Audited Financial Statements And Reports And Schedule Required By The Uniform Guidance

University of Puerto Rico
Year Ended June 30, 2016
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

University of Puerto Rico

Audited Financial Statements and
Reports and Schedule Required by the Uniform Guidance

Year Ended June 30, 2016

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Financial Statements

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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, 2016 and 2015, 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 1.21% and 1.18% in 2016 and 2015, respectively, total net position constituting 0.43% and 0.35% in 2016 and 2015, respectively, and total revenues constituting 0.05% and 0.03% in 2016 and 2015, respectively, 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, 2016 and 2015. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. The financial statements of the Hospital and the Companies were not audited in accordance with *Government Auditing Standards*. 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 opinion.

Opinion

In our opinion, based on our audit 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, 2016 and 2015, 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.

The University's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the University will continue as a going concern. As discussed in Note 2 to the financial statements, the University is highly dependent on the Commonwealth of Puerto Rico (the Commonwealth) appropriations to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the University's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 through 52, schedule of changes in the university's net pension liability and related ratios on page 153, schedule of university's contributions – pension plan on page 154 and the schedule of funding progress-postemployment benefits other than pensions program on page 158 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 an opinion on the financial statements that collectively comprise the University's basic financial statements. The other financial information on page 159 (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 29, 2018, 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 29, 2018

Stamp No. E302761
affixed to
original of
this report.

Introduction

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

The University is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a fourteen-member Governing Board, of which eight members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico for a term of six years. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth and the Executive Director of the Puerto Rico Fiscal Agency and Financial Advisory Authority or their designees become ex-officio members of the Governing Board. The terms for the students 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 oldest and largest institution of higher education in Puerto Rico with a history of academic excellence. Commonwealth appropriations are the principal source of the University revenues. Additional revenues are derived from tuitions, federal grants, patient services, auxiliary enterprises, interest income, and other sources.

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

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

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

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

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

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

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

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

UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. Actually, UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses.

MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University.

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

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

The following discussion presents an overview of the financial position and financial activities of the University and its blended component unit (hereafter referred as the "University") for the years ended June 30, 2016 and 2015. It excludes its discretely presented component units. This discussion and analysis should be read in conjunction with the basic financial statements of the University, including the notes thereto.

Financial Highlights

As of June 30, 2016, the University had total assets of $1.42 billion, total deferred outflows of resources of $104.6 million, total liabilities of $2.73 billion, total deferred inflows of resources of $301.4 million and net deficit of $1.50 billion. As of June 30, 2015, the University had total assets of $1.47 billion, total deferred outflows of resources of $90.8 million, total liabilities of $3.10 billion, total deferred inflows of resources of $107.1 million and net deficit of $1.64 billion.

The University's net deficit position decreased by $137.6 million or 8% in fiscal year 2016 when compared to prior year, mainly as a result of the change in the pension cost. In fiscal year 2016, the University recognized a pension credit of approximately $49.4 million in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27* (GASB Statement No. 68); meanwhile, in fiscal year 2015, it recognized a pension cost of $66.3 million. This fluctuation caused a reduction in benefits expense of $115.7 million. In fiscal year 2015, the University's net position decreased by $2.17 billion and reached a deficit position of $1.64 billion as of June 30, 2015 when compared to a net position of $531.1 million as of June 30, 2014, mainly as a result of the adoption of GASB Statement No. 68, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB Statement No. 71) which resulted in a noncash impact that established a net pension liability of $2.24 billion at July 1, 2014, decreasing the net position by such amount. The net position would have increased by $65.8 million or 12% in fiscal year 2015 when compared to fiscal year 2014 net position of $531.1 million, excluding the adoption of GASB Statement No. 68 and GASB Statement No. 71. The reasons for the change in net position are 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, 2016, 2015 and 2014, follows:

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

	June 30		
	2016	**2015**	**2014**
			(As Previouly Reported)
Assets:			
Current assets	**$ 321,446**	$ 326,476	$ 313,906
Noncurrent assets:			
Investments	**190,170**	213,502	209,059
Capital assets, net	**896,843**	923,827	944,591
Other assets	**13,358**	9,210	100,377
Total assets	**1,421,817**	1,473,015	1,567,933
Deferred outflows of resources	**104,604**	90,768	2,818
Total assets and deferred outflows of resources	**1,526,421**	1,563,783	1,570,751
Liabilities:			
Current liabilities	**194,434**	172,607	159,667
Non-current liabilities, net of current portion:			
Long-term debt	**492,892**	565,417	621,854
Other long-term liabilities:			
Net pension liability	**1,796,727**	2,104,040	–
Other liabilities	**243,794**	255,012	258,135
Total liabilities	**2,727,847**	3,097,076	1,039,656
Total deferred inflows of resources	**301,418**	107,138	–
Total liabilities and deferred inflows of resources	**3,029,265**	3,204,214	1,039,656
Net position (deficit):			
Net investment in capital assets	**393,465**	397,005	397,674
Restricted:			
Nonexpendable	**107,597**	105,131	104,511
Expendable	**74,819**	77,027	74,175
Unrestricted (deficit)	**(2,078,725)**	(2,219,594)	(45,265)
Total net position (deficit)	**$ (1,502,844)**	$ (1,640,431)	$ 531,095

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

	Year Ended June 30		
	2016	**2015**	**2014**
			(As Previuosly Reported)
Operating revenues:			
Tuition and fees, net	**$ 48,476**	$ 47,215	$ 47,974
Governmental grants and contracts, net	**106,875**	115,403	114,920
Patient services, net	**61,830**	57,765	67,698
Other operating revenues, net	**29,172**	39,800	33,169
Total operating revenues	**246,353**	260,183	263,761
Operating expenses:			
Salaries and benefits	**701,436**	822,537	873,126
Scholarships and fellowships	**185,522**	185,442	183,171
Supplies and other services and utilities	**178,041**	196,888	208,022
Other operating expenses	**71,284**	61,339	66,325
Total operating expenses	**1,136,283**	1,266,206	1,330,644
Operating loss	**(889,930)**	(1,006,023)	(1,066,883)
Nonoperating revenues (expenses):			
Commonwealth and other appropriations	**932,503**	937,357	938,117
Federal Pell Grant program	**178,729**	167,213	162,035
Impairment loss on deposits with governmental bank	**(69,807)**	(21,668)	–
Other nonoperating expenses, net	**(13,938)**	(13,318)	(8,478)
Net nonoperating revenues	**1,027,487**	1,069,584	1,091,674
Income before other revenues	**137,557**	63,561	24,791
Capital appropriations	**–**	2,266	5,091
Additions to term and permanent endowments	**30**	6	40
Change in net position	**137,587**	65,833	29,922
Net position (deficit):			
Beginning of year	**(1,640,431)**	531,095	501,173
Cumulative effect of change in accounting for pension costs	**–**	(2,237,359)	–
End of year	**$ (1,502,844)**	$ (1,640,431)	$ 531,095

Refer to next section "Overview of the Basic Financial Statements" - *New Accounting Standards Adopted*, for changes in the financial statements as required by GASB Statement No. 68 and GASB Statement No. 71.

Going Concern

The discussion in the following paragraphs regarding the University's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the University's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The University faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the University together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the University to continue as a going concern in accordance with GASB Statement No. 56.

The University is highly dependent on the Commonwealth's appropriations to finance its operations and had historically relied on the Government Development Bank for Puerto Rico (GDB), a discretely presented major component unit of the Commonwealth, for liquidity.

The financial difficulties being experienced by the Commonwealth and the GDB have significant adverse impacts on the University, given its reliance on Commonwealth's appropriations and on the GDB for funding and lack of available funding alternatives.

The Commonwealth Going Concern

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth has a significant adverse impact on the University, given its reliance on Commonwealth appropriations.

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds. In the first quarter ended September 30, 2017, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the largest of the pension trust funds, commenced to operate on a pay-as-you go basis, which means that the ERS would be unable to pay benefits that exceed the actual employer and member contributions received (net of administrative and other expenses), unless the Commonwealth and other participating employers provide the funding required to meet the "pay as you go" required benefits.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB, and increased near-term refinancing risk. These factors, among others, have also resulted in the non-payment by the Commonwealth and its instrumentalities of most of their outstanding debt obligations, including the outstanding GDB lines of credit which caused the discontinuance of GDB to provide liquidity to the Commonwealth and instrumentalities, such as the University, and have caused the default of GDB's debt obligations.

In addition, although neither the Commonwealth nor its component units, including the University, are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). PROMESA grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors (Title VI of PROMESA). This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code (Title III of PROMESA). This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.

On January 29, 2017, the Commonwealth enacted Act No. 5, the *Puerto Rico Financial Emergency and Fiscal Responsibility Act* ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. Unless the Commonwealth is able to obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all of its obligations as they come due while at the same time providing essential government services. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the Oversight Board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

GDB Going Concern

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. The Commonwealth and most of its public entities have not been able to repay their loans from the GDB, which has significantly affected the GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation, the Governor of Puerto Rico ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

As a result of the non-payment by the Commonwealth of the appropriations to the GDB and the GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, the GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and thereafter.

With the fiscal challenges affecting the GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) was created to assume the roles of fiscal agent, financial advisor and disclosure agent of the Government. Presently, the GDB's primary role is to serve as an agent in collecting on its loan portfolio and disbursing funds pursuant to strict priority guidelines as all fundamental new business banking and origination activities have ceased.

Given the reduced services that the GDB is providing, the Commonwealth has decided to wind down its operations. On April 28, 2017, the Fiscal Oversight Board created by PROMESA approved the liquidation proposal included in the GDB's fiscal plan that calls for an orderly winding down of its operations over ten years. GDB's fiscal plan submitted to the Oversight Board of PROMESA contemplates an orderly sale of real estate assets at fair value and a restructuring of the GDB's workforce by relocating employees, and a voluntary separation program. On March 23, 2018, GDB closed operations.

The conditions discussed above create significant uncertainty with regard to the timing and amount of repayment of deposits and other amounts owed to the University by the GDB. Further, the significant financial difficulties being experienced by the GDB is likely to have a significant adverse impact on the University, given its previous reliance on the GDB for funding, and lack of other available funding alternatives.

The University Going Concern

The University had a total net deficit position of approximately $1.5 billion as of June 30, 2016. The University has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations and had historically relied on the GDB for liquidity. Approximately 68% of the University's total revenues are derived from the Commonwealth's appropriations which amounted to approximately $932.5 million for the year ended June 30, 2016.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ending on June 30, 2015, 2016 and 2017. 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 $36.0 million, $39.9 million and $39.7 million for the years ended June 30, 2016, 2015, and 2014, respectively. Also, the Commonwealth appropriations include revenues received under the Gambling Law (slot machines and others) from the Puerto Rico Tourism Company, a component unit of the Commonwealth, which amounted to $62.6 million, $63.5 million and $64.4 million for the years ended June 30, 2016, 2015 and 2014, respectively.

Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition. The University's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.

On June 30, 2016, the Governor of Puerto Rico signed Executive Order No. OE-2016-030 (EO 30) and Executive Order No. OE-2016-031 (OE 31) which (i) declared the Commonwealth and several of its instrumentalities, including the University, to be in a state of emergency and announced the commencement of an emergency period (as such term is defined in Section 103 of the Act No. 21) for the Commonwealth and such instrumentalities, including the University, (ii) extended the state of emergency that had been previously declared for several of the Commonwealth's instrumentalities, (iii) implemented a suspension on transfer obligations of the Commonwealth and certain of its instrumentalities, including the University, with respect to the transfer of funds to and from such entities (pursuant to Section 201 of Act No. 21), and (iv) implemented a suspension on the payment obligations of debt issued or guaranteed by the Commonwealth, as well as the payment obligations of certain of its instrumentalities, including the University. The measures were in place until January 29, 2017.

Specifically to the University, EO 31 established the following: (i) designated any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspended such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designated any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspended the payment of such obligation of the University. EO 31 did not suspend the payment obligations of the University with respect to any other obligation. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, the Moratorium Act or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from

July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. Pursuant to the letter agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is March 31, 2018. Pursuant to the extended letter agreements, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues. Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

The University had two credit facilities with the GDB, a ten-year term loan which amounted to approximately $48.3 million at June 30, 2016 and a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the University's Program for Permanent Improvements which amounted to approximately $28.1 million at June 30, 2016. The University has not made the monthly payments of this term loan since May 2016. The $75 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. The University has not paid these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed.

On October 30, 2016, the Oversight Board created by PROMESA designated the University as a covered entity subject to oversight under PROMESA. As a covered entity, the University is required to submit to the Oversight Board of PROMESA an individual fiscal plan. The University submitted its ten-year fiscal plan to the Oversight Board of PROMESA for certification on August 1, 2017.

On March 13, 2017, the Oversight Board of PROMESA certified the Commonwealth's proposed fiscal plan subject to certain amendments. On May 31, 2017, the Oversight Board of PROMESA approved certain revision to the previously certified fiscal plan for the Commonwealth and recertified the fiscal plan as so revised. The Commonwealth's approved fiscal plan includes significant annual reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026. The projected reductions in the Commonwealth's formula appropriations to the University would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

On June 2, 2017, the Oversight Board of PROMESA approved the aggregate spending level in the Governor's fiscal year 2017-2018 proposed budget, but not its specific allocations. On June 27, 2017, the Oversight Board of PROMESA issued a notice of violation on the submitted Commonwealth budget that included a description of necessary corrective action. The Oversight Board of PROMESA gave the Legislature of Puerto Rico an opportunity to correct the violations by June 29, 2017. Because the Legislature failed to take corrective actions, the Oversight Board of PROMESA approved and certified a revised, compliant budget for fiscal year 2018 for the Commonwealth in compliance with PROMESA. The Commonwealth's fiscal year 2018 budget was deemed approved by the Governor and Legislature and in full force and effect beginning on July 1, 2017. The Commonwealth's formula appropriations to the University included in the approved Commonwealth's budget for fiscal year 2018 will amount to $631 million, a decrease of $203 when compared with the Commonwealth's formula appropriations of $834 million received in fiscal year 2017. In addition, the approved Commonwealth's budget for fiscal year 2018 includes nonrecurrent contributions to the University of approximately $30 million, for a net decrease in the Commonwealth's appropriations of approximately $173 million in the fiscal year 2018.

Given the high dependency of the University on the Commonwealth appropriations and on the GDB's inability to continue to fund the University's operational and short-term needs as they arise, the University's financial condition and liquidity is being adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

The University Management Fiscal Plan

As previously mentioned, the University submitted its fiscal plan for the ten-year period ending June 30, 2026 to the Oversight Board of PROMESA for certification on August 1, 2017. This fiscal plan includes the approved projected reductions in the Commonwealth's formula appropriations which would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026. With the reduction in the Commonwealth's appropriations, the University would have operational deficits starting in fiscal year 2018 and increasing through fiscal year 2026.

The University has taken a proactive approach to identify a fiscal plan that limits the impact in the reductions of the Commonwealth's appropriations to the University for the benefits of the University's academic system and its student population. The University's proposed fiscal plan includes, among others, the following revenue-generating measures:

- An annual increase in federal awards - The University's federal awards level is below the similar public universities in the continental United States of America. It can increase by tailored research and processes for public research grants.
- Establishment of a new fee structure for dues and charges.
- Training and Technical Support Activities- On March 20, 2017, the Governor of Puerto Rico sent a letter to the Oversight Board created by PROMESA, detailing additional measures that would mitigate budgetary cuts to the University. These measures include the following, among others: the Commonwealth and the University will enter into agreements to provide technical trainings for public employees; the Department of Education of the Commonwealth will retain the services of the University to provide both trainings to teachers as well as tutorial for students; and the Government of the Commonwealth will request all municipalities to enter into technical agreements, similar to those with the Central Government for their employees.

The University has taken a conservative approach when considering these revenue measures.

The University's proposed fiscal plan includes, among others, the following expense control measures:

- A 2% annual expense attrition is included throughout all the University's campuses and administration. An additional 4% annual expense attrition is assumed for fiscal years where the transformation enhancements described below are being implemented.
- Human Resources Optimization measures- It will result in a more leveled benefit program compared to the Commonwealth Central Government employees, while providing opportunity for current full-time employees to transfer into certain positions held by trust positions and temporary positions.
- Reduce medical insurance expense by changes to the medical insurance coverage and/or increasing the employee co-payments.
- Procurement of materials and supplies and purchased services control measures.
- Review of all student exemptions and special scholarships- The University will establish a merit-based review of tuition exemptions and a minor reduction in special scholarships.
- Transformational Enhancements- Leaner administrative structure to reduce duplicated functions and services; evaluation of the academic offer to reduce redundant expenses; and implementation of full academic optimization.

As the measure of last resort, the University will need to increase its tuition to cover the operational deficiencies it will encounter during the next ten years. The University will proactively keep analyzing cost measures as well as new revenue sources to mitigate the impact to students. The University will incorporate a new Scholarship Fund that will further mitigate the increase of tuition for the most vulnerable student population.

The University's proposed fiscal plan, post above measures, indicates that the University will still have a cash flow deficit after considering the scheduled debt service payments.

On August 21, 2017, the Oversight Board of PROMESA asked the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), as fiscal agent of the University, to submit a revised University's fiscal plan addressing certain points by September 5, 2017.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses. As a result of the Hurricane Maria, most of the island's population was left without electrical power and there was significant disruption to the water distribution system. Other basic utility and infrastructure services such as communications, ports and transportation were also materially affected, causing a significant disruption to the island's economic activity. The entire island of Puerto Rico will need a massive infrastructure rebuilding program.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process.

At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System. All campuses have made arrangements so that enrolled students can complete the semester and the academic year. For most of the University's campuses, the current semester, which normally would have ended in December 2017, will reach into January or February 2018, depending on the campus. Some changes would also be made to the regular timetable of the 2018 spring semester.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Most of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate loss limit of $100 million each. Deductible amounts of the commercial property insurance coverage for wind losses amount to 2% of the insured property value and vary per location, with a minimum deductible amount of $200,000 per occurrence and a maximum deductible amount of $3.5 million per occurrence for an aggregated deductible amount of approximately $21.8 million. Deductible amount of the fine arts insurance coverage for wind losses amounts to $50,000 per occurrence. Presently, the University has received advanced funds from the insurance company of $5.0 million for these natural disasters.

As a result of the damages caused by Hurricanes Irma and Maria in the island of Puerto Rico on September 6, 2017 and on September 20, 2017, respectively, the Oversight Board of PROMESA announced on October 31, 2017 the process toward revised fiscal plans for the Commonwealth and six covered entities, including the University. On January 24, 2018, the Commonwealth and two covered entities submitted their revised fiscal plans for the five-year period that covers fiscal year 2018 to fiscal year 2022.

On March 21, 2018, the University submitted to the Oversight Board of PROMESA a draft of its revised fiscal plan for the five-year period ending June 30, 2023. The draft of the University's revised fiscal plan, which is subject to material change, includes the following significant cash flow variations when compared to the fiscal plan submitted on August 1, 2017:

- Receipts: a gradual decrease in the student population; staggered increase in tuition; and disaster related inflows related to damages sustained by hurricanes Irma and Maria. In addition, the revised plan includes the approved projected reductions in the Commonwealth's formula appropriations submitted by the Commonwealth to the Oversight Board of PROMESA on January 24, 2018, as revised. Commonwealth approved formula appropriations will range from $631 million in fiscal year 2018 to $410 million in fiscal year 2022.

- Disbursements: cost of training and seminars are net of cost; adjusted exemption reductions; adjusted graduate tuition costs; and further adjustment of marginal benefits to its employees (faculty and non-faculty).

The current fiscal plan indicates that there is no capacity to sustain any debt during the fiscal plan period (i.e. cash flows available for debt service are projected to be negative through the projection period).

The Oversight Board of PROMESA intends to certify such revised fiscal plans by March 30, 2018 for the Commonwealth and two covered entities and by April 30, 2018 for the University and the other covered entities.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

Overview of the Basic Financial Statements

This discussion and analysis is required supplementary information to the basic financial statements of the University and is intended to serve as introduction to the basic financial statements of the University. The basic financial statements present information about the University, which includes the University's Blended Component 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 GASB is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

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

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

The statement of net position presents information on all the University's assets, liabilities and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the University is improving or deteriorating. The net position is displayed in three parts, net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable, and are those assets that are restricted by law on third-party agreements or by an external donor. Unrestricted net position, while it is generally designated for specific purposes, is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all 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 three schedules concerning the following: (1) the supplementary information (two schedules) of the University's Employees Retirement Plan as required by the GASB Statement No. 68, and (2) the supplementary information (one schedule) 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

In fiscal year 2016, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72).
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76)
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB Statement No. 79).

GASB Statement No. 72 requires the University to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the University's financial statement as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB Statement No. 76), which is effective for reporting periods beginning after June 15, 2015. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. It also amends GASB Statement No. 62, Codification of accounting and financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 64, 74, and 82. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 79 establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The statement also establishes additional note disclosures for qualifying external investment pools. There was no material impact on the University's financial statement as a result of the implementation of Statement No. 79.

In fiscal year 2015, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27* (GASB Statement No. 68).
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB Statement No. 69).
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB Statement No. 71).

GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (pension trusts).

This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and Required Supplementary Information requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The major fundamental change is switching from the existing "funding-based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the Net Pension Obligation (or Asset); to an "accrual basis" model similar to current Financial Accounting Standards Board ("FASB") standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. The information to adopt this Statement was based on actuarial reports prepared under the new GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*).

GASB Statement No. 71 amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date for determining net pension liability.

At transition, the noncash impact of GASB Statement No. 68 and GASB Statement No. 71 decreased the net position as of July 1, 2014 by $2.24 billion, as a result of the net impact of the following effects: derecognized the prepaid pension asset previously recorded under GASB Statement No. 27 by $92.5 million, recognized a deferred outflows of resources for the pension plan employer's contributions made after the June 30, 2014 measurement date of $91.7 million (as required by GASB Statement No. 71) and recognized a net pension liability of $2.24 billion (as required by GASB Statement No. 68). At transition, the effect of deferred outflows and inflows of resources from other pension activities as required by GASB Statement No. 68 was not included because it was impracticable to determine them.

GASB Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements, including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. The adoption of this statement had no impact on the University's financial statements.

Analysis of Net Position and Changes in Net Position

Statements of Net Position (Deficit)

Assets

Total assets amounted to $1.42 billion, $1.47 billion and $1.57 billion as of June 30, 2016, 2015 and 2014, respectively. Total assets decreased by $51.2 million or 3% in 2016 and by $94.9 million or 6% in 2015, 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, 2016, cash and cash equivalents, investments and accounts receivable, including due from related parties, comprise approximately 58%, 22% and 19%, respectively, of the current assets; meanwhile 82% and 17% of the noncurrent assets are capital assets and investments, respectively. As of June 30, 2015, cash and cash equivalents, investments and accounts receivable, including due from related parties, comprise approximately 32%, 21% and 46%, respectively, of the current assets; meanwhile 80% and 19% of the noncurrent assets are capital assets and investments, respectively.

Cash and cash equivalents (mainly deposit accounts in a commercial bank in Puerto Rico at June 30, 2016) amounted to $191.9 million, $106.4 million and $110.7 million at June 30, 2016, 2015 and 2014, respectively. The increase in the University's cash position of $85.5 million or 80% in 2016 mainly resulted from the collection of $20.0 million from the Commonwealth in July 2015 corresponding to a portion of the formula appropriations for June 2015, the collection of $38.6 million in December 2015 of advances given to the University Retirement System mainly in fiscal year 2014, the increase in collections of grants and contracts mainly from Federal Pell program of $11.5 million and the net decrease in operating expenses paid in fiscal year 2016 mainly as a result of lower payments to suppliers and for utilities, which effects were partially offset by the increase in benefits paid to and on behalf of employees. Payments to suppliers and for utilities amounted to $194.2 million in fiscal year 2016 and $219.8 million in fiscal year 2015, a decrease of $25.6 million or 12%. Benefits paid to and on behalf of employees amounted to $255.6 million in fiscal year 2016 and $239.3 million in fiscal year 2015, an increase of $16.3 million or 7% mainly due to the decrease in accrued benefit liabilities of $34.4 million in 2016. The decrease in the University's cash position of $4.3 million or 4% in 2015 mainly resulted from the $15.0 million increase in the due from Commonwealth, mainly as a result of a portion of the formula appropriations for June 2015 that were collected in July 2015, and the repayments of $9.2 million in the line of credit with the GDB for working capital purposes, which effects were partially offset by the decrease in operating expenses and from the advances of $4.5 million taken from the line of credit with the GDB for the University's capital improvement program. For a more detailed information of changes in cash and cash equivalents, refer to the University's statements of cash flows for the years ended June 30, 2016 and 2015.

Total investments amounted to $259.3 million, $282.0 million and $280.9 million at June 30, 2016, 2015 and 2014, respectively. The decrease of $22.7 million or 8% in 2016 mainly resulted from a decrease of $15.3 million in the investments designated to fund the University's Healthcare Deferred Compensation Plan and the transfer to cash equivalents of $6.8 million in other restricted investments in certificates of deposit at GDB of the University's Internship Program for the First Labor Experience Fund. The increase of $1.1 million or less than 1% in 2015 was mainly due to matured, restricted cash equivalents that were reinvested into long-term investments, which effect was partially offset by an impairment loss on the University's deposits with the GDB of $21.7 million and the decrease in the DUI's restricted investments designated in the sinking fund.

The carrying value of the cash equivalents and investments in certificates of deposit held with the GDB, net of an impairment charge of $21.7 million recognized in fiscal year 2015, amounted to $66.8 million at June 30, 2015 and it was collected in fiscal year 2016. In fiscal year 2016, new investment in certificates of deposit held with the GDB amounted to $69.8 million for a total of $92.0 million investment outstanding at June 30, 2016.

Management concluded that the information available prior to the issuance of the University's financial statements for the years ended June 30, 2016 and 2015 indicates that it is probable that an impairment loss on the University's certificates of deposit held with the GDB existed as of June 30, 2016 and 2015.

As previously explained in the Going Concern Section, the Commonwealth and its public entities have not been able to repay their loans from the GDB, which has significantly affected the GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described below. Pursuant to recently enacted legislation, the Governor of Puerto Rico has ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

Because of the non-payment by the Commonwealth of the appropriation to the GDB and the GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016. In April 2016, the Governor imposed on the GDB emergency operational restrictions and debt moratorium.

On April 28, 2017, the Fiscal Oversight Board created by PROMESA Act approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down of its operations over ten years.

On May 2, 2017, the legal shield granted by PROMESA Act protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Commonwealth filed a petition for protection under Title III of PROMESA Act (a court-supervised debt-adjustment process) to ensure the essential services to the public, the payment of the government payroll and the suppliers.

On March 23, 2018, GDB closed operations.

Based on an evaluation of the availability and recoverability of such funds, an impairment loss on deposits held with the GDB was recorded in the University's basic financial statements for the years ended June 30, 2016 and 2015 as follows (expressed in thousands):

	Deposits Held with the GDB as of June 30, 2016			
Type of Transaction	**Deposit Balance**	**2015 Impairment Loss**	**2016 Impairment Loss**	**Carrying Value**
Cash equivalents	$ 500	$ –	$ –	$ 500
Investments	91,475	(21,688)	(69,787)	–
Total	$ 91,975	$ (21,688)	$ (69,787)	$ 500

	Deposits Held with the GDB as of June 30, 2015		
Type of Transaction	**Deposit Balance**	**2015 Impairment Loss**	**Carrying Value**
Cash equivalents	$ 57,154	$ -	$ 57,154
Investments	31,279	(21,688)	9,591
Total	$ 88,433	$ (21,688)	$ 66,745

The realizable balances of the deposits held with the GDB as of June 30, 2016 and 2015 were determined based on the corresponding actual collections received from the GDB on such deposits after year end.

Accounts receivable, net, amounted to $15.7 million, $21.0 million and $22.0 million at June 30, 2016, 2015 and 2014, respectively. Most of the University's accounts receivable are amounts due from medical plans and other entities located in Puerto Rico, student tuitions and fees receivable and other accounts. The decrease of $5.3 million or 25% in 2016 mainly resulted from a decrease in other accounts receivable of $3.0 million or 39%. The decrease of $1.0 million or 5% in 2015 mainly resulted from a decrease in the amounts due from medical plan of $793,000 or 7%. Gross accounts receivable amounted to $131.9 million, $138.2 million and $134.6 million at June 30, 2016, 2015 and 2014, respectively. The allowance for doubtful accounts amounted to $116.2 million, $117.1 million and $112.5 million at June 30, 2016, 2015 and 2014, respectively. The increase in the allowance for doubtful accounts in 2015 mainly resulted from the deterioration in the aging of these receivable because of the recessionary economic conditions in Puerto Rico.

Due from Federal Government, net, amounted to $32.4 million, $38.3 million and $18.3 million at June 30, 2016, 2015 and 2014, respectively. These accounts are related to grants and contracts from Federal Government for research activity in the Sciences, Health Sciences, Engineering, Technology and the Arts. These accounts decreased by $5.9 million or 15% in 2016 and increased by $20 million or 109% in 2015. Gross amount of these accounts amounted to $55.0 million, $54.1 million and $37.6 million at June 30, 2016, 2015 and 2014, respectively. The allowance for doubtful accounts amounted to $20.4 million, $15.7 million and $19.3 million at June 30, 2016, 2015 and 2014, respectively.

Due from related parties, net amounted to $12.5 million, $91.3 million and $89.8 million at June 30, 2016, 2015 and 2014, respectively. Most of the University's related party accounts receivable are with Commonwealth's agencies, component units and municipalities and with Servicios Médicos Universitarios, Inc., a discretely presented component unit of the University. The decrease of $78.8 million or 86% in 2016 mainly resulted from the collection of $20.0 million from the Commonwealth in July 2015 corresponding to a portion of the formula appropriations for June 2015, the collection of $38.6 million in December 2015 of advances given to the University Retirement System mainly in fiscal year 2014, and an increase in the corresponding allowance for doubtful accounts of $20.6 million or 26%. The increase of $1.5 million or 2% in 2015 mainly resulted from an increase in the due from Commonwealth of $15.0 million because of $20.0 million of the formula appropriations for June 2015 that were collected in July 2015, which effect was partially offset by the ultimate collections received of $5.0 million from a prior year payment plan. Gross related party accounts receivable amounted to $111.3 million, $169.4 million and $150.6 million at June 30, 2016, 2015 and 2014, respectively. The allowance for these doubtful accounts amounted to $98.7 million, $78.1 million and $60.7 million at June 30, 2016, 2015 and 2014, respectively. The increases in the allowance for doubtful accounts in 2016 and 2015 mainly resulted from the deterioration of the financial condition of the Commonwealth and several of its component units as previously discussed.

Due from Commonwealth's agencies mainly includes the accounts receivable from the Department of Health which amounted to $15.2 million, $15.1 million and $12.5 million at June 30, 2016, 2015 and 2014, respectively, for unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the Commonwealth's health reform program patients and other services, and from the Department of Education which amounted to $2.9 million, $4.5 million and $5.7 million at June 30, 2016, 2015 and 2014, respectively, for contracts for professional development of public school teachers and others.

Due from Commonwealth's component units include an account receivable from the Puerto Rico Medical Service Administration ("PRMSA"), a component unit of the Commonwealth, which amounted to $40.9 million, $38.3 million and $32.9 million at June 30, 2016, 2015 and 2014, respectively, for contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA. In addition, due from Commonwealth's component units include the accounts receivable from the Puerto Rico Tourism Company ("PRTC"), a component unit of the Commonwealth, which amounted to $5.5 million, $5.5 million and $5.1 million at June 30, 2016, 2015 and 2014, respectively, for unremitted distributions of income to be received by the University under the Gambling Law that in each year were collected at the beginning of the next fiscal year. Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR"), a component unit of the Commonwealth, which amounted to $2.4 million $1.3 million and $4.1 million at June 30, 2016, 2015 and 2014, respectively, for unpaid charges of salaries, fringe benefits and other expenses incurred by certain professors of the Medical Science Campus of the University for cancer research and investigations provided to the CCCUPR.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital"), a discretely presented component unit of the University, which amounted to $24.3 million, $24.9 million, and $24.0 million at June 30, 2016, 2015, and 2014, respectively, mainly comes from contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital.

The University had a due from the University of Puerto Rico Retirement System (the "Retirement System") of approximately $14,000, $38.6 million and $38.1 million at June 30, 2016, 2015 and 2014, respectively, which resulted from unpaid advances given by the University to the Retirement System mainly in fiscal year 2014. The amount due by the Retirement System was unsecured, non-interest bearing and payable upon demand. In December 2015, the University collected the whole amount due from the Retirement System at June 30, 2015.

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

Capital assets, net of depreciation and amortization, amounted to $896.8 million, $923.8 million, and $944.6 million at June 30, 2016, 2015 and 2014, respectively. Capital assets decreased by $27.0 million or 3% in 2016 and by $20.8 million or 2% in 2015. The decreases in both years mainly resulted from the depreciation and amortization expense of $47.9 million in 2016 and $44.7 million in 2015 and the capital asset retirements of $7.1 million in 2016 and $3.7 million in 2015, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to $ 28.0 million in 2016 and $27.6 million in 2015.

Prepaid pension asset and other assets amounted to $4.0 million, $1.7 million, and $94.6 million at June 30, 2016, 2015 and 2014, respectively. The decrease of $92.9 million in 2015 mainly resulted from the derecognition of the prepaid pension asset of $92.5 million, previously recorded under GASB Statement No. 27, as a result of the University's adoption of GASB Statement No. 68.

Deferred Outflows of Resources

Deferred outflows of resources, which represents resources applicable to a future reporting period, amounted to $104.6 million, $90.8 million, and $2.8 million at June 30, 2016, 2015 and 2014, respectively. The increases of $13.8 million in 2016 and $88.0 million in 2015 mainly resulted from changes in the deferred outflows of resources for the pension plan employer's contributions made subsequent to the measure date and from pension activities related to changes in assumptions and other input as a result of the University's adoption of GASB Statement No. 68 and GASB Statement No. 71 effective July 1, 2014. Deferred outflows of resources also include the deferred refunding loss on the University' revenue bonds of $2.2 million, $2.5 million and $2.8 million at June 30, 2016, 2015 and 2014, respectively, which decreased by the amortization expense of approximately $300,000 each year.

Liabilities

Total liabilities amounted to $2.73 billion, $3.10 billion and $1.04 billion at June 30, 2016, 2015 and 2014, respectively, a decrease of $369.2 million in 2016 and an increase of $2.06 billion in 2015, when compared with the prior year balances. The changes in both years mainly resulted from the change in the net pension liability which amounted to $1.80 billion and $2.10 billion at June 30, 2016 and 2015, respectively, a decrease of $307.3 million in 2016 and an increase of $2.10 billion in 2015 as a result of the University's adoption of GASB Statement No. 68 effective July 1, 2014.

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

Accounts payable and accrued liabilities amounted to $64.8 million, $73.3 million, and $85.5 million at June 30, 2016, 2015 and 2014, respectively. Accounts payable and accrued liabilities decreased by $8.5 million or 12% in 2016 mainly as a result of the payment of $8.8 million to the University's Retirement System for an unpaid additional contribution at June 30, 2015 approved by the Governing Board of the University for the year ended June 30, 2015. In 2015, accounts payable and accrued liabilities decreased by $12.2 million or 14% mainly as a result of the decrease in the accounts payable to component units, suppliers and developers, which effect was partially offset by an amount due to the University's Retirement System of $8.8 million as of June 30, 2015 for an unpaid additional contribution to the Retirement System approved by the Governing Board of the University for the year ended June 30, 2015.

Long-term debt obligations amounted to $593.0 million, $623.4 million, and $651.0 million at June 30, 2016, 2015 and 2014, respectively. The decreases of $30.4 million or 5% in 2016 and of $27.6 million or 4% in 2015 mainly resulted from principal paid on long-term debt of $28.9 million in 2016 and $30.3 million in 2015 and the amortization of bond premium of $1.8 million in 2016 and 2015, net of advances of $220,000 in 2016 and $4.5 million in 2015 taken from the lines of credit with the GDB for the University's capital improvement program.

Long-term debt obligations include the University's revenue bonds and the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds) which amounted to $449.8 million and $66.3 million as of June 30, 2016, $471.6 million and $68.5 million as of June 30, 2015, respectively, and to $492.5 million and $70.6 million as of June 30, 2014, respectively. The decreases in 2016 and 2015 mainly resulted from the principal repayments of $20.0 million and $19.0 million in the University's revenue bonds, respectively, and of $2.2 million and $2.1 million in the AFICA bonds, respectively. These bonds are currently rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

In October 2011, the University converted a line of credit with the GDB used for working capital purposes into a ten-year term loan 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. The University has not made the monthly payments of this term loan since May 2016. In addition, the University had a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the University's Program for Permanent Improvements. Advances taken from the line of credit with the GDB for the University's capital improvement program amounted to approximately $220,000 and $4.5 million in 2016 and 2015, respectively, meanwhile the principal repayments in the term loan with the GDB used for working capital purposes amounted to approximately $6.8 million and $9.2 million in 2016 and 2015, respectively. The $75.0 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. The balances outstanding under the term loan and the $75 million line of credit with the GDB amounted to $48.3 million and $28.1 million, respectively, at June 30, 2016.

GDB also served as depository of some of the University's funds. Total amount deposited in the GDB amounted to approximately $92.0 million as of June 30, 2016 and are deemed fully impaired as mentioned before. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. Given the reduced services that the GDB is providing, the Commonwealth has decided to wind down its operations. On April 28, 2017, the Fiscal Oversight Board created by PROMESA approved the liquidation proposal included in the GDB's fiscal plan that calls for an orderly winding down of its operations over ten years. GDB's fiscal plan submitted to the Oversight Board contemplates an orderly sale of real estate assets at fair value and a restructuring of the GDB's workforce by relocating employees, and a voluntary separation program. Presently, the University and the GDB have not reached an agreement to cancel the University's borrowings with the GDB or to determine how these credit facilities will be managed.

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. The balance outstanding of the two-term loans, which amounted to $375,000 at June 30, 2016, was paid in fiscal year 2017.

Other long-term debt liabilities amounted to $2.07 billion, $2.40 billion, and $303.1 million at June 30, 2016, 2015 and 2014. The decrease of $330.3 million in 2016 and the increase of $2.10 billion in 2015 mainly resulted from the change in the net pension liability.

In fiscal year 2015, the University recognized a net pension liability which amounted to $2.10 billion at June 30, 2015 as a result of the University's adoption of GASB Statement No. 68. In fiscal year 2016, the net pension liability decreased by approximately $307.3 million, from $2.10 billion at June 30, 2015 to $1.80 billion at June 30, 2016. As permitted by GASB, the University's net pension liability as of June 30, 2016 and 2015 were measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2015 and 2014, respectively, and assuming no liability gains and losses. The decrease in the net pension liability in fiscal year 2016 mainly resulted from an increase in the discount rate used to measure the total pension liability from 5.31% in fiscal year 2015 to 6.37% in fiscal year 2016. The projection of cash flows used to determine the discount rate for fiscal years 2016 and 2015 assumed that plan member contributions will be made at the current contribution rate and that the Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. In fiscal year 2016 with effective date July 1, 2015, the contribution rates reflect amortization of the Retirement System's unfunded actuarial accrued liability over a closed 40 – year period from that date as established by Certification No. 146 (2014-2015) of the Governing Board issued on June 4, 2015. Based on those assumptions, in fiscal year 2016, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2044, meanwhile in fiscal year 2015, it was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2027. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments through June 30, 2044 and the applicable municipal bond index rate of 3.82%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2015, was applied to all periods of projected benefit payments after June 30, 2044. The single equivalent interest rate (SEIR) of 6.37% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability at June 30, 2016. The SEIR at June 30, 2015 was 5.31% based on the long-term expected rate of return on pension plan investments of 8% applied to all periods of projected benefit payments through June 30, 2027 and the applicable municipal bond index rate of 4.35% as of June 30, 2013 applied to all periods of projected benefit payments after June 30, 2027. In fiscal year 2015, the Retirement System's unfunded actuarial accrued liability was amortized over an open 30-year period.

The liability for the deferred compensation plan amounted to $87.7 million, $103.0 million and $102.5 million at June 30, 2016, 2015 and 2014, respectively, a decrease of $15.3 million or 15% in 2016 and an increase of $498,000 or 1ess than one percent in 2015, when compared with prior year balances. The University offered to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits 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.

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation. On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint seeks relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. Specifically, this complaint for declaratory relief seeks federal judicial review as expressly provided for by PROMESA of the issues arising under PROMESA, the Trust Agreements, and other relevant law, in light of the University's financial condition and its efforts to distribute all Plan assets. Voya has not yet transferred the plan assets to the University waiting for the resolution of this complaint by the U.S District Court for the Puerto Rico District.

Also, other long-term liabilities include the accrual for compensated absences which amounted to $154.8 million, $166.6 million and $177.5 million at June 30, 2016, 2015 and 2014, respectively, a decrease of $11.8 million or 7% in 2016 and a decrease of $10.9 million or 6% in 2015, when compared with prior year balances. Changes in compensated absences are mainly related to variations on the use of vacations and sick leaves by employees, salary changes and the total number of employees at the end of periods.

Deferred Inflows of Resources

Deferred inflows of resources, which is an acquisition of resources by the University that is applicable to a future reporting period, amounted to $301.4 million and $107.1 million at June 30, 2016 and 2015, respectively. The increases of $194.3 million in 2016 and $107.1 million in 2015 mainly resulted from changes in the deferred inflows of resources from pension activities related to changes in assumptions and other input and differences between expected and actual experience as a result of the University's adoption of GASB Statement No. 68 effective July 1, 2014.

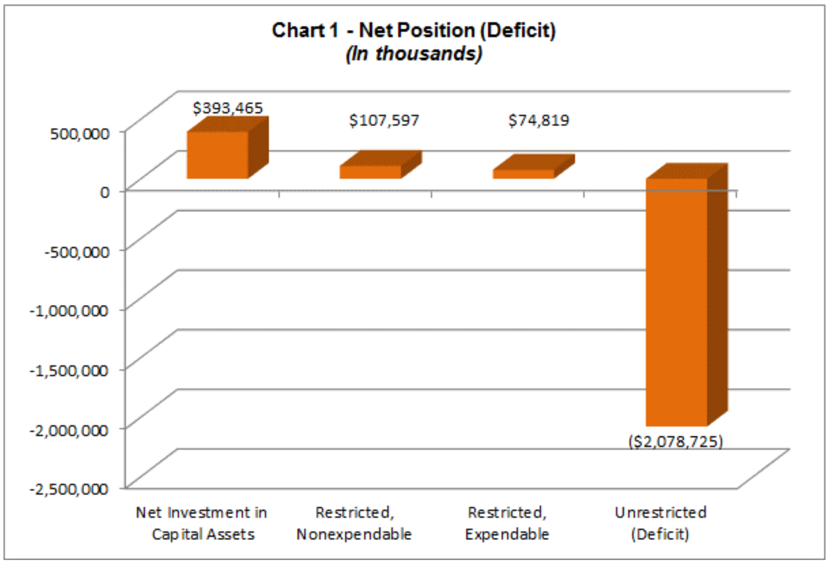
Net Position (Deficit)

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to a deficit of $1.50 billion and $1.64 billion at June 30, 2016 and 2015, respectively, and a net position of $531.1 million at June 30, 2014.

In 2016, the net deficit position decreased by $138.8 million, when compared with the net deficit position at June 30, 2015. In 2015, the net position decreased by $2.17 billion and reached a deficit position of $1.64 billion as of June 30, 2015, when compared with the net position of $531.1 million at June 30, 2014.

Effective July 1, 2014, the University recognized a decrease of $2.24 billion in its net position at July 1, 2014 as a cumulative effect of change in accounting for pension costs as required by GASB Statement No. 68 and GASB Statement No. 71. In addition, the change in the net position amounted to an increase of $130.4 million and an increase $65.8 million for the years ended June 30, 2016 and 2015, respectively. These changes are explained in the section entitled "*Statements of Revenues, Expenses and Changes in Net Position*".

The major classifications of the net position (deficit) at June 30, 2016 are shown in the following illustration:



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

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

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

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

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

Approximately 95% of the operating revenues and nonoperating revenues of the University are Commonwealth and Federal appropriations, grants and contracts. The remainder consists primarily of tuition and fees and patient services.

Operating Revenues

Total operating revenues amounted to $246.4 million, $260.2 million and $263.8 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $13.8 million or 5% in 2016 and of $3.6 million or 1% in 2015. 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 increased by $1.3 million or 3%, from $47.2 million in 2015 to $48.5 million in 2016, mainly as a result of more student enrollments at the University, which effect was partially offset by the increase in the scholarship allowances and in the provision for doubtful accounts. For fiscal year 2016, the student body of the University consisted of 59,924 students, an increase of 2,353 students when compared with 57,571 students for fiscal year 2015. Scholarship allowances increased by $3.7 million or 7%, from $51.1 million in 2015 to $54.8 million in 2016, as a result of the increase in eligible participants. The provision for doubtful accounts increased by $2.7 million in 2016, from $735,000 in 2015 to $3.4 million in 2016, as a result of the aging deterioration of these accounts. In fiscal year 2015, tuitions and fees decreased by $759,000 or 2% from $48.0 million in 2014, mainly a s a result of a slight decrease in the tuition gross income and an increase in the scholarship allowances, which effects were partially offset by a decrease in the provision for doubtful accounts. Scholarship allowances increased by $2.5 million or 5%, from $48.6 million in 2014, as a result of the increase in eligible participants. The provision for doubtful accounts decreased by $3.0 million in 2015, from $3.8 million in 2014. For fiscal year 2015, the student body of the University increased by 250 students when compared with 57,321 students for fiscal year 2014.

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 was increased 4% annually per incoming class from academic year 2007-2008 to academic year 2012-2013. 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. This moratorium period was extended for academic years 2014-2015 and 2015-2016. On June 30, 2016, the Governing Board of the University reestablished the annual increase per incoming class (approximately 2% increase) in the tuition cost per credit for academic year 2016-2017.

In fiscal year 2016, revenues from governmental grants and contracts decreased by $8.5 million or 7%, from $115.4 million in 2015, to $106.9 million in 2016. The decrease in 2016 mainly resulted from an increase of $10.0 million in the provision for doubtful accounts, which effect was partially offset by an increase of $1.4 million in revenues from these grants and contracts, principally from Federal grants and contracts. In fiscal year 2015, revenues from governmental grants and contracts increased by $483,000, from $114.9 million in 2014. The increase in 2015 mainly resulted from a decrease of $17.1 million in the provision for doubtful accounts, which effect was partially offset by a decrease of $16.6 million in revenues from these grants and contracts, principally from Commonwealth grants and contracts.

Net patient services revenue and other amounted to $61.8 million, $57.8 million and $67.7 million for the years ended June 30, 2016, 2015 and 2014, respectively, an increase of $4.0 million or 7% in 2016 and a decrease of $9.9 million or 15% in 2015. Patient service revenue depends on medical services, including laboratories, rendered by the University's Medical Sciences Campus faculty members. Also, the provision for doubtful accounts for these accounts decreased by $6.5 million in 2016 and increased by $815,000 in 2015.

Non-operating Revenues, Net

Total non-operating revenues, net amounted to $1.03 billion, $1.07 billion and $1.09 billion for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $42.1 million or 4% in 2016 and of $22.1 million or 2% in 2015.

The Commonwealth and other appropriations amounted to $932.5 million, $937.4 million and $938.1 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $4.9 million in 2016 and of $760,000 in 2015.

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 fund 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 $833.9 million for the years ended June 30, 2016, 2015 and 2014. On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University to the amount appropriated for fiscal year ended June 30, 2014. The Fiscal Sustainability Act remained in effect for three fiscal years ended on June 30, 2017. Refer to Subsequent Events Section for significant reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026 included in the Commonwealth's fiscal plan approved by the Oversight Board of PROMESA. The projected reductions in the Commonwealth's formula appropriations to the University rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

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 $36.0 million, $39.9 million and $39.7 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $3.9 million in 2016 and an increase of $153,000 in 2015.

Appropriations from the Commonwealth also include unremitted distributions of income received by the University from the 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, 2016, 2015 and 2014 amounted to $62.6 million, $63.5 million and $64.4 million, respectively, a decrease of $918,000 in 2016 and of $913,000 in 2015.

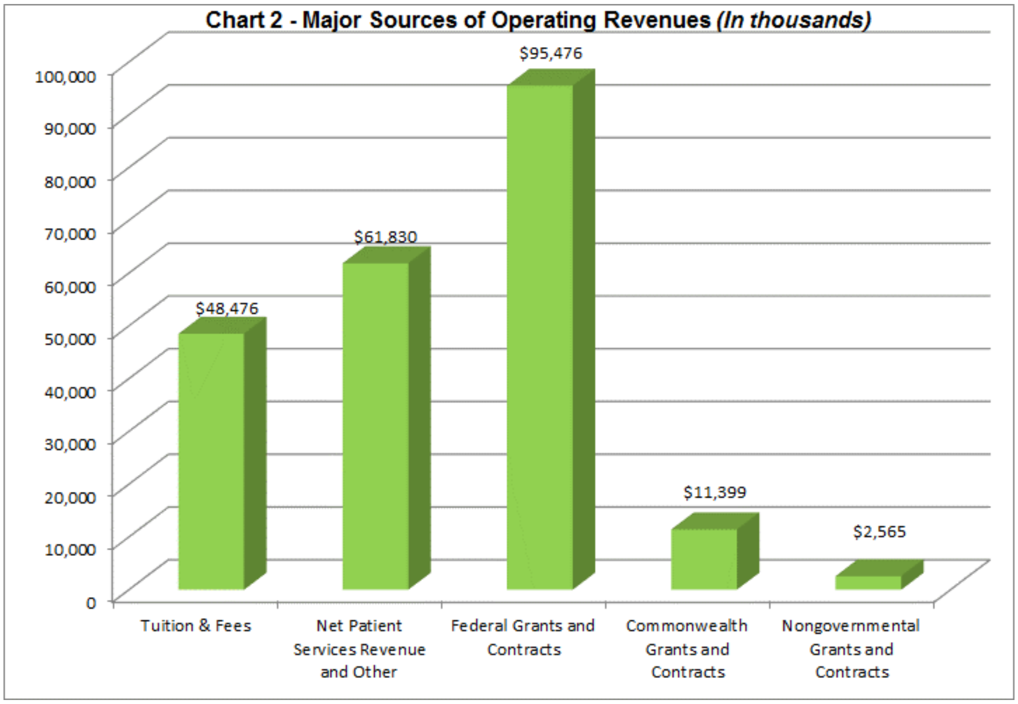
Federal Pell Grant program revenues amounted to $178.7 million, $167.2 million and $162.0 million in 2016, 2015 and 2014, respectively, an increase of $11.5 million or 7% in 2016 and of $5.2 million or 3% in 2015. The increases in 2016 and 2015 were mainly due to the increase in the number of eligible participants.

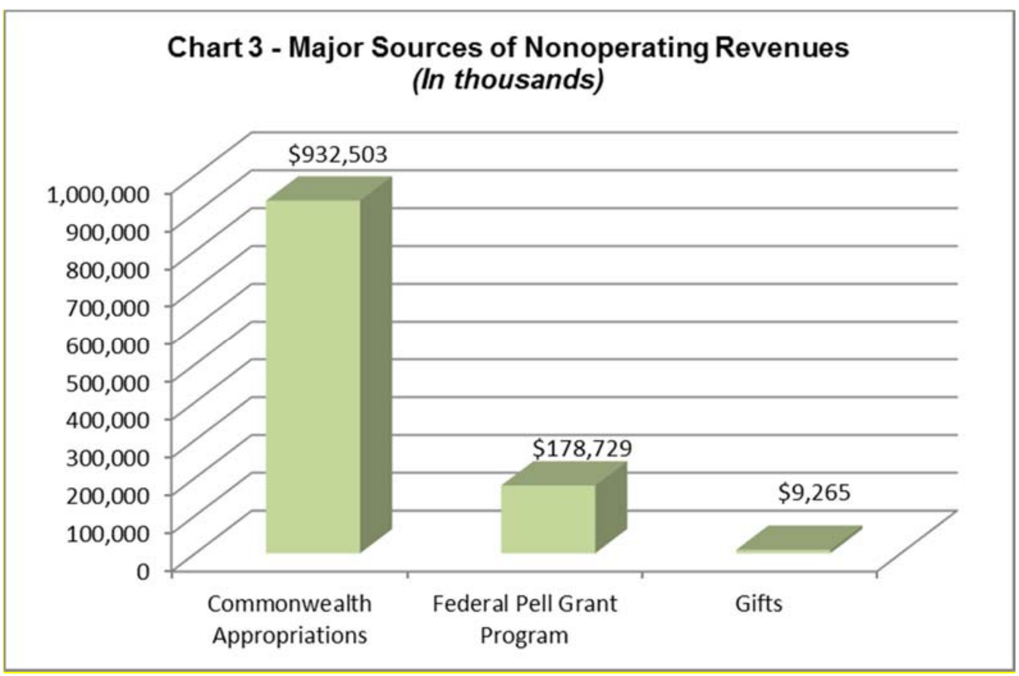
As previously explained, the University recognized an impairment loss on deposits with GDB of approximately $69.8 million and $21.7 million for the years ended June 30, 2016 and 2015, respectively.

Other nonoperating revenues (expenses), net mainly includes the interest expense on capital assets-related debt and others which amounted to $28.4 million, $28.8 million, and $28.9 million for the years ended June 30, 2016, 2015 and 2014, respectively. The decreases of interest expense in fiscal years 2016 and 2015 are related to the reduced principal balance on these debts.

Capital appropriations amounted to $2.3 million in 2015 and $5.1 million in 2014, a decrease of $2.8 million in 2015. The decrease in 2015 mainly related to lower capital contributions received from federal agencies. No capital appropriations were received in fiscal year 2016.

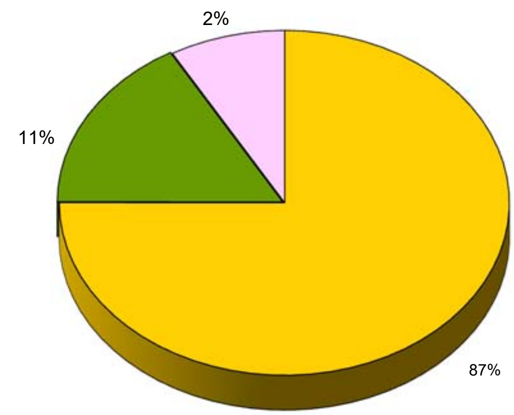
The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2016:





Federal grants represent 87% 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, 2016:

Chart 4 - Operating Grants Revenues
(In thousands)



Federal	$	95,476	87%
Commonwealth		11,399	11%
Nongovernmental		2,565	2%
Total	$	109,440	100%

Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to $1.14 billion, $1.27 billion and $1.33 billion for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $129.9 million or 10% in 2016 and of $64.4 million or 5% in 2015. Operating expenses decreased in 2016 and 2015 mainly as result of lower salaries and benefit expenses.

Salaries and benefits, the most significant component of operating expenses, amounted to $701.4 million, $822.5 million and $873.1 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $121.1 million or 15% in 2016 and of $50.6 million or 6% in 2015.

Salaries amounted to $607.5 million, $611.0 million and $628.5 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $3.5 million or less than 1% in 2016 and of $17.5 million or 3% in 2015. In fiscal year 2016, salaries decreased in exempt staff salaries by $8.1 million; however, it increased in faculty personnel by $4.5 million, mainly in personnel of the medical practice plans of the Medical Sciences Campus of the University, for a reduction of about 170 positions of retired employees. In fiscal year 2015, salaries decreased in faculty personnel by $3.7 million, mainly as a result of the liquidation of the excess of accumulated sick leave of $4.4 million paid in 2014, and in exempt staff salaries which decreased by $13.7 million, mainly as a result of the liquidation of the excess of accumulated sick leave and other compensations of $8.1 million paid in 2014 and a reduction of about 165 positions of retired employees and of employees under contracted services.

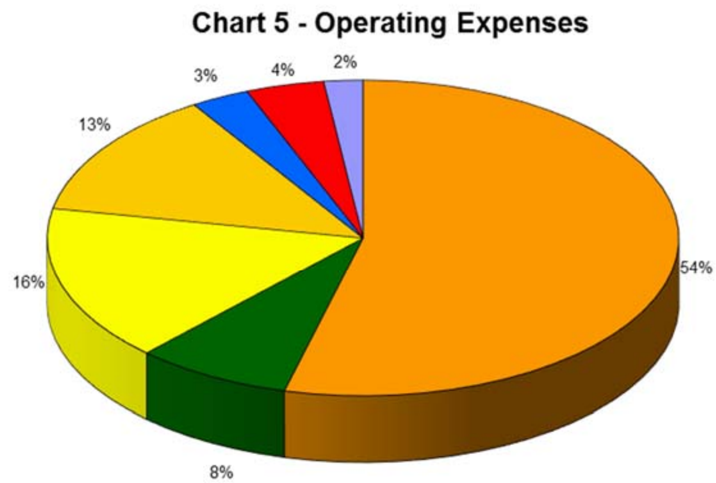
Benefits amounted to $94.0 million, $211.5 million, and $244.6 million for the years ended June 30, 2016, 2015 and 2014, respectively. In fiscal year 2016, benefits decreased by $117.6 million or 56%, when compared with the prior year balance, mainly as a result of the change in the pension cost. In fiscal year 2016, the University recognized a pension credit of approximately $49.4 million in accordance with GASB Statement No. 68 mainly as result of the $307.3 million decrease in the net pension liability as previously explained in the Liabilities Section; meanwhile, in fiscal year 2015, it recognized a pension cost of $66.3 million which caused a reduction in benefits of $115.7 million. In fiscal year 2015, benefits decreased by $33.1 million or 14%. The decrease in 2015 mainly resulted from the reduction in the accrued sick leave and other accrued benefits liabilities of $23.2 million for employees' utilizations and the decrease in the pension cost of $9.5 million, which effects were partially offset by an increase in the medical plan insurance costs of $2.4 million.

Scholarships and fellowships amounted to $185.5 million, $185.4 million and $183.2 million for the years ended June 30, 2016, 2015 and 2014, respectively, an increase of $80,000 in 2016 and of $2.2 million or 1% in 2015. The increases in 2016 and 2015 resulted from an increase in the number of eligible participants in the Federal Pell Grant program.

Supplies and other services and utilities amounted to $178.0 million, $196.9 million and $208.0 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $18.9 million or 10% in 2016 and of $11.1 million or 5% in 2015. The decreases in 2016 and 2015 mainly resulted from the utilities (electricity and water) which amounted to $37.2 million, $48.2 million and $56.5 million for the years ended June 30, 2016, 2015 and 2014, respectively, a decrease of $11.0 million or 23% in 2016 and of $8.3 million or 15% in 2015. The decreases in utilities in 2016 and 2015 mainly resulted from lower electricity cost. In addition, maintenance expense and professional services decreased in 2016 and 2015 as a result of the cost control measures taken by the University.

Other expenses amounted to $71.3 million, $61.3 million and $66.3 million for the years ended June 30, 2016, 2015 and 2014, respectively, an increase of $10.0 million or 16% in 2016 and a decrease of $5.0 million or 8% in 2015. The increase in 2016 mainly resulted from an increase in losses incurred in other accounts receivable of $1.5 million and the increase in the depreciation and amortization expense. The decrease in 2015 mainly resulted from the decrease in losses incurred in other accounts receivable of $4.8 million and the decrease in the depreciation and amortization expense. Depreciation and amortization expense amounted to $48.0 million, $44.7 million and $46.5 million for the years ended June 30, 2016, 2015 and 2014, respectively, an increase of $3.3 million or 7% in 2016 and a decrease of $1.8 million or 4% in 2015.

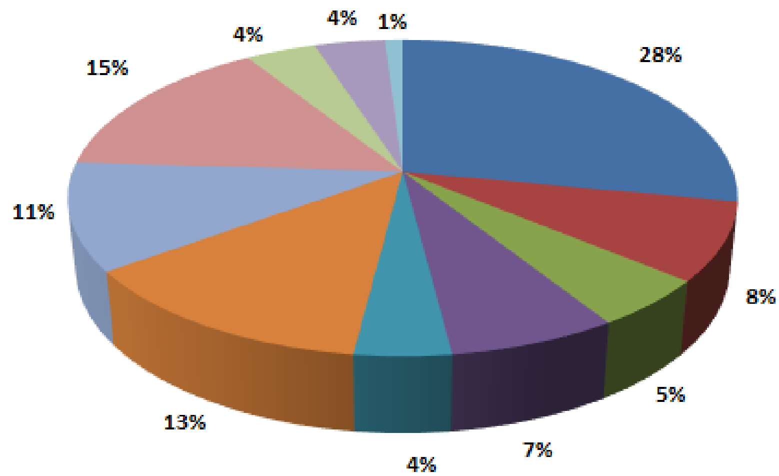
The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2016:



Salaries	$	607,462	54%
Benefits		93,974	8%
Scholarships and fellowships		185,522	16%
Supplies and other services		140,879	13%
Utilities		37,162	3%
Depreciation and amortization		47,906	4%
Other expenditures		23,378	2%
Total	$	1,136,283	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, 2016:

Chart 6 - Expenses by Function



Instruction	$	322,336	28%
Research		91,033	8%
Public service		56,075	5%
Academic support		84,783	7%
Student services		46,609	4%
Institutional support		141,870	13%
Operations and maintenance		127,456	11%
Student aid		165,661	15%
Patient services		50,586	4%
Depreciation and amortization		47,906	4%
Others		1,968	1%
Total	$	1,136,283	100%

Operating Loss and Net Change in Net Position (Deficit)

For the year ended June 30, 2016, the University reported an operating loss of $890.0 million. After adding nonoperating revenues, net of $1.03 billion, primarily from the Commonwealth's appropriations and Federal Pell Grant program, the net deficit position decreased by $137.6 million for the year ended June 30, 2016 or 8% from the prior year net deficit position. As previously explained, the University's net deficit position mainly decreased as a result of the change in the pension cost. In fiscal year 2016, the University recognized a pension credit of approximately $49.4 million in accordance with GASB Statement No. 68; meanwhile, in fiscal year 2015, it recognized a pension cost of $66.3 million which caused a reduction in benefits expense of $115.7 million.

For the year ended June 30, 2015, the University reported an operating loss of $1.01 billion. After adding nonoperating revenues, net of $1.07 billion, primarily from the Commonwealth's appropriations and Federal Pell Grant program, and capital appropriations and additions to term and permanent endowments of $2.3 million, the net position increased by $65.8 million for the year ended June 30, 2015 or 12% over the prior year net position.

Cumulative Effect of Change in Accounting for Pension Costs

The overall change to net position as of July 1, 2014 due to adoption of GASB Statement No. 68 and 71 was a decrease of $2.24 billion.

Statements of Cash Flows

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

Subsequent Events

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation. On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint seeks relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. Specifically, this complaint for declaratory relief seeks federal judicial review as expressly provided for by PROMESA of the issues arising under PROMESA, the Trust Agreements, and other relevant law, in light of the University's financial condition and its efforts to distribute all Plan assets. Voya has not yet transferred the plan assets to the University waiting for the resolution of this complaint by the U.S District Court for the Puerto Rico District.

The University had two credit facilities with GDB, a ten-year term loan which amounted to approximately $48.3 million at June 30, 2016 and a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the University's Program for Permanent Improvements which amounted to approximately $28.1 million at June 30, 2016. The University has not made the monthly payments of this term loan since May 2016. The $75 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with GDB using the University's funds deposited in GDB. The University has not paid these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed.

In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, the Moratorium Act, or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. Pursuant to the letter agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is March 31, 2018. Pursuant to the extended letter agreements, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues.

In addition, the University and FAFAA shall provide the trustee with detailed plans and specifications for repairing, replacing or reconstructing the University's property that was damaged or destroyed by Hurricane Maria as these plans are approved by the University. The University shall deposit all proceeds of casualty insurance policies or direct federal aid (the "Repair Funds") in segregated accounts of the University at a commercial bank. The University shall deposit proceeds of casualty insurance in a separate account and shall deposit proceeds of direct federal aid in one or more separate accounts to facilitate the audit of the expenditure of such funds. All Repair Funds in excess of $1,000,000 shall be used pursuant to a written requisition. On or before the fifteenth (15th) calendar day of each month, the University will submit the preceding month's Requisitions to the trustee, as set forth below. Pursuant to extended letter agreement, the majority bondholders expand their direction to instruct the trustee not to call a default during the pendency of the new Compliance Period if by the fifteenth (15th) calendar day of each month the University sends to the trustee copies of the preceding month's Requisitions. On the fifteenth (15th) calendar day of each month the University or FAFAA will provide, or cause relevant agencies to provide, the trustee with all project requests, progress or other reports provided to the Federal Emergency Management Agency (FEMA) or to any casualty insurance company with respect to the expenditure of Repair Funds during the preceding month.

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

On October 30, 2016, the Oversight Board created by PROMESA designated the University as a covered entity subject to oversight under PROMESA. As a covered entity, the University is required to submit to the Oversight Board of PROMESA an individual fiscal plan. The submission date of the University fiscal plan to be submitted to the Oversight Board of PROMESA, was originally required by March 31, 2017. The University submitted its ten-year fiscal plan to the Oversight Board of PROMESA for certification on August 1, 2017.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On March 13, 2017, the Oversight Board of PROMESA certified the Commonwealth's proposed fiscal plan subject to certain amendments. On May 31, 2017, the Oversight Board of PROMESA approved certain revision to the previously certified fiscal plan for the Commonwealth and recertified the fiscal plan as so revised. The Commonwealth's approved fiscal plan includes significant annual reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026. The projected reductions in the Commonwealth's formula appropriations would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a form of bankruptcy) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

On June 2, 2017, the Oversight Board of PROMESA approved the aggregate spending level in the Governor's fiscal year 2017-2018 proposed budget, but not its specific allocations. On June 27, 2017, the Oversight Board of PROMESA issued a notice of violation on the submitted Commonwealth budget that included a description of necessary corrective action. The Oversight Board of PROMESA gave the Legislature of Puerto Rico an opportunity to correct the violations by June 29, 2017. Because the Legislature failed to take corrective actions, the Oversight Board of PROMESA approved and certified a revised, compliant budget for fiscal year 2018 for the Commonwealth in compliance with PROMESA. The Commonwealth's fiscal year 2018 budget was deemed approved by the Governor and Legislature and in full force and effect beginning on July 1, 2017. The Commonwealth's formula appropriations to the University included in the approved Commonwealth's budget for fiscal year 2018 will amount to $631 million, a decrease of $203 when compared with the Commonwealth's formula appropriations of $834 million received in fiscal year 2017. In addition, the approved Commonwealth's budget for fiscal year 2018 includes nonrecurrent contributions to the University of approximately $30 million, for a net decrease in the Commonwealth's appropriations of approximately $173 million in the fiscal year 2018.

On August 1, 2017, the University submitted its ten-year fiscal plan to the Oversight Board of PROMESA for certification. This fiscal plan includes the approved reductions in the Commonwealth's formula appropriations which would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026. With the reduction in the Commonwealth's appropriations, the University would have operational deficits starting in fiscal year 2018 and increasing through fiscal year 2026.

On April 6, 2017, a student stoppage at the University interrupted the operations of all campuses for up to 93 days, but less in other cases. This student stoppage was prompted as a result of student opposition to the annual reductions in the Commonwealth's formula appropriations to the University as ordered by the Oversight Board of PROMESA. As a result of the student stoppage at the University, eight of the eleven units that comprise the University of Puerto system are on probation by the Middle States Commission on Higher Education, the regional accreditation entity.

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit in a timely fashion acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method and expire between June 30, 2018 and December 31, 2018.

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University will be operating on limited Title IV eligibility and will be placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for the amount of those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $237.9 million for the year ended June 30, 2016.

In September 2017, the University received from the U.S. Department of Justice a Claim Letter/Notice of Intent to File Suit on behalf of the National Science Foundation, the National Aeronautics and Space Administration and the United States Department of Energy to take action in the Federal Court against the University for violations of the False Claims Act as a result of an examination of federal grants received by two units of the University. The claim seeks treble damages amounted to approximately $5.6 million, including $300,000 for penalties. The University is negotiating the settlement of this claim with the federal agencies. At June 30, 2016, the University accrued approximately $5.6 million for this claim.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses. As a result of the Hurricane Maria, most of the island's population was left without electrical power and there was significant disruption to the water distribution system. Other basic utility and infrastructure services such as communications, ports and transportation were also materially affected, causing a significant disruption to the island's economic activity. The entire island of Puerto Rico will need a massive infrastructure rebuilding program.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process.

At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System. All campuses have made arrangements so that enrolled students can complete the semester and the academic year. For most of the University's campuses, the current semester, which normally would have ended in December 2017, will reach into January or February 2018, depending on the campus. Some changes would also be made to the regular timetable of the 2018 spring semester.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Most of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate lost limit of $100 million each. Deductible amounts of the commercial property insurance coverage for wind losses amount to 2% of the insured property value and vary per location, with a minimum deductible amount of $200,000 per occurrence and a maximum deductible amount of $3.5 million per occurrence for an aggregated deductible amount of approximately $21.8 million. Deductible amount of the fine arts insurance coverage for wind losses amounts to $50,000 per occurrence. Presently, the University has received advanced funds from the insurance company of $5.0 million for these natural disasters.

As a result of the damages caused by Hurricanes Irma and Maria in the island of Puerto Rico on September 6, 2017 and on September 20, 2017, respectively, the Oversight Board of PROMESA announced on October 31, 2017 the process toward revised fiscal plans for the Commonwealth and six covered entities, including the University. On January 24, 2018, the Commonwealth and two covered entities submitted their revised fiscal plans for the five-year period that covers fiscal year 2018 to fiscal year 2022.

On March 21, 2018, the University submitted to the Oversight Board of PROMESA a draft of its revised fiscal plan for the five-year period ending June 30, 2023. The draft of the University's revised fiscal plan, which is subject to material change, includes the following significant cash flow variations when compared to the fiscal plan submitted on August 1, 2017:

- Receipts: a gradual decrease in the student population; staggered increase in tuition; and disaster related inflows related to damages sustained by hurricanes Irma and Maria. In addition, the revised plan includes the approved projected reductions in the Commonwealth's formula appropriations submitted by the Commonwealth to the Oversight Board of PROMESA on January 24, 2018, as revised. Commonwealth approved formula appropriations will range from $631 million in fiscal year 2018 to $410 million in fiscal year 2022.

- Disbursements: cost of training and seminars are net of cost; adjusted exemption reductions; adjusted graduate tuition costs; and further adjustment of marginal benefits to its employees (faculty and non-faculty).

The current fiscal plan indicates that there is no capacity to sustain any debt during the fiscal plan period (i.e. cash flows available for debt service are projected to be negative through the projection period).

The Oversight Board of PROMESA intends to certify such revised fiscal plans by March 30, 2018 for the Commonwealth and two covered entities and by April 30, 2018 for the University and the other covered entities.

On October 24, 2017, the Puerto Rico First Court of Instance issued a partial declaratory judgement ordering DUI to pay the retainage amount under the construction contract of about $1.6 million, plus interest, to the Plaza Universitaria Project's general contractor. DUI appealed this partial declaratory judgement.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $27.0 million or 3% in 2016**

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, 2016, 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 $27.0 million or 3%, from $923.8 million at June 30, 2015 to $896.8 million at June 30, 2016. The decrease in 2016 mainly resulted from the depreciation and amortization expense of $47.9 million and the capital asset dispositions of $7.1 million, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to $28.0 million. Construction commitments at June 30, 2016, entered into by the University, amounted to approximately $48.3 million. Refer to Note 10 to the financial statements for further information regarding the University's net capital assets.

- **Long-term debt obligations decreased by $30.4 million or 5% in 2016**

The decrease in 2016 mainly resulted from principal paid on long-term debt obligations of $28.9 million and the amortization of bond premium of $1.8 million, net of advances of $220,000 taken from the line of credit with GDB for the University's capital improvement program.

Long-term debt obligations include the University's revenue bonds which amounted to $449.8 million as of June 30, 2016. The University issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which were used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. These bonds are rated "C" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the "AFICA bonds") which amounted to $66.3 million as of June 30, 2016. The AFICA bonds are rated "C" by Moody's and "CC" by S&P. The AFICA bonds were principally issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University. In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc.

for the use of Project. The lease payments from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as is established in the financing documents, and is pledged to guarantee such payments. The variable component of the lease payments is used to cover operating, maintenance, administrative, management, and other fees and costs, which is established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

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. 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. The University has not made the monthly payments of this term loan since May 2016. The University obtained a 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 2016, advances taken from the line of credit with GDB for the University's capital improvement program amounted to approximately $220,000, meanwhile the principal repayments in the term loan with GDB used for working capital purposes amounted to approximately $6.8 million. The $75.0 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. The balances outstanding under the term loan and the $75 million line of credit with GDB amounted to $48.3 million and $28.1 million, respectively, at June 30, 2016.

As previously explained in the Going Concern section, the GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures. On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (EO 10), declaring the GDB to be in a state of emergency pursuant to Act No. 21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing the GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at the GDB and loan disbursements by the GDB. The procedures implemented by the EO 10 resulted in restrictions on the ability of the University to withdraw any funds held on deposit at the GDB or to receive any disbursements on loans granted by GDB during the period of the EO 10, which was in effect until June 30, 2016. GDB also served as depository of some of the University's funds. Total amount deposited in the GDB amounted to approximately $92.0 million as of June 30, 2016 and are deemed fully impaired as mentioned before. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. On April 28, 2017, the Fiscal Oversight Board created by PROMESA approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down its operations over ten years. The University has not paid these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed.

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 for use by the Medical Sciences Campus. The balance outstanding of the two term loans amounted to $375,000 at June 30, 2016.

On June 30, 2016, the Governor of Puerto Rico signed EO 31 which established the following: (i) designated any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspended such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designated any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspended the payment of such obligation of the University. EO 31 did not suspend the payment obligations of the University with respect to any other obligation. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, the Moratorium Act, or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. Pursuant to the letter agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is January 31, 2018. Pursuant to the extended letter agreements, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues. Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

Refer to Notes 2, 9, 11, 12, 13, and 20 to the basic financial statements for further information regarding the University's long-term debt obligations.

Economic Outlook

The University's operational and academic activities are conducted in Puerto Rico, which in recent years has been experiencing a deep economic recession and a government fiscal and liquidity crisis. The University's operating results are mainly funded by nonoperating revenues mainly from the Commonwealth of Puerto Rico appropriations and from the United States of America Government grants and contracts (Federal Pell Grant Program). As a consequence, the University's operations and financial condition may be adversely affected by an extended economic slowdown, adverse political, fiscal or economic developments in Puerto Rico or the effects of a natural disaster.

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

The Puerto Rico economy has been in a recession since 2006, and the Commonwealth government currently faces a severe fiscal and liquidity crisis as a result of many years of significant budget deficits, among other factors. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in retail sales, budget shortfalls and diminished consumer buying power resulting in higher costs of living.

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, high levels of debt and pension obligations, negative financial position, further deterioration of its economic condition and inability to access the credit markets. Economic activity is expected to be constrained as a result of anticipated severe austerity measures and continued increasing migration trends. A further deterioration in local economic conditions or in the financial condition of an industry on which the local market depends could adversely affect factors such as unemployment rates and real estate vacancy and values.

The significant financial difficulties being experienced by the Commonwealth have a significant adverse impact on the University, given its reliance on Commonwealth appropriations. The University is highly reliant on the Commonwealth for operating revenues and for governance and had historically relied on the

GDB for liquidity. Approximately 68% of the University's total revenues are derived from the Commonwealth's appropriations which amounted to approximately $932.2 million for the year ended June 30, 2016. Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Given the reduced services that GDB is providing, the Commonwealth has decided to wind down of its operations. On April 28, 2017, the Fiscal Oversight Board created by PROMESA Act approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down its operations over ten years.

On March 13, 2017, the Oversight Board of PROMESA certified the Commonwealth's proposed fiscal plan subject to certain amendments. On May 31, 2017, the Board approved certain revision to the previously certified fiscal plan for the Commonwealth and recertified the fiscal plan as so revised. The Commonwealth's approved fiscal plan includes significant annual reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026. The reductions in the Commonwealth's formula appropriations would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

Given the high dependency of the University on the Commonwealth appropriations and on GDB's inability to continue to fund the University's operational and short-term needs as they arise, the University's financial condition and liquidity is being adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified.

As previously mentioned, the University submitted its fiscal plan for the ten-year period ending June 30, 2026 to the Oversight Board of PROMESA for certification on August 1, 2017. This fiscal plan includes the approved reductions in the Commonwealth's formula appropriations which would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026. With the reduction in the Commonwealth's appropriations, the University would have operational deficits starting in fiscal year 2018 and increasing through fiscal year 2026.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses.

As a result of the Hurricane Maria, most of the island's population was left without electrical power and there was significant disruption to the water distribution system. Other basic utility and infrastructure services such as communications, ports and transportation were also materially affected, causing a significant disruption to the island's economic activity. The entire island of Puerto Rico will need a massive infrastructure rebuilding program.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process.

At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System. All campuses have made arrangements so that enrolled students can complete the semester and the academic year. For most of the University's campuses, the current semester, which normally would have ended in December 2017, will reach into January or February 2018, depending on the campus. Some changes would also be made to the regular timetable of the 2018 spring semester.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Most of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate lost limit of $100 million each. Deductible amounts of the commercial property insurance coverage for wind losses amount to 2% of the insured property value and vary per location, with a minimum deductible amount of $200,000 and a maximum deductible amount of $3.5 million, for an aggregated deductible amount of approximately $21.8 million. Deductible amount of the fine arts insurance coverage for wind losses amounts to $50,000 per occurrence. Presently, the University has received advanced funds from the insurance company of $5.0 million for these natural disasters.

As a result of the damages caused by Hurricanes Irma and Maria in the island of Puerto Rico on September 6, 2017 and on September 20, 2017, respectively, the Oversight Board of PROMESA announced on October 31, 2017 the process toward revised fiscal plans for the Commonwealth and six covered entities, including the University. On January 24, 2018, the Commonwealth and two covered entities submitted their revised fiscal plans for the five-year period that covers fiscal year 2018 to fiscal year 2022.

On March 21, 2018, the University submitted to the Oversight Board of PROMESA a draft of its revised fiscal plan for the five-year period ending June 30, 2023. The draft of the University's revised fiscal plan, which is subject to material change, includes the following significant cash flow variations when compared to the fiscal plan submitted on August 1, 2017:

- Receipts: a gradual decrease in the student population; staggered increase in tuition; and disaster related inflows related to damages sustained by hurricanes Irma and Maria. In addition, the revised plan includes the approved projected reductions in the Commonwealth's formula appropriations submitted by the Commonwealth to the Oversight Board of PROMESA on January 24, 2018, as revised. Commonwealth approved formula appropriations will range from $631 million in fiscal year 2018 to $410 million in fiscal year 2022.

- Disbursements: cost of training and seminars are net of cost; adjusted exemption reductions; adjusted graduate tuition costs; and further adjustment of marginal benefits to its employees (faculty and non-faculty).

The current fiscal plan indicates that there is no capacity to sustain any debt during the fiscal plan period (i.e. cash flows available for debt service are projected to be negative through the projection period).

The Oversight Board of PROMESA intends to certify such revised fiscal plans by March 30, 2018 for the Commonwealth and two covered entities and by April 30, 2018 for the University and the other covered entities.

The University's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.

If economic conditions worsen more than expected, it could significantly reduce the Commonwealth's revenues and therefore reduce the University's revenues from the Commonwealth's appropriations and the University's liquidity, which could have an adverse effect on the University's financial position or 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 Chief Financial Officer. The executive offices of the University are located at 1187 Flamboyán Street, Jardín Botánico Sur, San Juan, Puerto Rico 00926.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Net Position (Deficit)
For the Years Ended June 30, 2016 and 2015 (In thousands)

	2016		2015	
	Primary Government	Component Units	Primary Government	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 182,539	$ 14,936	$ 99,596	$ 14,852
Restricted cash and cash equivalents	2,731	–	3,537	–
Restricted investments at fair value deposited with trustees and others	69,148	–	68,531	–
Accounts receivable, net	15,690	9,965	21,046	8,179
Due from Federal Government, net	32,449	1,475	38,346	1,677
Due from related parties, net:				
Commonwealth of Puerto Rico (Commonwealth)	4,719	–	21,974	–
Commonwealth's component units	6,705	–	20,576	–
University of Puerto Rico Retirement System	14	–	38,621	–
University of Puerto Rico	–	10,327	–	9,785
Others	1,098	–	10,148	–
Inventories	2,832	440	2,641	588
Other assets	3,521	408	1,460	336
Total current assets	321,446	37,551	326,476	35,417
Noncurrent assets:				
Restricted cash and cash equivalents	6,630	–	3,260	–
Restricted investments at fair value:				
Endowment funds	99,860	–	99,610	–
Healthcare Deferred Compensation Plan	87,678	–	102,968	–
Others	–	–	8,150	–
Other long-term investments at fair value	2,632	–	2,774	–
Due from Commonwealth	–	236	–	225
Notes receivable, net	6,232	–	5,663	–
Capital assets (net of accumulated depreciation and amortization):				
Land and other nondepreciable assets	56,190	1,810	88,494	1,961
Depreciable assets	840,653	7,938	835,333	7,630
Other assets	496	–	287	–
Total noncurrent assets	1,100,371	9,984	1,146,539	9,816
Total assets	1,421,817	47,535	1,473,015	45,233
Deferred outflows of resources:				
Deferred refunding loss	2,225	–	2,517	–
Deferred outflows from pension activities	102,379	–	88,251	–
Total deferred outflows of resources	104,604	–	90,768	–
Total assets and deferred outflows of resources	1,526,421	47,535	1,563,783	45,233
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	64,830	6,542	73,293	16,753
Current portion of long-term debt:				
Notes payable	76,781	2,586	35,871	1,710
Bonds payable	23,280	–	22,160	–
Due to University of Puerto Rico	–	21,983	–	20,411
Other current liabilities:				
Claims liability	2,494	–	3,851	–
Compensated absences	27,049	767	37,432	758
Total current liabilities	194,434	31,878	172,607	39,632
Noncurrent liabilities:				
Long-term debt, net of current portion:				
Notes payable	–	19,307	47,465	12,996
Bonds payable	492,892	–	517,952	–
Other long-term liabilities, net of current portion:				
Deferred compensation plan	87,678	–	102,968	–
Claims liability	19,783	1,426	15,225	1,286
Compensated absences	127,755	–	129,186	–
Net pension liability	1,796,727	–	2,104,040	–
Other postemployment benefit obligation	8,578	–	7,633	–
Total noncurrent liabilities	2,533,413	20,733	2,924,469	14,282
Total liabilities	2,727,847	52,611	3,097,076	53,914
Deferred inflows of resources from pension activities	301,418	–	107,138	–
Total liabilities and deferred inflows of resources	3,029,265	52,611	3,204,214	53,914
Net position (deficit):				
Net investment in capital assets	393,465	297	397,005	449
Restricted, nonexpendable:				
Scholarships and fellowships	42,758	–	43,383	–
Research	51,046	–	48,619	–
Other	13,793	–	13,129	–
Restricted, expendable:				
Loans	7,649	–	10,010	–
Capital projects	10,960	–	11,053	–
Debt service	56,210	–	55,964	–
Unrestricted (deficit)	(2,078,725)	(5,373)	(2,219,594)	(9,130)
Total net position (deficit)	$ (1,502,844)	$ (5,076)	$ (1,640,431)	$ (8,681)

See accompanying notes to basic financial statements.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Position (Deficit)
For the Years Ended June 30, 2016 and 2015 (In thousands)

	2016		2015	
	Primary Government	Component Units	Primary Government	Component Units
Revenues				
Operating revenues:				
Tuitions and fees (net of scholarship allowances and others of $58,246 in 2016 and $51,820 in 2015)	$ 48,476	$ –	$ 47,215	$ –
Net patient services revenue and other (net of provision for allowances of $14,724 in 2016 and $19,115 in 2015)	61,830	44,985	57,765	49,089
Federal grants and contracts (net of provision (credit) for allowances of $3,234 in 2016 and ($205) in 2015)	95,476	–	95,741	–
Commonwealth grants and contracts (net of provision to allowances of $6,974 in 2016 and $439 in 2015)	11,399	–	19,662	–
Nongovernmental grants and contracts (net of provision for allowances of $10,415 in 2016 and $2,339 in 2015)	2,565	–	7,539	–
Sales and services of educational departments	11,968	–	12,321	–
Auxiliary enterprises (net of provision for allowances of $290 in 2016 and $10 in 2015)	1,925	–	2,032	–
Other operating revenues	12,714	3,215	17,908	3,162
Total operating revenues	246,353	48,200	260,183	52,251
Operating expenses:				
Salaries:				
Faculty	361,322	–	356,858	–
Exempt staff	245,134	4,725	253,242	3,515
Nonexempt wages	1,006	9,692	907	11,014
Benefits:				
Pension cost (credit) (see Note 15)	(49,350)	–	66,304	–
Other benefits	143,324	2,278	145,226	2,438
Scholarships and fellowships	185,522	–	185,442	–
Supplies and other services	140,879	22,638	148,682	22,611
Utilities	37,162	2,296	48,206	3,234
Depreciation and amortization	47,906	1,770	44,715	1,425
Other expenses	23,378	663	16,624	869
Total operating expenses	1,136,283	44,062	1,266,206	45,106
Operating income (loss)	(889,930)	4,138	(1,006,023)	7,145
Nonoperating revenues (expenses):				
Commonwealth and other appropriations	932,503	–	937,357	–
Federal Pell Grant program	178,729	–	167,213	–
Gifts	9,265	–	11,259	–
Net investment income	5,869	4	3,548	4
Impairment loss on deposits with governmental bank (note 5)	(69,807)	–	(21,668)	–
Impairment loss on capital assets	(1,245)	–	–	–
Interest on capital assets - related debt	(25,318)	(670)	(25,313)	(697)
Interest on notes payable	(3,047)	–	(3,497)	–
Other nonoperating revenues (expenses), net	538	133	685	(660)
Net nonoperating revenues (expenses)	1,027,487	(533)	1,069,584	(1,353)
Income before other revenues	137,557	3,605	63,561	5,792
Capital appropriations	–	–	2,266	–
Additions to term and permanent endowments	30	–	6	–
Change in net position	137,587	3,605	65,833	5,792
Net position (deficit):				
Beginning net position (deficit), as previously reported	(1,640,431)	(8,681)	531,095	(14,473)
Cumulative effect of a change in accounting principle	–	–	(2,237,359)	–
End of year	$ (1,502,844)	$ (5,076)	$ (1,640,431)	$ (8,681)

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

	Primary Government For the Years Ended June 30: 2016	2015
Cash flows from operating activities		
Tuition and fees	$ 49,276	$ 46,064
Grants and contracts	127,154	113,545
Patient services	71,107	60,836
Payments to employees	(606,687)	(611,502)
Payments for benefits	(255,564)	(239,271)
Payments for scholarships and fellowships	(185,522)	(185,442)
Payments to suppliers	(157,297)	(172,002)
Payments for utilities	(36,854)	(47,847)
Loans issued to students, net of collections	(235)	(855)
Auxiliary enterprises	2,249	1,859
Sales and services educational departments and others	25,933	31,890
Other receipts (payments)	(64)	(3)
Net cash used in operating activities	(966,504)	(1,002,728)
Cash flows from noncapital financing activities		
Commonwealth and other appropriations	952,503	922,356
Federal Pell Grant program	178,729	167,213
Endowment gifts	30	6
Principal paid on noncapital debt	(6,241)	(8,682)
Interest paid on notes payable	(2,649)	(3,620)
Gifts and grants for other than capital purposes	9,265	11,259
Federal direct student loan program receipts	51,084	47,609
Federal direct student loan program disbursements	(51,084)	(47,609)
Other non-operating receipts	538	25
Net cash provided by noncapital financing activities	1,132,175	1,088,557
Cash flows from capital and related financing activities		
Capital appropriations	–	2,266
Purchases of capital assets	(28,006)	(27,666)
Proceeds from capital debt	220	4,507
Principal paid on capital debt	(22,694)	(21,603)
Interest paid on capital debt	(27,888)	(28,730)
Decrease (increase) in deposits with trustees and others	(611)	1,401
Net cash used in capital and related financing activities	(78,979)	(69,825)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	62,157	36,574
Purchases of investments	(107,277)	(60,398)
Collections of interest and dividend income on investments	4,659	3,259
Advances to the University of Puerto Rico Retirement System	–	(475)
Repayments of advances to the University of Puerto Rico Retirement System	38,607	–
Contribution from component unit	640	660
Other receipts	29	23
Net cash used in investing activities	(1,185)	(20,357)
Net change in cash and cash equivalents	85,507	(4,353)
Cash and cash equivalents:		
Beginning of year	106,393	110,746
End of year	$ 191,900	$ 106,393

(Continued)

See accompanying notes to basic financial statements.

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

	Primary Government For the Years Ended June 30: 2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (889,930)	$ (1,006,023)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	47,906	44,715
Provision for doubtful accounts	36,080	20,031
Changes in operating assets and liabilities and deferred outflows and inflows of resources:		
Decrease (increase) in:		
Grants and contracts receivables	(5,365)	(25,125)
Prepaid expenses, inventories and other	3,280	4,396
Deferred outflows of resources from pension activities	(14,128)	3,438
Increase (decrease) in:		
Accounts payable and accrued liabilities	3,114	(12,913)
Net pension liability	(307,313)	(132,523)
Accrued salaries, wages, benefits and other liabilities	(34,428)	(5,862)
Deferred inflows of resources from pension activities	194,280	107,138
Net cash used in operating activities	$ (966,504)	$ (1,002,728)
Supplemental schedule of noncash investing, capital and financing activities:		
Changes in fair value of investments	$ 1,362	$ 391
Amortization of:		
Bonds premiums, net of discounts	$ 1,780	$ 1,817
Deferred refunding loss	$ 292	$ 301
Impairment loss on deposits with governmental bank (note 5)	$ 69,807	$ 21,668

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

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

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

Reporting Entity (continued)

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

Blended Component Unit: The following component unit, although legally separate, is reported as if it was part of the University 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 consists of a student housing facility, a multi-story parking building and an institution building to house administrative, student service and support functions, and, to a lesser extent, to lease commercial space. The financing for the Projects was provided by the issuance of $86,735,000 in Educational Facilities Revenue Bonds through the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA") on December 20, 2000. In 2008, the University entered into a 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.

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

Reporting Entity (continued)

Desarrollos Universitarios, Inc. (continued)

Condensed financial information as of June 30, 2016 and 2015 and for the fiscal years then ended for DUI is as follows (expressed in thousands):

	2016	2015
Statements of net position as of June 30		
Current assets:		
Cash and cash equivalents	$ 813	$ 947
Restricted investments at fair value deposited with trustee	14,281	13,822
Internal balance- net investment in direct financing lease, current portion	2,185	2,054
Due from the University of Puerto Rico	1,889	1,656
Other assets	100	24
Total current assets	19,268	18,503
Noncurrent assets:		
Restricted cash and cash equivalents	2,347	2,288
Internal balance- net investment in direct financing lease, net of current portion	55,594	57,779
Other assets	239	263
Total noncurrent assets	58,180	60,330
Total assets	$ 77,448	$ 78,833
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,635	$ 4,688
Current portion of long-term debt bonds payable	2,315	2,190
Total current liabilities	6,950	6,878
Noncurrent liabilities- long-term debt, net of current portion of bonds payable	64,010	66,311
Total liabilities	$ 70,960	$ 73,189
Net position:		
Restricted expendable:		
Capital project	$ 2,299	$ 2,299
Debt service	7,071	7,071
Unrestricted (deficit)	(2,882)	(3,726)
Total net position	$ 6,488	$ 5,644

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

Reporting Entity (continued)

Desarrollos Universitarios, Inc. (continued)

	2016	2015
Statements of revenues, expenses and changes in net position for the years ended June 30		
Operating revenues	$ 3,789	$ 3,260
Operating expenses	(3,616)	(3,128)
Operating income	173	132
Non operating revenues (expenses):		
Interest on capital assets - related debt	(3,413)	(3,538)
Interest income from internal balance investment in direct financing lease	3,648	2,652
Net investing income	436	433
Total nonoperating revenues (expenses)	671	(453)
Change in net position	844	(321)
Net position:		
Beginning of year	5,644	5,965
End of year	$ 6,488	$ 5,644

	2016	2015
Statements of cash flows for the years ended June 30		
Net cash used in operating activities	$ (157)	$ (111)
Net cash provided by noncapital financing activities	–	–
Net cash used in capital and related financing activities	(6,098)	(4,254)
Net cash provided by investing activities	6,180	4,327
Net decrease in cash and cash equivalents	(75)	(38)
Cash and cash equivalents:		
Beginning of year	3,235	3,273
End of year	$ 3,160	$ 3,235

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

Reporting Entity (continued)

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

Servicios Médicos Universitarios, Inc.

Servicios Médicos Universitarios, Inc. (the "Hospital" or "SMU") 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.

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 position were not significant as of and for the year ended June 30, 2016. 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 Sciences of the Río Piedras Campus of the University. The University appoints a voting majority of MCC board and is also financially accountable for MCC. MCC's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the year ended June 30, 2016. Complete financial statements of MCC can be obtained directly by contacting the MCC's administrative offices.

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

Reporting Entity (continued)

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

Refer to Note 3 for the combining financial information of the discretely presented component units as of June 30, 2016 and 2015 and for the fiscal years then ended.

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

Measurement Focus and Basis of Accounting

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, 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,* an Amendment of GASB Statement No. 34. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, telecommunications and institutional computing have been eliminated, where appropriate.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. 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.

Cash Equivalents

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

Investments

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

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

Investments (continued)

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value, except for nonparticipating guaranteed investment contracts and money investments which are carried at cost.

Receivables

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's sponsored agreements. In addition, accounts receivable includes unpaid medical services provided by the faculty members of the Medical Sciences Campus (MSC) of the University to the Commonwealth's health reform program patients; contracted services provided by the faculty members of the MSC to a component unit of the Commonwealth and to SMU; and unremitted distributions of income to be received by the University from a component unit of the Commonwealth under the Gambling Law by virtue of Act No. 36 of 2005.

Other receivables mainly consist of due from Commonwealth which includes unremitted Commonwealth formula appropriations by virtue of Act No. 2 of January 20, 1966, as amended; due from the University Retirement System which includes unpaid advances given to the Retirement System; and notes receivable which includes Federal program and institutional loans.

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

Interfund Balances and Transactions

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

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

Inventories

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

Capital Assets

All capital expenditures of $5,000 ($1,000 before July 1, 2014) or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under 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.

Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the University are reported at the lower of carrying value or fair value. Impairment charges amounted to approximately $1,245,000 for the year ended June 30, 2016. No impairment charges were recorded during the year ended June 30, 2015.

Debt Issuance Costs, Debt Premiums/Discounts and Deferred Loss on Debt Refunding

Debt issuance costs are presented as expense during the year they are incurred. Premium and discounts incurred in the issuance of bonds are deferred and amortized using the effective interest method. DUI amortizes bond premium and/or discount using a method which approximates the effective interest method.

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

Bonds payable are reported net of applicable bond premium or discount.

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

Deferred Compensation Plan

The University offered to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits 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.

Compensated Absences

The vacation policy of the University generally provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the University. Accrued compensated absences liabilities include an additional amount for salary-related payments directly and incrementally associated with the payment of compensated absences.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents an increase in net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Similarly, the University reports deferred inflows of resources in the *Statement of Net Position* in a separate section following Liabilities. This separate financial statement element, *deferred inflows of resources*, represents a reduction of net position and resources that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

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

Classification of Net Position

The University's net position is classified as follows:

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

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

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

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

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 Commonwealth appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

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

Scholarship Allowances and Student Financial Aid

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

Net Patient Service Revenue

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

Grants and Contracts

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

Gifts and Pledges

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

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

Pension

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

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

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.

New Accounting Standards Adopted

In fiscal year 2016, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72).
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76)
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB Statement No. 79).

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

New Accounting Standards Adopted (continued)

GASB Statement No. 72 requires the University to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the University's financial statement as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB Statement No. 76), which is effective for reporting periods beginning after June 15, 2015. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. It also amends GASB Statement No. 62, Codification of accounting and financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 64, 74, and 82. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 79 establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The statement also establishes additional note disclosures for qualifying external investment pools. There was no material impact on the University's financial statement as a result of the implementation of Statement No. 79.

In fiscal year 2015, the University adopted the following new statements of financial accounting standards issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27* (GASB Statement No. 68).

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB Statement No. 69).

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB Statement No. 71).

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

New Accounting Standards Adopted (continued)

GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (pension trusts).

This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and Required Supplementary Information requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The major fundamental change is switching from the existing "funding-based" accounting model, where the Annual Required Contribution (ARC) was compared to the actual payments made and that difference determined the Net Pension Obligation (or Asset); to an "accrual basis" model similar to current Financial Accounting Standards Board ("FASB") standards, where the Total Pension Liability (Actuarially determined) is compared to the Plan's Fiduciary Net Position (predominantly assets) and the difference represents the Net Pension Liability. The information to adopt this Statement predominantly was based on the new actuarial report prepared under the new GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*).

GASB Statement No. 71 amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

At transition, the impact of GASB Statement No. 68 and GASB Statement No. 71 was to decrease the net position as of July 1, 2014 by $2.24 billion, as a result of the net impact of the following effects: to derecognize the prepaid pension asset previously recorded under GASB Statement No. 27 by $92.5 million, to recognize a deferred outflows of resources for the pension plan employer's contributions made after the June 30, 2013 measurement date of $91.7 million (as required by GASB Statement No. 71) and to recognize a net pension liability of $2.24 billion (as required by GASB Statement No. 68). At transition, the effect of deferred outflows and inflows of resources from other pension activities as required by GASB Statement No. 68 was not included because it was impracticable to determine them.

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

New Accounting Standards Adopted (continued)

GASB Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements, including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. The adoption of this statement had no impact on the University's financial statements.

Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73). The provisions of GASB Statement No. 73 that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of Statement No. 73 for pension plans that are within the scope of GASB Statement No. 67 or for pensions that are within the scope of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2015. GASB Statement No. 73 extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

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

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74), which is effective for fiscal years beginning after June 15, 2016. GASB Statement No. 74 establishes financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The scope of this statement includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria. The Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) (GASB Statement No. 75), which is effective for fiscal years beginning after June 15, 2017. GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees. This Statement also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information are also addressed by the statement. This statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple- Employer Plans*, for OPEB.

- GASB Statement No. 77, *Tax Abatement Disclosures* (GASB Statement No. 77), which is effective for periods beginning after December 15, 2015. GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is a key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this Statement.

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

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 80, *Blending Requirements for Certain Component Units- an Amendment of GASB Statement No. 14* (GASB Statement No. 80), which is effective for periods beginning after June 15, 2016. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. (GASB Statement No. 81), which is effective for periods beginning after December 15, 2016. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 82, Pension Issues- an Amendment of GASB Statements No 67, No. 68, and No. 73. (GASB Statement No. 82), which is effective for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. GASB Statement No. 82 addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

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

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB Statement No. 83), which is effective for periods beginning after June 15, 2018, establishes uniform guidance for governments in recognizing and measuring certain Asset Retirement Obligations (ARO) and to require disclosures related to those AROs. An ARO is defined as a legally enforceable liability associated with the retirement of a capital asset. This Statement requires that ARO recognition occur when the liability is both incurred and reasonably estimable. ARO measurement is to be based on the best estimate of the current value of the outlays expected to be incurred. Governments should recognize a deferred outflow of resources when an ARO is recognized at the initial measurement value. Deferred outflows of resources should then be reduced and recognized as an outflow of resources (i.e. expense) in a rational manner over a period of time. After initial measurement, governments are required to adjust the current value of their AROs for the effects of inflation or deflation annually. Also, annually, governments are required to evaluate all relevant factors related to an ARO and to determine if any of those factors are expected to increase or decrease the estimated asset retirement outlays associated with an ARO. Governments should only remeasure an ARO when the results of this evaluation indicate a significant change in the estimated outlay. GASB Statement No. 83 also discusses how AROS should be reported in instances in which a government may have a minority share of ownership in a tangible asset and the remaining owners are nongovernmental entities.

- GASB Statement No. 84, *Fiduciary Activities* (GASB Statement No. 84), which is effective for periods beginning after December 15, 2018, establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

- GASB Statement No. 85, *Omnibus 2017* (GASB Statement No. 85), which is effective for periods beginning after June 15, 2017, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB).

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

Future Adoption of Accounting Pronouncements (continued)

- GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB Statement No. 86), which is effective for periods beginning after June 15, 2017, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources–other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

- GASB Statement No. 87, *Leases* (GASB Statement No. 87), which is effective for periods beginning December 15, 2019, establishes a single approach to accounting for and reporting leases by state and local governments. GASB Statement No. 87 is based on the principle that leases are financing of the right to use an underlying asset. Statement 87 provides guidance for lease contracts for nonfinancial assets–including vehicles, heavy equipment and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). GASB Statement No. 87 provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

  Lessee accounting under the New Standard: a lessee government is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset. The liability should be the present value of the payments covered by the contract, and its value should be reduced as payments are made over the lease's term. The asset should equal the initial measurement of the liability. A lessee also will report the following in its financial statements:

  (1) amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset; (2) interest expense on the lease liability; and (3) note disclosures about the lease, including a general description of the leasing arrangement, the amount of lease assets recognized, and a schedule of future lease payments to be made.

  Lessor accounting under the New Standard: A lessor government is required to recognize a lease receivable and a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. A lessor also will report the following in its financial statements: (1) lease revenue, systematically recognized over the term of the lease, corresponding with the reduction of the deferred inflow; (2) interest revenue on the receivable; and (3) note disclosures about the lease, including a general description of the leasing arrangement and the total amount of inflows of resources recognized from leases.

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

Future Adoption of Accounting Pronouncements (continued)

The University is evaluating the impact that these statements will have on its financial statements.

2. Going Concern

The discussion in the following paragraphs regarding the University's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the University's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The University faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the University together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the University to continue as a going concern in accordance with GASB Statement No. 56.

The University is highly dependent on the Commonwealth's appropriations to finance its operations and had historically relied on the Government Development Bank for Puerto Rico (GDB), a discretely presented major component unit of the Commonwealth, for liquidity.

The financial difficulties being experienced by the Commonwealth and the GDB have significant adverse impacts on the University, given its reliance on Commonwealth's appropriations and on the GDB for funding and lack of available funding alternatives.

2. Going Concern (continued)

The Commonwealth Going Concern

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition (a prolonged economic recession which commenced in 2006), and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth has a significant adverse impact on the University, given its reliance on Commonwealth appropriations.

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds. In the quarter ended September 30, 2017, the Employees' Retirement System (ERS) of the Government of the Commonwealth of Puerto Rico, the largest of the pension trust funds, commenced to operate on a pay-as-you go basis, which means that the ERS would be unable to pay benefits that exceed the actual employer and member contributions received (net of administrative and other expenses), unless the Commonwealth and other participating employers provide the funding required to meet the "pay as you go" required benefits.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB, and increased near-term refinancing risk. These factors, among others, have also resulted in the non-payment by the Commonwealth and its instrumentalities of most of their outstanding debt obligations, including the outstanding GDB lines of credit which caused the discontinuance of GDB to provide liquidity to the Commonwealth and instrumentalities, such as the University, and have caused the default of GDB's debt obligations.

2. Going Concern (continued)

The Commonwealth Going Concern (continued)

In addition, although neither the Commonwealth nor its component units, including the University, are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). PROMESA grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board (the Oversight Board), relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors (Title VI of PROMESA). This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code (Title III of PROMESA). This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a court-supervised debt-adjustment process) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

2. Going Concern (continued)

The Commonwealth Going Concern (continued)

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. Unless the Commonwealth is able to obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all of its obligations as they come due while at the same time providing essential government services. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the Oversight Board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

GDB Going Concern

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. The Commonwealth and most of its public entities have not been able to repay their loans from the GDB, which has significantly affected the GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation, the Governor of Puerto Rico ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

As a result of the non-payment by the Commonwealth of the appropriations to the GDB and the GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, the GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and thereafter.

With the fiscal challenges affecting the GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) was created to assume the roles of fiscal agent, financial advisor and disclosure agent of the Government. Presently, the GDB's primary role is to serve as an agent in collecting on its loan portfolio and disbursing funds pursuant to strict priority guidelines as all fundamental new business banking and origination activities have ceased.

2. Going Concern (continued)

GDB Going Concern (continued)

Given the reduced services that the GDB is providing, the Commonwealth has decided to wind down its operations. On April 28, 2017, the Fiscal Oversight Board created by PROMESA approved the liquidation proposal included in the GDB's fiscal plan that calls for an orderly winding down of its operations over ten years. The GDB's fiscal plan submitted to the Oversight Board of PROMESA contemplates an orderly sale of real estate assets at fair value and a restructuring of the GDB's workforce by relocating employees, and a voluntary separation program. On March 23, 2018, GDB closed operations.

The conditions discussed above create significant uncertainty with regard to the timing and amount of repayment of deposits and other amounts owed to the University by the GDB. Further, the significant financial difficulties being experienced by the GDB is likely to have a significant adverse impact on the University, given its previous reliance on the GDB for funding, and lack of other available funding alternatives.

The University Going Concern

The University had a total net deficit position of approximately $1.5 billion as of June 30, 2016. The University has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations and had historically relied on the GDB for liquidity. Approximately 68% of the University's total revenues are derived from the Commonwealth's appropriations which amounted to approximately $932.5 million for the year ended June 30, 2016.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ending on June 30, 2015, 2016 and 2017. 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 $36.0 million, $39.9 million and $39.7 million for the years ended June 30, 2016, 2015, and 2014, respectively. Also, the Commonwealth appropriations include revenues received under the Gambling Law (slot machines and others) from the Puerto Rico Tourism Company, a component unit of the Commonwealth, which amounted to $62.6 million, $63.5 million and $64.4 million for the years ended June 30, 2016, 2015 and 2014, respectively.

Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition. The University's ability to continue receiving similar operational support from the Commonwealth and obtaining external financing is uncertain.

2. Going Concern (continued)

The University Going Concern (continued)

On June 30, 2016, the Governor of Puerto Rico signed Executive Order No. OE-2016-030 (EO 30) and Executive Order No. OE-2016-031 (OE 31) which (i) declared the Commonwealth and several of its instrumentalities, including the University, to be in a state of emergency and announced the commencement of an emergency period (as such term is defined in Section 103 of the Act No. 21) for the Commonwealth and such instrumentalities, including the University, (ii) extended the state of emergency that had been previously declared for several of the Commonwealth's instrumentalities, (iii) implemented a suspension on transfer obligations of the Commonwealth and certain of its instrumentalities, including the University, with respect to the transfer of funds to and from such entities (pursuant to Section 201 of Act No. 21), and (iv) implemented a suspension on the payment obligations of debt issued or guaranteed by the Commonwealth, as well as the payment obligations of certain of its instrumentalities, including the University. The measures were in place until January 29, 2017.

Specifically to the University, EO 31 established the following: (i) designated any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspended such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designated any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspended the payment of such obligation of the University. EO 31 did not suspend the payment obligations of the University with respect to any other obligation. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, the Moratorium Act or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

2. Going Concern (continued)

The University Going Concern (continued)

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues. Pursuant to the agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is March 31, 2018. Pursuant to the extended letter agreement, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

The University had two credit facilities with the GDB, a ten-year term loan which amounted to approximately $48.3 million at June 30, 2016 and a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the University's Program for Permanent Improvements which amounted to approximately $28.1 million at June 30, 2016. The University has not made the monthly payments of this term loan since May 2016. The $75 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. The University has not paid its debt service on these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed.

On October 30, 2016, the Oversight Board created by PROMESA designated the University as a covered entity subject to oversight under PROMESA. As a covered entity, the University is required to submit to the Oversight Board of PROMESA an individual fiscal plan. The University submitted its ten-year fiscal plan to the Oversight Board of PROMESA for certification on August 1, 2017.

2. Going Concern (continued)

The University Going Concern (continued)

On March 13, 2017, the Oversight Board of PROMESA certified the Commonwealth's proposed fiscal plan subject to certain amendments. On May 31, 2017, the Oversight Board of PROMESA approved certain revision to the previously certified fiscal plan for the Commonwealth and recertified the fiscal plan as so revised. The Commonwealth's approved fiscal plan includes significant annual reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026. The projected reductions in the Commonwealth's formula appropriations to the University would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

On June 2, 2017, the Oversight Board of PROMESA approved the aggregate spending level in the Governor's fiscal year 2017-2018 proposed budget, but not its specific allocations. On June 27, 2017, the Oversight Board of PROMESA issued a notice of violation on the submitted Commonwealth budget that included a description of necessary corrective action. The Oversight Board of PROMESA gave the Legislature of Puerto Rico an opportunity to correct the violations by June 29, 2017. Because the Legislature failed to take corrective actions, the Oversight Board of PROMESA approved and certified a revised, compliant budget for fiscal year 2018 for the Commonwealth in compliance with PROMESA. The Commonwealth's fiscal year 2018 budget was deemed approved by the Governor and Legislature and in full force and effect beginning on July 1, 2017. The Commonwealth's formula appropriations to the University included in the approved Commonwealth's budget for fiscal year 2018 will amount to $631 million, a decrease of $203 when compared with the Commonwealth's formula appropriations of $834 million received in fiscal year 2017. In addition, the approved Commonwealth's budget for fiscal year 2018 includes nonrecurrent contributions to the University of approximately $30 million, for a net decrease in the Commonwealth's appropriations of approximately $173 million in the fiscal year 2018.

Given the high dependency of the University on the Commonwealth appropriations and on the GDB's inability to continue to fund the University's operational and short-term needs as they arise, the University's financial condition and liquidity is being adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern.

The University Management Fiscal Plan

As previously mentioned, the University submitted its fiscal plan for the ten-year period ending June 30, 2026 to the Oversight Board of PROMESA for certification on August 1, 2017. This fiscal plan includes the approved projected reductions in the Commonwealth's formula appropriations that which would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026. With the reduction in the Commonwealth's appropriations, the University would have operational deficits starting in fiscal year 2018 and increasing through fiscal year 2026.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

The University has taken a proactive approach to identify a fiscal plan that limits the impact in the reductions of the Commonwealth's appropriations to the University for the benefits of the University's academic system and its student population. The University's proposed fiscal plan includes, among others, the following revenue-generating measures:

- An annual increase in federal awards - The University's federal awards level is below the similar public universities in the continental United States of America. It can increase by tailored research and processes for public research grants.
- Establishment of a new fee structure for dues and charges.
- Training and Technical Support Activities - On March 20, 2017, the Governor of Puerto Rico sent a letter to the Oversight Board created by PROMESA, detailing additional measures that would mitigate budgetary cuts to the University. These measures include the following, among others: the Commonwealth and the University will enter into agreements to provide technical trainings for public employees; the Department of Education of the Commonwealth will retain the services of the University to provide both trainings to teachers as well as tutorial for students; and the Government of the Commonwealth will request all municipalities to enter into technical agreements, similar to those with the Central Government for their employees.

The University has taken a conservative approach when considering these revenue measures.

The University's proposed fiscal plan includes, among others, the following expense control measures:

- A 2% annual expense attrition is included throughout all the University's campuses and administration. An additional 4% annual expense attrition is assumed for fiscal years where the transformation enhancements, described below, are being implemented.
- Human Resources Optimization measures - It will result in a more leveled benefit program compared to the Commonwealth Central Government employees, while providing opportunity for current full-time employees to transfer into certain positions held by trust positions and temporary positions.
- Reduce medical insurance expense by changes to the medical insurance coverage and/or increasing the employee co-payments.
- Procurement of materials and supplies and purchased services control measures.
- Review of all student exemptions and special scholarships. The University will establish a merit-based review of tuition exemptions and a minor reduction in special scholarships.
- Transformational Enhancements- Leaner administrative structure to reduce duplicated functions and services; evaluation of the academic offer to reduce redundant expenses; and implementation of full academic optimization.

As the measure of last resort, the University will need to increase its tuition to cover the operational deficiencies it will encounter during the next ten years. The University will proactively keep analyzing cost measures as well as new revenue sources to mitigate the impact to students. The University will incorporate a new Scholarship Fund that will further mitigate the increase of tuition for the most vulnerable student population.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

The University's proposed fiscal plan, post above measures, indicates that the University will still have a cash flow deficit after considering the scheduled debt service payments.

On August 21, 2017, the Oversight Board of PROMESA asked the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), as fiscal agent of the University, to submit a revised University's fiscal plan addressing certain points by September 5, 2017.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses. As a result of the Hurricane Maria, most of the island's population was left without electrical power and there was significant disruption to the water distribution system. Other basic utility and infrastructure services such as communications, ports and transportation were also materially affected, causing a significant disruption to the island's economic activity. The entire island of Puerto Rico will need a massive infrastructure rebuilding program.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process.

At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System. All campuses have made arrangements so that enrolled students can complete the semester and the academic year. For most of the University's campuses, the current semester, which normally would have ended in December 2017, will reach into January or February 2018, depending on the campus. Some changes would also be made to the regular timetable of the 2018 spring semester.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Most of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate lost limit of $100 million each. Deductible amounts of the commercial property insurance coverage for wind losses amount to 2% of the insured property value and vary per location, with a minimum deductible amount of $200,000 per occurrence and a maximum deductible amount of $3.5 million per occurrence for an aggregated deductible amount of approximately $21.8 million. Deductible amount of the fine arts insurance coverage for wind losses amounts to $50,000 per occurrence. Presently, the University has received advanced funds from the insurance company of $5.0 million for these natural disasters.

2. Going Concern (continued)

The University Management Fiscal Plan (continued)

As a result of the damages caused by Hurricanes Irma and Maria in the island of Puerto Rico on September 6, 2017 and on September 20, 2017, respectively, the Oversight Board of PROMESA announced on October 31, 2017 the process toward revised fiscal plans for the Commonwealth and six covered entities, including the University. On January 24, 2018, the Commonwealth and two covered entities submitted their revised fiscal plans for the five-year period that covers fiscal year 2018 to fiscal year 2022.

On March 21, 2018, the University submitted to the Oversight Board of PROMESA a draft of its revised fiscal plan for the five-year period ending June 30, 2023. The draft of the University's revised fiscal plan, which is subject to material change, includes the following significant cash flow variations when compared to the fiscal plan submitted on August 1, 2017:

- Receipts: a gradual decrease in the student population; staggered increase in tuition; and disaster related inflows related to damages sustained by hurricanes Irma and Maria. In addition, the revised plan includes the approved projected reductions in the Commonwealth's formula appropriations submitted by the Commonwealth to the Oversight Board of PROMESA on January 24, 2018, as revised. Commonwealth approved formula appropriations will range from $631 million in fiscal year 2018 to $410 million in fiscal year 2022.

- Disbursements: cost of training and seminars are net of cost; adjusted exemption reductions; adjusted graduate tuition costs; and further adjustment of marginal benefits to its employees (faculty and non-faculty).

The current fiscal plan indicates that there is no capacity to sustain any debt during the fiscal plan period (i.e. cash flows available for debt service are projected to be negative through the projection period).

The Oversight Board of PROMESA intends to certify such revised fiscal plans by March 30, 2018 for the Commonwealth and two covered entities and by April 30, 2018 for the University and the other covered entities.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

3. Combining Financial Information of the Discretely Presented Component Units

The following table presents the combining statements of net position (deficit) of the discretely presented component units as of June 30, 2016 and 2015 (expressed in thousands):

	2016				2015			
	SMU	UPRPS	MCC	Total	SMU	UPRPS	MCC	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 13,511	$ 1,172	$ 253	$ 14,936	$ 13,555	$ 1,141	$ 156	$ 14,852
Accounts receivable, net	9,212	347	406	9,965	7,589	203	387	8,179
Due from Federal Government, net	1,475	–	–	1,475	1,677	–	–	1,677
Due from the University of Puerto Rico	10,327	–	–	10,327	9,785	–	–	9,785
Inventories	440	–	–	440	588	–	–	588
Other assets	327	6	75	408	255	8	73	336
Total current assets	35,292	1,525	734	37,551	33,449	1,352	616	35,417
Noncurrent assets:								
Due from Commonwealth of Puerto Rico	236	–	–	236	225	–	–	225
Capital assets (net of accumulated depreciation and amortization):								
Land and other nondepreciable assets	1,810	–	–	1,810	1,845	116	–	1,961
Depreciable assets	7,641	123	174	7,938	7,297	130	203	7,630
Total noncurrent assets	9,687	123	174	9,984	9,367	246	203	9,816
Total assets	44,979	1,648	908	47,535	42,816	1,598	819	45,233
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	6,413	56	73	6,542	16,681	41	31	16,753
Current portion of long-term debt- Notes payable	2,586	–	–	2,586	1,710	–	–	1,710
Due to University of Puerto Rico	21,983	–	–	21,983	20,411	–	–	20,411
Other current liabilities- Compensated absences	767	–	–	767	758	–	–	758
Total current liabilities	31,749	56	73	31,878	39,560	41	31	39,632
Noncurrent liabilities:								
Long-term debt, net of current portion- Notes payable	19,307	–	–	19,307	12,996	–	–	12,996
Other long-term liabilities- Claims liability	1,426	–	–	1,426	1,286	–	–	1,286
Total noncurrent liabilities	20,733	–	–	20,733	14,282	–	–	14,282
Total liabilities	52,482	56	73	52,611	53,842	41	31	53,914
Net position (deficit):								
Net investment in capital assets	–	123	174	297	–	246	203	449
Unrestricted (deficit)	(7,503)	1,469	661	(5,373)	(11,026)	1,311	585	(9,130)
Total net position (deficit)	$ (7,503)	$ 1,592	$ 835	$ (5,076)	$ (11,026)	$ 1,557	$ 788	$ (8,681)

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

The following table presents the combining statements of revenues, expenses and changes in net position (deficit) of the discretely presented component units for the years ended June 30, 2016 and 2015 (expressed in thousands):

	2016				2015			
	SMU	UPRPS	MCC	Total	SMU	UPRPS	MCC	Total
Revenues								
Operating revenues:								
Net patient services revenue and other (net of provision for allowances of $4,423 in 2016 and $2,240 in 2015)	$ 44,985	$ –	$ –	$ 44,985	$ 49,089	$ –	$ –	$ 49,089
Other operating revenues	947	1,614	654	3,215	1,022	1,558	582	3,162
Total operating revenues	45,932	1,614	654	48,200	50,111	1,558	582	52,251
Operating expenses:								
Salaries:								
Exempt staff	4,725	–	–	4,725	3,515	–	–	3,515
Nonexempt wages	9,202	346	144	9,692	10,537	356	121	11,014
Benefits	2,190	63	25	2,278	2,358	62	18	2,438
Supplies and other services	21,757	494	387	22,638	21,953	311	347	22,611
Utilities	2,283	12	1	2,296	3,224	9	1	3,234
Depreciation and amortization	1,703	22	45	1,770	1,346	45	34	1,425
Other expenses	652	6	5	663	858	5	6	869
Total operating expenses	42,512	943	607	44,062	43,791	788	527	45,106
Operating income	3,420	671	47	4,138	6,320	770	55	7,145
Nonoperating revenues (expenses):								
Net investment income	–	4	–	4	–	4	–	4
Interest on capital assets - related debt	(670)	–	–	(670)	(697)	–	–	(697)
Other nonoperating revenues (expenses), net	773	(640)	–	133	–	(660)	–	(660)
Net nonoperating revenues (expenses)	103	(636)	–	(533)	(697)	(656)	–	(1,353)
Change in net position	3,523	35	47	3,605	5,623	114	55	5,792
Net position (deficit):								
Beginning net position (deficit)	(11,026)	1,557	788	(8,681)	(16,649)	1,443	733	(14,473)
End of year	$ (7,503)	$ 1,592	$ 835	$ (5,076)	$ (11,026)	$ 1,557	$ 788	$ (8,681)

4. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2016 and 2015 consisted of the following (expressed in thousands):

	2016			2015		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
The University Only:						
Cash on hand	$ 157	$ –	$ 157	$ 110	$ –	$ 110
Due from commercial banks in Puerto Rico	35,641	2,130	37,771	3,873	2,114	5,987
Total cash on hand and due from commercial banks	35,798	2,130	37,928	3,983	2,114	6,097
Cash equivalents:						
Deposit accounts with:						
GDB	–	500	500	57,154	–	57,154
Commercial banks in Puerto Rico	145,401	1,000	146,401	37,369	–	37,369
Money market funds	527	3,384	3,911	143	2,395	2,538
Total cash equivalents	145,928	4,884	150,812	94,666	2,395	97,061
Total University's cash and cash equivalents	181,726	7,014	188,740	98,649	4,509	103,158
DUI:						
Cash on hand	10	–	10	10	–	10
Due from commercial banks in Puerto Rico	803	2,347	3,150	937	2,288	3,225
Total cash on hand and due from commercial banks	813	2,347	3,160	947	2,288	3,235
Total DUI cash and cash equivalents	$ 182,539	$ 9,361	$ 191,900	$ 99,596	$ 6,797	$ 106,393
Current portion	$ 182,539	$ 2,731	$ 185,270	$ 99,596	$ 3,537	$ 103,133
Noncurrent portion	–	6,630	6,630	–	3,260	3,260
Total	$ 182,539	$ 9,361	$ 191,900	$ 99,596	$ 6,797	$ 106,393

The University Only

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and 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 Government Development Bank for Puerto Rico ("GDB"), a public corporation of the Commonwealth, collateralize the amount deposited in excess of the federal depository insurance of $250,000 with securities that are pledged with the Department of the Treasury. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

At June 30, 2016 and 2015, the University and its component units do not have balances in cash accounts with commercial banks outside of Puerto Rico. The deposits at the GDB and in money market funds are uninsured and uncollateralized. These deposits are exposed to custodial credit risk. Refer to Note 5.

Restricted cash equivalents of the University's permanent endowment funds amounted to approximately $3,384,000 and $2,395,000 as of June 30, 2016 and 2015, respectively. Refer to Note 5.

As of June 30, 2016 and 2015, the University's cash deposited in the banks amounted to approximately $198,024,000 and $128,647,000, respectively.

4. Cash and Cash Equivalents (continued)

Blended Component Unit's Cash and Cash Equivalents

DUI's cash and cash equivalents as of June 30, 2016 and 2015 amounted to approximately $3,160,000 and $3,235,000, 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, 2016 and 2015, DUI's cash deposited in the banks amounted to approximately $3,343,000 and 3,587,000, respectively. DUI's uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $3,093,000 and $3,337,000 as of June 30, 2016 and 2015, respectively.

Discretely Presented Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2016 and 2015, amounted to approximately $14,936,000 and $14,852,000, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2016 and 2015, the discretely presented component units' cash deposited in the banks amounted to approximately $16,331,000 and $15,240,000, respectively. The discretely presented component units' uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $125,000 and $109,000 as of June 30, 2016 and 2015, respectively.

5. Investments

The University's investments held at June 30, 2016, are summarized in the following table (expressed in thousands):

	Restricted Investments in:						
	Permanent Endowment Funds	Sinking Funds	Healthcare Deferred Compensation Plan	Construction Fund	Others	Unrestricted Investments	Total
The University Only:							
U.S. Treasury notes	$ 10,123	$ 54,862	$ –	$ –	$ –	$ –	$ 64,985
U.S. sponsored agencies bonds and notes	2,881	–	–	–	–	–	2,881
U.S. municipal bonds	–	–	–	–	–	2,632	2,632
Foreign government bonds	921	–	–	–	–	–	921
Mortgage-backed securities	17,234	–	–	–	–	–	17,234
Asset-backed securities	3,332	–	–	–	–	–	3,332
Corporate bonds	25,018	–	–	–	–	–	25,018
Common stock and convertibles	40,195	–	–	–	–	–	40,195
External investment pools	–	–	12,032	–	–	–	12,032
Nonparticipating guaranteed investment contracts	–	–	47,618	–	–	–	47,618
Certificates of deposit	156	–	–	–	5	–	161
Money market funds and others	–	–	28,028	–	–	–	28,028
Total University's Investments	99,860	54,862	87,678	–	5	2,632	245,037
DUI:							
U.S. sponsored agency notes	–	5,848	–	–	–	–	5,848
Money market funds	–	5,366	–	3,067	–	–	8,433
Total DUI's Investments	–	11,214	–	3,067	–	–	14,281
Total	$ 99,860	$ 66,076	$ 87,678	$ 3,067	$ 5	$ 2,632	$ 259,318
Current portion	$ –	$ 66,076	$ –	$ 3,067	$ 5	$ –	$ 69,148
Noncurrent portion	99,860	–	87,678	–	–	2,632	190,170
Total	$ 99,860	$ 66,076	$ 87,678	$ 3,067	$ 5	$ 2,632	$ 259,318

5. Investments (continued)

The University's investments held at June 30, 2015, are summarized in the following table (expressed in thousands):

	Restricted Investments in: Permanent Endowment Funds	Sinking Funds	Healthcare Deferred Compensation Plan	Construction Fund	Others	Unrestricted Investments	Total
The University Only:							
U.S. Treasury notes	$ 12,224	$ 54,709	$ –	$ –	$ –	$ –	$ 66,933
U.S. sponsored agencies bonds and notes	3,821	–	–	–	–	–	3,821
U.S. municipal bonds	–	–	–	–	–	2,774	2,774
Foreign government bonds	917	–	–	–	–	–	917
Mortgage-backed securities	14,309	–	–	–	–	–	14,309
Asset-backed securities	5,129	–	–	–	–	–	5,129
Corporate bonds	21,975	–	–	–	–	–	21,975
Common stock and convertibles	39,614	–	–	–	–	–	39,614
External investment pools	–	–	22,308	–	–	–	22,308
Nonparticipating guaranteed investment contracts	–	–	80,660	–	–	–	80,660
Certificates of deposit	1,621	–	–	1,478	6,672	–	9,771
Total University's Investments	99,610	54,709	102,968	1,478	6,672	2,774	268,211
DUI:							
U.S. sponsored agency notes	–	5,848	–	–	–	–	5,848
Money market funds	–	4,907	–	3,067	–	–	7,974
Total DUI's Investments	–	10,755	–	3,067	–	–	13,822
Total	$ 99,610	$ 65,464	$ 102,968	$ 4,545	$ 6,672	$ 2,774	$ 282,033
Current portion	$ –	$ 65,464	$ –	$ 3,067	$ –	$ –	$ 68,531
Noncurrent portion	99,610	–	102,968	1,478	6,672	2,774	213,502
Total	$ 99,610	$ 65,464	$ 102,968	$ 4,545	$ 6,672	$ 2,774	$ 282,033

Restricted Investments in Sinking Funds

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

The University's funds held by trustee at June 30, 2016 and 2015 amounted to approximately $54,862,000 and $54,709,000, 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, 2016 and 2015 amounted to approximately $11,214,000 and $10,755,000, respectively, and consisted of money market funds and a U.S. sponsored agency note purchased with remaining maturities of six months or less.

Restricted Investments in Construction Fund

The University's restricted investments in the Construction Fund included certificates of deposit at GDB amounting to approximately $1,478,000 as of June 30, 2015.

DUI maintains a Construction Fund account held by trustee, related to the issuance of the AFICA bonds. As of June 30, 2016 and 2015, the account balance amounted to approximately $3,067,000 and consisted of a money market fund.

5. Investments (continued)

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2016 and 2015 amounted to approximately $99,860,000 and $99,610,000, 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.

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

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

As of June 30, 2016, almost all the donors of the University's endowment funds only authorize the realized portion of the net appreciation of their investments (including interest and dividend income on investment and cash equivalents) to be spent in amounts that range from 75% to 100% in accordance with the donor specific instructions. Unrealized net appreciation on investments of the endowment funds is not available for authorization for expenditure by the Governing Board. As of June 30, 2016 and 2015, net appreciation of approximately $8,986,000 and $7,816,000, respectively, was restricted to specific purposes.

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, nonparticipating guaranteed investment contracts and money market fund amounted to approximately $87,678,000 and $102,968,000 as of June 30, 2016 and 2015, 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. Refer to Note 20.

Investments designated to fund the University's Healthcare Deferred Compensation Plan include the Voya Retirement Insurance and Annuity Company ("Voya") Fixed Account, a nonparticipating guaranteed investment contract, which amounted to approximately $46,890,000 and $79,995,000 as of June 30, 2016 and 2015, respectively, and a deposit in a suspense account at Voya of approximately $27,755,000 as of June 30, 2016.

5. Investments (continued)

Other Restricted Investments

Other restricted investments of the University amounting to approximately $6,672,000 as of June 30, 2015 mainly included certificates of deposit at the GDB of the University's Internship Program for the First Labor Experience Fund.

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, 2016, the University's credit quality distribution for securities is as follows (expressed in thousands):

	Carrying Value	Quality Rating: AAA	AA+ to AA	A+ to A-	BBB+	B+	Unrated	No Risk
U.S. Treasury notes	$ 64,985	$ –	$ –	$ –	$ –	$ –	$ –	$ 64,985
U.S. sponsored agencies bonds and notes	8,729	215	8,514	–	–	–	–	–
U.S. municipal bonds	2,632	366	1,636	136	392	102	–	–
Foreign government bonds	921	–	–	921	–	–	–	–
Mortgage-backed securities	17,234	11,232	3,999	–	–	–	–	2,003
Asset-backed securities	3,332	3,332	–	–	–	–	–	–
Corporate bonds	25,018	2,132	6,517	16,006	363	–	–	–
Common stock and convertibles	40,195	–	–	–	–	–	40,195	–
External investment pools	12,032	–	–	–	–	–	12,032	–
Nonparticipating guaranteed investment contracts	47,618	–	–	47,618	–	–	–	–
Certificates of deposit	161	–	–	–	–	–	161	–
Money market funds	36,461	8,433	–	28,028	–	–	–	–
Total	$ 259,318	$ 25,710	$ 20,666	$ 92,709	$ 755	$ 102	$ 52,388	$ 66,988

5. Investments (continued)

Credit Risk (continued)

As of June 30, 2015, the University's credit quality distribution for securities is as follows (expressed in thousands):

		Quality Rating					
	Carrying Value	AAA	AA+ to AA	A+ to A-	BBB+	Unrated	No Risk
U.S. Treasury notes	$ 66,933	$ –	$ –	$ –	$ –	$ –	$ 66,933
U.S. sponsored agencies bonds and notes	9,669	–	9,669	–	–	–	–
U.S. municipal bonds	2,774	333	1,659	509	273	–	–
Foreign government bonds	917	–	917	–	–	–	–
Mortgage-backed securities	14,309	4,114	7,512	–	–	–	2,683
Asset-backed securities	5,129	5,129	–	–	–	–	–
Corporate bonds	21,975	2,007	6,618	13,350	–	–	–
Common stock and convertibles	39,614	–	–	–	–	39,614	–
External investment pools	22,308	–	–	–	–	22,308	–
Nonparticipating guaranteed investment contracts	80,660	–	–	80,660	–	–	–
Certificates of deposit	9,771	–	–	–	–	9,771	–
Money market funds	7,974	7,974	–	–	–	–	–
Total	$ 282,033	$ 19,557	$ 26,375	$ 94,519	$ 273	$ 71,693	$ 69,616

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, 2016, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolios are managed by brokerage firms.

Certificates of deposit included deposits at the GDB amounting to approximately $9,611,000 as of June 30, 2015. The deposits at the GDB were uninsured and uncollateralized. These deposits were exposed to custodial credit risk as of June 30, 2015.

Impairment Loss on Deposits with Governmental Bank

Management concluded that the information available prior to the issuance of the University's financial statements for the years ended June 30, 2016 and 2015 indicates that it is probable that an impairment loss on the University's certificates of deposit held with the GDB exists as of June 30, 2016 and 2015.

As explained in Note 2, the Commonwealth and most of its public entities have not been able to repay their loans from the GDB, which has significantly affected the GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described below. Pursuant to recently enacted legislation, the Governor of Puerto Rico has ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures.

5. Investments (continued)

Impairment Loss on Deposits with Governmental Bank (continued)

Because of the non-payment by the Commonwealth of the appropriation to the GDB and the GDB's inability to restructure its debt considering the broader fiscal crisis faced by the Commonwealth, GDB is in default of its debt obligations since May 1, 2016. In April 2016, the Governor imposed on the GDB emergency operational restrictions and debt moratorium.

On April 28, 2017, the Fiscal Oversight Board created by PROMESA Act approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down of its operations over ten years.

On May 2, 2017, the legal shield granted by PROMESA Act protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Commonwealth filed a petition for protection under Title III of PROMESA Act (a court-supervised debt-adjustment process) to ensure the essential services to the public, the payment of the government payroll and the suppliers.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as the GDB's ability to continue as a going concern.

Based on an evaluation of the availability and recoverability of such funds, an impairment loss on deposits held with the GDB was recorded in the University's basic financial statements for the years ended June 30, 2016 and 2015 as follows (expressed in thousands):

	Deposits Held with the GDB as of June 30, 2016			
Type of Transaction	**Deposit Balance**	**2015 Impairment Loss**	**2016 Impairment Loss**	**Carrying Value**
Cash equivalents	$ 500	$ –	$ –	$ 500
Investments	91,475	(21,668)	(69,807)	–
Total	$ 91,975	$ (21,668)	$ (69,807)	$ 500

	Deposits Held with the GDB as of June 30, 2015		
Type of Transaction	**Deposit Balance**	**2015 Impairment Loss**	**Carrying Value**
Cash equivalents	$ 57,154	$ –	$ 57,154
Investments	31,279	(21,668)	9,611
Total	$ 88,433	$ (21,668)	$ 66,765

The realizable balances of the deposits held with the GDB as of June 30, 2016 and 2015 were determined based on the corresponding actual collections received from the GDB on such deposits after year end.

5. 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 Voya Retirement Insurance and Annuity Company Fixed Account (a nonparticipating guaranteed investment contract), represented 5% or more of the total investment portfolio at June 30, 2016.

The following table summarizes the type and maturity of investments held by the University at June 30, 2016 (expressed in thousands):

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	No Stated Maturity Date	Total Fair Value
U.S. Treasury notes	$ 54,862	$ 1,570	$ 8,553	$ –	$ –	$ 64,985
U.S. sponsored agencies						
bonds and notes	5,848	1,265	1,616	–	–	8,729
U.S. municipal bonds	–	131	1,434	1,067	–	2,632
Foreign government bonds	–	921	–	–	–	921
Mortgage-baked securities	–	93	5,639	11,502	–	17,234
Asset-baked securities	112	3,220	–	–	–	3,332
U.S. corporate bonds	3	16,852	8,163	–	–	25,018
Certificates of deposit	161	–	–	–	–	161
Nonparticipating guaranteed investment contracts	–	47,618	–	–	–	47,618
External investment pools	2	316	76	–	11,638	12,032
Money market funds	8,707	27,754	–	–	–	36,461
Common stock and convertibles	–	–	–	–	40,195	40,195
Total	$ 69,695	$ 99,740	$ 25,481	$ 12,569	$ 51,833	$ 259,318

The following table summarizes the type and maturity of investments held by the University at June 30, 2015 (expressed in thousands):

	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	No Stated Maturity Date	Total Fair Value
U.S. Treasury notes	$ 54,709	$ 6,259	$ 5,965	$ –	$ –	$ 66,933
U.S. sponsored agencies						
bonds and notes	5,848	3,162	273	386	–	9,669
U.S. municipal bonds	–	132	1,094	1,548	–	2,774
Foreign government bonds	–	917	–	–	–	917
Mortgage-baked securities	–	183	5,206	8,920	–	14,309
Asset-baked securities	–	5,129	–	–	–	5,129
U.S. corporate bonds	–	12,294	9,681	–	–	21,975
Certificates of deposit	9,771	–	–	–	–	9,771
External investment pools	1,985	400	–	329	19,594	22,308
Nonparticipating guaranteed investment contracts	–	80,660	–	–	–	80,660
Common stock and convertibles	–	–	–	–	39,614	39,614
Money market funds	7,974	–	–	–	–	7,974
Total	$ 80,287	$ 109,136	$ 22,219	$ 11,183	$ 59,208	$ 282,033

5. Investments (continued)

Fair Value Hierarchy

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the University does not value any of its investments using level 3 inputs). Investments in nonparticipating guaranteed investment contracts, certificates of deposit and money market funds and others amounting to approximately $84,240,000 and $98,405,000 as of June 30, 2016 and 2015, respectively, are not classified in the fair value hierarchy below because they are carried at cost.

The following is a summary of the fair value hierarchy of the fair value of investments of the University as of June 30, 2016 and June 30, 2015:

	2016			2015		
		Fair Value Measurements Using			Fair Value Measurements Using	
Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Imputs (Level 2)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Imputs (Level 2)
U.S. Treasury notes	$ 64,985	$ –	$ 64,985	$ 66,933	$ –	$ 66,933
U.S. sponsored agencies bonds and notes	8,729	–	8,729	9,669	–	9,669
U.S. municipal bonds	2,632	–	2,632	2,774	–	2,774
Foreign government bonds	921	–	921	917	–	917
Mortgage-backed securities	17,234	–	17,234	14,309	–	14,309
Asset-backed securities	3,332	–	3,332	5,129	–	5,129
Corporate bonds	25,018	–	25,018	21,975	–	21,975
Common stock and convertibles	40,195	40,195	–	39,614	39,614	–
External investment pools	12,032	12,032	–	22,308	22,308	–
Total Investments by Fair Value Level	$ 175,078	$ 52,227	$ 122,851	$ 183,628	$ 61,922	$ 121,706

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets.

Investment income securities, including U.S. Treasury notes, U.S. sponsored agencies bonds and notes, U.S. municipal bonds, foreign government bonds, mortgage-backed securities, asset-backed securities and corporate bonds, classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

6. Accounts Receivable

The University's accounts receivable, net of allowance for doubtful accounts as of June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016			2015		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
Due from medical plans	$ 109,552	$ (100,617)	$ 8,935	$ 110,800	$ (100,625)	$ 10,175
Student tuition and fees	9,478	(7,465)	2,013	7,824	(4,700)	3,124
Other	12,887	(8,145)	4,742	19,569	(11,822)	7,747
Total accounts receivable	131,917	(116,227)	15,690	138,193	(117,147)	21,046
Due from Federal Government (see Note 7)	52,833	(20,384)	32,449	54,057	(15,711)	38,346
Due from related party (see Note 8)	111,277	(98,741)	12,536	169,439	(78,120)	91,319
Total	$ 296,027	$ (235,352)	$ 60,675	$ 361,689	$ (210,978)	$ 150,711

Component Units

The Component Units' accounts receivable, net of allowance for doubtful accounts as of June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016			2015		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
The Hospital:						
Patient accounts	$ 44,220	$ (35,673)	$ 8,547	$ 38,543	$ (31,527)	$ 7,016
Others	665	–	665	573	–	573
Total the Hospital	44,885	(35,673)	9,212	39,116	(31,527)	7,589
UPRPS- others	347	–	347	203	–	203
MCC- others	417	(11)	406	398	(11)	387
Total	$ 45,649	$ (35,684)	$ 9,965	$ 39,717	$ (31,538)	$ 8,179

7. Due from Federal Government

Due from Federal Government, net of allowance for doubtful accounts as of June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016			2015		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
The University Only	$ 52,833	$ (20,384)	$ 32,449	$ 54,057	$ (15,711)	$ 38,346
The Hospital	$ 3,276	$ (1,801)	$ 1,475	$ 3,293	$ (1,616)	$ 1,677

7. Due from Federal Government, Net (continued)

The University Only's Due from Federal Government accounts are mainly related to grants and contracts from Federal Government for research activity in the Sciences, Health Sciences, Engineering, Technology and the Arts. The Hospital's Due from Federal Government accounts are mainly related to inpatient acute care and outpatient services rendered to Medicare program beneficiaries and inpatient capital cost related to Medicare program beneficiaries.

8. Related-Party Transactions

The University's related-party accounts receivable, net of allowance for doubtful accounts as of June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016			2015		
	Gross Balance	Allowance	Net Balance	Gross Balance	Allowance	Net Balance
Due from Commonwealth's:						
Formula appropriations and others	$ –	$ –	$ –	$ 20,000	$ –	$ 20,000
Agencies	26,682	(21,963)	4,719	28,163	(26,189)	1,974
Total Due from Commonwealth	26,682	(21,963)	4,719	48,163	(26,189)	21,974
Due from Commonwealth's Component Units	56,885	(50,180)	6,705	54,011	(33,435)	20,576
Municipalities	3,443	(3,111)	332	3,712	(3,351)	361
Due from Servicios Médicos Universitarios, Inc.	24,253	(23,487)	766	24,932	(15,145)	9,787
Due from the University Retirement System	14	–	14	38,621	–	38,621
Total	$ 111,277	$ (98,741)	$ 12,536	$ 169,439	$ (78,120)	$ 91,319

Due from and Appropriations from Commonwealth of Puerto Rico

As of June 30, 2015, the University had a due from Commonwealth of Puerto Rico (the Commonwealth) of $20,000,000, related to part of the Commonwealth formula appropriations for June 2015 that were collected in July 2015. All the fiscal year 2016 Commonwealth formula and other appropriations were collected in the year ended June 30, 2016.

Due from Commonwealth's agencies mainly includes the accounts receivable from the Department of Health which amounted to approximately $15,160,000 and $15,066,000 at June 30, 2016 and 2015, respectively, for unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the Commonwealth's health reform program patients and other services; and from the Department of Education which amounted to approximately $2,949,000 and $4,515,000 at June 30, 2016 and 2015, respectively, for contracts for professional development of public school teachers, autism programs and others.

8. Related-Party Transactions (continued)

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

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund 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 approximately $833,929,000 for the years ended June 30, 2016 and 2015. On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, and revised the formula for the Commonwealth appropriations effective July 1, 2013.

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act was a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University to the amount appropriated for fiscal year ended June 30, 2014. The Fiscal Sustainability Act remained in effect for three fiscal years ended on June 30, 2017.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to approximately $35,964,000 and $39,900,000 for the years ended June 30, 2016 and 2015, respectively.

Due from Commonwealth's Component Units

Due from Commonwealth's component units includes accounts receivable from the Puerto Rico Medical Service Administration ("PRMSA") which amounted to approximately $40,889,000 and $38,338,000 as of June 30, 2016 and 2015, respectively. These accounts receivable mainly come from contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA.

In addition, due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company ("PRTC") which amounted to approximately $5,475,000 and $5,499,000 at June 30, 2016 and 2015, 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. Due from PRTC at June 30, 2016 was collected in July 2016. PRTC appropriations (nonoperating revenues) for the years ended June 30, 2016 and 2015, amounted to approximately $62,610,000 and $63,528,000, respectively, and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses and changes in net position.

8. Related-Party Transactions (continued)

Due from Commonwealth's Component Units (continued)

Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR") which amounted to approximately $2,438,000 and $1,285,000 at June 30, 2016 and 2015, respectively. These accounts receivable mainly come from unpaid charges of salaries, fringe benefits and other expenses incurred in fiscal years 2015 and 2016 by certain professors of the Medical Science Campus of the University for Cancer research and investigations provided to the CCCUPR.

Due from Servicios Médicos Universitarios, Inc. (the "Hospital") mainly comes from contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital.

Due from the University of Puerto Rico Retirement System

The University has a due from the University of Puerto Rico Retirement System (the "Retirement System") of approximately $14,000 and $38,621,000 as of June 30, 2016 and 2015, respectively, which resulted from unpaid advances given by the University to the Retirement System mainly in fiscal year 2014. The amount due by the Retirement System was unsecured, non-interest bearing and payable upon demand. In December 2015, the University collected the whole amount due from the Retirement System at June 30, 2015.

Other Related-Party Transactions

The University's accounts payable and accrued liabilities include the following related-party transactions as of June 30, 2016 and 2015 (expressed in thousands):

	2016	2015
Due to:		
Commonwealth's component units	$ 18,988	$ 18,661
Servicios Médicos Universitarios, Inc.	10,328	9,788
University's Retirement System	1,280	8,862
Total	$ 30,596	$ 37,311

Due to Commonwealth's component units include accounts payable to the Puerto Rico Medical Service Administration (PRMSA) of approximately $13,634,000 and $13,222,000 as of June 30, 2016 and 2015, respectively. These accounts payable mainly come from contracted medical services provided by the PRMSA to the University.

Due to Servicios Médicos Universitarios, Inc. (the "Hospital") mainly comes from rental income owed by the University to the Hospital and contracted medical services provided by the Hospital to the University.

Due to the University's Retirement System at June 30, 2016 and 2015 mainly resulted for an unpaid additional contribution to the Retirement System approved by the Governing Board of the University for the year ended June 30, 2015 that was paid to the Retirement System in October 2015.

8. Related-Party Transactions (continued)

The Hospital's accounts payable and accrued liabilities include amounts due to the Commonwealth's component units of approximately $138,000 and $ 9,481,000 as of June 30, 2016 and 2015, respectively, for utilities expenditures (mainly electricity).

For additional related-party transactions see Notes 4, 5, 9, 11, 12, 13, 14, and 15.

9. 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 (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University.

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

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

9. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

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

The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2016 and 2015 on this capital lease was approximately $57,779,000 and $59,833,000, respectively. The effective interest rate was 6.19% at June 30, 2016 and 2015.

The activity of the principal balance of the capital lease obligation for the years ended June 30, 2016 and 2015 is as follows (expressed in thousands):

	2016	2015
Beginning Balance	$ 59,833	$ 61,043
Additions	–	–
Reductions	(2,054)	(1,210)
Ending Balance	57,779	59,833
Less current portion	2,185	2,054
Total noncurrent portion	$ 55,594	$ 57,779

During the years ended June 30, 2016 and 2015, the University paid approximately $5,702,000 and $3,862,000, respectively, under the capital lease agreement. In July 2014, the trustee directed DUI to reduce loan repayments of the AFICA bonds by approximately $1,838,000 for the fiscal year 2015 and similarly, the University reduced its basic lease payments by the same amount for partial credit for investment earnings on the trust accounts since inception of the lease. Similar credits are anticipated in future years to account for investment earnings not yet credited at June 30, 2016 and for future investment earnings, if any. The trustee also established that the required amount deposited in the Debt Service Reserve Fund of $5.7 million (which amount is similar to the loan repayments and basic lease payments for fiscal year 2033) would be credited to both DUI and the University as loan repayments and basic lease payments, respectively, commencing in July 2032. The effect of the above credit results in amending capital lease obligation amortization, reducing the scheduled payments for the fiscal year 2015 and the effective interest rate on the capital lease obligation and thus the interest expense on the capital lease obligation. In addition, the effect of the above credit resulted in the reduction of the principal balance of the capital lease obligation by approximately $1,059,000 during the year ended June 30, 2015. Future credit granted by the trustee, will have a similar effect, when so granted.

On June 30, 2016, the Governor of the Commonwealth signed EO 31, declaring the University in a state of emergency pursuant to Act No. 21. In compliance with EO 31, in July 2016, the University suspended the monthly payments of the Lease Agreement with DUI (which are paid directly to the trustee of the DUI's AFICA bonds). Refer to Note 2 for additional information about EO 31.

9. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or the Executive Orders related thereto. In May 2017, the University reestablished the payments to trustee of the DUI's AFICA Bonds and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

At June 30, 2016, the future minimum lease payments under the capital lease are as follows (expressed in thousands):

Year Ending June 30,	Amount
2017	$ 5,702
2018	5,699
2019	5,699
2020	5,701
2021	5,697
2022-2026	28,497
2027-2031	28,502
2032-2033 [1]	5,700
Total future minimum lease payments	91,197
Less amounts representing interest costs	(33,418)
Present value of minimum lease payments	$ 57,779

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

Other Transactions

On December 21, 2000, DUI executed the Qualified Operations and Management Agreement (the "Management Agreement") with the University for the operation, maintenance and management of Plaza Universitaria facilities. The Management Agreement has a term of 15 years, originally commencing on the earliest of January 1, 2003 or six months prior to the Opening Date, as defined, and may be extended for three additional five-year terms at the University's option. On April 7, 2008, DUI and the University formally agreed to amend certain clauses contained in the Management Agreement, including the commencement date, which was set as October 1, 2006.

9. Interfund Balances and Transactions (continued)

Other Transactions (continued)

Under the terms of the Management Agreement, DUI receive a monthly fixed management fee, which is subject to automatic annual increases reflecting increases in the Consumer Price Index. The fixed management fee was $75,000 per month for the years ended June 30, 2016 and 2015. DUI also receive a reimbursable expenditures fee to cover expenditures incurred in operating and maintaining Plaza Universitaria facilities, at actual cost, and is not to be used to pay expenses that should otherwise be covered by the fixed management fee. The amount to be paid is determined by an annual operating budget prepared by DUI and approved by the University. The University must also fund non-routine capital expenditures, as defined.

DUI's responsibilities under the Management Agreement also include the rental and related income derived from the student dormitory and commercial facilities, as well as the parking operation. Accordingly, DUI only act as an agent for the University in the collection and oversight of student dormitories rental, commercial facilities rental and related income, as well as the parking operation. DUI maintain separate cash accounts for such concepts, and periodically transfers funds from these accounts to the University. Rental and other miscellaneous income derived from the student dormitories, commercial facilities and parking operations amounted to approximately $2,492,000 and $2,370,000 for the years ended June 30, 2016 and 2015, respectively. DUI remitted approximately $2,234,000 and $2,199,000 to the University during the years ended June 30, 2016 and 2015, respectively, for amounts collected from student dormitories and commercial facilities and parking operations.

Net amount due by the University under the operations and management agreement amounted to approximately $1,889,000 and $1,656,000 as of June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, the University incurred the following expenditures under the operations and management agreement (expressed in thousands):

	2016	2015
Fixed management fee	$ 900	$ 900
Reimbursable expenditures fee	2,889	2,360
Total	$ 3,789	$ 3,260

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

10. Capital Assets

Changes in the University's capital assets for the years ended June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	38,878	8,987	(39,509)	(1,782)	6,574
	88,494	8,987	(39,509)	(1,782)	56,190
Other capital assets:					
Land improvements	37,973	–	270	–	38,243
Buildings, fixed equipment, improvements and infrastructure	1,097,014	–	35,902	–	1,132,916
Equipment, software and library materials	315,382	19,019	3,337	(15,907)	321,831
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,549,858	19,019	39,509	(15,907)	1,592,479
Less accumulated depreciation and amortization for:					
Land improvements	(23,553)	(1,379)	–	–	(24,932)
Buildings, fixed equipment, improvements and infrastructure	(414,270)	(25,826)	–	(39)	(440,135)
Equipment, software and library materials	(251,615)	(18,014)	–	10,899	(258,730)
Building and equipment under capital lease	(25,087)	(2,687)	–	(255)	(28,029)
	(714,525)	(47,906)	–	10,605	(751,826)
Other capital assets, net of accumulated depreciation	835,333	(28,887)	39,509	(5,302)	840,653
Capital assets, net	$ 923,827	$ (19,900)	$ –	$ (7,084)	$ 896,843

	2015				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress and others	41,403	10,338	(12,863)	–	38,878
	91,019	10,338	(12,863)	–	88,494
Other capital assets:					
Land improvements	37,826	–	147	–	37,973
Buildings, fixed equipment, improvements and infrastructure	1,084,810	–	12,204	–	1,097,014
Equipment, software and library materials	308,139	17,328	512	(10,597)	315,382
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,530,264	17,328	12,863	(10,597)	1,549,858
Less accumulated depreciation and amortization for:					
Land improvements	(22,232)	(1,321)	–	–	(23,553)
Buildings, fixed equipment, improvements and infrastructure	(388,904)	(25,366)	–	–	(414,270)
Equipment, software and library materials	(243,194)	(15,303)	–	6,882	(251,615)
Building and equipment under capital lease	(22,362)	(2,725)	–	–	(25,087)
	(676,692)	(44,715)	–	6,882	(714,525)
Other capital assets, net of accumulated depreciation	853,572	(27,387)	12,863	(3,715)	835,333
Capital assets, net	$ 944,591	$ (17,049)	$ –	$ (3,715)	$ 923,827

10. Capital Assets (continued)

As of June 30, 2016 and 2015, the carrying value of the University's assets recorded under capital leases amounted to approximately $71,460,000 and $74,402,000, respectively. Amortization expense on these assets amounted to approximately $2,687,000 and $2,725,000 in 2016 and in 2015, respectively. In addition, the carrying value of the University's medical equipment that collateralized the term notes payable to a commercial bank (see Note 10) amounted to approximately $355,000 and $1,100,000 as of June 30, 2016 and 2015, respectively.

Capitalized interest on construction in progress amounted to approximately $744,000 and $1,895,000 for the years ended June 30, 2016 and 2015, respectively.

On March 15, 2016, a fire destroyed a section of the Department of Chemical Engineering Building at the Mayaguez Campus. As a result, the University recorded an impairment charge of approximately $1,245,000 for the destroyed equipment in the year ended June 30, 2016.

Component Units

Changes in the Component Units' capital assets for the years ended June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,961	$ 544	$ (579)	$ (116)	$ 1,810
	1,961	544	(579)	(116)	1,810
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	5,833	5	579	(53)	6,364
Equipment, software and library materials	20,848	1,497	–	–	22,345
	26,681	1,502	579	(53)	28,709
Less accumulated depreciation and amortization for buildings, fixed equipment, improvements and infrastructure	(3,060)	(465)	–	50	(3,475)
Equipment, software and library materials	(15,991)	(1,305)	–	–	(17,296)
	(19,051)	(1,770)	–	50	(20,771)
Other capital assets, net of accumulated depreciation	7,630	(268)	579	(3)	7,938
Capital assets, net	$ 9,591	$ 276	$ –	$ (119)	$ 9,748

10. Capital Assets (continued)

Component Units (continued)

	2015				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,272	$ 1,806	$ (1,117)	$ –	$ 1,961
	1,272	1,806	(1,117)	–	1,961
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	4,813	480	540	–	5,833
Equipment, software and library materials	19,615	656	577	–	20,848
	24,428	1,136	1,117	–	26,681
Less accumulated depreciation and amortization for buildings, fixed equipment, improvements and infrastructure	(2,700)	(360)	–	–	(3,060)
Equipment, software and library materials	(14,927)	(1,064)	–	–	(15,991)
	(17,627)	(1,424)	–	–	(19,051)
Other capital assets, net of accumulated depreciation	6,801	(288)	1,117	–	7,630
Capital assets, net	$ 8,073	$ 1,518	$ –	$ –	$ 9,591

11. Noncurrent Liabilities

Changes in the University's noncurrent liabilities for the years ended June 30, 2016 and 2015 are as follows (expressed in thousands):

	2016						
	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Notes payable	$ 83,336	$ 220	$ (6,775)	$ –	$ 76,781	$ 76,781	$ –
Bonds payable	471,611	–	(19,970)	(1,794)	449,847	20,965	428,882
Total University's long-term debt	554,947	220	(26,745)	(1,794)	526,628	97,746	428,882
DUI's long-term debt- bonds payable	68,501	–	(2,190)	14	66,325	2,315	64,010
Total long-term debt	$ 623,448	$ 220	$ (28,935)	$ (1,780)	$ 592,953	$ 100,061	$ 492,892
The University's other long-term liabilities							
Deferred compensation payable (see note 19)	$ 102,968	$ –	$ –	$ (15,290)	$ 87,678	$ –	$ 87,678
Claims liability (1)	19,076	6,953	(3,752)	–	22,277	2,494	19,783
Compensated absences	166,618	–	(8,023)	(3,791)	154,804	27,049	127,755
Net pension liability	2,104,040	–	(307,313)	–	1,796,727	–	1,796,727
OPEB obligation	7,633	11,467	(10,522)	–	8,578	–	8,578
Total University's other long-term liabilities	$ 2,400,335	$ 18,420	$ (329,610)	$ (19,081)	$ 2,070,064	$ 29,543	$ 2,040,521

(1) Includes a claim liability with the federal agencies of approximately $5,648,000 at June 30, 2016. See Note 14.

11. Noncurrent Liabilities (continued)

	2015						
	Beginning Balance *(As Restated)*	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt							
The University Only:							
Notes payable	$ 88,024	$ 4,507	$ (9,195)	$ –	$ 83,336	$ 35,871	$ 47,465
Bonds payable	492,457	–	(19,015)	(1,831)	471,611	19,970	451,641
Total University's long-term debt	580,481	4,507	(28,210)	(1,831)	554,947	55,841	499,106
DUI's long-term debt- bonds payable	70,562	–	(2,075)	14	68,501	2,190	66,311
Total long-term debt	$ 651,043	$ 4,507	$ (30,285)	$ (1,817)	$ 623,448	$ 58,031	$ 565,417
The University's other long-term liabilities							
Deferred compensation payable (see note 19)	$ 102,470	$ –	$ –	$ 498	$ 102,968	$ –	$ 102,968
Claims liability	17,526	5,303	(3,753)	–	19,076	3,851	15,225
Compensated absences	177,561	–	(10,943)	–	166,618	37,432	129,186
Net pension liability	2,236,563	66,304	(198,827)	–	2,104,040	–	2,104,040
OPEB obligation	5,561	12,005	(9,933)	–	7,633	–	7,633
Total University's other long-term liabilities	$ 2,539,681	$ 83,612	$ (223,456)	$ 498	$ 2,400,335	$ 41,283	$ 2,359,052

The balance of the University's other long-term liabilities at July 1, 2014 was increased by approximately $2.2 billion to recognize the net pension benefit liability as a result of the adoption of GASB Statement No. 68.

Notes payable and bonds payable are further discussed in Notes 12 and 13, respectively. Claim liability, net pension liability and OPEB obligation are further discussed in Notes 14, 15, and 16, respectively.

12. 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, 2016 and 2015). The University has not made the monthly payments of this term loan since May 2016. The balance outstanding of this term loan amounted to approximately $48,286,000 and $54,526,000 at June 30, 2016 and 2015, respectively. This term loan was presented as a current long-term debt because the University is not in compliance with the GDB loan agreement.

In addition, the University had a $75.0 million non-revolving line of credit facility with the 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, 2016 and 2015). The balance outstanding of this line of credit amounted to approximately $28,120,000 and $27,901,000 at June 30, 2016 and 2015, respectively. This line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016.

12. Notes Payable (continued)

As disclosed in Note 2, GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Pursuant to enacted legislation, the Governor of the Commonwealth ordered the suspension of loan disbursements by the GDB, imposed restrictions on the withdrawal and transfer of deposits from the GDB, and imposed a moratorium on debt obligations of the GDB, among other measures. On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (EO 10), declaring the GDB to be in a state of emergency pursuant to Act No. 21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing the GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at the GDB and loan disbursements by the GDB. The procedures implemented by the EO 10 resulted in restrictions on the ability of the University to withdraw any funds held on deposit at the GDB or to receive any disbursements on loans granted by the GDB during the period of the EO 10, which was in effect until June 30, 2016. GDB also serves as depository of some of the University's funds. Total amount deposited in the GDB amounted to approximately $92.0 million as of June 30, 2016 and are deemed fully impaired as further discussed in Note 5. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. On April 28, 2017, the Fiscal Oversight Board created by PROMESA approved the liquidation proposal included in the GDB's fiscal plan, that calls for an orderly winding down of its operations over ten years. The University has not paid these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed.

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 for use by 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 approximately $47,000. 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 approximately $375,000 and $909,000 at June 30, 2016 and 2015, respectively. The last debt service payments on these term loans amounted to $375,000 in principal and $5,732 in interest for a total debt service of $381,182 in fiscal year 2017.

Notes Payable – Component Unit

Servicios Médicos Universitarios, Inc. (the "Hospital") has notes payable amounting to approximately $21,892,000 and $14,706,000 as of June 30, 2016 and 2015, respectively.

12. Notes Payable (continued)

Notes Payable – Component Unit (continued)

A summary of the Hospital's notes payable at June 30, 2016 and 2015 follows (expressed in thousands):

	2016	2015
Term loan payable with GDB (see note 2)	$ 12,223	$ 13,651
Non-interest bearing notes payable to:		
Puerto Rico Aqueduct and Sewer Authority	450	645
Puerto Rico Electric Power Authority	8,881	–
Term loan payable with a commercial bank	338	410
	21,892	14,706
Less: current portion	2,586	1,710
Noncurrent portion	$ 19,306	$ 12,996

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 approximately $23,361,000 into a term loan and extended the maturity date to June 30, 2025. As part of the term loan agreement, the Hospital made a down payment of $2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately $172,000 and bears interest per annum equal to prime rate plus 150 basis points (4.75% at June 30, 2016 and 2015). The loan is guaranteed by the University.

The non-interest bearing notes payable to Puerto Rico Aqueduct and Sewer Authority ("PRASA") and to Puerto Rico Electric Power Authority ("PREPA"), component units of the Commonwealth, resulted from trade accounts payable to PRASA and PREPA that were restructured into an unsecured long-term debts. The PRASA note is payable in monthly installments of approximately $15,000 and matures on December 15, 2018. The PREPA note is payable in monthly installments of approximately $50,000 and matures on March 28, 2031.

In June 2015, the Hospital entered into a term loan agreement with a commercial bank for a total amount of $410,000 for the acquisition of medical equipment. The term loan is payable in 60 monthly payments of approximately $7,900. The term loan is collateralized with the acquired medical equipment, mature on June 4, 2020 and bears interest per annum equal to 5.95%.

The Hospital must comply with certain operating and financial covenants, among other requirements established in the loan agreements. At June 30, 2015, the Hospital obtained a waiver from a commercial bank since its audited financial statements were not provided within the 120 days after the financial statement date.

12. Notes Payable (continued)

Notes Payable – Component Unit (continued)

The activity of the principal balance of the long- term debt for the years ended June 30, 2016 and 2015 is as follows (expressed in thousands):

	2016	2015
Beginning Balance	$ 14,706	$ 15,836
Additions	9,481	410
Reductions	(2,295)	(1,540)
Ending Balance	$ 21,892	$ 14,706

The table below represents debt service payments on long-term debt as of June 30, 2016. Although interest rates on variable rate debt change over time, the calculations included in the table below assume that the variable rate on June 30, 2016 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
		(In thousands)	
2017	$ 2,586	$ 566	$ 3,152
2018	2,420	487	2,907
2019	2,414	405	2,819
2020	2,413	319	2,732
2021	2,409	232	2,641
2022-2025	9,650	192	9,842
	$ 21,892	$ 2,201	$ 24,093

MCC has a $250,000 unsecured line of credit facility with a commercial bank at prime rate plus 250-basis points. At June 30, 2016 and 2015, there is no outstanding balance on this line of credit.

13. Bonds Payable

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 relating to its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of the University's bonds payable as of June 30, 2016 and 2015 (dollars expressed in thousands):

Series	2016	2015	Annual Interest Rate (%)	Due Date June 30, 2016
P - Serial	$ 170,440	$ 184,255	5.00%	2017-2026
P - Term	47,645	47,645	5.00%	2027-2030
Q - Serial	81,290	87,445	5.00%	2017-2026
Q - Term	132,415	132,415	5.00%	2027-2036
	431,790	451,760		
Plus unamortized premium	18,057	19,851		
Total	$ 449,847	$ 471,611		

At June 30, 2016, the University's bonds payable require payments of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2017	$ 20,965	$ 21,589	$ 42,554
2018	22,010	20,541	42,551
2019	23,115	19,441	42,556
2020	24,270	18,285	42,555
2021	25,480	17,071	42,551
2022 to 2026	135,890	64,922	200,812
2027 to 2031	105,815	33,671	139,486
2032 to 2036	74,245	11,499	85,744
	$ 431,790	$ 207,019	$ 638,809

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.

13. Bonds Payable (continued)

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 Project), (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 Project, (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, 2016 and 2015, consist of (dollars expressed in thousands):

Description	Interest Rate	Maturity	2016	2015
Serial Bonds	5.63%	July 1, 2015	$ –	$ 2,190
Serial Bonds	5.63%	July 1, 2016	2,315	2,315
Serial Bonds	5.63%	July 1, 2017	2,445	2,445
Serial Bonds	5.63%	July 1, 2018	2,580	2,580
Serial Bonds	5.63%	July 1, 2019	2,725	2,725
Serial Bonds	5.00%	July 1, 2020	2,880	2,880
Serial Bonds	5.00%	July 1, 2021	3,020	3,020
Serial Bonds	5.00%	July 1, 2033	50,520	50,520
Total			66,485	68,675
Less unamortized discount			(160)	(174)
Total			$ 66,325	$ 68,501

At June 30, 2016, the blended component unit's AFICA bonds payable require payment of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2017	$ 2,315	$ 3,322	$ 5,637
2018	2,445	3,188	5,633
2019	2,580	3,047	5,627
2020	2,725	2,898	5,623
2021	2,880	2,749	5,629
2022 to 2026	16,700	11,379	28,079
2027 to 2031	21,315	6,650	27,965
2032 to 2034	15,525	1,189	16,714
	$ 66,485	$ 34,422	$ 100,907

13. Bonds Payable (continued)

Blended Component Unit's Bonds (continued)

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

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

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

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.

13. Bonds Payable (continued)

Pledged Revenues (continued)

The University's revenues pledged were as follows for the years ended June 30, 2016 and 2015 (dollars expressed in thousands):

	2016	2015
Pledged Revenues:		
Tuition and other fees	$ 91,525	$ 83,528
Student fees	4,658	5,030
Rental and other charges received for the right of use and occupancy of the facilities in the University system	2,593	2,043
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	712	620
Funds paid to the University in respect to overhead allowance on federal research projects	15,506	15,864
Other income (1)	30,941	30,752
Total Pledged Revenues	145,935	137,837
Sinking Fund Reserve Interest	274	109
Total Pledged Revenues Plus Interest	$ 146,209	$ 137,946
Aggregate Debt Service:		
Principal and Interest Requirement	$ 42,558	$ 42,554
Senior Debt Service Coverage Ratio	3.44	3.24
DUI's AFICA Bonds (Subordinate to the University's Bonds)	$ 5,639	$ 5,644
Aggregate Debt Service	$ 48,197	$ 48,198
Total Debt Service Ratio	3.03	2.86

(1) Includes $25 million of PRTC appropriations under the Gambling Law (slot machines and others) in fiscal years 2016 and 2015.

The Trust Agreements governing the bonds issued require a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2016, the University was in compliance with the total debt service coverage ratio requirement.

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

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

13. Bonds Payable (continued)

Pledged Revenues (continued)

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

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

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

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

The University complied with the sinking fund requirements at June 30, 2016. On June 30, 2016, the Governor of Puerto Rico signed EO 31 which established the following: (i) designated any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspended such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designated any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspended the payment of such obligation of the University. EO 31 did not suspend the payment obligations of the University with respect to any other obligation. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

13. Bonds Payable (continued)

Pledged Revenues (continued)

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. Pursuant to the letter agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is March 31, 2018. Pursuant to the extended forbearance agreements, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues.

In addition, the University and FAFAA shall provide the trustee with detailed plans and specifications for repairing, replacing or reconstructing the University's property that was damaged or destroyed by Hurricane Maria as these plans are approved by the University. The University shall deposit all proceeds of casualty insurance policies or direct federal aid (the "Repair Funds") in segregated accounts of the University at a commercial bank. The University shall deposit proceeds of casualty insurance in a separate account and shall deposit proceeds of direct federal aid in one or more separate accounts to facilitate the audit of the expenditure of such funds. All Repair Funds in excess of $1,000,000 shall be used pursuant to a written requisition. On or before the fifteenth (15th) calendar day of each month, the University will submit the preceding month's Requisitions to the trustee, as set forth below. Pursuant to extended letter agreement, the majority bondholders expand their direction to instruct the trustee not to call a default during the pendency of the new Compliance Period if by the fifteenth (15th) calendar day of each month the University sends to the trustee copies of the preceding month's Requisitions. On the fifteenth (15th) calendar day of each month the University or FAFAA will provide, or cause relevant agencies to provide, the trustee with all project requests, progress or other reports provided to the Federal Emergency Management Agency (FEMA) or to any casualty insurance company with respect to the expenditure of Repair Funds during the preceding month.

13. Bonds Payable (continued)

Pledged Revenues (continued)

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

DUI, the blended component unit, is required to maintain a bond fund consisting of three accounts, where all the capital lease agreement (which are paid by the University directly to the trustee of the DUI's AFICA bond) and required payments are to be deposited in the following order:

- *Interest Account* – Each month, 1/6 of the amount due and payable on the next interest payment date.

- *Principal Account* - Each month, 1/12 of the principal amount payable for all serial bonds maturing on the next July 1.

- *Sinking Fund Account* – Beginning on July 25, 2021 and each month thereafter, 1/12 of the sinking fund requirement for each bond year for the term bonds then outstanding; and any remaining amounts after attaining the required balances in the Interest and Principal Accounts.

In addition, the blended component unit is required to maintain a *Debt Service Reserve* fund with a required balance of approximately $5,702,000 which was created from the bond proceeds. Funds are to be used to cure deficiencies in any of the bond fund accounts, but must be replenished. In the event funds decline in value below 90% of the required balance, the fund must be replenished in monthly installments of 1/12 of the deficiency.

Also, the 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, 2016.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

14. Commitments and Contingent Liabilities

Claims Liability

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

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

Changes in the claims liability amount for medical malpractice in the years ended June 30, 2016 and 2015 were (expressed in thousands):

	2016	2015
Claims payable - July 1	$ 8,565	$ 7,877
Incurred claims and changes in estimates	792	1,922
Payments for claims and adjustments expenses	(418)	(1,234)
Claims payable - June 30	$ 8,939	$ 8,565

In addition, the University is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately $7,689,000 and $10,511,000 as of June 30, 2016 and 2015, 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. See note 20.

Federal Assistance Programs

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit in a timely fashion acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method and expire between June 30, 2018 and December 31, 2018.

14. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs (continued)

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University will be operating on limited Title IV eligibility and will be placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for the amount of those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $237.9 million for the year ended June 30, 2016.

In September 2017, the University received from the U.S. Department of Justice a Claim Letter/Notice of Intent to File Suit on behalf of the National Science Foundation ("NSF"), the National Aeronautics and Space Administration and the United States Department of Energy to take action in the Federal Court against the University for violations of the False Claims Act as a result of an examination of federal grants received by two units of the University. The claim seeks treble damages amounted to approximately $5.6 million, including $300,000 for penalties. The University is negotiating the settlement of this claim with the federal agencies. At June 30, 2016, the University accrued approximately $5.6 million for this claim.

As a result of the examination of federal awards explained above, effective April 23, 2012, the NSF suspended the federal awards for research and development in the two involved units of the University because the University had not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF did 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 continued with funding from the University. Significant interactions between NFS and the University has led to a robust body of Effort Reporting System 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 two involved units of the University.

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles*, and *Audit Requirements for Federal Awards* ("Uniform Guidance") or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact, beyond any amount accrued at June 30, 2016, will not be material to the University's financial statements.

14. Commitments and Contingent Liabilities (continued)

Construction Commitments

Construction commitments at June 30, 2016 and 2015, entered by the University, amounted to approximately $58.0 million and $48.3 million, respectively.

Operating Lease Agreements

The University rents a building of an outside clinic of the medical practice plan of the Medical Sciences Campus under a non-cancelable long-term operating lease agreement which expires in April 2021. This lease contains escalation clauses providing for increased rental. Rent charged to operations, including common area maintenance, taxes and other charges, amounted to approximately $1,751,000 and $1,842,000 in fiscal years 2016 and 2015, respectively.

At June 30, 2016, the minimum annual future rentals, without considering renewal options, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2017	$ 1,458
2018	1,347
2019	1,031
2020	115
2021	87
	$ 4,038

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 2017. Aggregate rent expense was approximately $34,000 and $99,000 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, the minimum annual future rentals, without considering renewal options, is approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2017	$ 34
2018	31
	$ 65

14. Commitments and Contingent Liabilities (continued)

Operating Lease Agreements (continued)

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, 2016 and 2015 amounted to approximately $334,000 and $322,000, respectively. At June 30, 2016, total future minimum rental income on operating leases, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2017	$ 504
2018	481
2019	182
2020	57
2021	57
Thereafter	219
	$ 1,500

Guaranty Commitment

The University guarantees the Hospital's long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to approximately $12,223,000 and $13,651,000 at June 30, 2016 and 2015, respectively, which matures on June 30, 2025. See Note 12.

Blended Component Unit

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

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. In fiscal year 2017, DUI and the University received a proposal for settlement from the Plaza Universitaria Project's general contractor of about $4.5 million, which was not accepted by the Governing Board of the University. 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. On October 24, 2017, the Puerto Rico First Court of Instance issued a partial declaratory judgement ordering DUI to pay the retainage amount under the construction contract of about $1.6 million, plus interest, to the Plaza Universitaria Project's general contractor. DUI appealed this partial declaratory judgement.

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.

14. Commitments and Contingent Liabilities (continued)

Discretely Presented 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 each of the fiscal years ended June 30, 2016 and 2015, and has recorded an accrual of approximately $1,426,000 and $1,286,000 as of June 30, 2016 and 2015, 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 litigation. It is the opinion of the Hospital's legal counsel and the Hospital's management that recorded accruals are adequate to provide for potential losses resulting from pending or threatened litigation, as well as claims from unknown incidents that may be asserted arising from services provided to patients.

15. University of Puerto Rico Retirement System

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

As of June 30, 2015 and 2014, the dates of the most recent actuarial valuations, membership in the Retirement System consisted of the following:

	2015	2014
Retirees and beneficiaries currently receiving benefits	8,247	8,082
Terminated plan participants entitled to but not yet receiving benefits	443	476
Terminated non-vested plan participants entitled to return of their contributions	7,985	7,941
Current participating employees	10,644	10,728
Total membership	27,319	27,227

15. University of Puerto Rico Retirement System (continued)

The benefits provided to members of the Retirement System are established by the Governing Board of the University (the Governing Board). Directions of the Governing Board are communicated through a document named "Certification". Benefit provisions vary depending on the date of membership. The responsibility for the proper operation and administration of the Retirement System is vested on the Governing Board which then assigns duty to its Financial Affairs and Retirement System Committee. Decisions are made by the Governing Board upon recommendation of its Financial Affairs and Retirement System Committee.

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

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

Retirement Benefits

Participants are entitled to annual retirement benefits at any age after 30 years of service; or at age 58 after 10 years of service; or at age 55 after 25 years of service. No cost-of-living adjustments have been granted by the Governing Board since July 1, 2007.

The amount of service retirement annuity is as follows:

– For those participants who have completed 20 years of service by July 1, 1979:

  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the participant completed 30 years of service before July 1973, the annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to no more than 85% of average compensation.
  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 58 at the time the annuity begins.
  - After age 65 – same as before age 65.
  - Average compensation – the average of the highest-paid 36 months of service without limit on compensation.
  - Minimum annuity – $250 per month.

– For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989, including those participants that later elected Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:

15. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

- Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by .5% for each month the member of Certification No. 37 is under age 58 at time annuity begins or reduced by 1/3% for each month the participant of Certification No. 54 or Certification No. 55 is under age 55 at time annuity begins.
- Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for the participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the participant who did not elect Certification No. 54 or Certification No. 55 is under age 58 at time annuity begins.
- After age 65 – for a participant who elected Certification 54 or Certification No. 55, if the participant elected full supplement (Certification No. 54), the annuity is the same as before age 65; otherwise, the annuity is reduced by .5% of average compensation for each year of service up to 30 years. If the participant did not elect Certification 54 or Certification No. 55, the benefit is coordinated and the annuity is reduced by .5% of average compensation in excess of Social Security wage base in effect at the retirement date for each year of service up to 30 years; if the participant had less than 30 years of service and was under age 58 at the beginning date, coordination adjustment is made before application of .5% reduction per month under age 58.
- Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.
- Minimum annuity – $250 per month.

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

  - Before age 65 – for participants with at least 30 years of service: 75% of average compensation. Amount is reduced by 1/3% for each month the member is under age 55 at time annuity begins.
  - Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to a maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 55 at time annuity begins.
  - After Age 65 – same as for before age 65.
  - Average compensation – the average of the highest-paid 36 months of service, with a compensation cap of $35,000 per year.
  - Minimum annuity – $250 per month.

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

15. University of Puerto Rico Retirement System (continued)

Retirement Benefits (continued)

Effective July 1, 2002, the Retirement System was amended, by Certification No. 139 (2001-2002) of the Governing Board, to offer participants an increase from $50,000 to $60,000 in the maximum compensation subject to withholding contribution. The participants who elected this benefit paid retroactively to July 1, 1979 or their first day of employment, if later, the differences in withholding contributions for prior year compensations exceeding $35,000 or $50,000, as applicable, and up to a maximum of $60,000. The $60,000 compensation limit was increased by 3% every two years until June 30, 2014. Effective July 1, 2014, the maximum compensation for Certification No. 139 (2001-2002) of the Governing Board was frozen at $69,556.44 by Certification No. 70 (2013-2014) of the Governing Board.

Disability Benefits

Employees who become disabled receive annual disability benefits regardless of service if disability is due to occupational causes or after 10 years of service if disability is due to non-occupational causes. If the employee is also eligible for a retirement annuity, the benefit payable is the higher of the two. Disability benefit annuity is paid as follows:

- Before age 65 – if service related, 50% of final compensation (subject to applicable compensation cap). If not services related, 30% of average compensation plus additional 1% for each year of service over 10 (subject to a maximum of 50%).

- After age 65 – reduced to amount payable by the applicable retirement annuity; however, if that amount plus primary Social Security benefit is less than disability retirement annuity, then the retirement annuity is increased by the amount necessary to match the disability annuity.

Death Benefits

- Pre-retirement death benefit – if the death of an employee is service related, a death benefit annuity equals to 50% of the final annual compensation plus $120 ($240 if widow not receiving benefit) per year for each child under age 18 (21 if at school) is paid to the employee's beneficiaries. Maximum family benefit is 75% of the employee's final annual compensation. If death is non-service related, a lump-sum is paid equal to the employee's contributions plus one year's final compensation, but not less than $6,000.

- Post retirement death benefits – employee's contributions are refunded to the extent that they exceed retirement payments already made, unless reversionary annuity was elected. Minimum payment is $600. In addition, 50% of retirement annuity is payable to surviving spouse until death or remarriage or until they become eligible for Social Security benefits. The minimum annuity is $75 per month and the maximum annuity is $150 per month.

Christmas Bonus

- A $400 annual bonus is given to all retired participants.

15. University of Puerto Rico Retirement System (continued)

Vested Benefits

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

Non-vested Termination Benefits

If a participant terminates before rendering 10 years of service, the right to receive the portion of his accumulated plan benefits attributable to the University's contributions is forfeited. However, the employee is entitled to receive, in a lump-sum payment, the value of his accumulated contributions. Refund of a participant's own contributions may also be obtained after 10 years of service, but the vested benefit is lost.

Funding Policy – The contribution requirements of participants and the University are established and may be amended by the Governing Board. Plan members are required to contribute as follows:

1. Participants who have completed 20 years of service by July 1, 1979:
   - If full supplement election: 7% of the monthly compensation.
   - If no full supplement election: 4% of the monthly compensation up to $350, plus 6.5% of the excess.

2. For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989 and who did not elect Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:
   - Only no full supplement election: 5% of the monthly compensation up to $2,916.67.

3. For all participants who were affected under Certification No. 37 (1978-79) and who have not completed 20 years of service by July 1, 1979 and for those participants who entered into the Retirement System on or after July 1, 1978 until December 31, 1989 and later elected Certification No. 54 (1989-90) or Certification No. 55 (1989-90) of the Governing Board:
   - If full supplement election: 7% of the monthly compensation up to $2,916.67.
   - If no full supplement election: 4% of the monthly compensation up to $350.00, plus 6.5% of the monthly compensation in excess up to $2,916.67.

4. For all participants entering into the Retirement System on or after January 1, 1990:
   - Only full supplement election: 8% of the monthly compensation up to $2,916.67.
   - If Certification No. 94 (1997-98) of the Governing Board election: 9% of the monthly compensation up to $4,166.67.
   - If Certification No. 139 (2001-2002) of the Governing Board election: 11% of monthly compensation up to $5,796.42.

15. University of Puerto Rico Retirement System (continued)

Contribution rates to the Retirement System are annually established by the Governing Board of the University and they are mainly based on an actuarially determined rate recommended by an independent actuary at the beginning of the fiscal year. The actuarially determined rate is the estimated amount to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The University is required to contribute the difference between the total contribution rate approved by the Governing Board of the University and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the average active employee contribution rate was 7.9 % and 7.7%, respectively, of annual pay, and the University's average contribution rate was 16.8% and 15.2%, respectively, of annual payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund. The University contributed 17.1% and 17.8% of covered-employee payroll in 2016 and 2015, respectively. The University's contributions to the Retirement System amounted to approximately $77,811,000 and $88,251,000 for the years ended June 30, 2016 and 2015, respectively.

The contributions of the University were originally designed to fund, together with the contributions of the participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the Retirement System over a 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

Employer's Net Pension Liability – As permitted by GASB, the University's net pension liability as of June 30, 2016 and 2015 were measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2015 and 2014, respectively, and assuming no liability gains and losses. The components of the employer's net pension liability as of June 30, 2016 and 2015 were as follows (dollars in thousands):

	2016	2015
Total pension liability	$ 3,139,723	$ 3,428,068
Plan's fiduciary net position	1,342,996	1,324,028
Employer's net pension liability	$ 1,796,727	$ 2,104,040
Plan's fiduciary net position as a percentage of the total pension liability	42.77%	38.62%

15. University of Puerto Rico Retirement System (continued)

Changes in the net pension liability for the years ended June 30, 2016 and 2015 are as follows (in thousands):

	2016			2015		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at beginning of year	$ 3,428,068	$ 1,324,028	$ 2,104,040	$ 3,398,136	$ 1,161,573	$ 2,236,563
Changes for the year:						
Service cost	48,107	–	48,107	49,499	–	49,499
Interest	177,334	–	177,334	173,630	–	173,630
Benefit changes	(45,209)	–	(45,209)	-	–	-
Difference between expected and actual experience	(323,974)	–	(323,974)	-	–	-
Changes in assumptions or other inputs	32,269	–	32,269	(24,034)	–	(24,034)
Contributions - employer	-	88,251	(88,251)	-	91,689	(91,689)
Contributions - employee	-	35,594	(35,594)	-	37,900	(37,900)
Net investment income	-	75,373	(75,373)	-	206,595	(206,595)
Benefit payments	(176,872)	(176,872)	–	(169,163)	(169,163)	–
Administrative expenses	-	(3,378)	3,378	-	(4,566)	4,566
Net changes	(288,345)	18,968	(307,313)	29,932	162,455	(132,523)
Balance at end of year	$ 3,139,723	$ 1,342,996	$ 1,796,727	$ 3,428,068	$ 1,324,028	$ 2,104,040

For the years ended June 30, 2016 and 2015, the University recognized pension expense (credit) of approximately ($49,350,000) and $66,304,000, respectively.

As of June 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources from pension activities as follows (in thousands):

	2016		2015	
Source	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 77,811	$ –	$ 88,251	$ –
Differences between expected and actual experience	—	246,653	—	—
Changes in assumptions or other inputs	24,568	5,546	–	14,790
Net difference between projected and actual earnings on plan investments	–	49,219	–	92,348
Total	$ 102,379	$ 301,418	$ 88,251	$ 107,138

15. University of Puerto Rico Retirement System (continued)

Deferred outflows of resources related to pensions resulting from the University contributions subsequent to the measurement date which amounted to $77,811,000 and $88,251,000 as of June 30, 2016 and 2015, respectively, is recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively.

Amounts reported as deferred inflows of resources from pension activities at June 30, 2016 will be recognized in the pension expense (credit) as follows (in thousands):

Year Ending June 30:		
2017	$	(93,242)
2018		(87,696)
2019		(87,696)
2020		(8,216)
Total	$	(276,850)

(a) *Actuarial Methods and Assumptions*

The actuarial cost method used to measure the total pension liability at June 30, 2016 and 2015 was the individual entry age normal cost method. The actuarial valuations used the following actuarial method and assumptions:

Fiscal Year	2016	2015
Measurement Date	June 30, 2015	June 30, 2014
Valuation Date	June 30, 2014	June 30, 2013
Amortization Method for Unfunded Actuarial Accrued Liability	Level percentage of payroll, closed	Level percentage of payroll, open
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	5-year smoothed market	5-year smoothed market
Inflation	3.00% per year	3.50% per year
Investment Rate of Return	7.75% per annum, compounded annually, net of investment expenses, including inflation	8.00% per annum, compounded annually, net of investment expenses, including inflation
Municipal Bond Index	3.82%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	4.35%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount Rate	6.37% per annum	5.31% per annum
Projected Salary Increases	3.75% per year, including inflation	5.00% per year, including inflation

15. University of Puerto Rico Retirement System (continued)

(a) *Actuarial Methods and Assumptions (continued)*

The mortality tables used in the June 30, 2015 and 2014 actuarial valuations were as follows:

- Pre-retirement Mortality - For the 2015 actuarial valuation, RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females.

  For 2014 the actuarial valuation, RP-2000 Annuitant Mortality Table, projected for future mortality improvements to 2026 using Scale AA.

- Post-retirement Healthy Mortality - For the 2015 actuarial valuation, RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females.

  For the 2014 actuarial valuation, RP-2000 Healthy Annuitant Mortality Table, projected for future mortality improvements to 2018 using Scale AA.

- Post-retirement Disabled Mortality - For the 2015 actuarial valuation, RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females.

  For the 2014 actuarial valuation, 100% of disabled life mortality rates from Social Security Actuarial Study No. 75.

Changes of Benefit Terms

Effective July 1, 2014, the maximum compensation for Certification No. 139 (2001-2002) of the Governing Board was frozen at $69,556.44 by Certification No. 70 (2013-2014) of the Governing Board.

15. University of Puerto Rico Retirement System (continued)

(a) *Actuarial Methods and Assumptions (continued)*

Changes of Assumption:

- Change assumed rates of termination from age-based to service-based rates
- Reduce assumed rates of retirement
- Reduce assumed rates of disability retirement
- Update mortality to RP-2000 projected to 2020
- Reduce assumed salary increases to 3.75%
- Reduce assumed rate of investment return to 7.75%
- Reduce price inflation assumption to 3.0%
- Reduce wage inflation assumption to 3.75%
- Reduce payroll growth assumption to 3.0%
- Increase administrative expense load to 0.70% of payroll

- For the actuarially determined contributions, the System's Retirement Board adopted a change in the amortization method from 30-year open to 30-year closed effective July 1. 2014. For the projection of cash flows used to determine the discount rate, the employer contributions are projected based on a 40-year closed amortization in accordance with Certification No. 146 (2014-2015) adopted by the Governing Board of the University effective June 30, 2015.

(b) *Long-term Expected Rate of Return*

The long-term expected rate of return on pension plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

		2015	2014
Asset Class	**Target Allocation**	**Long-term Expected Real Rate of Return**	**Long-term Expected Real Rate of Return**
Domestic large cap equity	40%	6.65%	6.50%
International equity	10	7.00	7.00
Domestic small/mid cap equity	10	7.90	7.90
Fixed income	28	0.80	0.80
Loans and mortgages	12	5.70	5.70
Total	100%		

15. University of Puerto Rico Retirement System (continued)

(c) *Date of Depletion and Discount Rate*

The asset basis for the date of depletion projection is the pension plan's fiduciary net position. The pension plan's fiduciary net position is not expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent interest rate (SEIR) that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate applied to benefit payments, to the extent that the pension plan's fiduciary net position is not projected to be sufficient.

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Effective July 1, 2015, the contribution rates reflect amortization of the Retirement System's unfunded actuarial accrued liability over a closed 40 – year period from that date as established by Certification No. 146 (2014-2015) of the Governing Board issued on June 4, 2015. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2044. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments through June 30, 2044 and the applicable municipal bond index rate of 3.82%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2015, was applied to all periods of projected benefit payments after June 30, 2044. The SEIR of 6.37% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2015.

The SEIR at June 30, 2014 was 5.31% based on the long-term expected rate of return on pension plan investments of 8% applied to all periods of projected benefit payments through June 30, 2027 and the applicable municipal bond index rate of 4.35% as of June 30, 2014 applied to all periods of projected benefit payments after June 30, 2027. At June 30, 2014, the Retirement System's unfunded actuarial accrued liability was amortized over an open 30-year period.

15. University of Puerto Rico Retirement System (continued)

(d) *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability at June 30, 2016 and 2015 calculated using the discount rate of 6.37% and 5.31%, respectively, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower or 1 percent-point higher than the current rate (dollars in thousands):

2016			2015		
1% decrease (5.37%)	Current discount rate (6.37%)	1% increase (7.37%)	1% decrease (4.31%)	Current discount rate (5.31%)	1% increase (6.31%)
$ 2,144,842	$ 1,796,727	$ 1,501,031	$ 2,476,399	$ 2,104,040	$ 1,789,677

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

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

The University provides the following OPEB:

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

At June 30, 2016 and 2015, membership in the OPEB Program consisted of the following:

	2016	2015
Retirees and beneficiaries currently receiving benefits	8,188	8,081
Current participating employees	10,644	11,763
Total membership	18,832	19,844

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.

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

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 generally increases with benefit cost increases and participant growth; in addition, gains/losses resulting from demographic and/or assumption changes also impact the ARC.

The following tables show the components of the University's annual OPEB cost for the fiscal years ended June 30, 2016 and 2015, the amount actually contributed to the OPEB Program, the change in the University's net obligation and the funded status of the OPEB Program (dollars expressed in thousands):

	2016	2015
ARC	$ 11,493	$ 12,002
Interest on the net OPEB obligation	237	195
Adjustments to ARC	(263)	(192)
Annual OPEB cost	11,467	12,005
Employer contribution	(10,522)	(9,933)
Change in the net OPEB obligation	945	2,072
Net OPEB obligation- beginning of year	7,633	5,561
Net OPEB obligation- end of year	$ 8,578	$ 7,633
Percentage of annual OPEB cost contributed	91.76%	82.74%

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 as of July 1, 2016 and 2015, the most recent actuarial valuation dates (dollars expressed in thousands):

	2016	2015
Actuarial Accrued liability (AAL)	$ 211,811	$ 241,317
Unfunded AAL	$ 211,811	$ 241,317
Funded ratio	0%	0%

16. Post-Employment Benefits Other Than Pensions (“OPEB”) (continued)

The three-year trend information is as follows (dollars expressed in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 11,467	91.8%	$ 8,578
6/30/2015	$ 12,005	82.7%	$ 7,633
6/30/2014	$ 10,699	77.8%	$ 5,561

OPEB Actuarial Valuation – The University’s other Post-Employment Benefits Program actuarial valuations were conducted by Cavanaugh Macdonald Consulting, LLC as of July 1, 2015 and by Deloitte Consulting LLP as of July 1, 2014, members of the American Academy of Actuaries. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

	2016	2015
Significant Actuarial Methods and Assumptions:		
Actuarial Valuation Date	July 1, 2015	July 1, 2014
Actual Cost Method	Entry Age Normal	Projected Unit Credit
Amortization Method	Level Dollar amortization over 30 Years	Level Dollar amortization over 30 Years
Percentage Electing to Receive:		
Medical Subsidy	85% (applied to current and future retirees)	85% (applied to current and future retirees)
Tuition Remission	0.7%	0.7%
Tuition Remission	$582 per retiree in fiscal 2016, increasing 4.0% per year thereafter	$538 per retiree in fiscal 2015, increasing 4.0% per year thereafter
Payroll Growth	3.1% per year	3.5% per year
Discount Rate	3.1% per annum	3.5% per annum

The mortality tables used in the July 1, 2015 and 2014 actuarial valuations were as follows:

- Mortality for Healthy Participants- For the 2015 actuarial valuation, RP-2000 Healthy Annuitant Mortality Table for ages 50 and older and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females.

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

For the 2014 actuarial valuation, RP-2014 Employee and Healthy Annuitant base mortality tables for males and females without collar or amount adjustments, as published in the final RP-2014 report, adjusted to the 2006 base year by factoring out the projection under Scale MP-2014, as described in Section 8.3 of the Society of Actuaries' Retirement Plans Experience Committee ("RPEC") Response to Comments on RP-2014 Mortality Tables Exposure Draft, with generational mortality improvements using Scale MP-2015.

- Mortality for Disabled Participants – For the 2015 actuarial valuation, RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females.

  For the 2014 actuarial valuation, RP-2014 Employee and Disabled Annuitant base mortality tables for males and females without collar or amount adjustments, as published in the final RP-2014 report, adjusted to the 2006 base year by factoring out the projection under Scale MP-2014, as described in Section 8.3 of the Society of Actuaries' Retirement Plans Experience Committee ("RPEC") Response to Comments on RP-2014 Mortality Tables Exposure Draft, with generational mortality improvements using Scale MP-2015.

The mortality assumption was updated to match that used by the University's Retirement System based on their most recent experience study.

The actuarial cost method was changed from the projected unit credit method to the entry age normal actuarial cost method in anticipation of the application of future adoption of GASB Statements No. 74 and 75 which requires the use of the entry age normal method.

The University does not pre-fund its OPEB Program. 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 do 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.

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

In prior years (up to June 30, 2009 and in 2014), the Hospital had experienced significant operating losses having an accumulated net position deficiency of approximately $7,503,000 as of June 30, 2016. 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 approximately $37,475,000 as of June 30, 2016.

In addition, during the month of September 2013, the Federal Centers for Disease Control and Prevention issued a preliminary report, which indicated that bacteria affected several patients in the Hospital's Intensive Care Unit during a period of time. This situation caused a significant decrease in the hospital utilization during the year ended June 30, 2014, resulting in a decrease in the Hospital's net position of approximately $2,137,000. The epidemiological monitoring by the Department of Health, as a result of this situation, ceased in August 2014.

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, 2016.

The University has expressed its commitment to provide the Hospital with the necessary financial support, if needed, to continue its operations.

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 and to improve the Hospital's public image and its physical facilities. Some of these measures had an impact in the Hospital's operations and as a result, the Hospital reported operating income for the years ended June 30, 2010 to June 30, 2013 and for the year ended June 30, 2015 to June 30, 2016. For the year ended June 30, 2016, the Hospital reported an increase in its net position of approximately $3,523,000.

18. Functional Information

The University's operating expenses by functional classification during the years ended June 30, 2016 and 2015 were as follows (expressed in thousands):

	2016						
Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 308,250	$ 4,525	$ 9,380	$ 181	$ –	$ –	$ 322,336
Research	43,765	13,822	23,999	371	–	9,076	91,033
Public service	40,673	1,529	12,994	699	–	180	56,075
Academic support	59,801	3,232	20,048	61	–	1,641	84,783
Student services	34,440	543	9,518	2	–	2,106	46,609
Institutional support	99,882	376	28,900	2,395	–	10,317	141,870
Operations & maintenance	64,477	16	29,628	33,277	–	58	127,456
Student aid	3,516	161,382	762	1	–	–	165,661
Independent operations	47	1	6	–	–	–	54
Patient service	46,466	58	3,889	173	–	–	50,586
Auxiliary enterprises	119	38	1,755	2	–	–	1,914
Depreciation and amortization	–	–	–	–	47,906	–	47,906
	$ 701,436	$ 185,522	$ 140,879	$ 37,162	$ 47,906	$ 23,378	$ 1,136,283

	2015						
Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 373,995	$ 6,116	$ 9,802	$ 63	$ –	$ 755	$ 390,731
Research	52,830	15,263	23,548	693	–	4,178	96,512
Public service	47,324	1,435	13,569	671	–	2,817	65,816
Academic support	67,505	1,922	20,680	51	–	–	90,158
Student services	40,937	500	9,815	3	–	264	51,519
Institutional support	114,746	374	26,122	2,928	–	5,044	149,214
Operations & maintenance	77,574	55	29,271	43,553	–	1,009	151,462
Student aid	3,497	159,548	724	1	–	122	163,892
Independent operations	38	3	39	–	–	–	80
Patient service	43,985	204	13,536	240	–	2,239	60,204
Auxiliary enterprises	106	22	1,576	3	–	196	1,903
Depreciation and amortization	–	–	–	–	44,715	–	44,715
	$ 822,537	$ 185,442	$ 148,682	$ 48,206	$ 44,715	$ 16,624	$ 1,266,206

19. University Only Financial Statements

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

Statements of Net Position (Deficit) as of June 30, 2016 and 2015 (Dollars in Thousands):	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 181,726	$ 98,649
Restricted cash and cash equivalents	2,731	3,537
Restricted investments at fair value:		
Deposited with trustee and others	54,867	54,709
Accounts receivable, net	15,690	21,046
Due from Federal Government, net	32,449	38,346
Due from related parties, net:		
Commonwealth of Puerto Rico (Commonwealth)	4,719	21,974
Commonwealth's component units	6,705	20,576
University of Puerto Rico Retirement System	14	38,621
University of Puerto Rico	–	–
Others	1,098	10,148
Inventories	2,832	2,641
Other assets	3,421	1,436
Total current assets	306,252	311,683
Noncurrent assets:		
Restricted cash and cash equivalents	4,283	972
Restricted investments at fair value:		
Endowment funds	99,860	99,610
Healthcare Deferred Compensation Plan	87,678	102,968
Others	–	8,150
Other long-term investments at fair value	2,632	2,774
Notes receivable, net	6,232	5,663
Capital assets (net of accumulated depreciation and amortization):		
Land and other nondepreciable assets	56,190	88,494
Depreciable assets	840,653	835,333
Other assets	257	24
Total noncurrent assets	1,097,785	1,143,988
Total assets	1,404,037	1,455,671
Deferred outflows of resources:		
Deferred refunding loss	2,225	2,517
Deferred outflows from pension activities	102,379	88,251
Total deferred outflows of resources	104,604	90,768
Total assets and deferred outflows of resources	1,508,641	1,546,439
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	62,084	70,261
Current portion of long-term debt:		
Notes payable	76,781	35,871
Bonds payable	20,965	19,970
Internal balance- obligation under capital lease, current portion	2,185	2,054
Other current liabilities:		
Claims liability	2,494	3,851
Compensated absences	27,049	37,432
Total current liabilities	191,558	169,439
Noncurrent liabilities:		
Long-term debt, net of current portion:		
Notes payable	–	47,465
Bonds payable	428,882	451,641
Internal balance- obligation under capital lease, net of current portion	55,594	57,779
Other long-term liabilities:		
Deferred compensation plan	87,678	102,968
Claims liability	19,783	15,225
Compensated absences	127,755	129,186
Net pension liability	1,796,727	2,104,040
Other postemployment benefit obligation	8,578	7,633
Total noncurrent liabilities	2,524,997	2,915,937
Total liabilities	2,716,555	3,085,376
Deferred inflows of resources from pension activities	301,418	107,138
Total liabilities and deferred inflows of resources	3,017,973	3,192,514
Net position (deficit):		
Net investment in capital assets	393,465	397,005
Restricted, nonexpendable:		
Scholarships and fellowships	42,758	43,383
Research	51,046	48,619
Other	13,793	13,129
Restricted, expendable:		
Loans	7,649	10,010
Capital projects	8,661	8,754
Debt service	49,139	48,893
Unrestricted (deficit)	(2,075,843)	(2,215,868)
Total net position (deficit)	$ (1,509,332)	$ (1,646,075)

19. University Only Financial Statements (continued)

Statements of Revenues, Expenses and Changes in Net Position (Deficit) for the Years Ended June 30, 2016 and 2015 (Dollars in Thousands):	2016	2015
Revenues		
Operating revenues:		
Tuitions and fees (net of scholarship allowances and others of $58,246 in 2016 and $51,820 in 2015)	$ 48,476	$ 47,215
Net patient services revenue and other (net of provision for allowances of $10,301 in 2016 and $16,875 in 2015)	61,830	57,765
Federal grants and contracts (net of provision for (credit to) allowances of $3,234 in 2016 and ($205) in 2015)	95,476	95,741
Commonwealth grants and contracts (net of provision for allowances of $6,974 in 2016 and $439 in 2015)	11,399	19,662
Nongovernmental grants and contracts (net of provision for allowances of $10,415 in 2016 and $2,339 in 2015)	2,565	7,539
Sales and services of educational departments	11,968	12,321
Auxiliary enterprises (net of provision for allowances of $290 in 2016 and $10 in 2015)	1,925	2,032
Other operating revenues	12,714	17,908
Total operating revenues	246,353	260,183
Operating expenses:		
Salaries:		
Faculty	361,322	356,858
Exempt staff	245,134	253,242
Nonexempt wages	706	622
Benefits:		
Pension cost (credit) (see Note 15)	(49,350)	66,304
Other benefits	143,244	145,155
Scholarships and fellowships	185,522	185,442
Supplies and other services	141,792	149,558
Utilities	36,855	47,847
Depreciation and amortization	47,906	44,715
Other expenses	23,325	16,595
Total operating expenses	1,136,456	1,266,338
Operating loss	(890,103)	(1,006,155)
Nonoperating revenues (expenses):		
Commonwealth and other appropriations	932,503	937,357
Federal Pell Grant program	178,729	167,213
Gifts	9,265	11,259
Net investment income	5,433	3,115
Impairment loss on deposits with governmental bank (note 5)	(69,807)	(21,668)
Impairment loss on capital assets	(1,245)	–
Interest on capital assets - related debt	(25,553)	(24,427)
Interest on notes payable	(3,047)	(3,497)
Other nonoperating revenues (expenses), net	538	685
Net nonoperating revenues (expenses)	1,026,816	1,070,037
Income before other revenues	136,713	63,882
Capital appropriations	–	2,266
Additions to term and permanent endowments	30	6
Change in net position	136,743	66,154
Net position (deficit):		
Beginning net position (deficit), as previously reported	(1,646,075)	525,130
Cumulative effect of a change in accounting principle	–	(2,237,359)
End of year	$ (1,509,332)	$ (1,646,075)

19. University Only Financial Statements (continued)

Statements of Cash Flows for the Years Ended June 30, 2016 and 2015 (Dollars in Thousands):

	2016	2015
Cash flows from operating activities		
Tuition and fees	$ 49,276	$ 46,064
Grants and contracts	127,154	113,545
Patient services	71,107	60,836
Payments to employees	(606,397)	(611,156)
Payments for benefits	(255,475)	(239,271)
Payments for scholarships and fellowships	(185,522)	(185,442)
Payments to suppliers	(157,583)	(172,240)
Payments for utilities	(36,854)	(47,847)
Loans issued to students, net of collections	(235)	(855)
Auxiliary enterprises	2,249	1,859
Sales and services educational department and others	25,933	31,890
Net cash used in operating activities	(966,347)	(1,002,617)
Cash flows from noncapital financing activities		
Commonwealth and other appropriations	952,503	922,356
Federal Pell program	178,729	167,213
Endowment gifts	30	6
Principal paid on noncapital debt	(6,241)	(8,682)
Interest paid on notes payable	(2,649)	(3,620)
Federal direct student loan program receipts	9,265	11,259
Federal direct student loan program disbursements	51,084	47,609
Gifts and grants for other than capital purposes	(51,084)	(47,609)
Other non-operating receipts	538	25
Net cash provided by noncapital financing activities	1,132,175	1,088,557
Cash flows from capital and related financing activities		
Capital appropriations	–	2,266
Purchases of capital assets	(28,006)	(27,666)
Proceeds from capital debt	220	4,507
Principal paid on capital debt and lease	(22,558)	(19,679)
Interest paid on capital debt and lease	(28,087)	(28,871)
Decrease (increase) in deposit with trustees and others	(152)	11
Net cash used in capital and related financing activities	(78,583)	(69,432)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	62,157	36,574
Purchases of investments	(107,277)	(60,398)
Collections of interest and dividend income on investments	4,210	2,816
Advances to the University of Puerto Rico (UPR) Retirement System	–	(475)
Collections of advances to the UPR Retirement System	38,607	–
Contribution from component unit	640	660
Net cash used in investing activities	(1,663)	(20,823)
Net change in cash and cash equivalents	85,582	(4,315)
Cash and cash equivalents:		
Beginning of year	103,158	107,473
End of year	$ 188,740	$ 103,158

19. University Only Financial Statements (continued)

Statements of Cash Flows for the Years Ended June 30, 2016 and 2015 (Dollars in Thousands) (continued):	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (890,103)	$ (1,006,155)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	47,906	44,715
Provision for doubtful accounts	36,080	20,031
Changes in operating assets and liabilities and deferred outflows and inflows of resources:		
Decrease (increase) in:		
Grants and contracts receivables	(5,365)	(25,125)
Prepaid expenses, inventories and other	3,605	4,611
Deferred outflows of resources from pension activities	(14,128)	3,438
Increase (decrease) in:		
Accounts payable and accrued liabilities	3,114	(12,889)
Net pension liability	(307,313)	(132,523)
Accrued salaries, wages, benefits and other liabilities	(34,423)	(5,858)
Deferred inflows of resources from pension activities	194,280	107,138
Net cash used in operating activities	$ (966,347)	$ (1,002,617)
Supplemental schedule of noncash investing, capital and financing activities:		
Unrealized gains on investments	$ 1,362	$ 391
Amortization of:		
Bonds premiums (discounts)	$ 1,794	$ 1,831
Deferred refunding loss	$ 292	$ 301
Impairment loss on deposits with governmental bank (note 4)	$ 69,807	$ 21,668

20. Subsequent Events

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation. On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint seeks relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. Specifically, this complaint for declaratory relief seeks federal judicial review as expressly provided for by PROMESA of the issues arising under PROMESA, the Trust Agreements, and other relevant law, in light of the University's financial condition and its efforts to distribute all Plan assets. Voya has not yet transferred the plan assets to the University waiting for the resolution of this complaint by the U.S District Court for the Puerto Rico District.

The University had two credit facilities with the GDB, a ten-year term loan which amounted to approximately $48.3 million at June 30, 2016 and a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the University's Program for Permanent Improvements which amounted to approximately $28.1 million at June 30, 2016. The University has not made the monthly payments of this term loan since May 2016. The $75 million line of credit expired on January 31, 2016 and the University has not made the monthly interest payments of this line of credit since September 2016. GDB also serves as depository of some of the University's funds. Total amount deposited in the GDB amounted to approximately $92.0 million as of June 30, 2016 and are deemed fully impaired as further discussed in Note 5. In May 2016, the Governing Board of the University authorized its president to cancel the term loan and the expired line of credit with the GDB using the University's funds deposited in the GDB. The University has not paid these credit facilities with GDB because it and the GDB have not reached an agreement to cancel these credit facilities or to determine how these credit facilities will be managed. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI from July 2016 to May 2017.

On August 5, 2016 and monthly thereafter until April 2017, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee since July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University was in default of this obligation until April 2017. The trustee was not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, the Moratorium Act, or the Executive Orders related thereto. In May 2017, the University reestablished the payments to the trustee of the DUI's AFICA Bonds (approximately $475,000 monthly) and paid all the basic lease payments due from July 2016 until May 2017 (approximately $5.2 million). Presently, DUI has paid as agreed the scheduled principal and interest payments on its outstanding AFICA Bonds.

20. Subsequent Events (continued)

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds (Series P and Q Bonds), filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral. On June 29, 2017, the Trustee and the University, at the direction of FAFAA, entered into a letter agreement providing that the University will transfer certain amounts in respect of pledged revenue, as defined in the trust agreement, to the Trustee on condition, among others, that through August 31, 2017 (the Compliance Period) the Trustee not institute, commence, or continue certain legal proceedings against the University, the Commonwealth or any other agency, instrumentality, or municipality thereof during the Compliance Period, except in certain enumerated circumstances. The University commits to transfer to the Trustee, to hold or make payments or distributions as provided under the trust agreement, in lieu of the transfer of an equivalent amount of the pledged revenues received by the University from the date hereof through August 31, 2017 as provided in the trust agreement, $40 million to be transferred in two equal installments of $20 million on June 30, 2017 and August 31, 2017. In addition, the University must continue to transfer monthly to the trustee an additional $4 million of pledged revenues received during the Compliance Period. Pursuant to the letter agreement, during the compliance period, holders of the majority in amount of the bonds and the Trustee at the direction of the University's bondholders will negotiate in good faith towards a restructuring of the bonds. The letter agreement has been extended monthly and the new Compliance Period is March 31, 2018. Pursuant to the extended letter agreements, the trustee agreed not to institute or commence certain legal proceedings and the University agreed to transfer $4 million monthly to the trustee to be applied in accordance with the trust agreement governing the Series P and Q Bonds during the new Compliance Period. The University paid $20 million on June 30, 2017 and an additional $20 million on September 1, 2017, and continued to pay monthly to the trustee the $4 million of pledged revenues.

In addition, the University and FAFAA shall provide the trustee with detailed plans and specifications for repairing, replacing or reconstructing the University's property that was damaged or destroyed by Hurricane Maria as these plans are approved by the University. The University shall deposit all proceeds of casualty insurance policies or direct federal aid (the "Repair Funds") in segregated accounts of the University at a commercial bank. The University shall deposit proceeds of casualty insurance in a separate account and shall deposit proceeds of direct federal aid in one or more separate accounts to facilitate the audit of the expenditure of such funds. All Repair Funds in excess of $1,000,000 shall be used pursuant to a written requisition. On or before the fifteenth (15th) calendar day of each month, the University will submit the preceding month's Requisitions to the trustee, as set forth below. Pursuant to extended letter agreement, the majority bondholders expand their direction to instruct the trustee not to call a default during the pendency of the new Compliance Period if by the fifteenth (15th) calendar day of each month the University sends to the trustee copies of the preceding month's Requisitions. On the fifteenth (15th) calendar day of each month the University or FAFAA will provide, or cause relevant agencies to provide, the trustee with all project requests, progress or other reports provided to the Federal Emergency Management Agency (FEMA) or to any casualty insurance company with respect to the expenditure of Repair Funds during the preceding month.

20. Subsequent Events (continued)

Discussions with respect to a consensual restructuring of the University's bonds are continuing. Presently, the University has paid as agreed the scheduled principal and interest payments on its outstanding Series P and Q Bonds.

On October 30, 2016, the Oversight Board created by PROMESA designated the University as a covered entity subject to oversight under PROMESA. As a covered entity, the University is required to submit to the Oversight Board an individual fiscal plan. The submission date of the University fiscal plan to be submitted to the Oversight Board, was originally required by March 31, 2017. The University submitted its ten-year fiscal plan to the Oversight Board for certification on August 1, 2017.

On January 29, 2017, the Commonwealth enacted Act No. 5, the Puerto Rico Financial Emergency and Fiscal Responsibility Act ("Act No. 5"). Act No. 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor of Puerto Rico and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. Act No. 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act No. 5 amended and repealed portions of the Act No. 21, as amended by Act 40-2016 and Act 68-2016 (the "Moratorium Act"). The Moratorium Act, and executive orders issued by the Governor under the Moratorium Act (the "Executive Orders"), permitted the Government of Puerto Rico to withhold the timely payment of its obligations at a point in time before the enactment of PROMESA.

On March 13, 2017, the Oversight Board certified the Commonwealth's proposed fiscal plan subject to certain amendments. On May 31, 2017, the Oversight Board of PROMESA approved certain revision to the previously certified fiscal plan for the Commonwealth and recertified the fiscal plan as so revised. The Commonwealth's approved fiscal plan includes significant annual reductions in the Commonwealth's formula appropriations to the University in the ten-year period ending June 30, 2026. The projected reductions in the Commonwealth's formula appropriations would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026.

On May 2, 2017, the legal shield granted by PROMESA protecting the Commonwealth from debt-related lawsuits expired. On May 3, 2017, the Oversight Board of PROMESA approved and certified the filing in the U.S. District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA (a form of bankruptcy) for Commonwealth to ensure the essential services to the public, the payment of the government payroll and the suppliers. This voluntary petition under Title III of PROMESA operates as an automatic stay of actions against the Commonwealth.

20. Subsequent Events (continued)

On June 2, 2017, the Oversight Board of PROMESA approved the aggregate spending level in the Governor's fiscal year 2017-2018 proposed budget, but not its specific allocations. On June 27, 2017, the Oversight Board of PROMESA issued a notice of violation on the submitted Commonwealth budget that included a description of necessary corrective action. The Oversight Board of PROMESA gave the Legislature of Puerto Rico an opportunity to correct the violations by June 29, 2017. Because the Legislature failed to take corrective actions, the Oversight Board of PROMESA approved and certified a revised, compliant budget for fiscal year 2018 for the Commonwealth in compliance with PROMESA. The Commonwealth's fiscal year 2018 budget was deemed approved by the Governor and Legislature and in full force and effect beginning on July 1, 2017. The Commonwealth's formula appropriations to the University included in the approved Commonwealth's budget for fiscal year 2018 will amount to $631 million, a decrease of $203 million when compared with the Commonwealth's formula appropriations of $834 million received in fiscal year 2017. In addition, the approved Commonwealth's budget for fiscal year 2018 includes nonrecurrent contributions to the University of approximately $30 million, for a net decrease in the Commonwealth's appropriations of approximately $173 million in the fiscal year 2018.

On August 1, 2017, the University submitted its ten-year fiscal plan to the Oversight Board of PROMESA for certification. This fiscal plan includes the approved reductions in the Commonwealth's formula appropriations which would rise annually from approximately $203 million in fiscal year 2018 to approximately $511 million in fiscal year 2026. With the reduction in the Commonwealth's appropriations, the University would have operational deficits starting in fiscal year 2018 and increasing through fiscal year 2026.

On April 6, 2017, a student stoppage at the University interrupted the operations of all campuses for up to 93 days, but less in other cases. This student stoppage was prompted as a result of student opposition to the annual reductions in the Commonwealth's formula appropriations to the University as ordered by the Oversight Board of PROMESA. As a result of the student stoppage at the University, eight of the eleven units that comprise the University of Puerto system are on probation by the Middle States Commission on Higher Education, the regional accreditation entity.

In the fourth quarter of fiscal year 2017, the U.S. Department of Education notified each campus of the University that they failed the financial responsibility requirements under the U.S. Department of Education regulations due to its failure to submit on March 31, 2017 acceptable compliance and financial statement audits. As a result, the eleven campuses of the University are under provisional certifications with the U.S. Department of Education for initial or continued participation in any of the student financial assistance programs authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV HEA Programs). These provisional certifications place the eleven campuses of the University on a heightened cash monitoring payment method and expire between June 30, 2018 and December 31, 2018.

20. Subsequent Events (continued)

Each campus of the University agreed to participate in the Title IV, HEA Programs under the U.S. Department of Education's cash monitoring method and comply with the provisions under the Zone alternative. Starting with academic year 2017-2018, the eleven campuses of the University will be operating on limited Title IV eligibility and will be placed on the Heightened Cash Monitoring I (HCM-1) method of payment requiring enhanced reporting and documentation until further written notice from the U.S. Department of Education. Under the HCM-1 method payment, each campus of the University must first make disbursements to eligible students and parents and pay any credit balances due before it requests or receives funds for the amount of those disbursements from the U.S. Department of Education in accordance with 34 CFR 668.162 (d). The funding request may not exceed the amount of the actual disbursements that were made to the students and parents including in the funding request. Expenditures of Federal Awards under Title IV HEA programs amounted to approximately $237.9 million for the year ended June 30, 2016.

In September 2017, the University received from the U.S. Department of Justice a Claim Letter/Notice of Intent to File Suit on behalf of the National Science Foundation, the National Aeronautics and Space Administration and the United States Department of Energy to take action in the Federal Court against the University for violations of the False Claims Act as a result of an examination of federal grants received by two units of the University. The claim seeks treble damages amounted to approximately $5.6 million, including $300,000 for penalties. The University is negotiating the settlement of this claim with the federal agencies. At June 30, 2016, the University accrued approximately $5.6 million for this claim.

On September 6, 2017, Hurricane Irma did some damages to the island of Puerto Rico and then on September 20, 2017, the island of Puerto Rico suffered the complete devastation caused by Hurricane Maria, causing catastrophic wind and water damage to Puerto Rico's infrastructure, home and businesses. As a result of the Hurricane Maria, most of the island's population was left without electrical power and there was significant disruption to the water distribution system. Other basic utility and infrastructure services such as communications, ports and transportation were also materially affected, causing a significant disruption to the island's economic activity. The entire island of Puerto Rico will need a massive infrastructure rebuilding program.

Immediately after the landfall of the Hurricane Maria on Puerto Rico, the President of the United States of America issued a state of emergency declaration for Puerto Rico, as a U.S territory. The order mandates federal assistance through the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) be made available to assist in local and territorial recovery efforts.

Some of the University's eleven campuses were more affected than others, but all were impacted in some way. A few days after Hurricane Maria, many of the University employees, as well as students and other volunteers, returned to the campuses and to the University's central Administration to begin the rebuilding process.

20. Subsequent Events (continued)

At the end of October and the beginning of November 2017, administrative and academic functions had resumed at basically all areas and units that comprise the University System. All campuses have made arrangements so that enrolled students can complete the semester and the academic year. For most of the University's campuses, the current semester, which normally would have ended in December 2017, will reach into January or February 2018, depending on the campus. Some changes would also be made to the regular timetable of the 2018 spring semester.

The University's costs associated with repairing the damages sustained by the hurricanes could range from $130 million to $140 million. Most of these costs are expected to be covered by insurance funds and by disaster-relief funds granted by FEMA. The University's commercial property and fine arts insurance coverages have an aggregate lost limit of $100 million each. Deductible amounts of the commercial property insurance coverage for wind losses amount to 2% of the insured property value and vary per location, with a minimum deductible amount of $200,000 per occurrence and a maximum deductible amount of $3.5 million per occurrence for an aggregated deductible amount of approximately $21.8 million. Deductible amount of the fine arts insurance coverage for wind losses amounts to $50,000 per occurrence. Presently, the University has received advanced funds from the insurance company of $5.0 million for these natural disasters.

As a result of the damages caused by Hurricanes Irma and Maria in the island of Puerto Rico on September 6, 2017 and on September 20, 2017, respectively, the Oversight Board of PROMESA announced on October 31, 2017 the process toward revised fiscal plans for the Commonwealth and six covered entities, including the University. On January 24, 2018, the Commonwealth and two covered entities submitted their revised fiscal plans for the five-year period that covers fiscal year 2018 to fiscal year 2022.

On March 21, 2018, the University submitted to the Oversight Board of PROMESA a draft of its revised fiscal plan for the five-year period ending June 30, 2023. The draft of the University's revised fiscal plan, which is subject to material change, includes the following significant cash flow variations when compared to the fiscal plan submitted on August 1, 2017:

- Receipts: a gradual decrease in the student population; staggered increase in tuition; and disaster related inflows related to damages sustained by hurricanes Irma and Maria. In addition, the revised plan includes the approved projected reductions in the Commonwealth's formula appropriations submitted by the Commonwealth to the Oversight Board of PROMESA on January 24, 2018, as revised. Commonwealth approved formula appropriations will range from $631 million in fiscal year 2018 to $410 million in fiscal year 2022.

- Disbursements: cost of training and seminars are net of cost; adjusted exemption reductions; adjusted graduate tuition costs; and further adjustment of marginal benefits to its employees (faculty and non-faculty).

The current fiscal plan indicates that there is no capacity to sustain any debt during the fiscal plan period (i.e. cash flows available for debt service are projected to be negative through the projection period).

20. Subsequent Events (continued)

The Oversight Board of PROMESA intends to certify such revised fiscal plans by March 30, 2018 for the Commonwealth and two covered entities and by April 30, 2018 for the University and the other covered entities.

On October 24, 2017, the Puerto Rico First Court of Instance issued a partial declaratory judgement ordering DUI to pay the retainage amount under the construction contract of about $1.6 million, plus interest, to the Plaza Universitaria Project's general contractor. DUI appealed this partial declaratory judgement.

Required Supplementary Information

University of Puerto Rico
Schedule of Changes in the University's Net Pension Liability and Related Ratios
Years Ended June 30, 2016 and 2015
(Dollars in thousands) (Unaudited)

	2016	2015
Total Pension Liability:		
Service cost	$ 48,107	$ 49,499
Interest	177,334	173,630
Changes in benefit terms	(45,209)	–
Differences between expected and actual experience	(323,974)	–
Changes in assumptions	32,269	(24,034)
Benefit payments, including refunds of member contributions	(176,872)	(169,163)
Net change in total pension liability	(288,345)	29,932
Total pension liability, beginning	3,428,068	3,398,136
Total pension liability, ending (a)	$ 3,139,723	$ 3,428,068
Fiduciary Net Position:		
Contributions - employer	$ 88,251	$ 91,689
Contributions - member	35,594	37,900
Net investment income	76,684	206,595
Benefit payments	(176,872)	(169,163)
Administrative expenses	(4,689)	(4,566)
Net change in plan net position	18,968	162,455
Fiduciary net position, beginning	1,324,028	1,161,573
Fiduciary net position, ending (b)	$ 1,342,996	$ 1,324,028
Employer's Net Pension Liability - Ending (a) - (b)	$ 1,796,727	$ 2,104,040
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	42.77%	38.62%
Covered-Employee Payroll	$ 516,226	$ 515,856
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	348.05%	407.87%

Note: The University's net pension liability as of June 30, 2016 and 2015 were measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data that was rolled forward to June 30, 2015 and 2014, respectively, and assuming no liability gains and losses.

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

See notes to required supplementary information.

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

Fiscal Year Ended June 30	Actuarial Determined Contribution (ADC) (1)	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (2)
2015	$ 89,255	$ 88,251	$ 1,004	$ 516,226	17.10%
2014	78,204	91,689	(13,485)	515,856	17.77%
2013	77,772	88,481	(10,709)	491,291	18.01%
2012	72,186	75,140	(2,954)	491,063	15.30%
2011	68,487	70,761	(2,274)	526,820	13.43%
2010	63,722	71,177	(7,455)	558,961	12.73%
2009	64,072	72,605	(8,533)	577,227	12.58%
2008	59,246	81,553	(22,307)	543,538	15.00%
2007	57,524	78,311	(20,787)	518,237	15.11%
2006	55,400	73,658	(18,258)	490,263	15.02%

(1) The actuarially determined contribution for fiscal years 2015 and 2014 were determined by actuarial valuations with beginning-of-year census data that were rolled forward to June 30, 2015 and 2014, respectively, and assumed no gains or losses. Prior year actuarial valuations were made using end-of-year census data.

(2) ADC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (e.g., the June 30, 2015, Required Contribution was established in the June 30, 2014 actuarial valuation).

(3) The Governing Board of the University approved with the recommendation of the Plan Retirement Board (Certification No. 146 fiscal year 2014-2015) a 40-year closed amortization beginning on July 1, 2015.

See notes to required supplementary information.

The Governing Board of the University establishes contribution rates to the Retirement System mainly based on an actuarially determined rate recommended by an independent actuary at the beginning of the fiscal year. The actuarially determined rate is the estimated amount to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The University is required to contribute the difference between the total contribution rate approved by the Governing Board of the University and the contribution rate of employees. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund.

The contributions of the University were originally designed to fund, together with the contributions of the participants, the current service cost on a current basis and the estimated accrued benefit cost attributable to qualifying service prior to the establishment of the Retirement System over a 40-year period, but as a result of increasing benefits without a correlative increase in employer's contributions, they fall short of accomplishing the necessary funding.

During fiscal years 2014 and 2013, the University made additional contributions to the Retirement System of approximately $10.5 million and $10.0 million, respectively, to fund its actuarial deficit.

Starting in fiscal year 2015, with the adoption of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25 and* GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27*, the discount rate for calculating the total pension liability is equal to the single equivalent interest rate (SEIR) that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the tax free municipal bond index rate applied to benefit payments, to the extent that the pension plan's fiduciary net position is not projected to be sufficient. Before fiscal year 2015, the discount rate for calculating the total pension liability was equal to the projected investment of return.

The actuarially determined contributions were developed using a One-Year Lag methodology, under which the actuarial valuation determines the employer contribution for the second following year (e.g. Fiscal Year 2016 contributions were determined using an actuarial valuation as of June 30, 2014). The methods and assumptions used to determine the actuarially determined contribution are as follows:

University of Puerto Rico

Notes to Schedule of University's Contributions – Pension Plan
Last 10 Years (continued)

	2016	2015	2014	2013	2012
Valuation date	June 30, 2014 (Lag)	June 30, 2013 (Lag)	June 30, 2012 (Lag)	June 30, 2011 (Lag)	June 30, 2010 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	3.00% per year	3.50% per year	3.50% per year	3.50% per year	3.50% per year
Investment rate of return	7.75% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation
Municipal bond index	3.82% per annum, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	4.35% per annum, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	Not applicable	Not applicable	Not applicable
Discount rate	6.37% per annum	5.31% per annum	8.00% per annum	8.00% per annum	8.00% per annum
Projected salary increases	3.75% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation
Mortality:					
Pre-retirement Mortality	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Employee Mortality Table, projected to 2026 using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	RP-2000 Healthy Annuitant Mortality Table for ages 50 and greater and the RP-2000 Combined Mortality Table for ages less than 50 projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females	RP-2000 Healthy Annuitant Mortality Table, projected to 2018 using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	RP-2000 Mortality Table, projected 7 years for annuitants and 15 years for non-annuitants using Scale AA	1994 Group Annuity Mortality Table
Post-retirement Disabled Mortality	RP-2000 Disabled Mortality Table projected for future mortality improvements to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

Notes to Schedule of University's Contributions – Pension Plan Last 10 Years (continued)

	2011	2010	2009	2008	2007
Valuation date	June 30, 2009 (Lag)	June 30, 2008 (Lag)	June 30, 2007 (Lag)	June 30, 2006 (Lag)	June 30, 2005 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount
Remaining amortization period	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years - (closed basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	3.50% per year	3.50% per year	3.50% per year	3.50% per year	3.50% per year
Investment rate of return	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation	8.00% per annum, compounded annually, net of investment expenses and including inflation
Municipal bond index	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Discount rate	8.00% per annum	8.00% per annum	8.00% per annum	8.00% per annum	8.00% per annum
Projected salary increases	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation	5.00% per year, including inflation
Mortality:					
Pre-retirement Mortality	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Disabled Mortality	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

(Dollars in thousands) (Unaudited)

Postemployment Benefits Other Than Pensions Program

Actuarial Valuation Date	Actual value of Assets (a)	Actual Liability (AAL) (b)	UAAL (b - a)	Funded Ratio (a / b)
7/1/2015	$ –	$ 211,811	$ (211,811)	-%
7/1/2014	–	241,317	(241,317)	-
7/1/2013	–	209,184	(209,184)	-
7/1/2011	–	197,324	(197,324)	-
7/1/2009	–	189,417	(189,417)	-
7/1/2007	–	184,233	(184,233)	-

Other Financial Information

University of Puerto Rico
Schedules of Changes in the University's Sinking Fund Reserve
Years Ended June 30, 2016 and 2015 *(Dollars in thousands) (Unaudited)*

	2016			2015		
	Bond Service Account	Bond Reserve Account	Total	Bond Service Account	Bond Reserve Account	Total
Additions:						
Transfer from Bond Reserve Account	$ –	$ –	$ –	$ 25	$ –	$ 25
Transfer from unrestricted current funds	42,528	–	42,528	42,483	25	42,508
Interest earned on investments	98	176	274	28	81	109
Total receipts	42,626	176	42,802	42,536	106	42,642
Deductions:						
Payments of bond interest	22,588	–	22,588	23,539	–	23,539
Payments of bond principal	19,970	–	19,970	19,015	–	19,015
Net decrease in fair value of investments	68	13	81	25	49	74
Transfer to Bond Service Account	–	–	–	–	25	25
Total disbursements	42,626	13	42,639	42,579	74	42,653
Net increase (decrease) for the year	–	163	163	(43)	32	(11)
Balances at beginning of year	–	54,722	54,722	43	54,690	54,733
Balance at end of year	$ –	$ 54,885	$ 54,885	$ –	$ 54,722	$ 54,722

Note: The University's Sinking Fund assets as of June 30, 2016 and 2015 consisted of the following:

	2016	2015
Cash	$ -	$ 1
Investments	54,862	54,709
Accrued interest receivable	23	12
Total	$ 54,885	$ 54,722

Report on Internal Control and on Compliance

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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, 2016, 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 29, 2018. 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 "Component Units") as described in our report on the University's financial statements. The financial statements of the Hospital and the Component Units 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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 have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 29, 2018

Stamp No. E302762
affixed to
original of
this report.

Reports and Schedule Required by the Uniform Guidance

Building a better working world

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors of
University of Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the University of Puerto Rico (the "University")'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program
In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Building a better working world

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 through 2016-010.

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2016-002	84.031 Various 10.500 Various	Higher Education: Institutional Aid Research & Development Cluster Cooperative Extension Service Student Financial Assistance Cluster	General reporting requirements of The Uniform Guidance
2016-003	84.031 Various 10.500 Various	Higher Education: Institutional Aid Research & Development Cluster Cooperative Extension Service Student Financial Assistance Cluster	General reporting requirements of the Uniform Guidance
2016-004	84.031 11.417	Higher Education: Institutional Aid Research & Development Cluster	Cash Management
2016-005	11.417	Research & Development Cluster	Activities Allowed or Unallowed and Allowable Costs/Cost principles
2016-006	47.082	Research & Development Cluster	Matching
2016-007	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Return of Title IV funds
2016-008	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Enrollment Reporting
2016-009	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Borrower Data Transmission and Reconciliation
2016-010	Various	Student Financial Assistance Cluster	Reporting: Common Origination and Disbursement (COD) System

Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002 through 2016-010, that we consider to be material weaknesses as it relates to the following:

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2016-002	84.031 Various 10.500 Various	Higher Education: Institutional Aid Research & Development Cluster Cooperative Extension Service Student Financial Assistance Cluster	General reporting requirements of The Uniform Guidance
2016-003	84.031 Various 10.500 Various	Higher Education: Institutional Aid Research & Development Cluster Cooperative Extension Service Student Financial Assistance Cluster	General reporting requirements of the Uniform Guidance
2016-004	84.031 11.417	Higher Education: Institutional Aid Research & Development Cluster	Cash Management
2016-005	11.417	Research & Development Cluster	Activities Allowed or Unallowed and Allowable Costs/Cost principles
2016-006	47.082	Research & Development Cluster	Matching
2016-007	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Return of Title IV funds
2016-008	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Enrollment Reporting
2016-009	Various	Student Financial Assistance Cluster	Special Tests and Provisions: Borrower Data Transmission and Reconciliation
2016-010	Various	Student Financial Assistance Cluster	Reporting: Common Origination and Disbursement (COD) System

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University as of and for the year ended June 30, 2016, and have issued our report thereon dated March 29, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

May 15, 2018

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this report.

University of Puerto Rico

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Sponsor/Federal Program Title/Project Title	CFDA Number	DIR/PASS	Pass Through ID Entity	Pass Through Entity	Direct Federal Award Expenditures	Indirect Federal Award Expenditures	Total Expenditures	Amount Provided to Subrecipients
STUDENT FINANCIAL ASSISTANCE CLUSTER								
Department of Education (ED):								
Federal Supplemental Education Opportunity Grants	84.007	DIR			2,706,200	$ –	2,706,200	$ –
Federal Work-Study Program	84.033	DIR			4,828,052	–	4,828,052	–
Perkins Loan Program	84.038	DIR			259,898	–	259,898	–
Federal Pell Grant Program	84.063	DIR			178,754,813	–	178,754,813	–
Federal Direct Student Loans	84.268	DIR			51,083,663	–	51,083,663	–
Total Department of Education (ED)					237,632,626	–	237,632,626	–
TOTAL STUDENT FINANCIAL ASSISTANCE CLUSTER					237,632,626	–	237,632,626	–
TRIO CLUSTER								
Department of Education (ED):								
TRIO: Student Support Services	84.042	DIR			1,715,697	–	1,715,697	–
TRIO: Talent Search	84.044	DIR			468,468	–	468,468	–
TRIO: Upward Bound	84.047	DIR			636,540	–	636,540	–
Total Department of Education (ED)					2,820,705	–	2,820,705	–
TOTAL TRIO CLUSTER					2,820,705	–	2,820,705	–
RESEARCH AND DEVELOPMENT CLUSTER								
Agency for International Development:								
USAID Foreign Assistance for Programs Overseas	98.001	PASS	3403953	Pennsylvania State University	–	48,374	48,374	–
Total Agency for International Development					–	48,374	48,374	–
Department of Agriculture (USDA):								
Agricultural Research Basic and Applied Research	10.001	PASS	78861598	Iach School of Medicine at Mount Sinai	–	28,129	28,129	–
Agricultural Research Basic and Applied Research	10.001	DIR			285,896	–	285,896	–
Total for CFDA 10.001					285,896	28,129	314,025	–
Grants For Agricultural Research, Special Research Grants	10.200	DIR			19,172	–	19,172	–
Cooperative Forestry Research	10.202	DIR			57,906	–	57,906	–
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	DIR			4,702,436	–	4,702,436	–
Animal Health And Disease Research	10.207	DIR			7,070	–	7,070	–
Sustainable Agriculture Research And Education	10.215	PASS	90003765	University of Virgin Island	–	3,415	3,415	–
Hispanic Serving Institutions Education Grants	10.223	PASS	77608966	SUL Ross State University	–	1,273	1,273	–
Hispanic Serving Institutions Education Grants	10.223	PASS	Not Available	Not Available	–	42,133	42,133	–
Hispanic Serving Institutions Education Grants	10.223	PASS	800189185	University of Texas San Antonio	–	19,493	19,493	–
Hispanic Serving Institutions Education Grants	10.223	PASS	173851965	The Regents of New Mexico State University	–	48,092	48,092	–
Hispanic Serving Institutions Education Grants	10.223	PASS	Not Available	Not Available	–	150,569	150,569	–
Hispanic Serving Institutions Education Grants	10.223	DIR			767,351	–	767,351	284,959
Total for CFDA 10.223					767,351	261,560	1,028,911	284,959
Agricultural And Rural Economic Research, Cooperative Agreements And Collaborations	10.250	DIR			4,240	–	4,240	–
Integrated Programs	10.303	PASS	144017188	Rhode Island University	–	1,510	1,510	–
Resident Instruction Grants For Insular Area Activities	10.308	DIR			595,843	–	595,843	472,147
Specialty Crop Research Initiative	10.309	PASS	193247145	Michigan State University	–	3,600	3,600	–
Agriculture And Food Research Initiative (AFRI)	10.310	DIR			55,418	–	55,418	–
Forestry Research	10.652	DIR			5,492	–	5,492	–
Forest Products Lab: Technology Marketing Unit (TMU)	10.674	DIR			64,953	–	64,953	–
Soil And Water Conservation	10.902	DIR			1,060	–	1,060	–
Soil Survey	10.903	DIR			17,373	–	17,373	–
Plant Materials For Conservation	10.905	DIR			9,709	–	9,709	–
Environmental Quality Incentives Program (EQIP)	10.912	DIR			15,504	–	15,504	–
Total Department of Agriculture (USDA)					6,609,423	298,214	6,907,637	757,106

University of Puerto Rico

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Sponsor/Federal Program Title/Project Title	CFDA Number	DIR/PASS	Pass Through ID Entity	Pass Through Entity	Direct Federal Award Expenditures	Indirect Federal Award Expenditures	Total Expenditures	Amount Provided to Subrecipients
Department of Commerce (DOC):								
National Oceanic and Atmospheric Administration (NOAA)	11.011	DIR			76,419		76,419	–
Integrated Ocean Observing System (IOOS)	11.012	PASS	54-1156453	Southeastern University Research Association	–	15,479	15,479	–
Integrated Ocean Observing System (IOOS)	11.012	DIR			1,448,063	–	1,448,063	304,960
Total for CFDA 11.012					1,448,063	15,479	1,463,542	304,960
Economic Development_Technical Assistance	11.303	DIR			111,592	–	111,592	–
Sea Grant Support	11.417	PASS	969663814	University of Florida	–	410	410	–
Sea Grant Support	11.417	DIR			1,032,492	–	1,032,492	140,265
Total for CFDA 11.417					1,032,492	410	1,032,902	140,265
Coastal Zone Management Administration Awards	11.419	PASS	90469086	Recursos Naturales (NOAA)	–	(4,481)	(4,481)	–
Coastal Zone Management Administration Awards	11.419	PASS	90469086	Recursos Naturales (NOAA)	–	(8,944)	(8,944)	–
Coastal Zone Management Administration Awards	11.419	PASS	830864554	U.S. Fish & Wildlife Service	–	1,493	1,493	–
Total for CFDA 11.419					–	(11,932)	(11,932)	–
Coastal Zone Management Estuarine Research Reserves	11.420	PASS	Not Available	Not Available	–	7,051	7,051	–
Coastal Zone Management Estuarine Research Reserves	11.420	PASS	66-0433481	DRNA	–	9,258	9,258	–
Total for CFDA 11.420					–	16,309	16,309	–
Financial Assistance For National Centers For Coastal Ocean Science	11.426	DIR			7,801	–	7,801	–
Southeast Area Monitoring and Assessment Program	11.435	DIR			75,472	–	75,472	–
Meteorological And Hydrologic Modernization Development	11.467	DIR			315,410	–	315,410	–
Coastal Services Center	11.473	DIR			1,488	–	1,488	–
Educational Partnership Program	11.481	PASS	56282296	Howard University	–	238,126	238,126	–
Educational Partnership Program	11.481	PASS	603503991	CUNY	–	105,618	105,618	–
Educational Partnership Program	11.481	PASS	56282296	Howard University	–	51,659	51,659	–
Total for CFDA 11.481					–	395,403	395,403	–
NOAA Programs for Disaster Relief Appropriations Act	11.483	PASS	Not Available	Not Available	–	9,877	9,877	–
NOAA Programs for Disaster Relief Appropriations Act	11.483	PASS	625174149	University of Miami	–	30,799	30,799	–
Total for CFDA 11.483					–	40,676	40,676	–
Measurement and Engineering Research and Standards	11.609	DIR			10,000	–	10,000	–
Total Department of Commerce (DOC)					3,078,737	456,345	3,535,082	445,225
Department of Defense (DOD):								
Civil Defense_Architect/Engineer Faculty Development	12.300	DIR			330,530	–	330,530	–
Basic Scientific Research	12.431	DIR			444,852	–	444,852	61,768
Basic , Applied, and Advanced Research in Science and Engineering	12.630	DIR			1,361,843	–	1,361,843	663,100
Air Force Defense Research Sciences Program	12.800	DIR			135,327	–	135,327	16,000
Other Unspecified Grants and Contracts	12.RD	PASS	966783706	Clinical Research Management	–	85,737	85,737	–
Other Unspecified Grants and Contracts	12.RD	DIR			416	–	416	–
Total for CFDA 12.999					416	85,737	86,153	–
Total Department of Defense (DOD)					2,272,968	85,737	2,358,705	740,868
Department of Education (ED):								
Transition to Teaching	84.350	PASS	832127323	Ohio State University	–	79,358	79,358	–
Total Department of Education (ED)					–	79,358	79,358	–
Department of Energy (DOE):								
Office of Science Financial Assistance Program	81.049	DIR			134,284	–	134,284	26,784
Renewable Energy Research and Development	81.087	PASS	961940868	Electric Power Research Institute	–	104,608	104,608	–
Total Department of Energy (DOE)					134,284	104,608	238,892	26,784

University of Puerto Rico

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Sponsor/Federal Program Title/Project Title	CFDA Number	DIR/PASS	Pass Through ID Entity	Pass Through Entity	Direct Federal Award Expenditures	Indirect Federal Award Expenditures	Total Expenditures	Amount Provided to Subrecipients
Department of Health and Human Services (HHS):								
HIV Prevention Programs for Women	93.015	DIR			20,568	–	20,568	4,320
Health Disparities In Minority	93.100	PASS	680412350	Foundation for California Community College	–	170	170	–
Maternal and Child Health Federal Consolidated Programs	93.110	PASS	78861598	IACH School of Medicine at Mount Sinai	–	32,572	32,572	–
Maternal and Child Health Federal Consolidated Programs	93.110	PASS	603007902	Indiana University	–	56,272	56,272	–
Maternal and Child Health Federal Consolidated Programs	93.110	PASS	617077243	Association of Public Health Laboratories	–	42,517	42,517	–
Maternal and Child Health Federal Consolidated Programs	93.110	PASS	041907486	New York Medical College	–	3,610	3,610	–
Total for CFDA 93.110					–	134,971	134,971	–
Oral Diseases And Disorders Research	93.121	DIR			606,726	–	606,726	–
NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143	PASS	001423631	Northeastern University	–	490,836	490,836	–
AIDS Education and Training Centers	93.145	DIR			(1,322)	–	(1,322)	–
AIDS Education and Training Centers	93.145	PASS	069687242	University of South Florida Board of Trustees	–	271,304	271,304	–
Total for CFDA 93.145					(1,322)	271,304	269,982	–
Research Related to Deafness and Communication Disorder	93.173	DIR			(2,148)	–	(2,148)	–
Research on Healthcare Costs, Quality and Outcomes	93.226	DIR			(559)	–	(559)	–
Mental Health Research Grants	93.242	PASS	78861598	IACH School of Medicine at Mount Sinai	–	730	730	–
Mental Health Research Grants	93.242	PASS	167204994	Research Foundation for Mental Hygiene Inc.	–	175,913	175,913	–
Mental Health Research Grants	93.242	PASS	805262995	Cambridge Health Alliance	–	68,006	68,006	–
Mental Health Research Grants	93.242	DIR			1,539,702	–	1,539,702	44,045
Mental Health Research Grants	93.242	PASS	030811269	Partners Healthcare Founded by Brigham and Women's Hospital	–	154,622	154,622	–
Mental Health Research Grants	93.242	PASS	040549461	The John Hopkins University	–	1,117	1,117	–
Mental Health Research Grants	93.242	PASS	041294109	University of Rochester	–	271,789	271,789	–
Mental Health Research Grants	93.242	PASS	042250712	Trustees of the University of Pennsylvania	–	11,064	11,064	–
Mental Health Research Grants	93.242	PASS	072527344	University of Hawaii	–	240,651	240,651	–
Total for CFDA 93.242					1,539,702	923,892	2,463,594	44,045
Substance Abuses and Mental Health Services_Projects of Regional and National Significance	93.243	PASS	660-55-9418	ASSMCA - Departamento de Salud	–	9,240	9,240	–
Substance Abuses and Mental Health Services_Projects of Regional and National Significance	93.243	PASS	16660671421	SANOS	–	3,887	3,887	–
Substance Abuses and Mental Health Services_Projects of Regional and National Significance	93.243	DIR			120,481	–	120,481	–
Total for CFDA 93.243					120,481	13,127	133,608	–
Public Health Training Centers Program	93.249	DIR			187,568	–	187,568	–
Public Health Training Centers Program	93.249	PASS	049179401	The Trustees of Columbia University in New York City	–	103,337	103,337	–
Total for CFDA 93.249					187,568	103,337	290,905	–
Occupational Safety and Health Program	93.262	DIR			73,744	–	73,744	–
Alcohol Research Programs	93.273	PASS	800771594	The University of Texas Health Science Center	–	114	114	–
Alcohol Research Programs	93.273	DIR			441,526	–	441,526	1,487
Alcohol Research Programs	93.273	PASS	021883350	Pacific Institute for Research and Evaluation	–	85,646	85,646	–
Total for CFDA 93.273					441,526	85,760	527,286	1,487
Drug Abuse and Addiction Research Programs	93.279	PASS	167204994	Research Foundation for Mental Hygiene Inc.	–	265,511	265,511	–
Drug Abuse and Addiction Research Programs	93.279	PASS	555456995	University of Nebraska Lincoln	–	30,447	30,447	–
Drug Abuse and Addiction Research Programs	93.279	PASS	805262995	Cambridge Health Alliance	–	64,735	64,735	–
Drug Abuse and Addiction Research Programs	93.279	PASS	81102771	Florida International University	–	47,811	47,811	–
Drug Abuse and Addiction Research Programs	93.279	DIR			1,069,777	–	1,069,777	–
Drug Abuse and Addiction Research Programs	93.279	PASS	047120084	The Regents of the University of California	–	16,654	16,654	–
Drug Abuse and Addiction Research Programs	93.279	PASS	049179401	The Trustees of Columbia University in New York City	–	906,861	906,861	682,068
Drug Abuse and Addiction Research Programs	93.279	PASS	063902704	The Miriam Hospital	–	16,711	16,711	–
Total for CFDA 93.279					1,069,777	1,348,730	2,418,507	682,068
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	DIR			85,567	–	85,567	–

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Minority Health and Health Disparities Research	93.307	PASS	102005451	Morehouse School of Medicine	–	53,649	53,649	–
Minority Health and Health Disparities Research	93.307	DIR			6,929,419	–	6,929,419	415,742
Total for CFDA 93.307					6,929,419	53,649	6,983,068	415,742
TRANS-NIH Research Support	93.310	PASS	102005451	Morehouse School of Medicine	–	16,677	16,677	–
TRANS-NIH Research Support	93.310	DIR			91,535	–	91,535	–
TRANS-NIH Research Support	93.310	PASS	004514360	University of Pittsburgh	–	1,863	1,863	–
TRANS-NIH Research Support	93.310	PASS	096997515	Oregon Health and Science University	–	248,291	248,291	–
Total for CFDA 93.310					91,535	266,831	358,366	–
Research Infrastructure Programs	93.351	DIR			2,508	–	2,508	–
Nursing Research	93.361	PASS	623454829	University of Michigan	–	14,843	14,843	–
Nursing Research	93.361	PASS	129348186	University of Pennsylvania	–	239,225	239,225	–
Nursing Research	93.361	PASS	Not Available	Not Available	(707)	–	(707)	–
Total for CFDA 93.361					(707)	254,068	253,361	–
National Center for Research Resources	93.389	PASS	Not Available	Not Available	–	18,018	18,018	–
National Center for Research Resources	93.389	DIR			7,879,910	–	7,879,910	2,353,833
Total for CFDA 93.389					7,879,910	18,018	7,897,928	2,353,833
Cancer Cause and Prevention Research	93.393	PASS	608195277	The University of North Carolina at Chapel Hill	–	106,837	106,837	–
Cancer Cause and Prevention Research	93.393	PASS	040549461	The John Hopkins University	–	131,165	131,165	–
Total for CFDA 93.393					–	238,002	238,002	–
Cancer Centers Support Grants	93.397	DIR			1,984,115	–	1,984,115	60,672
Cancer Research Manpower	93.398	DIR			165,691	–	165,691	17,761
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	DIR			550,312	–	550,312	–
TRANS-NIH Recovery Act Research Support	93.701	PASS	785877408	Charles Drew University	–	5,534	5,534	–
TRANS-NIH Recovery Act Research Support	93.701	DIR			838	–	838	–
TRANS-NIH Recovery Act Research Support	93.701	PASS	045632635	University of Alabama	–	2,010	2,010	–
Total for CFDA 93.701					838	7,544	8,382	–
Centers for Medicare and Medicaid Services (CMS) Research	93.779	DIR			145,002	–	145,002	–
Cardiovascular Diseases Research	93.837	DIR			508,905	–	508,905	–
Cardiovascular Diseases Research	93.837	PASS	030811269	Partners Healthcare Founded by Brigham and Women's Hospital	–	11,281	11,281	–
Cardiovascular Diseases Research	93.837	PASS	049179401	The Trustees of Columbia University in New York City	–	102,971	102,971	–
Total for CFDA 93.837					508,905	114,252	623,157	–
Lung Diseases Research	93.838	PASS	004514360	University of Pittsburgh		458,894	458,894	–
Blood Diseases and Resources Research	93.839	DIR			138,394	–	138,394	–
Arthritis, Musculoskeletal And Skin Diseases Research	93.846	PASS	063690705	The Board of Trustees of the University of Alabama Birmingham	–	36,273	36,273	–
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	DIR			16,136	–	16,136	–
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	PASS	075307785	Cedars-Sinai Medical Center	–	10,838	10,838	–
Total for CFDA 93.847					16,136	10,838	26,974	–
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	DIR			1,226,487	–	1,226,487	–
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	PASS	052780918	University of Miami		31,648	31,648	–
Total for CFDA 93.853					1,226,487	31,648	1,258,135	–
Allergy, Immunology and Transplantation Research	93.855	PASS	75524595	The Wistar Institute	–	146,589	146,589	–
Allergy, Immunology and Transplantation Research	93.855	DIR			1,305,249	–	1,305,249	73,841
Allergy, Immunology and Transplantation Research	93.855	PASS	020657151	Research Foundation for the State University of New York	–	101,500	101,500	–
Allergy, Immunology and Transplantation Research	93.855	PASS	030811269	Partners Healthcare Funded by Brigham and Women's Hospital	–	210,739	210,739	–
Allergy, Immunology and Transplantation Research	93.855	PASS	040549461	The John Hopkins University	–	23,257	23,257	–
Total for CFDA 93.855					1,305,249	482,085	1,787,334	73,841

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Biomedical Research and Research Training	93.859	PASS	8781531	New Jersey State University	–	129,038	129,038	–
Biomedical Research and Research Training	93.859	PASS	52184116	Carnegie Mellon University	–	48,057	48,057	–
Biomedical Research and Research Training	93.859	DIR			100,451	–	100,451	–
Biomedical Research and Research Training	93.859	DIR			10,967,741	–	10,967,741	17,449
Biomedical Research and Research Training	93.859	PASS	004514360	University of Pittsburgh	–	17,834	17,834	–
Biomedical Research and Research Training	93.859	PASS	105742043	Ponce School of Medicine	–	3,947	3,947	–
Total for CFDA 93.859					11,068,192	198,876	11,267,068	17,449
Child Health and Human Development Extramural Research	93.865	PASS	119132785	Magee-Women's Research Institute and Foundation	–	45,245	45,245	–
Child Health and Human Development Extramural Research	93.865	DIR			555,983	–	555,983	26,112
Child Health and Human Development Extramural Research	93.865	PASS	049179401	The Trustees of Columbia University in New York City	–	229,173	229,173	–
Child Health and Human Development Extramural Research	93.865	PASS	049508120	Westat Inc.	–	4,400	4,400	–
Child Health and Human Development Extramural Research	93.865	PASS	050258954	Rhode Island Hospital	–	28,964	28,964	–
Child Health and Human Development Extramural Research	93.865	PASS	082359691	President and Fellows of Harvard College on Behalf Harvard School of Public Health	–	357,816	357,816	–
Total for CFDA 93.865					555,983	665,598	1,221,581	26,112
Grants for Primary Care Training and Enhancement	93.884	DIR			396,581	–	396,581	–
HIV Demonstration, Research, Public and Professional Education Projects	93.941	DIR			170,520	–	170,520	1,400
Bioterrorism Training and Curriculum Development Program	93.996	DIR			757	–	757	–
Test for Suppression Effects of Advanced Energy	93.RD	DIR			28,392	–	28,392	–
Test for Suppression Effects of Advanced Energy	93.RD	PASS	030811269	Partners Healthcare Founded by Brigham and Women's Hospital	–	214,384	214,384	–
Total for CFDA 93.999					28,392	214,384	242,776	–
Total Department of Health and Human Services (HHS)					37,305,849	6,423,087	43,728,936	3,698,730
Department of Homeland Security (DHS):								
Centers for Homeland Security	97.061	PASS	001423631	Northeastern University	–	109,958	109,958	–
Centers for Homeland Security	97.061	PASS	608195277	University of North Carolina at Chapel Hill	–	5,832	5,832	–
Total for CFDA 97.061					–	115,790	115,790	–
Scientific Leadership Awards	97.062	DIR			15,726	–	15,726	–
Total Department of Homeland Security (DHS)					15,726	115,790	131,516	–
Department of Interior (DOI):								
U.S. Geological Survey_Research and Data Collection	15.808	PASS	6326904	Missouri University	–	11,769	11,769	–
Assistance to State Water Resources Research Institutes	15.805	PASS	90003765	University of Virgin Island	–	18,881	18,881	–
Assistance to State Water Resources Research Institutes	15.805	DIR			91,851	–	91,851	–
Total for CFDA 15.805					91,851	18,881	110,732	–
Cooperative Research and Training Programs – Resources of the National Park System	15.945	DIR			22,630	–	22,630	–
Endangered Species Conservation – Recovery Implementation Funds	15.657	DIR			8,805	–	8,805	–
Total Department of Interior (DOI)					123,286	30,650	153,936	–
Department of Transportation (DOT):								
Highway Training and Education	20.215	PASS	88541391	DTOP	–	6,613	6,613	–
Highway Training and Education	20.215	PASS	88541391	DTOP	–	51,035	51,035	–
Highway Training and Education	20.215	DIR			29,773	–	29,773	–
Total for CFDA 20.215					29,773	57,648	87,421	–
University Transportation Centers Program	20.701	PASS	64932676	UTRC	–	68,337	68,337	–
University Transportation Centers Program	20.701	PASS	152606125	State University of New York	–	121,236	121,236	–
University Transportation Centers Program	20.701	PASS	42-6004224	Iowa State University	–	74,155	74,155	–
Total for CFDA 20.701					–	263,728	263,728	–
Total Department of Transportation (DOT)					29,773	321,376	351,149	–

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Environmental Protection Agency (EPA):								
Surveys, Studies, Investigations and Special Purpose Grants within Office of Research and Development	66.510	DIR			33,834	–	33,834	–
Greater Research Opportunities (GRO) Fellowships for Undergrad	66.513	DIR			3,855	–	3,855	–
Total Environmental Protection Agency (EPA)					37,689	–	37,689	–
National Aeronautics and Space Administration (NASA):								
Science	43.001	DIR			1,588,741	–	1,588,741	510,774
Nasa Technology Transfer-Aeronautics	43.002	DIR			1,228	–	1,228	–
Exploration	43.003	PASS	136406357	National Space Grant Foundation	–	16,455	16,455	–
Education	43.008	DIR			345,400	–	345,400	263,039
Total National Aeronautics and Space Administration (NASA)					1,935,369	16,455	1,951,824	773,813
National Endowment for the Humanities (NHE):								
Promotion of the Humanities_Division of Preservation and Acc	45.149	DIR			55,870	–	55,870	–
Promotion of the Humanities, Teaching and Learning Resources and Curriculum Development	45.162	DIR			4,117	–	4,117	–
Other Unspecified Grants and Contracts	45.RD	PASS	969663814	University of Florida	–	46,549	46,549	–
Total National Endowment for the Humanities (NHE)					59,987	46,549	106,536	–
National Science Foundation (NSF):								
Engineering Grants	47.041	PASS	1912864	Rutgers University	–	295,201	295,201	–
Engineering Grants	47.041	PASS	603503991	CUNY	–	33,095	33,095	–
Engineering Grants	47.041	PASS	130888378	3DEWITT LLC	–	10,521	10,521	–
Engineering Grants	47.041	PASS	076580695	University of Massachusetts	–	20,008	20,008	–
Engineering Grants	47.041	DIR			253,603	–	253,603	–
Total for CFDA 47.041					253,603	358,825	612,428	–
Mathematical and Physical Sciences	47.049	PASS	9094012	Brigham Young University	–	6,250	6,250	-
Mathematical and Physical Sciences	47.049	PASS	72662992	Mathematical Association of America	–	26,872	26,872	–
Mathematical and Physical Sciences	47.049	PASS	90117508	Pontificia Universidad Católica de Puerto Rico	–	3,397	3,397	–
Mathematical and Physical Sciences	47.049	PASS	161202122	Wisconsin University	–	13,639	13,639	–
Mathematical and Physical Sciences	47.049	PASS	9584210	California Institute of Technology	–	23,554	23,554	–
Mathematical and Physical Sciences	47.049	DIR			1,499,554	–	1,499,554	68,828
Total for CFDA 47.049					1,499,554	73,712	1,573,266	68,828
Geosciences	47.050	PASS	75050765	Louisiana State University	–	11,111	11,111	–
Geosciences	47.050	PASS	161202122	Wisconsin University	–	8,124	8,124	–
Geosciences	47.050	PASS	111089470	University of New Hampshire	–	33,573	33,573	–
Geosciences	47.050	DIR			82,269	–	82,269	–
Total for CFDA 47.050					82,269	52,808	135,077	–
Computer and Information Science and Engineering	47.070	PASS	132051285	University of Texas	–	55,492	55,492	–
Computer and Information Science and Engineering	47.070	DIR			486,533	–	486,533	–
Total for CFDA 47.070					486,533	55,492	542,025	–
Biological Sciences	47.074	PASS	075461814	Mississippi State University		74,991	74,991	–
Biological Sciences	47.074	PASS	600254049	The United States-Israel Binational Science Foundation		31,600	31,600	–
Biological Sciences	47.074	DIR			1,973,083	–	1,973,083	1,020,996
Total for CFDA 47.074					1,973,083	106,591	2,079,674	1,020,996
Education And Human Resources	47.076	PASS	001423631	Northeastern University	–	78,593	78,593	–
Education And Human Resources	47.076	PASS	64271570	Stevens Institute	–	2,000	2,000	–
Education And Human Resources	47.076	PASS	91048983	Comisión para la Seguridad en el Tránsito	–	(933)	(933)	–
Education And Human Resources	47.076	PASS	837322494	Board of Regents of the University System by and on Behalf Georgia State University	–	21,582	21,582	–
Education And Human Resources	47.076	DIR			3,862,636	–	3,862,636	111,491
Total for CFDA 47.076					3,862,636	101,242	3,963,878	111,491

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International Science and Engineering (OISE)	47.079	DIR			1,063,747	–	1,063,747	–
International Science and Engineering (OISE)	47.079	PASS	546001736	CRDF Global	–	242,820	242,820	194,930
Total for CFDA 47.079					1,063,747	242,820	1,306,567	194,930
Office of Experimental Program to Stimulate Competitive Research	47.081	DIR			2,222,835	–	2,222,835	376,055
TRANS-NSF Recovery Act Research Support	47.082	PASS	957383151	University of Illinois at Chicago–NSF	–	2,806	2,806	–
TRANS-NSF Recovery Act Research Support	47.082	DIR			48,122	–	48,122	–
Total for CFDA 47.082					48,122	2,806	50,928	–
Office of Integrative Activities	47.083	PASS	073133571	Regents University of the University of Michigan	–	20,763	20,763	–
Total National Science Foundation (NSF)					11,492,382	1,015,059	12,507,441	1,772,300
Nuclear Regulatory Commission (NRC):								
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	DIR			357,378	–	357,378	–
Total Nuclear Regulatory Commission (NRC)					357,378	–	357,378	–
TOTAL RESEARCH AND DEVELOPMENT CLUSTER					63,452,851	9,041,602	72,494,453	8,214,826
OTHER PROGRAMS								
Department of Agriculture (USDA):								
Plant and Animal Disease, Pest Control, and Animal Care	10.025	DIR			215,117	–	215,117	–
Higher Education Graduate Fellowships Grant Program	10.210	PASS	969663814	University of Florida	–	(215)	(215)	–
Higher Education Graduate Fellowships Grant Program	10.210	DIR			1,088	–	1,088	–
Total for CFDA 10.210					1,088	(215)	873	–
Homeland Security: Agricultural	10.304	PASS	969663814	University of Florida		19,994	19,994	–
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	DIR			92,349	–	92,349	–
Technical Assistance to Cooperatives	10.350	DIR			1,109	–	1,109	–
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	DIR			85,268	–	85,268	–
Cooperative Extension Service	10.500	DIR			8,373,763	–	8,373,763	–
Child and Adult Care Food Program	10.558	DIR			14,971	–	14,971	–
Urban and Community Forestry Program	10.675	DIR			299	–	299	–
Forest Health Protection	10.680	DIR			32,625	–	32,625	–
Total Department of Agriculture (USDA)					8,816,589	19,779	8,836,368	–
Department Of Commerce (DOC):								
Marine Sanctuary Program	11.429	DIR			65,991	–	65,991	–
Coral Reef Conservation Program	11.482	DIR			16,283	–	16,283	–
Science, Technology, Business and/or Education Outreach	11.620	DIR			42,650	–	42,650	–
Total Department of Commerce (DOC)					124,924	–	124,924	–
Department of Defense (DOD):								
Selected Reserve Educational Assistance Program	12.609	DIR			6,873	–	6,873	–
Mathematical Sciences Grants Program	12.901	PASS	090142522	Departamento de Educación de Puerto Rico	–	(30)	(30)	–
Total Department of Defense (DOD)					6,873	(30)	6,843	–
Department of Education (ED):								
Higher Education_Institutional Aid	84.031	DIR			4,127,368	–	4,127,368	146,676
Perkins Loan Cancellations	84.037	DIR			271,530	–	271,530	–
Minority Science and Engineering Improvement	84.120	DIR			230,686	–	230,686	–
Rehabilitation Long-Term Training	84.129	DIR			137,949	–	137,949	–
Safe and Drug-Free Schools and Communities - State Grants	84.186	DIR			554	–	554	–
Assistive Technology	84.224	DIR			405,667	–	405,667	–
Twenty-First Century Community Learning Centers	84.287	PASS	090142522	Departamento de Educación de Puerto Rico	–	660	660	–

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Twenty-First Century Community Learning Centers	84.287	PASS	Not Available	Not Available	(44)	–	(44)	–
Total for CFDA 84.287					(44)	660	616	–
Mathematics and Science Partnerships	84.366	PASS	090142522	Departamento de Educación de Puerto Rico	–	820,067	820,067	–
Improving Teacher Quality State Grants	84.367	PASS	37760126	California University	–	6,573	6,573	–
Improving Teacher Quality State Grants	84.367	PASS	78811162	Consejo de Educación de Puerto Rico	–	178,735	178,735	–
Improving Teacher Quality State Grants	84.367	PASS	090142522	Departamento de Educación de Puerto Rico	–	(200)	(200)	–
Total for CFDA 84.367					–	185,108	185,108	–
College Access Challenge Grant Program	84.378	PASS	Not Available	Not Available	–	23,149	23,149	–
College Access Challenge Grant Program	84.378	PASS	614209054	University of Connecticut	–	1,716	1,716	–
College Access Challenge Grant Program	84.378	DIR			2,031,859	–	2,031,859	–
Total for CFDA 84.378					2,031,859	24,865	2,056,724	–
Total Department of Education (ED)					7,205,569	1,030,700	8,236,269	146,676
Department of Health and Human Services (HHS):								
Environmental Health	93.113	PASS	001423631	Northeastern University	–	6,337	6,337	–
Nurse Anesthetist Traineeships	93.124	DIR			9,313	–	9,313	–
Emergency Medical Services for Children	93.127	DIR			128,407	–	128,407	–
Centers of Excellence	93.157	DIR			662,729	–	662,729	–
Hansen's Disease National Ambulatory Care Program	93.215	DIR			77,130	–	77,130	–
Family Planning_Services	93.217	DIR			2,441,611	–	2,441,611	–
Child Care and Development Block Grant and CCDF Cluster	93.575	DIR			(35)	–	(35)	–
Child Care and Development Block Grant and CCDF Cluster	93.575	PASS	660-43-3481 (119)	ACUDEN	–	61,424	61,424	–
Total for CFDA 93.575					(35)	61,424	61,389	–
Medical Library Assistance	93.879	DIR			34,907	–	34,907	–
Special Projects of National Significance	93.928	PASS	001423631	Northeastern University	–	26,397	26,397	–
Special Projects of National Significance	93.928	PASS	126801104	One Stop Career Center of PR Inc.	–	19,068	19,068	–
Total for CFDA 93.928					–	45,465	45,465	–
Assistance Programs for Chronic Disease Prevention and Control	93.945	PASS	105817142	Departamento de Salud	–	6,127	6,127	–
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	DIR			176,767	–	176,767	–
Total Department of Health and Human Services (HHS)					3,530,829	119,353	3,650,182	–
Department of Housing and Urban Development (HUD):								
Emergency Solutions Grants Program	14.231	PASS	1394320870000	Municipio de Humacao	–	68,904	68,904	–
Total Department of Housing and Urban Development (HUD)					–	68,904	68,904	–
Department of Interior (DOI):								
Coastal Program	15.630	DIR			14,715	–	14,715	–
Cooperative Endangered Species Conservation Fund	15.615	PASS	080439654	Departament de Recursos Naturales y Ambientales	–	5,000	5,000	–
Total Department of Interior (DOI)					14,715	5,000	19,715	–
Department of Justice (DOJ):								
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	DIR			81,413	–	81,413	–
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PASS	089689090	Justicia de PR	–	24,930	24,930	–
Other Unspecified Grants and Contracts	16.U01	PASS	Not Available	Not Available	(3,500)	–	(3,500)	–
Total Department of Justice (DOJ)					77,913	24,930	102,843	–
Department of Labor (DOL):								
H-1B Job Training Grants	17.268	PASS	614879349	El Corredor Tecnoeconomico de Puerto Rico: (PRTC)		5,224	5,224	–
Occupational Safety and Health Susan Harwood Training Grants	17.502	DIR			113,347	–	113,347	–
Total Department of Labor (DOL)					113,347	5,224	118,571	–

University of Puerto Rico

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Sponsor/Federal Program Title/Project Title	CFDA Number	DIR/PASS	Pass Through ID Entity	Pass Through Entity	Direct Federal Award Expenditures	Indirect Federal Award Expenditures	Total Expenditures	Amount Provided to Subrecipients
Department of Transportation (DOT):								
Highway Research and Development Program	20.200	PASS	42-6004224	Iowa State University	–	172	172	–
State and Community Highway Safety and Highway Safety Cluster	20.600	PASS	Not Available	Not Available	–	94,529	94,529	–
State and Community Highway Safety and Highway Safety Cluster	20.600	PASS	91048983	Comisión para la Seguridad en el Tránsito	–	16,689	16,689	–
Total for CFDA 20.600					–	111,218	111,218	–
Alcohol Open Container Requirements	20.607	PASS	Not Available	Not Available	–	172,577	172,577	–
Alcohol Open Container Requirements	20.607	PASS	91048983	Comisión para la Seguridad en el Tránsito	–	14,104	14,104	–
Total for CFDA 20.607					–	186,681	186,681	–
Total Department of Transportation (DOT)					–	298,071	298,071	–
Environmental Protection Agency (EPA):								
National Environmental Education Training Program	66.950	DIR			1,701	–	1,701	–
Environmental Education Grants	66.951	PASS	2257350	Syracuse University	–	11,824	11,824	–
Total Environmental Protection Agency (EPA)					1,701	11,824	13,525	–
National Endowment for the Humanities (NHE):								
Institute of Museum and Library Services	45.310	PASS	090142522	Departamento de Educación de Puerto Rico	–	14,471	14,471	–
Promotion of the Humanities Federal/State Partnership	45.129	PASS	660359285	Fundación Puertorriqueña de las Humanidades	–	46,474	46,474	–
Promotion of the Humanities Federal/State Partnership	45.160	DIR			70	–	70	–
Total National Endowment for the Humanities (NHE)					70	60,945	61,015	–
National Science Foundation (NSF):								
Social, Behavioral, and Economic Sciences	47.075	PASS	073133571	Regents University of the University of Michigan	–	9,450	9,450	–
Social, Behavioral, and Economic Sciences	47.075	DIR			174,380	–	174,380	–
Total National Science Foundation (NSF)					174,380	9,450	183,830	–
Veterans Affairs (VA):								
Survivors and Dependents Educational Assistance	64.117	DIR			3,797	–	3,797	–
Vocational and Educational Counseling for Service Members and Veterans	64.125	DIR			3,909	–	3,909	–
Total Veterans Affairs (VA)					7,706	–	7,706	–
Agency Not Identified:								
CFDA Not Identified	99.U01	DIR			17,167	–	17,167	–
CFDA Not Identified	99.U02	DIR			155,421	–	155,421	–
Total Agency Not Identified					172,588	–	172,588	–
Total Other Programs					20,247,204	1,654,150	21,901,354	146,676
TOTAL EXPENDITURES OF FEDERAL AWARDS					324,153,386	$ 10,695,752	$ 334,849,138	$ 8,361,502

The accompanying notes are an integral part of this schedule.

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all Federal Awards Programs of the University of Puerto Rico (the "University"). The University's reporting entity is defined in the notes to the financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards ("Schedule" or "SEFA") is presented using the accrual basis of accounting.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule.

4. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting explained in Note 2.

Office of Management and Budget ("OMB") Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) ("Uniform Guidance") requires that federal financial reports for claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The University prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the respective Campuses of the University.

5. Relationship to Financial Statements

Federal awards revenues and expenses are reported in the University's statement of revenues, expenses and changes in net position in accordance with standards issued by the Government Accounting Standards Board ("GASB") No. 35. Because the Schedule of Expenditures of Federal Awards presents only federal activities of the University, it is not intended to and does not present the financial position, assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows of the University, as a whole.

6. Program Clusters

Uniform Guidance defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, TRIO, Research and Development, Student Financial Assistance, CCDF and the Highway Safety were identified as clusters.

7. Loan Programs

The University did not receive or disburse federal funds to students under the Federal Perkins Loan Program (CFDA No. 84.038) for the fiscal year ended June 30, 2016. The outstanding loan balance of $954,753 as of July 1, 2015 is not considered current year federal expenditures. Since this program is administered by a third-party, any new loans made in the fiscal year ended June 30, 2016, relating to this program are considered current year federal expenditures, whereas the outstanding loan balances are not.

During the fiscal year ended June 30, 2016, the University processed $51,083,663.15 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Since this program is administered by a third-party, the new loans made in the fiscal year ended June 30, 2016, relating to this program are considered current year federal expenditures, whereas the outstanding loan balances are not. The new loans made in the fiscal year ended June 30, 2016, are reported in the Schedule of Expenditures of Federal Awards.

8. Contingencies

The grant amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the University. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

9. Indirect Cost Rate

The University did not use the ten percent de minimis indirect cost rate allowed by the Uniform Guidance.

University of Puerto Rico

Schedule of Findings and Questioned Costs

June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP *(unmodified, qualified, adverse or disclaimer)*:	Unmodified with going concern emphasis of matter
Internal control over financial reporting:	
Material weakness(es) identified?	X **Yes** ___ **No**
Significant deficiency(ies) identified?	___ **Yes** X **None reported**
Noncompliance material to financial statements noted?	___ **Yes** X **No**

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	X **Yes** ___ **No**
Significant deficiency(ies) identified?	___ **Yes** X **None reported**
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X **Yes** ___ **No**

Identification of major federal programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
10.500	Cooperative Extension Service
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster
84.031	Higher Education: Institutional Aid

Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

Auditee qualified as low-risk auditee? ___ **Yes** X **No**

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Uniform Guidance audit.

Section II – Financial Statement Findings (continued)

Finding Number: 2016-001 - 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 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.

Section II – Financial Statement Findings (continued)

Finding Number: 2016-001 - Financial Statement Close Process (continued)

Effect
There were numerous post-closing entries that were recorded by the University 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 and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) of the Uniform Guidance (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs and material abuse).

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-002

Federal Program Information
84.031 Higher Education: Institutional Aid
Research & Development Cluster
10.500 Student Financial Assistance Cluster
Cooperative Extension Service

Category
Internal Control/Compliance

Compliance Requirement
General reporting requirements of the Uniform Guidance

Criteria
Uniform Guidance, 2 CFR 200.512 requires that the audit shall be completed and that the reporting package shall be submitted within the earlier of 30 days after the receipt of the auditor's report or nine months after the end of the audit period, unless a longer period is approved by the cognizant or oversight agency.

Pursuant to 2 CFR 200.510(b) of the Uniform Guidance related to financial statements, the auditee shall also prepare a schedule of federal expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements.

Condition
The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine (9) months after the end of the audit period as required by the Uniform Guidance.

Questioned Costs
Not applicable.

Cause
The University does not have procedures in place to ensure a timely completion of and compilation of the Single Audit reporting package and data collection form. Additionally, the University does not have its records organized in a manner that audit requests are addressed timely.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-002 (Continued)

Effect
The lack of appropriate procedures to ensure a complete reporting package and data collection form and timely production of records may cause delays in the audit process thus affecting future grant awards. In addition, the grantors and the pass-through entities did not receive the audit results within the required timeframe.

Identification as a repeat finding, if applicable
2015-002

Recommendation
We recommend that the University designate a process owner to ensure a complete reporting package, including compilation of the SEFA, is available with sufficient time to complete and issue the reporting package within the required period. Additionally, we recommend the University establish a process to produce requested documents timely.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-003

Programs
84.031 Higher Education: Institutional Aid
Research & Development Cluster
10.500 Student Financial Assistance Cluster
Cooperative Extension Service

Category
Internal Control/Compliance

Compliance Requirement
General reporting requirements of the Uniform Guidance

Criteria
Uniform Guidance, 2 CFR 200.502 states that the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

Condition
During our audit, we noted instances in which expenditures were not timely accounted for in the period in which the related activity occurred.

Questioned Costs
None as exceptions relate to timing of recognition, not to whether or not expense was incurred.

Cause
The University does not have procedures in place to ensure that expenditures are reported in the period in which the activity occurs.

Context
These instances relate to expense reimbursements to employees or representatives. Even when the University has sufficient information to record the expenditures timely, it failed to do so and recorded them when such reimbursements were processed.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-003 (continued)

Effect
The lack of adequate controls resulted in the identification of instances where expenditures were not recognized initially in the period in which the activity related to the Federal award occurs.

Recommendation
We recommend that the University designate a process owner to ensure that transactions included for the compilation of the SEFA correspond to the accounting period in which they occurred.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-004

Programs
84.031 Higher Education: Institutional Aid
Award Number: P031S140142
Award Name: Improving Student Outcomes through Augmented Laboratory Resources for Natural and Health Sciences at the University of Puerto Rico - Humacao
Performance Period: 10/1/2014- 9/30/2019

Research and Development Cluster
CFDA 11.417
Award Number: NA14OAR4170068
Performance Period: 2/1/2014- 1/31/2018

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
When awards provide for advance payments, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement and establish similar procedures for subrecipients. Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-004 (continued)

Criteria (continued)

U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions under which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition

During our testing to determine whether the University complied with the terms and conditions established in 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement", we noted three (3) transactions included expenses that were incurred but not paid by the time the University requested the funds.

Campus	Cash Drawdown Requested	Incurred but Not Paid	Date Incurred	Request Date
Humacao	$82,042	$16,742	12/08/2015	03/14/2016
Humacao	$79,254	$45,455	12/15/2015	02/03/2016
CID	$ 8,537	$ 1,000	08/13/2015 - 09/04/2015	09/11/2015

Questioned Costs

None as exceptions relate to timing of cash drawn, not to whether or not expense was incurred.

Cause

The process and controls over the Cash Management are not in place to ensure that the University complies with the reimbursement requirement as specified in the criteria section.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-004 (continued)

Context
Our sample consisted of 13 items out of a population of 63 items for the CFDA 84.031 Higher Education: Institutional Aid and 60 items out of a population of 910 items for Research and Development Cluster.

Effect
This condition could prevent the University from receiving Federal Funds and may result in a return of funds or termination of the grant if it is determined that the Grantee has failed to materially comply with the terms and conditions of the signed Agreement, or that the Grantee has failed to strictly comply with any federal regulation.

Identification as a repeat finding, if applicable
2015-003

Recommendation
We recommend that the University establishes procedures to ensure that each reimbursement request is properly authorized and reviewed to assert that the expenditures were incurred and paid prior to submitting a drawdown request to the agency. Additionally, proper backup documentation should be retained to support the amount being requested to the Federal Agency.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-005

Program
Research and Development Cluster
Award Number: N414OAR4170068
Award Name: 11.417 Puerto Rico Sea Grant
Performance Period: 2/1/2014- 1/30/2018

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria
While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local department or agency, to substantiate its request for the establishment of an indirect cost rate. The indirect costs include (1) costs originating in the department or agency carrying out Federal awards, and (2) costs of central governmental services distributed through the State/local-wide central service CAP that are not otherwise treated as direct costs.

Condition
The University is using a lower indirect cost rate than the approved rate. Refer below for further details:

CFDA	Project	Date	Indirect Cost per Contract Rate	Indirect Cost Rate Requested	Difference
11.417	331420872101	12/31/2014	50%	26%	(24%)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-005 (continued)

Questioned Costs
Not applicable.

Cause
Appropriate controls over Indirect Costs are not in place to ensure that the University complies with this requirement resulting in inconsistencies observed in the indirect costs rates applied to expenditures.

Context
Our sample consisted of sixty (60) items totaling $228,691 out of a population of 1,495 items totaling $13,953,959. Since this is a repeated finding from prior year audit we do not believe that this represents an isolated case.

Effect
The lack of proper controls over indirect costs could result in charging more or less federal expenditures to the respective projects that may affect the Institution's cash flow. Additionally, the Federal Agency may question the need for the funding amount needed to complete the project per Budget submitted as part of the proposal.

Identification as a repeat finding, if applicable
2015-005

Recommendation
We recommend that the University establishes procedures to ensure that indirect cost rates are properly applied to each project. Additionally, we recommend that proper review and approval is exercised before recording the indirect cost journal entry.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-006

Program
Research and Development Cluster
CFDA: 47.082
Award No: DMR-0934195
Period of Performance: 9/1/2009- 8/31/2015

Category
Internal Control/Compliance

Compliance Requirement
Matching

Criteria
Non-Federal entities may be required to share in the cost of research either on an overall entity or individual award basis. The specific program regulations or individual Federal award will specify matching requirements, if applicable. OMB Circular A-110 (2 CFR section 215.23) provide detailed criteria for acceptable costs and contributions.

Condition
The grantee provided cost sharing of $573,115, instead of the required $600,804 as stated in the agreement (Award No: DMR-0934195).

Questioned Costs
$27,689 in CFDA 47.082

Context
Our sample consisted of 60 items in 60 projects out of a population of 330 projects included in grant awards with matching requirements.

Cause
The process and controls over Matching are not in place to ensure that the University complies with this requirement.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-006 (continued)

Effect
This condition could result in the return of funds to the Federal Agency and suspension or termination of the grant if it is determined that the Grantee has failed to materially comply with the terms and conditions of the signed Agreement, or that the Grantee has failed to strictly comply with any federal regulation.

Recommendation
We recommend that the University establishes procedures such as detail review of the institutional transactions charged to the project to ensure that required matching requirements are met as stated in each Grant Agreement.

Management's Response and Planned Corrective Actions
Management concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-007

Federal Program Information
Student Financial Assistance Cluster (Various CFDA numbers)

Category
Internal Control/Compliance

Compliance Requirement
Special Tests and Provisions: Return of Title IV Funds

Criteria
When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as noted in the federal regulations as outlined in Part 5 of the 2016 OMB Compliance Supplement and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement [34 CFR sections 668.22(a)(1) through (a)(5)].

Condition
We noted that four (4) student withdrawals were not in compliance with the requirement as follows:

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-007 (continued)

Condition (continued)

Exceptions and Instances of Noncompliance

A- The Return of Title IV worksheet was incomplete.

B- Funds were not returned during FY2016.

Item Number	Campus	Amount Not Returned	Exceptions
301	Carolina	$355	A, B
314	Carolina	$385	B
1050	Carolina	$587	B
107	Arecibo	$403	B

Questioned Costs
$1,730 in CFDA 84.063

Cause
The lack of effectively implemented review and/or monitoring controls as well as inadequate employee supervision led to errors in the Return of Title IV Funds process.

Context
Our sample consisted of 74 items (out of a population of 939 students that withdrew from their classes for fiscal year 2016). Since several exceptions were identified, we concluded that these items are not isolated cases.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-007 (continued)

Effect
The University may have not returned unearned Title IV Funds when required by federal Regulation or calculated such amounts correctly.

Identification as a repeat finding, if applicable
2015-007

Recommendation
Management should enhance existing monitoring procedures and develop additional monitoring or review procedures over the Return of Title IV process to ascertain: (1) The institution has a complete and accurate list of students who withdraw from the institution (2) The institution completes the Return of Title IV worksheet and the withdrawal sheet (3) The institution performs a calculation to identify if the student is required to return title IV funds and the amount of such funds required to be returned.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-008

Program
Student Financial Assistance Cluster (Various CFDA numbers)

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions – Enrollment Reporting

Criteria
Under the Pell grant and Education Department (ED) loan programs, institutions must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) (OMB No. 1845-0002) mailboxes sent by ED via NSLDS (OMB No.1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. As explained in the NSLDS Enrollment Reporting Guide, the Enrollment Reporting roster file is due within 30 days from the creation of the file that is placed in the institution's SAIG (PELL, 34 CFR section 690.83(b)(2); FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-008 (continued)

Criteria (continued)
Per 34 CFR Section 682.610 for the Federal Family Education Loan (FFEL) and 34 CFR Section 685.309 for the Direct Loans Program, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by U.S Department of Education (ED) via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Condition
We noted that seventeen (17) students selected for testing, were not in compliance with the requirement as follows:

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-008 (continued)

Condition (continued)

Exceptions and Instances of Noncompliance

A- The status change of the student was not reported to the U.S. Department of Education (DOE) within 60 days as required.
B- The status change was never reported to NSLDS.
C- The student was reported as withdrawn instead of graduated.

Item Number	Campus	Exceptions
5782	RUM	B
5150	Rio Piedras	A
3125	RCM	C
3165	RCM	B
2644	Ponce	A
2381	Humacao	A
1656	Cayey	A
1787	Cayey	A
1431	Carolina	A
1479	Carolina	A
1113	Carolina	B
103	Aguadilla	A
161	Aguadilla	A
350	Aguadilla	A
19	Aguadilla	A
105	Aguadilla	A
1125	Carolina	A

Questioned Costs
Not applicable.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-008 (continued

Cause
The process and controls over the enrollment reporting of the student status change to the U.S. Department of Education are not in place to ensure that the University timely complies with this requirement. An incorrect enrollment status and/or status date reported could cause a student's loan to be inappropriately delayed in being converted to repayment status.

Context
Our sample consisted of 60 items (out of a population of 7,192 students that withdrew, never attended and requested graduation for fiscal year 2016). Since several exceptions were identified, we concluded that these items do not represent isolated cases.

Effect
This condition prevents the University from reporting a student's status in a timely manner to the NSLDS, which can cause funds being awarded to individuals who are not entitled to receive student financial assistance.

Identification as a repeat finding, if applicable
2015-008

Recommendation
We recommend that the University establishes procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Management's Response and Planned Corrective Actions
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-009

Federal Program Information
Student Financial Assistance Cluster (Various CFDA numbers)

Category
Internal Control/Compliance

Compliance Requirement
Special Tests and Provisions – Borrower Data Transmission and Reconciliation

Criteria
Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the COD within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the Institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303).

Condition
We noted that one (1) out of the sixty (60) borrowers selected for testing, was not in compliance with the requirement as follows.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-009 (continued)

Condition (continued)

Exceptions and Instances of Noncomplaince

A- A difference between the UPR and COD records was identified since COD records were updated prior to the disbursement to students.

Item Number	Campus	Exceptions
7142	RUM	A

Questioned Costs
Not Applicable.

Cause
The lack of effectively designed and implemented review and/or monitoring controls to ascertain that reconciliations are performed and that reconciling items have been investigated and resolved in a timely manner.

Effect
The University may disburse Title IV funds to students that are not yet eligible to receive such funds.

Context
Our sample consisted of thirteen (13) reconciliations (out of population of sixty-five (65) months for all the campuses combined) and sixty borrowers (60) (out of population of 17,412 students for all the universities combined). W Since this is a repeated finding from prior year audit we do not believe that this represents an isolated case.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-009 (continued)

Identification as a repeat finding, if applicable
2015-009

Recommendation
Management should develop, as considered necessary, additional monitoring or review procedures over the Borrower Data Transmission and Reconciliation (Direct Loan) process to ascertain that reconciliations are being performed and that reconciling items have been investigated and resolved in a timely manner. In doing so Management should clearly document its procedures.

Management's Response and Planned Corrective Action
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-010

Program
Student Financial Assistance Cluster (Various CFDA numbers)

Category
Internal Control / Compliance

Compliance Requirement
Reporting- Common Origination and Disbursement (COD) System

Criteria
Common Origination and Disbursement (COD) System (OMB No. 1845-0039) –All schools receiving Pell grants submit Pell payment data to the Department of Education through the COD System. Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. A school follows up with a disbursement record for that student no earlier than (1) 7 calendar days prior to the disbursement date under the Advance or Heightened Cash Monitoring 1 payment methods, or (2) the date of the disbursement under the Reimbursement or Heightened Cash Monitoring 2 payment methods (see ED Notice, March 11, 2015, Federal Register (80 FR 12811). The disbursement record reports the actual disbursement date and the amount of the disbursement.

ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, or Accepted. In testing the Pell Payment origination and disbursement data, the auditor should be most concerned with the data ED has categorized as accepted or accepted with corrections. Institutions must report student payment data within 15 calendar days after the school makes a payment, or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 15 calendar days, bi-weekly or weekly, or may set up their own system to ensure that changes are reported in a timely manner. Key items to test on origination records are: Social Security Number, award amount, enrollment date, verification status code, transaction number, cost of attendance, and academic calendar. Key items to test on disbursement records are disbursement date and amount.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-010 (continued)

Condition
During our audit procedures, we noted that seventeen (17) students were not in compliance as follows:

Exceptions and Instances of Noncomplaince

A - Difference between the UPR and COD records was identified when reviewing the disbursement records.

Item Number	Campus	Exceptions
23371	Rio Piedras	A
26438	Rio Piedras	A
28864	Rio Piedras	A
40271	Rio Piedras	A
52346	Rio Piedras	A
58091	Rio Piedras	A
69379	Rio Piedras	A
73247	Rio Piedras	A
99629	RUM	A
108300	RUM	A
110372	RUM	A
164913	Humacao	A
165381	Humacao	A
165684	Humacao	A
198318	Utuado	A
220616	Bayamon	A
222698	Bayamon	A

Questioned Costs
Not Applicable.

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-010 (continued)

Cause
The lack of effectively designed and implemented review and/or monitoring controls to ascertain that reconciliations are performed and that reconciling items have been investigated and resolved in a timely manner.

Effect
The University may duplicate a disbursement of Title IV funds to students if the disbursement records between the Institutional records and COD are not being properly reconciled.

Context
Our sample consisted of 60 items (out of a population of 238,626 students that received Pell during fiscal year 2016). Since several exceptions were identified, we concluded that these items do not represent isolated cases.

Recommendation
Management should develop, as considered necessary, additional monitoring or review procedures over the Borrower Data Transmission and Reconciliation (Direct Loan) process to ascertain that reconciliations are being performed and that reconciling items have been investigated and resolved in a timely manner. In doing so Management should clearly document its procedures.

Management's Response and Planned Corrective Action
The University of Puerto Rico concurs with this finding. Refer to separately issued Corrective Action Plan.

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