		8,354,159
Inventories of supplies	1,008,543		1,050,759
Prepaid expenses	229,368		250,963
Estimated third-party payor settlements-Medicare	 444,106		2,079,005
Total current assets	33,175,846	'	29,211,305
Noncurrent assets:			
Capital assets (net of accumulated depreciation and amortization			
of \$12,590,159 for 2012 and \$11,038,785 for 2011)			
Nondepreciable assets	1,083,642		260,842
Depreciable assets	4,767,399		4,555,485
Due from Department of Health of the Commonwealth			
of Puerto Rico	155,636		137,650
Total noncurrent assets	6,006,677		4,953,977
Total assets	39,182,523		34,165,282
Liabilities			
Current liabilities:			
Current portion of long-term debt and capital lease obligation	\$ 1,791,641	\$	1,681,119
Accounts payable	17,729,053		17,464,644
Due to related parties	16,596,452		49,356,458
Accrued payroll taxes and employee benefits	1,691,204		1,502,296
Accrued expenses	 2,924,144		2,013,275
Total current liabilities	40,732,494		72,017,792
Noncurrent liabilities:			
Long-term debt and capital lease obligation, net of current portion	17,653,223		19,222,494
Accrued claim losses	1,215,796		1,134,796
Total noncurrent liabilities	18,869,019		20,357,290
Total liabilities	59,601,513		92,375,082
Net assets- unrestricted (deficit)	\$ (20,418,990)	\$	(58,209,800)

See accompanying notes.



Discretely Presented Component Unit Servicios Médicos Universitarios, Inc. Statements of Revenues, Expenses and Changes in Net Assets (Deficit)

	Year Ended June 30				
	2012	2011			
		As Restated			
Revenues					
Operating revenues:					
Net patient service revenue, net of provisions of \$9,333,453					
for 2012 and \$9,628,460 for 2011	\$ 42,269,761	\$ 38,248,101			
Capital revenue	993,782	3,185,174			
Other revenue	1,830,992	1,624,509			
Total operating revenues	45,094,535	43,057,784			
Operating Expenses:					
Salaries and benefits	15,953,049	15,085,774			
Contracted services	3,229,444	3,018,469			
Professional services	2,960,330	3,287,431			
Supplies	13,470,657	12,944,843			
Utilities	3,323,787	2,708,728			
Provision for claim losses	150,000	150,000			
Depreciation and amortization	1,551,374	1,634,396			
Other	187,787	192,223			
Total operating expenses	40,826,428	39,021,864			
Operating income	4,268,107	4,035,920			
Nonoperating expenses- interest on notes payable	(974,053)	(1,133,234)			
Income before other revenues	3,294,054	2,902,686			
Contribution from the University of Puerto Rico -					
forgiveness of debt	34,496,756				
Change in net assets	37,790,810	2,902,686			
Net assets:					
Beginning of year, as previously reported	(58,209,800)	(61,683,244)			
Prior period adjustment	(30,409,000)	570,758			
Net assets at beginning of year	(58,209,800)	(61,112,486)			
The assets at segmining of year	(30,207,000)	(01,112,400)			
Net assets at end of year	\$ (20,418,990)	\$ (58,209,800)			

See accompanying notes.



Discretely Presented Component Unit Desarrollos Universitarios, Inc. Statements of Net Assets

		Jui	June 30		
		2012		2011	
Assets					
Current assets:					
Cash	\$	1,735,580	\$	1,721,322	
Restricted funds held by trustee	,	15,059,470		14,621,673	
Current portion of net investment in direct financing lease		1,480,996		1,383,308	
Reimbursable tenant improvements unbilled, net of construction		_, ,		-,,	
certifications payable of \$127,745 for 2011		1,253,710		424,557	
Total current assets		19,529,756		18,150,860	
Total Carrent assets		17,527,750		10,130,000	
Noncurrent assets:					
Restricted cash		757,491		1,322,158	
Net investment in direct financing lease, net of current portion		63,358,429		64,847,637	
Capital assets- depreciable assets net of accumulated depreciation of		03,330,427		04,047,037	
\$28,068 for 2012 and \$19,409 for 2011		4,433		13,092	
Bond issuance costs, net of accumulated amortization		4,433		13,072	
of \$871,112 for 2012 and \$790,920 for 2011		1,918,112		1,998,304	
Other assets		436,418		274,951	
Total noncurrent assets	-	66,474,883		68,456,142	
Total assets	-	86,004,639		86,607,002	
Total assets		00,004,037		00,007,002	
Liabilities					
Current liabilities:					
Current portion of bonds payable	\$	1,860,000	\$	1,760,000	
Construction contract and other development payables,	Ψ	1,000,000	Ψ	1,700,000	
retainage of \$1,553,736 for 2012 and 2011		1,633,736		1,633,736	
Operating trade accounts payable		88,500		85,294	
Accrued interest payable		1,920,969		1,970,469	
Accrued costs and expenses		1,130,364		1,139,626	
Due to University of Puerto Rico, net		133,716		18,844	
Commercial tenants and student dormitories security deposits		68,185		127,491	
Total current liabilities		6,835,470		6,735,460	
Total current naomities		0,033,470		0,733,400	
Noncurrent liabilities:					
Bonds payable, net of current portion and discount of					
\$219,748 for 2012 and \$236,856 for 2011		72,490,252		74,333,144	
Total liabilities		79,325,722		81,068,604	
		,		,,	
Net assets:					
Invested in capital assets, net of related debt		4,433		13,092	
Restricted, expendable:		,			
Capital project		1,432,390		1,432,390	
Debt service		8,212,375		7,825,078	
Others		689,306		1,194,667	
Unrestricted (deficit)		(3,659,587)		(4,926,829)	
Total net assets	\$	6,678,917	\$	5,538,398	

See accompanying notes.



Discretely Presented Component Unit Desarrollos Universitarios, Inc. Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2012	2011
_		
Revenues:		
Operating revenues:	ф. 4.210.412	Φ 4.200.624
Income from investment in direct financing lease	\$ 4,310,412	\$ 4,398,634
Fixed management fee	900,000	900,000
Reimbursable expenditures fee	2,386,245	2,382,513
Total operating revenues	7,596,657	7,681,147
Operating expenses:		
Project operation and maintenance	2,342,045	2,426,816
General and administrative	600,446	625,980
Total operating expenses	2,942,491	3,052,796
Operating income	4,654,166	4,628,351
Nonoperating revenues (expenses):		
Interest and other financing related expenses	(3,939,910)	(4,040,222)
Interest income	426,263	424,603
Net nonoperating expenses	(3,513,647)	(3,615,619)
Change in net assets	1,140,519	1,012,732
Net assets:		
Beginning of year	5,538,398	4,525,666
End of year	\$ 6,678,917	\$ 5,538,398

See accompanying notes.

University of Puerto Rico



Notes to Financial Statements June 30, 2012

1. Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

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

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a seventeen-member Board of Trustees, of which fourteen members were appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Board consisted of one full-time student and two tenured professors. The Governor appointed the original members for a term of six years. The terms for the student and professors are one year.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1966, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the University of Puerto Rico (the "Governing Board"), the new governing body of the University. Act No. 13 substitutes the Board of Trustees of the University with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

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

The financial reporting entity of the University consists of the campuses at Río Piedras, Mayagüez, Medical Sciences, 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 general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students.

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

STATE OF THE STATE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

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

A. Reporting Entity (continued)

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. (the Hospital) is a legally separate entity from the University and is governed by a separate board. The Hospital is a not-for-profit acute care corporation, organized under the Laws of the Commonwealth of Puerto Rico, on February 11, 1998, to operate and administer healthcare units. The principal objectives of the Hospital are to constitute it as the principal medical education institution of the University and to offer healthcare services to the residents of Puerto Rico. The University appoints a voting majority of the Hospital board and is also financially accountable for the Hospital. Complete financial statements of the Hospital can be obtained directly by contacting the Hospital's administrative offices.

Desarrollos Universitarios, Inc.

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

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

B. Measurement Focus and Basis of Accounting

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are



Notes to Financial Statements (continued) June 30, 2012

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

B. Measurement Focus and Basis of Accounting (continued)

recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, telecommunications and institutional computing have been eliminated where appropriate.

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

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

C. Reclassifications

Reclassifications of prior year balances have been made to conform to the current year presentation.

D. Cash Equivalents

The University considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

E. Investments

Investments are reported at fair value, except for money market investments which are carried at cost, in the statements of net assets. Fair value is based on quoted market prices. The changes in the fair value of investments are reported in the statements of revenues, expenses and changes in net assets as a component of net investment income (non-operating activities).

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value, except for investment positions in 2a-7 like external pools which are carried at the pool's share price, which approximates amortized cost.

F. Restricted Funds Held by Trustee – Discretely Presented Component Unit

Restricted funds of Desarrollos Universitarios, Inc. held by trustee at June 30, 2012 and 2011 consist of money market funds and zero coupon bonds purchased with remaining maturities of six months or less.



Notes to Financial Statements (continued) June 30, 2012

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

G. Allowance for Doubtful Accounts

The allowance for uncollectible accounts and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

H. Inventories

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

I. Capital Assets

All capital expenditures of \$1,000 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment, library materials and software, and 7 to 30 years for land improvements.

Renovations to buildings and other assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense has been incurred.

J. Impairment of Capital Assets

The University accounts for asset impairment under the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. No impairment charges were recorded during the years ended June 30, 2012 and 2011.

K. Bond Premium/Discount, Deferred Issuance Costs and Deferred Refunding Loss

Bond premium and/or discount and deferred issuance costs are amortized using the effective interest method. Deferred refunding loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.



Notes to Financial Statements (continued) June 30, 2012

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

L. Deferred Compensation Plan

The University offers certain employees a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair 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.

M. 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. At June 30, 2012 and 2011, the cost of the excess of 90 days of the accumulated sick leave was approximately \$10,886,000 and \$9,744,000, respectively, which is included in other current liabilities in the accompanying statements of net assets.

N. Classification of Net Assets

The University's net assets are classified as follows:

- Invested in capital assets, net of related debt consist of the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent proceeds from issuance of debt has been received but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- Restricted, nonexpendable net assets consist of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

COLUMN STATE OF STATE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

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

N. Classification of Net Assets (continued)

- Restricted, expendable net assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net assets may be designated for specific purposes by action of management or the Governing Board, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose.

O. Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state and local grants and contracts; and, hospital patient service revenues, net of allowances for contractual adjustments and doubtful accounts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Federal Pell Grants and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 35 and GASB Statement No. 34, such as state appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

P. Scholarship Allowances and Student Financial Aid

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



Notes to Financial Statements (continued) June 30, 2012

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

Q. Net Patient Service Revenue

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

R. Grants and Contracts

The University has been awarded grants and contracts for which the funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed and for grants without either of the above requirements, the revenue is recognized as it is received.

S. Gifts and Pledges

Pledges of financial support from organizations and individuals representing unconditional promises to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promises, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

T. Pension

The University accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers, as amended by GASB Statement No. 50, Pension Disclosures.* Under GASB Statement No. 27, annual pension cost, measured on the accrual basis of accounting, is equal to the annual required contribution (ARC) to the plan. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and the statutorily required contributions.



Notes to Financial Statements (continued) June 30, 2012

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

U. Postemployment Benefits Other Than Pensions

The University accounts for postemployment benefits other than pensions ("OPEB") under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual–basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB Statement No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years.

V. Effect of New Accounting Standard Adopted

In June 2011, the GASB issued Statement No. 64, Application of Hedge Accounting Termination Provisions. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The adoption of this statement had no impact on the University's financial statements.

W. Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012.

DE DIVINO DE DIV

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

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

W. Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 66, *Technical Corrections- 2012- an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 27, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, Government Combinations and Disposals of Government Operations, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which is effective for periods beginning after June 15, 2013.

Management is evaluating the impact that these statements will have on the University's financial statements.

2. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2012 and 2011 consisted of the following:

			2012		
	τ	Inrestricted	 Restricted	_	Total
Cash on hand and due from commercial banks	\$	620,308	\$ 11,732,281	\$	12,352,589
Cash equivalents:					
Certificates of deposit with: Commercial banks Economic Development Bank for Puerto Rico		34,681,394 57,910,294	- -		34,681,394 57,910,294
Money market funds		1,317,121	3,494,592		4,811,713
Total cash equivalents		93,908,809	 3,494,592		97,403,401
Total	\$	94,529,117	\$ 15,226,873	\$	109,755,990



Notes to Financial Statements (continued) June 30, 2012

2. Cash and Cash Equivalents (continued)

				2011			
	U	nrestricted]	Restricted	Total		
Cash on hand and due from commercial banks	\$	776,708	\$	7,766,512	\$	8,543,220	
Cash equivalents:							
Certificates of deposit with: Commercial banks		93,182,624		_		93,182,624	
Economic Development Bank for Puerto Rico		2,180,000		_		2,180,000	
Money market funds		_		4,109,689		4,109,689	
Total cash equivalents		95,362,624		4,109,689		99,472,313	
Total	\$	96,139,332	\$	11,876,201	\$	108,015,533	

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University 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 Economic Development Bank for Puerto Rico (EDB), collateralize the amount deposited in excess of federal depository insurance (\$250,000 at June 30, 2012) with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico. Cash accounts opened with commercial banks outside of Puerto Rico amounted to \$185,543 at June 30, 2012.

The deposits at EDB, a public corporation of the Commonwealth of Puerto Rico, and in money market funds are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a deposit. Cash in foreign currency amounted to \$185,543 at June 30, 2012. Cash in foreign currency present minimal foreign currency risk at June 30, 2012.

Cash equivalents of the University's permanent endowment funds amounted to \$3,215,405 and \$3,558,598 as of June 30, 2012 and 2011, respectively. Refer to Note 3.

As of June 30, 2012 and 2011, the cash deposited in the banks amounted to \$132,705,486 and \$133,182,213, respectively.

A DE POLITICA DE P

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

3. Investments

The University's investments held at June 30, 2012 and 2011 are summarized in the following table:

	 2012	 2011
U.S. Treasury notes	\$ 70,305,383	\$ 69,643,177
U.S. sponsored agencies bonds and notes	3,770,662	4,277,522
U.S. municipal bonds	1,303,912	1,158,300
Foreign government bonds	2,768,432	861,208
Mortgage-backed securities	11,496,782	5,909,223
Corporate bonds	20,927,772	27,466,545
Common stock and convertibles	27,600,192	26,806,449
External investment pools	77,011,969	69,596,673
Certificates of deposit	7,383,407	7,053,784
Guaranteed investment certificate	327,881	620,184
Others	 8,490	 73,314
Total	\$ 222,904,882	\$ 213,466,379

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

Restricted Investments in Sinking Fund

The University is required to maintain a sinking fund for the retirement of the "University System Revenue Bonds". The Trustee shall, upon the receipt of the pledged revenues, make deposits to the credit of the sinking fund accounts. Funds held by trustee at June 30, 2012 and 2011 amounted to \$54,649,587 and \$54,649,613, respectively, and consisted of U.S. Treasury notes purchased with remaining maturities of six months or less.

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2012 and 2011 amounted to \$88,120,242 and \$84,818,821, respectively. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended.

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

DE POLY TO DE

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

3. Investments (continued)

Restricted Investments in Permanent Endowment Funds (continued)

As of June 30, 2012 and 2011, almost all the University's endowment funds only authorize for expenditure the realized portion of the net appreciation of their investments (including interest and dividend income on investment and cash equivalents) in amounts that range from 85% to 100% in accordance with the donor specific instructions. Unrealized net appreciations on investments of the endowment funds are not available for authorization for the expenditures by the Governing Board. As of June 30, 2012, net appreciation of approximately \$4,919,000 is restricted to specific purposes.

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, amounted to \$77,011,969 and \$69,596,673 as of June 30, 2012 and 2011, respectively. 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. These investments are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant.

Credit Risk

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



Notes to Financial Statements (continued) June 30, 2012

3. Investments (continued)

Credit Risk (continued)

As of June 30, 2012, the University's credit quality distribution for securities is as follows:

				Q	uality Rating	
	 Carrying Value	-	AAA to A-		Unrated	No Risk
U.S. Treasury notes	\$ 70,305,383	\$	_	\$	_	\$ 70,305,383
U.S. sponsored agencies bonds and notes	3,770,662		3,770,662		_	_
U.S. municipal bonds	1,303,912		1,303,912		_	_
Foreign government bonds	2,768,432		2,768,432		_	_
Mortgage-backed securities	11,496,782		9,785,028		_	1,711,754
Corporate bonds	20,927,772		20,927,772		_	_
Guaranteed investment certificate	327,881		_		327,881	_
Common stock and convertibles	27,600,192		_		27,600,192	_
External investment pools	77,011,969		_		77,011,969	_
Certificates of deposit	7,383,407		_		7,383,407	_
Others	8,490		_		8,490	_
Total	\$ 222,904,882	\$	38,555,806	\$	112,331,939	\$ 72,017,137

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012, the custody of these investments is held by the trust department of a commercial bank in the name of the University and the portfolio is managed by a brokerage firm.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. Government and the ING Life Insurance and Annuity Company – Fixed Account (external investment pool), represented 5% or more of the total investment portfolio at June 30, 2012.

LEOS CONTRACTOR

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

3. Investments (continued)

Interest Rate Risk (continued)

The following table summarizes the type and maturity of investments held by the University at June 30, 2012:

		Within One Year	1	After One to Five Years	After Five to Ten Years	After Ten Years	No Stated Maturity Date	Total Fair Value
U.S. Treasury notes	\$	54,649,587	\$	8,963,216	\$ 6,692,580	\$ -	\$ _ :	\$ 70,305,383
U.S. sponsored agencies bonds and notes		-		1,406,719	2,363,943	-	-	3,770,662
U.S. municipal bonds Foreign government bonds		-		2,768,432	133,643	1,170,269	-	1,303,912 2,768,432
Mortgage-baked securities		122,696			942,327	10,431,759	-	11,496,782
U.S. corporate bonds Certificates of deposit		2,395,331 7,383,407		8,000,780	10,531,661	-	_	20,927,772 7,383,407
Guaranteed investment certificate External investment pools		327,881 59,724,840		385,166	-	1,147,073	- 15,754,890	327,881 77,011,969
Others		8,490		-	_	-	-	8,490
Common stock and convertibles	_						27,600,192	27,600,192
Total	\$	124,612,232	\$	21,524,313	\$ 20,664,154	\$ 12,749,101	\$ 43,355,082	\$ 222,904,882

At June 30, 2012, the University has variable rate interest investments amounting to \$2,678,818, which reset in a semiannual basis at 100% of an interest rate index plus a spread.

4. Accounts Receivable, Due from Commonwealth of Puerto Rico and Other Related-Party Transactions

The University's accounts receivable as of June 30, 2012 and 2011 are as follows:

	 2012	2011
Due from Commonwealth's:		
Agencies	\$ 42,516,956	\$ 27,735,523
Component units	44,897,357	45,905,730
Municipalities	2,641,867	2,750,575
Due from Federal Government	30,023,749	24,557,612
Due from Servicios Médicos Universitarios, Inc.	16,651,040	51,955,760
Due from medical plans	99,770,106	82,217,203
Other	 22,135,215	22,789,974
	 258,636,290	257,912,377
Less allowance for doubtful accounts	 (132,074,100)	(169,503,873)
Accounts receivable, net	\$ 126,562,190	\$ 88,408,504



Notes to Financial Statements (continued) June 30, 2012

4. Accounts Receivable, Due from Commonwealth of Puerto Rico and Other Related-Party Transactions (continued)

During the year ended June 30, 2012, the University forgave amounts due by the Hospital and fully reserved by the University of \$34,496,756.

Due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company (PRTC), a component unit of the Commonwealth of Puerto Rico, of \$12,224,736 and \$6,066,401 at June 30, 2012 and 2011, respectively. This account receivable includes unremitted distributions of income to be received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. PRTC appropriations (nonoperating revenues) for the years ended June 30, 2012 and 2011 amounted to \$70,940,139 and \$72,468,106, respectively, and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses and changes in net assets.

Due from Commonwealth of Puerto Rico

As of June 30, 2012 and 2011, the University has accounts receivable from Commonwealth of Puerto Rico (the Commonwealth) of \$27,220,254 and \$56,318,696, respectively. Due from the Commonwealth balance will be received as follows: \$15,500,000 in fiscal year 2013; \$6,720,254 in fiscal year 2014; and \$5,000,000 in fiscal year 2015.

Due from Commonwealth as of June 30, 2012 includes \$15,000,000 related to revenue from the Commonwealth legislative scholarships for fiscal years 2008 and 2009, which the Commonwealth is paying to the University in annual payments of \$5.0 million.

Due from Commonwealth also includes a payment plan approved on September 7, 2004 in which the Commonwealth agreed to pay \$94,710,382 to the University on behalf of the Puerto Rico Department of Health and the Commonwealth of Puerto Rico, over the course of ten years. As of June 30, 2012, the University has received \$84,990,128 from this amount. The remaining balance of \$9,720,254 will be received as follows: \$8,000,000 in fiscal year 2013 and \$1,720,254 in fiscal year 2014.

In addition, due from Commonwealth includes \$2,500,000 for funds to be received from the Special Scholarship Fund by virtue of Act No. 176 of November 2010 which are payable upon demand.



Notes to Financial Statements (continued) June 30, 2012

4. Accounts Receivable, Due from Commonwealth of Puerto Rico and Other Related-Party Transactions (continued)

Other Related-Party Transactions

The University's accounts payable and accrued liabilities include the following related-party transactions as of June 30, 2012 and 2011:

	 2012	2011
Due to Commonwealth's:		
Agencies	\$ 2,364,101	\$ 2,374,104
Component units	23,007,124	29,854,423
Due to Servicios Médicos Universitarios, Inc.	9,318,327	1,822,841
Due to the University of Puerto Rico Retirement System	2,575,092	 2,463,335
Total	\$ 37,264,644	\$ 36,514,703

For additional related-party transactions see Notes 2, 7, 9 and 11.

5. Capital Assets

Changes in the University's capital assets for the years ended June 30, 2012 and 2011 are as follows:

			2012			
	Beginning Balance	Additions	Transfers]	Disposals and Others	Ending Balance
Capital assets not being depreciated:						<u>.</u>
Land	\$ 49,615,849	\$ _	\$ _	\$	_	\$ 49,615,849
Construction in progress	109,213,590	23,843,784	(73,649,010)		_	59,408,364
	158,829,439	23,843,784	(73,649,010)		-	109,024,213
Other capital assets:						
Land improvements	35,706,696	_	573,531		_	36,280,227
Building, fixed equipment, improvements						
and infrastructure	954,420,659	_	69,322,109		(2,101,796)	1,021,640,972
Equipment, software and library materials	274,267,486	12,121,243	3,753,370		(5,503,803)	284,638,296
Building and equipment under capital lease	 99,298,249	_	_		_	99,298,249
	1,363,693,090	12,121,243	73,649,010		(7,605,599)	1,441,857,744
Less accumulated depreciation and						
amortization for:						
Land improvements	(18,318,975)	(1,294,162)	_		_	(19,613,137)
Buildings, fixed equipment,						
improvements and infrastructure	(316,862,597)	(22,974,527)	_		_	(339,837,124)
Equipment, software and library materials	(207,540,057)	(19,221,005)	_		5,272,390	(221,488,672)
Building and equipment under capital lease	(13,905,500)	(2,983,639)				(16,889,139)
	(556,627,129)	(46,473,333)	_		5,272,390	(597,828,072)
Other capital assets, net						
of accumulated depreciation	807,065,961	(34,352,090)	73,649,010		(2,333,209)	844,029,672
Capital assets, net	\$ 965,895,400	\$ (10,508,306)	\$ _	\$	(2,333,209)	\$ 953,053,885



Notes to Financial Statements (continued) June 30, 2012

5. Capital Assets (continued)

			2	011			
	Beginning Balance	Additions		Transfers	D	Disposals and Others	Ending Balance
Capital assets not being depreciated:							
Land	\$ 42,438,639	\$ 	\$	7,177,210	\$	-	\$ 49,615,849
Construction in progress	 210,561,495	39,271,996		(140,472,508)		(147,393)	109,213,590
	 253,000,134	39,271,996		(133,295,298)		(147,393)	158,829,439
Other capital assets:							
Land improvements	33,102,107	-		2,604,589		-	35,706,696
Building, fixed equipment, improvements							
and infrastructure	824,585,366	_		129,835,293		_	954,420,659
Equipment, software and library materials	270,586,718	9,945,337		855,416		(7,119,985)	274,267,486
Building and equipment under capital lease	99,298,249	_		_		_	99,298,249
	1,227,572,440	9,945,337		133,295,298		(7,119,985)	1,363,693,090
Less accumulated depreciation and amortization for:							
Land improvements	(17,110,195)	(1,208,780)		_		_	(18,318,975)
Buildings, fixed equipment,	(17,110,175)	(1,200,700)					(10,510,775)
improvements and infrastructure	(296,691,106)	(20,171,491)		_		_	(316,862,597)
Equipment, software and library materials	(194,708,980)	(19,529,945)		_		6.698.868	(207,540,057)
Building and equipment under capital lease	(10,894,586)	(3,010,914)				0,070,000	(13,905,500)
Bunding and equipment under expiral rease	 (519,404,867)	(43,921,130)				6,698,868	(556,627,129)
Other capital assets, net	(***,****,****)	(10,5 = 1,10 0)				-,,	(000,021,022)
of accumulated depreciation	708,167,573	(33,975,793)		133,295,298		(421,117)	807,065,961
Capital assets, net	\$ 961,167,707	\$ 5,296,203	\$		\$	(568,510)	\$ 965,895,400

As of June 30, 2012 and 2011, the carrying value of the University's assets recorded under capital leases amounted to approximately \$82,409,000 and \$85,393,000, respectively. Amortization expense on these assets amounted to approximately \$2,984,000 and \$3,011,000 in 2012 and 2011, respectively. In addition, the carrying value of the University's medical equipments that collateralized the term notes payable to a commercial bank (see Note 7) amounted to approximately \$2,426,000 as of June 30, 2012.

Capitalized interest on construction in progress amounted to approximately \$5,267,000 and \$7,655,000 for the years ended June 30, 2012 and 2011, respectively.

6. Noncurrent Liabilities

Changes in the University's noncurrent liabilities for the years ended June 30, 2012 and 2011 are as follows:

			2012					
	Beginning Balance	Additions	Reductions	Other	Ending Balance	Wi	Less Due thin One Year	Noncurrent Liabilities
Long-term debt:				 	 			
Notes payable	\$ 93,705,769	\$ 12,674,324	\$ (28,745,377)	\$ _	\$ 77,634,716	\$	474,791	\$ 77,159,925
Bonds payable	 567,641,248	 	 (27,040,000)	 (502,440)	 540,098,808		29,930,000	 510,168,808
Total long-term	\$ 661,347,017	\$ 12,674,324	\$ (55,785,377)	\$ (502,440)	\$ 617,733,524	\$	30,404,791	\$ 587,328,733
Other long-term liabilities:								
Deferred compensation payable	\$ 69,561,616	\$ 7,450,353	\$ _	\$ _	\$ 77,011,969	\$	_	\$ 77,011,969
Claims liability	23,830,822	_	(2,107,714)	677,892	22,401,000		2,107,714	20,293,286
Compensated absences	156,749,820	13,900,646	(3,524,226)	_	167,126,240		35,114,356	132,011,884
Capital lease obligation	 66,076,436	 	 (1,383,308)	 	 64,693,128		1,472,628	 63,220,500
Total other long-term liabilities	\$ 316,218,694	\$ 21,350,999	\$ (7,015,248)	\$ 677,892	\$ 331,232,337	\$	38,694,698	\$ 292,537,639



Notes to Financial Statements (continued) June 30, 2012

6. Noncurrent Liabilities (continued)

			2011				
	Beginning				Ending	Less Due	Noncurrent
	Balance	Additions	Reductions	Other	Balance	Within One Year	Liabilities
Long-term debt:							
Notes payable	\$ -	\$ 93,705,769	\$ -	\$ -	\$ 93,705,769	\$ 18,016,638	\$ 75,689,131
Bonds payable	598,704,715	1,563,296	(27,652,000)	(4,974,763)	567,641,248	27,040,000	540,601,248
Total long-term	\$ 598,704,715	\$ 95,269,065	\$ (27,652,000)	\$ (4,974,763)	\$ 661,347,017	\$ 45,056,638	\$ 616,290,379
Other long-term liabilities:							
Deferred compensation payable	\$ 60,092,390	\$ 9,469,226	\$ -	\$ -	\$ 69,561,616	\$ -	\$ 69,561,616
Claims liability	23,425,232	_	(2,337,408)	2,742,998	23,830,822	2,337,408	21,493,414
Compensated absences	163,106,036	5,489,606	(11,845,822)	_	156,749,820	30,642,296	126,107,524
Capital lease obligation	67,370,683		(1,294,247)		66,076,436	1,383,308	64,693,128
Total other long-term liabilities	\$ 313,994,341	\$ 14,958,832	\$ (15,477,477)	\$ 2,742,998	\$ 316,218,694	\$ 34,363,012	\$ 281,855,682

Notes payable and bonds payable are further discussed in Notes 7 and 8-A, respectively.

7. Notes Payable

The University obtained a \$125 million line of credit with the Government Development Bank for Puerto Rico (GDB), a public corporation of the Commonwealth, for working capital purposes. This line of credit was converted into a ten year term loan in October 2011 payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan is collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. This term loan matures on October 1, 2022 and bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2012). The balance outstanding of this term loan amounted to \$64,999,109 and \$93,705,769 at June 30, 2012 and 2011, respectively. The unused balance of this line of credit amounted to \$6.9 million at June 30, 2012.

In addition, the University has a \$75.0 million non-revolving line of credit facility with GDB to complete certain construction projects of the University's Program for Permanent Improvements. This line of credit bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2012). The balance outstanding of this line of credit amounted to \$10,248,324 at June 30, 2012. The unused balance of this line of credit amounted to \$64.8 million at June 30, 2012. As disclosed in Note 15, this line of credit was amended in January 2013 to extend the maturity date to January 31, 2014.

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of \$2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. These term loans are payable in 60 monthly payments as follows: three interest only payments and 57 principal and interest payments amounting to \$46,803. These term loans are collateralized with the acquired medical equipment, mature on February 1, 2017 and bear interest per annum equal to 4%. The balance outstanding of these terms loan amounted to \$2,387,283 at June 30, 2012.



Notes to Financial Statements (continued) June 30, 2012

7. Notes Payable (continued)

The table that follows represents debt service payments on notes payable as of June 30, 2012. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2012 will remain the same for their term.

Fiscal Year Endin

I iscai I cai Ename			
June 30	Principal Interest		Total
2013	\$ 474,791	\$ 4,601,696	\$ 5,076,487
2014	5,910,727	4,474,020	10,384,747
2015	17,984,714	3,782,408	21,767,122
2016	7,757,342	2,969,437	10,726,779
2017	7,590,995	2,515,243	10,106,238
2018-2022	36,110,616	6,048,528	42,159,144
2023	1,805,531	18,055	1,823,586
	\$ 77,634,716	\$ 24,409,387	\$ 102,044,103

A. Notes Payable - Discretely Presented Component Unit

Servicios Médicos Universitarios, Inc. (the Hospital) has notes payable amounting to \$19,444,864 and \$20, 903,613 as of June 30, 2012 and 2011, respectively. A summary of the Hospital's notes payable at June 30, 2012 and 2011 follows:

	 2012	 2011
Term loan payable with GDB	\$ 17,588,844	\$ 18,818,920
Non-revolving line of credit with GDB	638,932	77,145
Term loan payable in 76 biweekly payments of principal and interest of \$30,000, bears fixed interest of 5.5% and matures on October 24, 2013.	950,942	1,605,234
Term loan payable in 36 monthly payments of principal and interest of \$12,000, bears fixed interest of 5.5% and matures on March 31, 2014.	237,362	364,489
Other	28,784	37,825
	19,444,864	20,903,613
Less: current portion	1,791,641	1,681,119
Noncurrent portion	\$ 17,653,223	\$ 19,222,494



Notes to Financial Statements (continued) June 30, 2012

7. Notes Payable (continued)

A. Notes Payable - Discretely Presented Component Unit (continued)

The Hospital operates and administers the healthcare unit located in Carolina. This facility was acquired by the University and includes land, building and medical equipment. During 2009, the Hospital restructured its line of credit facility with GDB and accrued interest in the aggregated amount of \$23,360,913 into a term loan and extended the maturity date to June 30, 2025. As part of the term loan agreement, the Hospital was required to make a down payment of \$2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately \$171,637 and bears interest per annum equal to prime rate plus 150 basis points (3.25% at June 30, 2012). The loan is guaranteed by the University.

The non-revolving line of credit of \$1.1 million with GDB was granted for the acquisition of medical equipment and matures on December 20, 2015. It bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% and a ceiling of \$12% (6.00% at June 30, 2012). The line of credit is guaranteed by the University.

The activity of the principal balance of the long- term debt for the years ended June 30, 2012 and 2011 is as follows:

	 2012	2011
Beginning Balance	\$ 20,903,613	\$ 19,891,091
Additions	561,787	2,683,120
Reductions	 (2,020,536)	(1,670,598)
Ending Balance	\$ 19,444,864	\$ 20,903,613

The table that follows represents debt service payments on long-term debt as of June 30, 2012. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2012 will remain the same for their term.

Fiscal Year Ending			
June 30	Principal	Interest	Total
2013	\$ 1,791,641	\$ 1,191,112	\$ 2,982,753
2014	1,337,030	1,093,408	2,430,438
2015	1,065,650	1,024,525	2,090,175
2016	1,766,677	944,721	2,711,398
2017	1,199,292	860,348	2,059,640
2018-2022	7,280,321	3,017,883	10,298,204
2023	5,004,253	566,353	5,570,606
	\$ 19,444,864	\$ 8,698,350	\$ 28,143,214

1809

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

8. Bonds Payable

A. Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of bonds payable as of June 30, 2012 and 2011:

Series	Balance as of June 30, 2012	Balance as of June 30, 2011	Annual Interest Rate (%)	Due Date June 30, 2012	
F - Term	\$ -	\$ 4,525,000	5.50%		
N - Capital Appreciation Serial Bonds	12,685,000	20,590,000	5.75%	2013	
O - Serial	_	2,315,000	4.80%		
P - Serial	221,865,000	229,095,000	5.00%	2013-2026	
P - Term	47,645,000	47,645,000	5.00%	2027-2030	
Q - Serial	104,205,000	109,270,000	5.00%	2013-2026	
Q - Term	132,415,000	132,415,000	5.00%	2027-2036	
	518,815,000	545,855,000			
Plus unamortized premium	25,425,293	27,299,914			
Less:					
Unaccreted interest	_	(430)			
Future appreciated principal	(703,476)	(1,765,522)			
Deferred refunding loss	(3,438,009)	(3,747,714)			
	\$ 540,098,808	\$ 567,641,248			

At June 30, 2012, bonds payable require payments of principal and interest as follows:

Fiscal Year Ending June 30	 Principal	Interest		Total
2013	\$ 29,930,000	\$	25,306,500	\$ 55,236,500
2014	18,110,000		24,444,250	42,554,250
2015	19,015,000		23,538,750	42,553,750
2016	19,970,000		22,588,000	42,558,000
2017	20,965,000		21,589,500	42,554,500
2018 to 2022	121,635,000		91,136,000	212,771,000
2023 to 2027	130,715,000		58,127,500	188,842,500
2028 to 2032	97,665,000		28,380,000	126,045,000
2033 to 2036	 60,810,000		7,786,250	 68,596,250
	\$ 518,815,000	\$	302,896,750	\$ 821,711,750

B. Pledged Revenues

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

TEOD .

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

8. Bonds Payable (continued)

B. Pledged Revenues (continued)

The University's revenues pledged were as follows for the years ended June 30, 2012 and 2011:

	2012	 2011
Pledged Revenues:		
Tuition and other fees collected	\$ 78,529,284	\$ 86,413,916
Student fees collected	4,881,215	4,455,726
Stabilization Fee	44,186,568	41,326,364
Rental and other charges received for the right of use	. =	
and occupancy of the facilities in the University system	1,784,483	1,764,561
Interest on investment of University funds, excluding funds	2604 50	2010
invested pursuant to Article VI of the Trust Agreement	369,158	306,052
Funds paid to the University in respect to overhead	10 520 502	16 024 540
allowance on federal research projects Other income	19,529,583	16,924,540
Other income	 31,415,272	28,577,584
Total Pledged Revenues	180,695,563	179,768,744
Sinking Fund Reserve Interest	234,771	 691,439
Total Pledged Revenues Plus Interest	\$ 180,930,334	\$ 180,460,183
Aggregate Debt Service:		
Principal and Interest Requirement	\$ 53,321,245	\$ 54,779,880
Senior Debt Service Coverage Ratio	 3.39	 3.29
Desarrollo Universitarios Bonds (Subordinate to the University's Bonds)	\$ 5,601,938	\$ 5,625,938
Aggregate Debt Service	\$ 58,923,183	\$ 60,405,818
Total Debt Service Ratio	 3.07	2.99

The Trust Agreement governing the bonds issued required a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2012, the University was in compliance with the total debt service coverage ratio requirement.

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

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

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



Notes to Financial Statements (continued) June 30, 2012

8. Bonds Payable (continued)

B. Pledged Revenues (continued)

- Redemption Account such amount, if any, after making the deposit to the Bond Service
 Account, as may be required to make the amount then to its credit equal to the amortization
 requirements, if any, for the fiscal year in which such deposit is made for the term bonds of each
 series then outstanding plus redemption premiums, if any.
- Reserve Account such amount, if any, after making the deposit to the above accounts as may
 be required to make the amount then to its credit equal to the maximum principal and interest
 (less any federal debt service grant payments) requirements for any year thereafter, on account
 of all bonds then outstanding.
- Monies in the 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.

The University complied with the sinking fund requirements at June 30, 2012.

C. Bonds Payable - Discretely Presented Component Unit

On December 21, 2000, AFICA issued, on behalf of Desarrollos Universitarios, Inc., Educational Facilities Revenue Bonds, 2000 Series A, in the amount of \$86,735,000. The bonds were issued to (i) finance the development, construction and equipment of the Plaza Universitaria Project (the Projects), (ii) repay a portion of certain advances made by the Government Development Bank for Puerto Rico under a line of credit facility for the purpose of paying certain costs of the development and construction of the Projects, (iii) make a deposit to the Debt Service Reserve fund and, (iv) pay the costs and expenses incurred in connection with the issuance and sale of bonds. The principal and interest on the bonds are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation, and by the assignment of the lease agreement with the University.



Notes to Financial Statements (continued) June 30, 2012

8. Bonds Payable (continued)

C. Bonds Payable – Discretely Presented Component Unit (continued)

Bonds payable at June 30, 2012 and 2011, consist of:

	Interest		2012			2011		
Description	Rate	Maturity	Fa	Face Amount		Face Amount Face Am		ace Amount
Serial Bonds	5.63%	July 1, 2012	\$	_	\$	1,760,000		
Serial Bonds	5.63%	July 1, 2013		1,860,000		1,860,000		
Serial Bonds	5.63%	July 1, 2014		1,960,000		1,960,000		
Serial Bonds	5.63%	July 1, 2015		2,075,000		2,075,000		
Serial Bonds	5.63%	July 1, 2016		2,190,000		2,190,000		
Serial Bonds	5.63%	July 1, 2017		2,315,000		2,315,000		
Serial Bonds	5.63%	July 1, 2018		2,445,000		2,445,000		
Serial Bonds	5.63%	July 1, 2019		2,580,000		2,580,000		
Serial Bonds	5.00%	July 1, 2020		2,725,000		2,725,000		
Serial Bonds	5.00%	July 1, 2021		2,880,000		2,880,000		
Serial Bonds	5.00%	July 1, 2033		3,020,000		3,020,000		
Serial Bonds	5.00%	July 1, 2034		50,520,000		50,520,000		
Total				74,570,000		76,330,000		
Less unaccreted interest				(219,748)		(236,856)		
Total			\$	74,350,252	\$	76,093,144		

The activity of the principal balance of the bonds payable for the years ended June 30, 2012 and 2011, is as follows:

 2012		2011
\$ 76,330,000	\$	78,015,000
 (1,760,000)		(1,685,000)
\$ 74,570,000	\$	76,330,000
<u>.</u>	\$ 76,330,000 (1,760,000)	\$ 76,330,000 \$ (1,760,000)



Notes to Financial Statements (continued) June 30, 2012

8. Bonds Payable (continued)

C. Bonds Payable – Discretely Presented Component Unit (continued)

At June 30, 2012, bonds payable require payment of principal and interest as follows:

Fiscal Year Ending June 30	 Principal		Interest		Total
2013	\$ 1,860,000	\$	3,737,313	\$	5,597,313
2014	1,960,000		3,627,063		5,587,063
2015	2,075,000		3,510,344		5,585,344
2016	2,190,000		3,387,155		5,577,155
2017	2,315,000		3,256,938		5,571,938
2018 to 2022	13,650,000		14,117,687		27,767,687
2023 to 2027	17,535,000		10,085,000		27,620,000
2028 to 2032	22,385,000		4,997,750		27,382,750
2033 to 2035	 10,600,000		271,500		10,871,500
Total	\$ 74,570,000	\$	46,990,750	\$	121,560,750

Interest on the bonds is payable each January 1 and July 1. Bonds maturing after July 1, 2011 may be redeemed, at the option of the University in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest, without premium. In addition, term bonds are subject to mandatory redemption in part commencing on July 1, 2022 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest.

Redemption Period	Amount
July 1, 2023	\$ 3,175,000
July 1, 2024	3,330,000
July 1, 2025	3,500,000
July 1, 2026	3,675,000
July 1, 2027	3,855,000
July 1, 2028	4,050,000
July 1, 2029	4,255,000
July 1, 2030	4,465,000
July 1, 2031	4,690,000
July 1, 2032	4,925,000
July 1, 2033	5,170,000
July 1, 2034	5,430,000
Total	\$ 50,520,000

TO DE PORTO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

9. Obligation under Capital Lease

In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc., a nonprofit corporation and discretely presented component unit of the University. The agreement is for the use of Plaza Universitaria, a residential and commercial facility for the use of students and other persons or entities conducting business with the University. The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2012 and 2011 on this capital lease is \$64,693,128 and \$66,076,436, respectively. The effective interest rate was determined at 6.60%.

The future minimum lease payments under the capital lease are as follows:

Year Ending June 30,	Amount
2013	\$ 5,697,312
2014	5,702,063
2015	5,700,344
2016	5,702,156
2017	5,701,938
2018-2022	28,497,687
2023-2027	28,495,000
2028-2032	28,502,750
2033	5,701,500
Total future minimum lease payments	 119,700,750
	(55.005.600)
Less amounts representing interest costs	 (55,007,622)
Present value of minimum lease payments	 64,693,128

10. Commitments and Contingent Liabilities

A. Claims Liability

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The University was insured through January 1993 under claims-made insurance policies with respect to medical malpractice risks for \$250,000 per occurrence up to an annual aggregate of \$500,000. 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. The process used in computing claims liabilities does not necessarily result in an exact amount, because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

DE DITO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

10. Commitments and Contingent Liabilities (continued)

A. Claims Liability (continued)

Changes in the claims liability amount for medical malpractice in the years ended June 30, 2012 and 2011 were:

	 2012	 2011
Claims payable - July 1	\$ 12,254,000	\$ 11,961,000
Incurred claims and changes in estimates	894,075	1,910,214
Payments for claims and adjustments expenses	(1,192,075)	(1,617,214)
Claims payable - June 30	\$ 11,956,000	\$ 12,254,000

In addition, the University is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of \$10,445,000 and \$11,576,822 as of June 30, 2012 and 2011, respectively, to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

B. 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.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the University in the involved units. Most of the research and training activities under grants affected by the Suspension Status continue with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. The University is actively working with NSF to achieve full compliance and lift the administrative suspension.

The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the University's financial statements.

C. Construction Commitments

Construction commitments at June 30, 2012, entered by the University, amounted to approximately \$46.6 million.

DE DIVINO DE DIV

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

10. Commitments and Contingent Liabilities (continued)

D. Operating Lease Agreement

The University rents a building of an outside clinic of the medical practice plan of the Medical Sciences Campus under non-cancelable long-term operating lease agreement which expires in July 2018. This lease contains escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2012 and 2011 amounted to \$1,344,000. At June 30, 2012, the minimum annual future rentals, without considering renewal options, are approximately as follows:

Fiscal Year Ending June 30	 Amount
2013	\$ 1,339,000
2014	1,339,000
2015	1,339,000
2016	1,339,000
2017	1,339,000
2018-2019	 1,227,000
	\$ 7,922,000

E. Guaranty Commitment

The University guarantees the Hospital long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to \$18,227,776 at June 30, 2012. See Note 7A.

F. Discretely Presented Component Units

Desarrollos Universitarios, Inc. (the Company) operates the Plaza Universitaria facilities 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 Company. The Agreement, dated May 22, 1998, states among other things the following: (1) the University will lease to, or otherwise grant to, the Company the right for the long-term use of the land, for the sole purpose of developing, constructing and operating Plaza Universitaria, (2) the Company shall finance the development of Plaza Universitaria from AFICA Bond proceeds and/or line credit and/or any other structure or credit facility, (3) the Company will own the Plaza Universitaria improvements and will lease them exclusively to the University, during the life of the AFICA Bonds, (4) the University shall have the right to prepay or refinance the Bonds at any time, consistent with the restrictions on refinancing contained in the financing documents, (5) upon the payment or prepayment in full of all the AFICA Bonds, the lease on the land shall terminate and the University shall become, *ipso facto*, owner of all the Plaza Universitaria improvements, without the need or obligation to make any additional payment of any kind (other than any "bargain purchase" payment as may be required under the project documents), and (6) rental payments (lease payments) from the University shall have a fixed component



Notes to Financial Statements (continued) June 30, 2012

10. Commitments and Contingent Liabilities (continued)

F. Discretely Presented Component Units (continued)

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.

In October 2003, the Plaza Universitaria Project's general contractor submitted a claim for extended overhead (field and main office) and subsequently a Proposal for Settlement for an amount exceeding \$10 million. It is the Company's legal counsel's opinion that some of the allegations are invalid under the terms of the contract and that the general contractor has already been compensated for some of the claimed amounts by Company approved change orders. Management of the Company believes, based on the advice of counsel, that there is a minimal financial exposure to the Company in connection with this claim.

11. University of Puerto Rico Retirement System

Plan Description and Membership – The University of Puerto Rico Retirement System (the System) is a single-employer, defined benefit pension plan that covers all employees of the University of Puerto Rico (the University) with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA). The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the University of Puerto Rico Retirement System at P.O. Box 21769, San Juan, Puerto Rico 00931-1769.

The System provides retirement, disability and death benefits to participants and beneficiaries. Cost-of-living adjustments are provided to participants and beneficiaries at the discretion of the Governing Board the University (Governing Board). Participants who have completed 20 years of service by July 1, 1979 are entitled to annual retirement benefits at any age after 30 years of service. Otherwise, participants are entitled to annual retirement benefits at age 55 after 30 years of service. Participants may elect to receive their retirement benefits at age 58 after 10 years of service, or at age 55 after 25 years of service. The amount of the service retirement annuity is based on the applicable retirement formula, as defined.

A participant whose employment terminates after ten years of service, and who does not withdraw his or her contributions, receives a retirement annuity payable beginning at age 60 based on the applicable retirement formula. If termination of employment occurs prior to completing ten years of service, participant is entitled to a refund of his or her own contributions. Refund of a participant's own contributions can also be obtained after attainment of ten years of service but in that event the vested benefit is forfeited.

1909

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

11. University of Puerto Rico Retirement System (continued)

At June 30, 2012, membership in the System consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,697
Terminated plan participants entitled to but not yet receiving benefits	465
Terminated non-vested plan participants entitled to return of their contributions	7,881
Current participating employees	11,148
Total membership	27,191

Funding Policy – The contribution requirements of participants and the University are established and may be amended by the Governing Board. Plan members are required to contribute from 7% to 11% of their annual covered salary up to certain specified amounts, as defined. The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2012 and 2011 was 14.70% and 13.0%, respectively, of annual covered payroll. The actuarially determined employer contribution rate comes from actuarial valuation at start of the fiscal year. It takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the plan fund.

Annual Pension Cost and Prepaid Pension Asset – The University's annual pension cost and prepaid pension asset movement for the years ended June 30, 2012 and 2011were as follows:

	 2012	2011
Annual required contribution (ARC)	\$ 72,186,223	\$ 68,486,552
Interest on the net pension asset	(4,727,071)	(4,407,092)
Adjustments to ARC	 2,877,043	2,682,294
Annual OPEB cost (expense)	 70,336,195	66,761,754
Employer contribution	 75,139,790	 70,761,490
Change in the net pension asset	 4,803,595	 3,999,736
Prepaid pension asset beginning of year	 59,088,385	 55,088,649
Prepaid pension asset- end of year	\$ 63,891,980	\$ 59,088,385
Percentage of annual OPEB cost contributed	106.83%	105.99%

Prepaid pension asset has been recorded in prepaid pension asset and other assets in the University's accompanying statements of net assets.

The three-year trend information is as follows:

Fiscal Year Ending	Annual Pension ost (APC)	Employer ontribution	Percentage of APC Contributed	Net Pension Obligation (Asset)		
6/30/2012	\$ 70,336,195	\$ 75,139,790	106.8%	\$ (63,891,980)		
6/30/2011	\$ 66,761,754	\$ 70,761,490	106.0%	\$ (59,088,385)		
6/30/2010	\$ 62,275,417	\$ 71,176,599	114.3%	\$ (55,088,649)		

THE PROPERTY OF THE PROPERTY O

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

11. University of Puerto Rico Retirement System (continued)

Funded Status and Funding Progress – The following table shows the University's funded status of the System as of June 30, 2012, the most recent actuarial valuation date:

Actuarial Accrued Liability (AAL)	\$ 2,617,989,147
Actuarial Value of Assets	1,039,441,000
Unfunded AAL (UAAL)	\$ 1,578,548,147
Funded Ratio	39.7%
Covered Payroll	\$ 499,027,788
UAAL as a Percentage of Covered Payroll	316.3%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions – The actuarial methods and assumptions as of the latest actuarial valuation follow:

Actuarial valuation date 6/30/2012

Actuarial cost method Entry age normal (traditional)
Amortization method Level percentage of payroll
Remaining amortization period 30 years constant (open basis)

Asset valuation method Market value adjusted to reflect investment gain

and losses over a five (5) year period.

Actuarial assumptions:

Investment rate of return* 8.00%
Projected salary increases* 5.00%
*Includes inflation at 3.50%

Postretirement benefit increases 3% every two (2) years applicable to salary cap

or Certification 139, no postretirement benefit

increases are assumed.

Mortality table RP-2000 with projection

To DE DITO

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

12. Post-Employment Benefits Other Than Pensions (OPEB)

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

The University provides the following OPEB:

- Medical Subsidy: Fixed subsidy of \$125 per month (\$1,500 per year) per participant (\$0 for spouse) is paid by the University for the life of the participant at retirement to insurance companies whose premiums are paid by the retiree and by the University or directly to the participant with proof of coverage.
- Tuition Remission: Tuition fees for classes at the University are waived for life after retirement.

At June 30, 2012, membership in the OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,447
Current participating employees	11,168
Total membership	18,615

Funding Policy and Annual OPEB Cost – The required contribution is based on projected pay–as–you–go financing requirements. Benefits are actuarially calculated by an independent actuary.

The Annual OPEB Cost is calculated based on the annual required contribution of the employer (the "ARC"). The ARC is determined in accordance with plan provisions, demographic participant data, actuarial assumptions, actuarial cost method, and other actuarial methods prescribed by GASB Statement No. 45. While pre–funding is not required, the ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will generally increase with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes will also impact the ARC.



Notes to Financial Statements (continued) June 30, 2012

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

The following tables show the components of the University's annual OPEB cost for the fiscal years ended June 30, 2012 and 2011, the amount actually contributed to the OPEB Program, the change in the University's net obligation and the funded status of the OPEB Program.

		2012	 2011
ARC	\$	10,128,465	\$ 9,651,667
Interest on the net OPEB obligation		98,530	102,822
Adjustments to ARC		(85,392)	(89,113)
Annual OPEB cost (expense)	-	10,141,603	9,665,376
Employer contribution		(10,029,846)	 (9,772,691)
Change in the net OPEB obligation		111,757	 (107,315)
Net OPEB obligation- beginning of year		2,463,242	 2,570,557
Net OPEB obligation- end of year	\$	2,574,999	\$ 2,463,242
Percentage of annual OPEB cost contributed		98.90%	 101.11%

Net OPEB obligations have been recorded in accounts payable and accrued liabilities in the University's accompanying statements of net assets.

The following table shows the University's funded status of the OPEB Program:

Actuarial Valuation Date	July 1, 2011				
Actuarial Accrued liability (AAL)	\$	197,323,686			
Unfunded AAL	\$	197,323,686			
Funded ratio		0%			

The three-year trend information is as follows:

	al				
Fiscal Year		Annual	OPEB Cost		Net
Ended	O	PEB Cost	Contributed	OPE	B Obligation
					_
6/30/2012	\$	10,141,603	98.9%	\$	2,574,999
6/30/2011	\$	9,665,376	101.1%	\$	2,463,242
6/30/2010	\$	9,659,344	88.3%	\$	2,570,557

1903

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

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

OPEB Actuarial Valuation – The University's OPEB Program actuarial valuation was conducted by Deloitte Consulting LLP as of July 1, 2011, members of the American Academy of Actuaries. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

Significant Actuarial Methods and Assumptions:

Medical Subsidy

Actuarial Valuation Date July 1, 2011
Actual Cost Method Projected Unit Credit

Amortization Method Level Dollar amortization over 30 Years

85%

Tuition Remission \$497 per retiree in fiscal 2012 increasing 4.0% per year

Mortality RP-2000 Healthy Combined Mortality Table for healthy

RP-2000 Healthy Combined Mortality Table

lives set forward 10 years for disabled lives

Payroll Growth 4%
Discount Rate 4%

The University does not pre-fund its OPEB Program and retiree benefits are paid out of the University's general assets each year. Accordingly, the discount rate is based on the long-term rates of return that the University expects to earn on general assets which are used to pay plan benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about the actuarial value of program assets relative to the actuarial accrued liability for benefits.

Calculations are based on the types of benefits provided at the time of each valuation and on the pattern of sharing of costs between the employer and members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets.

DE PROPERTIES

University of Puerto Rico

Notes to Financial Statements (continued) June 30, 2012

13. Management Business Plan and Operation - Discretely Presented Component Unit

During most of the preceding years (up to June 30, 2009), the Hospital experienced significant operating losses having an accumulated net assets deficiency of \$20,418,990 as of June 30, 2012. The Hospital has received advances from the University to cover its cash needs from operations. Most of these accumulated losses are mainly related to the fact that, as a former public hospital operated by the Puerto Rico Department of Health, it provides a significant amount of services to indigent population for which the Hospital does not obtain a payment. Most of these patients are indigent persons not subscribed to the Health Reform Program, homeless and resident aliens without medical insurance coverage, among others. The medical services provided to these persons were supposed to be paid to the Hospital by the Puerto Rico Department of Health. However, since the beginning of the operations, the Puerto Rico Department of Health has been unable to pay for such services. As shown in the accompanying financial statements, the Hospital has provided allowances for uncollectible accounts receivable in the approximated amount of \$24,037,203 as of June 30 2012.

The Hospital's management believes that all these factors had a material impact in the Hospital's results of operations during its years of operations and, consequently, has resulted in the accumulated deficit at June 30, 2012.

The Hospital's management, with the assistance of its Board of Directors, is working with a management plan toward its operational activities as well as the Hospital's ability to generate sufficient cash flows to cover its current obligations.

Some of these measures had an impact in the Hospital's operations and as a result, the Hospital's operations reported an income before other revenues of approximately \$3,294,000 and \$2,903,000 during the years ended June 30, 2012 and 2011, respectively.

The University has expressed its commitment to provide the Hospital with the necessary financial support, if needed, to continue its operations. During the year ended June 30, 2012, the University forgave amounts due by the Hospital of \$34,496,756. This amount is presented in the Hospital's Statement of Activities and Changes in Unrestricted Net Assets for the year ended June 30, 2012 as a Contribution from the University of Puerto Rico.



Notes to Financial Statements (continued) June 30, 2012

14. Functional Information

The University's operating expenses by functional classification during the years ended June 30, 2012 and 2011 were as follows:

				2012					
Functional Classification		Salaries and Benefits	holarships and Fellowships	Supplies and ther Services	Utilities]	Depreciation and Amortization	Other Expenses	Total
Instruction	\$	371,243,905	\$ 7,508,214	\$ 21,616,847	\$ 1,692,724	\$	_	\$ 839,171	\$ 402,900,861
Research		55,693,981	17,903,923	26,587,888	892,748		-	7,209,386	108,287,926
Public service		47,422,479	1,477,919	6,164,090	1,858,240		_	555,527	57,478,255
Academic support		66,352,678	878,245	17,762,673	98,031		_	1,896,247	86,987,874
Student service		40,849,116	570,791	10,306,767	7,220		_	1,923,474	53,657,368
Institutional support		118,345,663	747,590	30,425,801	2,329,318		-	3,313,539	155,161,911
Operation & maintenance		81,292,467	5,577	25,961,353	51,123,707		_	977,536	159,360,640
Student aid		2,869,135	174,380,779	1,231,910	435		-	144,627	178,626,886
Independent operation		36,073	9,788	55,719	_		-	12,989	114,569
Patient service		41,847,866	397,476	22,414,908	22,478		_	3,344,781	68,027,509
Auxiliary enterprises		967,414	78,602	2,182,107	2,310		-	230,757	3,461,190
Depreciation and amortization		_	_	-	_		46,473,333	_	46,473,333
Other		834,369	_	_	_		_	_	834,369
	\$	827,755,146	\$ 203,958,904	\$ 164,710,063	\$ 58,027,211	\$	46,473,333	\$ 20,448,034	\$ 1,321,372,691

							2011						
		Salaries and	So	holarships and	5	Suppl	ies and other		D	epreciation and	Other		
Functional Classification	ication Benefits Fellowships		Fellowships	Services			Utilities Amortization			Expenses		Total	
Instruction	\$	381,034,096	\$	8,330,607	\$		11,470,578	\$ 207,213	\$	=	\$ 1,053,349	\$	402,095,843
Research		58,562,681		16,929,661			24,124,214	665,785		-	15,248,777		115,531,118
Public service		48,788,342		1,951,412			29,508,182	2,260,367		-	2,407,258		84,915,561
Academic support		70,501,131		998,539			16,744,465	261,993		-	1,656,614		90,162,742
Student service		42,628,220		447,149			8,987,773	8,737		-	1,006,335		53,078,214
Institutional support		105,990,193		302,188			20,839,230	2,775,314		-	1,240,077		131,147,002
Operation & maintenance		103,791,274		1,544			24,618,057	44,346,510		-	118,947		172,876,332
Student aid		2,848,635		185,814,778			674,373	541		_	46,193		189,384,520
Independent operation		36,165		9,967			41,462	_		-	657		88,251
Patient service		38,772,457		387,658			16,508,105	27,144		_	1,730,718		57,426,082
Auxiliary enterprises		908,129		6,108			2,456,094	35,204		_	362,497		3,768,032
Depreciation and amortization		_		_			_	_		43,921,130	_		43,921,130
Other		6,217,931		24,907			_	_			_		6,242,838
	\$	860,079,254	\$	215,204,518	\$	5	155,972,533	\$ 50,588,808	\$	43,921,130	\$ 24,871,422	\$	1,350,637,665

15. Subsequent Events

Subsequent events were evaluated through August 22, 2013, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2012 financial statements.

In January 2013, the \$75 million line of credit facility with the Government Development Bank for Puerto Rico was amended to extend the maturity date to January 31, 2014.



Notes to Financial Statements (continued) June 30, 2012

15. Subsequent Events (continued)

On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, to revise the formula for the Commonwealth appropriations, an amount equal to 9.60% of the average total amount of annual general funds revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. Act No.7 is effective on July 1, 2013.

In addition, Act No. 7 of April 7, 2013 derogated Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, in which the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of \$30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students.

On January 26, 2013, Board of Trustees of the University approved Certification No. 41 (2012-2013) which derogated the stabilization fee established by the Board of Trustees of the University on June 30, 2010 to address the University's budgetary deficit issues. This stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the University. The stabilization fee amounted to \$400 per student per semester. Board of Trustees Certification No. 41 is effective on July 1, 2013.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1966, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the University of Puerto Rico (the "Governing Board"), the new governing body of the University. Act No. 13 substitutes the Board of Trustees of the University with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

16. The Hospital's Restatement

Subsequent to the issuance of the Hospital's 2011 financial statements, management of the Hospital identified several errors in such previously issued financial statements. During 2006, the Hospital entered into an agreement with an affiliate, in which it established that the affiliate will provide certain patient services under the Hospital's premises, and will pay the Hospital 30% of total collections received for such services. During the year ended June 30, 2012, the Hospital discovered that total service revenues recorded corresponding to this agreement were understated by \$1,038,875, from which \$468,117 corresponded to 2011 and \$570,758 to prior years.



Notes to Financial Statements (continued) June 30, 2012

16. The Hospital's Restatement (continued)

The Hospital accounted for the correction of this error as a prior year adjustment and restated the fiscal year 2011 financial statements as follows:

	As Previously Reported	As Restated
Statement of Financial Condition as of June 30, 2011:		
Due to related parties	\$ 42,041,174	\$ 41,002,299
Deficiency in unrestricted net assets	(59,248,675)	(58,209,800)
Statement of Activities and Changes in Unrestricted		
Net Assets for the Year Ended June 30, 2011:		
Net patient service revenue	\$ 47,408,444	\$ 47,876,561
Deficiency in unrestricted net assets, at beginning of year	(61,683,244)	(61,112,486)
Statement of Cash Flows for the Year Ended June 30, 2011:		
Cash flows from operating activities:		
Changes in unrestricted net assets	\$ 2,434,569	\$ 2,902,686
Decrease in accounts receivable	(569,861)	(649,122)
Decrease in accounts payable	(4,475,910)	(4,864,766)

Required Supplementary Information



University of Puerto Rico Schedules of Funding Progress (Unaudited)

Employees Retirement Plan

		Actuarial Accrued				
Actuarial Valuation Date	Actuarial Value of Assets (a)	Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b – a) / c)
6/30/2012	\$ 1,039,441,000	\$ 2,617,989,147	\$ 1,578,548,147	39.7%	\$ 499,027,788	316.3%
6/30/2011	\$ 1,041,628,000	\$ 2,542,444,021	\$ 1,500,816,021	41.0%	\$ 510,706,620	293.9%
6/30/2010	\$ 1,028,918,000	\$ 2,436,913,244	\$ 1,407,995,244	42.2%	\$ 540,867,018	260.3%
6/30/2009	\$ 1,034,645,000	\$ 2,331,619,466	\$ 1,296,974,466	44.4%	\$ 570,122,184	227.5%
6/30/2008	\$ 1,024,987,000	\$ 2,223,219,684	\$ 1,198,232,684	46.1%	\$ 542,603,556	220.8%
6/30/2007	\$ 953,197,000	\$ 2,068,102,695	\$ 1,114,905,695	46.1%	\$ 513,486,180	217.1%

Postemployment Benefits Other Than Pensions Program

Actuarial Valuation Date	Actual value of Assets (a)	Actual Accrued Liability (AAL) (b)	UAAL (b - a)	Funded Ratio (a / b)
7/1/2011	\$ -	\$ 197,323,686 \$	(197,323,686)	0%
7/1/2009	\$ -	\$ 189,417,225 \$	(189,417,225)	0%
7/1/2007	\$ -	\$ 184,232,820 \$	(184,232,820)	0%

Other Financial Information



University of Puerto Rico Schedules of Changes in Sinking Fund Reserve (Unaudited)

		Bond Service Account	2012 Bond Reserve Account	Total		
Additions:	_					
Transfer from Reserve Account	\$	28,825	\$ _	\$	28,825	
Transfer from unrestricted current funds		53,289,191	_		53,289,191	
Interest earned on investments		34,944	199,827		234,771	
Total receipts		53,352,960	199,827		53,552,787	
Deductions:						
Payments of bond interest		26,281,245	_		26,281,245	
Payments of bond principal		27,040,000	_		27,040,000	
Net increase in fair value of investments		31,715	183,125		214,840	
Transfer to Reserve Account		_	28,825		28,825	
Total disbursements		53,352,960	211,950		53,564,910	
Net increase for the year		-	(12,123)		(12,123)	
Balances at beginning of year		_	54,685,610		54,685,610	
Balance at end of year	\$	_	\$ 54,673,487	\$	54,673,487	

	 Bond Service Account	2011 Bond Reserve Account	Total
Additions:			
Transfer from Reserve Account	\$ 87,258	\$ _	\$ 87,258
Transfer from unrestricted current funds	54,676,678	_	54,676,678
Interest earned on investments	 136,071	555,368	691,439
Total receipts	 54,900,007	555,368	55,455,375
Deductions:			
Payments of bond interest	33,335,995	_	33,335,995
Payments of bond principal	21,443,885	_	21,443,885
Net increase in fair value of investments	120,326	464,421	584,747
Transfer to Reserve Account	_	87,258	87,258
Total disbursements	54,900,206	551,679	55,451,885
Net increase for the year	(199)	3,689	3,490
Balances at beginning of year	 199	54,681,921	54,682,120
Balance at end of year	\$ 	\$ 54,685,610	\$ 54,685,610



Ernst & Young LLP 1000 Scotiabank Plaza 273 Ponce de León Avenue San Juan, PR 00917-1951

Tel: 787 759 8212 Fax: 787 753 0808 www.ey.com

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

Board of Trustees University of Puerto Rico

We have audited the financial statements of the business type activities and aggregate discretely presented component units of the University of Puerto Rico (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital) and Desarrollos Universitarios Inc. (the Company), as described in our report on the University's financial statements. This report does not include results of other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by other auditors. The financial statements of the Hospital and the Company were not audited in accordance with *Government Auditing Standards*.

Internal control over financial reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control that we consider to be a material weakness.



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

2012-1 Financial Statement Close Process

Criteria

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

Condition

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

- Multiple audit/post-closing entries that were not initially identified by the University's internal controls were required to properly record revenues and expense activity, accounts receivable activity, cash activity, prepaid expenses activity and certain liabilities. These entries were considered material to the financial statements.
- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas result in inefficiencies during the financial statements preparation process.

 The accounting and financial reporting operations of certain units of the University, specifically the Medical Sciences Campus and the Mayagüez Campus, are not able to detect or prevent accounting errors effectively nor efficiently which results in multiple audit adjustments.

Cause

The lack of adequate controls during the implementation of the new accounting system has resulted in an ineffective and inefficient financial statements close process. In addition, the lack of integration between the units and the central administration finance and accounting functions has an adverse impact in the financial reporting of the University as a whole.

Effect

There were numerous post-closing and audit adjustments that were recorded by the University as noted above.

Recommendations

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

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



The University should consider changing or reinforcing the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities should be centralized and units should respond directly, timely and effectively to the Central Administration Finance Director and Controller.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, 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

August 22, 2013

Stamp No. E82082 affixed to original of this report.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

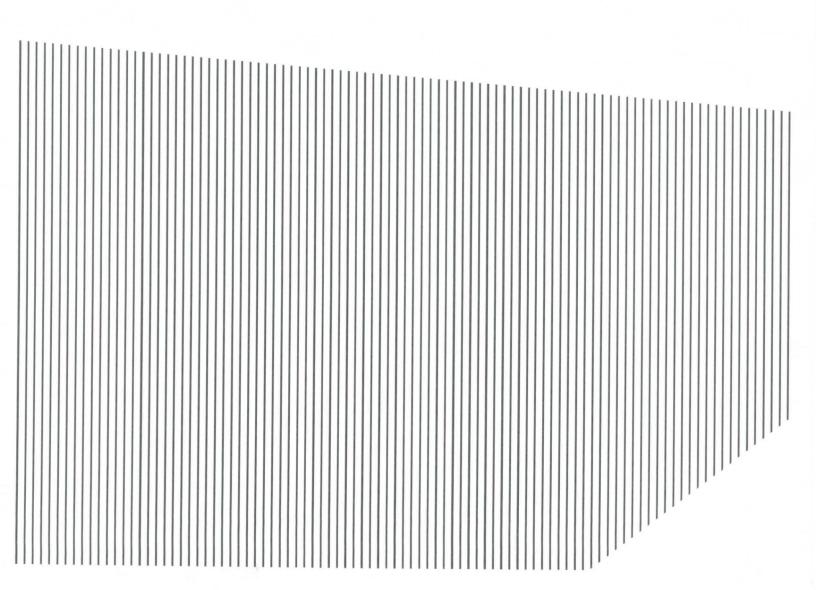
Ernst & Young is a global leader in assurance, tax, transaction and advisory services.

Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.



University of puerto rico Work plan to issue the 2012 audited financial statements and single audit reports Main activities (subject to change during the course of the audits)

CENTRAL ADMINISTRATION AND UNITS - PROCESSES

					Year 20)13							Y	ear 2014		
June	July	Į.	August	Septe	ember		Octobe	er	Noven	ber	December	January	Febru	ıary	Marc	h
						1st week										
delivered to Directors of	2. Cotinued 2011-	12 audit procedur	es													
Finance - Activities and Due Dates.			3. UPR - Recruiting of new Director of Finance (August 16, 2013).													
			4. UPR - Identify data Office. There is inform audit process starts.					be d	minary list of items will elivered during August 8 Finance Directors ting.							
			5. UPR - Integrate outs updated with respect to organizatation of data	o data gathering, va	lidating information							-				
			6. UPR -2012-13 Trial and Central Administraclosing entries.						all finance of bank accou	the trial balance req offices from all the un nts reconciliations, re accruals, etc.						

			Year 2	013						Υe	ear 2014		
June	July	August	September		October	November		December	January	February		March	
				1st week									
					be delivered to the external	8. UPR - deliver Schedule of Federal Awards (SEFA) to the external auditors to start Single Audit FY 13.							
							to federal funds receiv	ved: work with samples a Units, validation of data re	e and SEFA: performing tests and Units, outside consultant eceived and send information	12. External aud single audit p			
										•		14. External Auditors submit final draft of audited financial statements.	
						10. UPR and outside con preparation of first draft statements UPR FY13 wit and UPR personnel.	of the financial						
					11. External audithem to the extern		mples of the financial a	audit 2012-13. UPR comp	letes delivering samples selecte		13. E xternal au financial audit F	ditors complete the Y 13.	
												15. External	

auditors - Deliver audited financial statements