Financial Statements, required Supplementary Information and Supplemental Schedules

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

University of Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Years Ended June 30, 2014 and 2013

Contents

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

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

Report of Independent Auditors

Governing Board
University of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University"), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2014 and 2013, 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 1.20% in 2014 and 1.21% in 2013, total net position constituting 1.12% in 2014 and 1.25% in 2013, and total revenues constituting 0.03% in 2014 and 2013 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, 2014 and 2013. 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. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2014 and 2013, 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.

Restatement of 2013 Financial Statements

As more fully described in Note 16 to the financial statements, the June 30, 2013 financial statements have been restated to correct errors in the accounting for prepaid pension assets and classification of investments. Our opinion is not modified with respect to this matter.

Adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

As discussed in Notes 1 and 16 to the financial statements, the University changed its method of accounting for bond issue costs and the presentation of deferred losses related to bond refundings as a result of the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. 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 4 through 34 and the schedules of funding progress on page 94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The other financial information on page 95 (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 31, 2015, 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 31, 2015

Stamp No. E158157
affixed to
original of
this report.

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

UPRPS and MCC's assets, liabilities, revenues, expenses and changes in their net positions were not significant as of and for the years ended June 30, 2014, 2013 and 2012.

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

The following discussion presents an overview of the financial position and financial activities of the Primary Government (hereafter referred as the "University") for the years ended June 30, 2014, 2013 and 2012. It excludes its discretely presented component units. This discussion and analysis was prepared by the University's management and should be read in conjunction with the basic financial statements of the University, including the notes thereto.

Financial Highlights

As of June 30, 2014, the University has total assets of $1.57 billion, total deferred outflows of resources of $2.8 million, total liabilities of $1.04 billion and net position of $531.1 million. The University's net position increased by $29.9 million or 6% when compared to prior year. The reason for this change is explained in the section entitled "Analysis of Net Position and Changes in Net Position." An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2014, 2013 and 2012, follows:

Condensed Statements of Net Position (In thousands)

	June 30 2014	June 30 2013 *As Restated and Adjusted*	June 30 2012 *As Adjusted*
Assets:			
Current assets	**$ 313,906**	$ 308,033	$ 324,505
Noncurrent assets:			
Investments	**209,059**	181,540	166,436
Due from Commonwealth of Puerto Rico	**–**	5,000	11,720
Capital assets, net	**944,591**	957,357	953,059
Other assets	**100,377**	87,974	73,959
Total assets	**1,567,933**	1,539,904	1,529,679
Deferred outflows of resources	**2,818**	3,125	3,438
Liabilities:			
Current liabilities	**159,667**	163,410	168,661
Noncurrent liabilities	**879,989**	878,446	892,574
Total liabilities	**1,039,656**	1,041,856	1,061,235
Net position:			
Net investment in capital assets	**397,674**	388,239	347,367
Restricted:			
Nonexpendable	**104,511**	92,127	89,696
Expendable	**74,175**	68,968	70,890
Unrestricted (deficit)	**(45,265)**	(48,161)	(36,071)
Total net position	**$ 531,095**	$ 501,173	$ 471,882

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

	Year Ended June 30		
	2014	**2013**	**2012**
		As Restated and Adjusted	***As Adjusted***
Operating revenues			
Tuition and fees, net	**$ 47,974**	$ 67,794	$ 72,475
Governmental grants and contracts, net	**114,920**	129,913	174,166
Patient services, net	**67,698**	65,478	86,819
Other operating revenues, net	**33,169**	36,222	36,730
Total operating revenues	**263,761**	299,407	370,190
Operating expenses			
Salaries and benefits	**873,126**	854,988	828,079
Scholarships and fellowships	**183,171**	184,484	203,959
Supplies and other services and utilities	**208,022**	212,492	221,998
Other operating expenses	**66,325**	71,308	66,993
Total operating expenses	**1,330,644**	1,323,272	1,321,029
Operating loss	**(1,066,883)**	(1,023,865)	(950,839)
Nonoperating revenues (expenses)			
Commonwealth appropriations	**938,117**	902,040	834,097
Federal Pell Grant program	**162,035**	161,651	174,139
Other nonoperating revenues (expenses), net	**(9,041)**	(18,436)	(12,167)
Net nonoperating revenues	**1,091,111**	1,045,255	996,069
Income before other revenues	**24,228**	21,390	45,230
Capital appropriations	**5,091**	5,219	465
Additions to term and permanent endowments	**40**	2,054	1,817
Transfers in	**563**	628	294
Change in net position	**29,922**	29,291	47,806
Net Position			
Beginning of year	**501,173**	471,882	431,596
Adjustment of beginning net position	**–**	–	(7,520)
End of year	**$ 531,095**	$ 501,173	$ 471,882

Subsequent to the issuance of the University's 2013 financial statements, management of the University identified several errors in such previously issued financial statements. In 2014, the University discovered that its prepaid pension asset as of June 30, 2013 was understated by $10.0 million as a result of a special contribution made by the University to the Retirement System in fiscal year 2013 that was not taken into consideration in the determination of the prepaid pension asset balance. This special contribution was previously recorded in the benefits expense line of the University's statement of revenues, expenses and changes in net position for the year ended June 30, 2013. The University's change in net position for the year ended June 30, 2013, and consequently its net position as of June 30, 2013, increased by approximately $10,000,000 as a result of the correction of this prior year adjustment.

In addition, the University found that the University's investment balances were not properly presented in the statement of net position as of June 30, 2013 and 2012. The University reclassified approximately $92,872,000 and $80,135.000 of unrestricted short-term investments as of June 30, 2013 and 2012, respectively, as follows: $1,853,000 and $1,819,000, respectively, as restricted short-term investments; $88,561,000 and $77,012,000, respectively, as long-term restricted investments of the Healthcare Deferred Compensation Plan; and $2,458,000 and $1,304,000, respectively, as unrestricted other long-term investments.

Also, refer to next section "Overview of the Basic Financial Statements" - *New Accounting Standard Adopted*, for changes in the financial statements as required by Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

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

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

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

New Accounting Standards Adopted

The University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB Statement No. 65") in fiscal year 2014. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the GASB in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources and limiting the use of the term deferred in financial statement presentations.

At transition, the impact of GASB Statement No. 65 was as follows:

- **Refunding of Debt**—The difference between the reacquisition price and the net carrying amount of the old debt is now required to be presented as a deferred inflow or deferred outflow of resources. The University reclassified the statements of net position at June 30, 2013 and 2012 by approximately $3,125,000 and $3,438,000, respectively, as a deferred outflow of resources, which had previously been reported as a deduction to the new debt.

- **Debt Issuance Costs**—Required to be recognized as an expense in the period incurred. The net position of the University and its blended component unit as of July 1, 2011 were decreased by approximately $5,833,000 and $1,687,000, respectively, for a total amount of approximately $7,520,000 reflecting the cumulative retrospective effect of derecognizing the issuance costs which had previously been deferred in the statements of net position. In addition, the issuance cost amortization expense of the University and its blended component unit of approximately $2,270,000 and $68,000, respectively, for a total amount of approximately $2,338,000 in fiscal year ended June 30, 2013, and of approximately $296,000 and $68,000, respectively, for a total amount of approximately $364,000 in fiscal year ended June 30, 2012, included as interest expense on capital assets related debt on the statements of revenues, expenses and changes in net position, were derecognized.

In addition, the University of Puerto Rico Retirement System implemented GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25* (GASB Statement No. 67) in fiscal year 2014. GASB Statement No. 67 replaces the requirements of GASB Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution plans that provide postemployment benefits other than pensions.

GASB Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (pension trusts) in which:

a) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

b) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

c) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans. The adoption of Statement No. 67 has no impact on the University's financial statements, which continue to report pension costs in the amount of the actuarially determined contributions. The calculation of pension contributions is unaffected by the change. The adoption of Statement No. 67 has resulted in certain changes to the presentation of the financial statements of the University of Puerto Rico Retirement System (the "Retirement System"). In the separate annual financial statements of the Retirement System, certain changes in note disclosures and Required Supplementary Information (RSI) were incorporated to comply with GASB Statement No. 67.

Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27* (GASB Statement No. 68), which is effective for periods beginning after June 15, 2014.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB Statement No. 69), which is effective for periods beginning after December 15, 2013.

- 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 is effective for periods beginning after June 15, 2014.

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 criteria detailed above in the description of GASB Statement No. 67. 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 non-employer 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 currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines 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 or Asset. The information to adopt this Statement will be based on the new actuarial report prepared under the new GASB Statement No. 67. The impact of GASB Statement No. 68 will be establishing its new net pension liability for the University to an amount resembling the existing actuarial deficiency in the University of Puerto Rico Retirement System (the "Retirement System") which at June 30, 2014 amounted to approximately $2.1 billion. This existing actuarial deficiency was determined using data, assumptions and results of the annual actuarial valuation of the Retirement System as of June 30, 2013.

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.

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.

The University has not completed the process of evaluating the impact of GASB Statements No. 68, No. 69, and No. 71 on its financial statements.

Analysis of Net Position and Changes in Net Position

Statements of Net Position

Assets

Total assets amounted to $1.57 billion, $1.54 billion and $1.53 billion at June 30, 2014, 2013 and 2012, respectively. Total assets increased by $28.0 million or 2% in 2014 and increased by $10.2 million or 1% in 2013, when compared with the prior year balance.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2014, cash and cash equivalents, investments and accounts receivable, including due from Commonwealth and from University of Puerto Rico Retirement System (Retirement System), comprise approximately 35%, 23% and 41%, respectively, of the current assets; meanwhile 75% and 17% of the noncurrent assets are capital assets and investments, respectively. As of June 30, 2013, cash and cash equivalents, investments and accounts receivable comprise approximately 27%, 23% and 48%, respectively, of the current assets; meanwhile 78% and 15% of the noncurrent assets are capital assets and investments, respectively.

Cash and cash equivalents (mainly certificates of deposit) amounted to $110.7 million, $87.2 million and $112.3 million at June 30, 2014, 2013 and 2012, respectively. The increase in the University's cash position of $23.5 million or 27% in 2014 mainly resulted from the increase of $36.1 million in nonoperating Commonwealth's appropriations and from the advances of $10.5 million taken from the line of credit with the Government Development Bank for Puerto Rico ("GDB"), a public corporation of the Commonwealth, for the University's capital improvement program, which were partially offset by $15.8 million in net advances given to the University of Puerto Rico Retirement System and the repayments of $8.7 million in the line of credit with GDB for working capital purposes. The decrease in the University's cash position of $25.1 million or 22% in 2013 mainly resulted from $22.3 million in advances given to the University of Puerto Rico Retirement System.

In October 2010, the University obtained a $100 million revolving line of credit facility with GDB for working capital purposes. This line of credit 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. In addition, the University obtained a $5 million non-revolving line of credit with GDB in June 2011, which was increased to $75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2014 and 2013 as follows: advances taken from the line of credit with GDB for the University's capital improvement program amounted to approximately $10.5 million and $9.6 million, in 2014 and 2013, respectively, which were offset by principal repayments in the line of credit with GDB for working capital purposes of approximately $8.7 million in 2014. The balances outstanding under the $125 million and $75 million lines of credit amounted to $63.2 million and $23.4 million, respectively, at June 30, 2014.

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

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

For a more detailed information of the cash and cash equivalents movements, refer to the University's statements of cash flows for the years ended June 30, 2014 and 2013.

Total investments amounted to $280.9 million at June 30, 2014, an increase of $27.3 million or 11% when compared to a balance of $253.6 million at June 30, 2013. In 2013, total investments increased by $15.6 million or 7%, from $238.0 million at June 30, 2012. The increases in 2014 and 2013 were mainly due to the increases in investments designated to fund the University's Healthcare Deferred Compensation Plan of $13.9 million and $11.5 million, respectively, as a result of net contributions made by participants to the plan and the net increase in fair value of the investments; and the increases in the restricted investments in permanent endowment funds of $13.3 million and $2.4 million, respectively, mainly as a result of contributions received during the year, the increase in the fair value of the investments and the reinvestment of cash equivalents into investments. In fiscal year 2014, Act No. 7 of April 2013 assigned about $4.9 million of funds retained by the University under the derogated Act No. 176 of November 2010 to the University's permanent endowment funds.

Accounts receivable, net, decreased by $25.1 million or 22% from $112.1 million at June 30, 2013, to $87.0 million at June 30, 2014. In 2013, accounts receivable, net, decreased by $14.5 million or 11% from $126.6 million at June 30, 2012. The decreases in accounts receivable, net in 2014 and 2013 mainly resulted from the increases in the allowance for doubtful accounts as result of the aging deterioration of the accounts receivable. The allowance for doubtful accounts increased by $48.1 million or 33%, from $144.5 million at June 30, 2013 to $192.6 million at June 30, 2014. In 2013, the allowance for doubtful accounts increased by $12.4 million or 9% from $132.1 million at June 30, 2012. The Puerto Rico economy is currently in recession that began in fiscal year 2006. The Commonwealth's net deficit which amounted to $47.2 billion at June 30, 2013, the combined unfunded actuarial accrued liability and the funded ratios of its pension plans and the significant balances of loans due to GDB present liquidity risks regarding the Commonwealth's ability to meet its financial obligations and to fund all necessary governmental programs and services. These situations have the effect of deteriorating the aging of most of the University's accounts receivable.

Gross accounts receivable increased by $22.9 million or 9%, from $256.7 million at June 30, 2013 to $279.6 million at June 30, 2014. In 2013, gross accounts receivable decreased by $1.9 or 1% from $258.6 million at June 30, 2012. The increase in gross accounts receivable in 2014 mainly resulted from the increases in the due from Commonwealth's component units of $7.4 million, in due from Federal Government of $8.5 million and in the due from medical plans of $8.4 million. Due from Commonwealth's component units at June 30, 2014 includes an account receivable from the Puerto Rico Medical Service Administration ("PRMSA"), a public corporation of the Commonwealth, which amounted to $32.9 million and $27.5 million at June 30, 2014 and 2013, respectively, for unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA's patients. Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR"), a public corporation of the Commonwealth, which amounted to $4.1million at June 30, 2014 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 medical plans increased in 2014 as a result of more services rendered to patients. The decrease of gross accounts receivable in 2013 mainly resulted from collections of $20.0 million from a Commonwealth's agency as a result of contracts for professional development of public school teachers obtained in 2012 and net collections of $6.2 million from a Commonwealth's component unit related to unremitted distributions of income to be received by the University under the Gambling Law, which were partially offset by the increases in the due from Servicios Médicos Universitarios, Inc. and other accounts.

Due from Commonwealth decreased by $14.2 million or 74%, from $19.2 million at June 30, 2013 to $5.0 million at June 30, 2014. In 2013, due from Commonwealth decreased by $8.0 million from $27.2 million at June 30, 2012. Due from Commonwealth mainly decreased in 2014 and 2013 as a result of collections received of $6.7 million and $13.0 million, respectively, from two payment plans and the collection of $7.5 million from the Special Scholarship Fund for the University in 2014.

Due from University of Puerto Rico Retirement System (the "Retirement System") increased by $15.8 million from $22.3 million at June 30, 2013, to $38.1 million at June 30, 2014. Both balances resulted from unpaid advances given by the University to the Retirement System in 2014 and 2013, respectively. During the year ended June 30, 2014, the University collected the whole amount due by the Retirement System at June 30, 2013. The amount due from the Retirement System is unsecured, non-interest bearing and is payable upon demand.

Capital assets decreased by $12.8 million or 1% from $957.4 million at June 30, 2013 to $944.6 million at June 30, 2014. In 2013, capital assets increased by $4.3 million or less than 1% from $953.1 million at June 30, 2012. The changes in both years mainly resulted from the University's investment in construction projects and other capital assets for educational facilities that amounted to $35.9 million in fiscal year 2014 and $54.8 million in fiscal year 2013, which effect was partially (or totally) offset by the depreciation and amortization expense of $46.5 million in fiscal year 2014 and $49.5 million in fiscal year 2013.

Prepaid pension asset and other assets increased by $14.5 million or 18% from $80.1 million at June 30, 2013 to $94.6 million at June 30, 2014. In 2013, prepaid pension asset and other asset increased by $14.8 million or less than 7% from $65.3 million at June 30, 2012. The increases in both years mainly resulted from the increases in the prepaid pension asset as a result of the excess of actual contribution made by the University to the Retirement System over the annual required contribution (ARC). In 2014 and 2013, the University made additional contributions to the Retirement System of $10.5 million and $10.0 million, respectively.

Deferred Outflows of Resources

Deferred outflows of resources, which is a consumption of net position by the University that is applicable to a future reporting period, include the deferred refunding loss on the University' revenue bonds which amounted to $2.8 million, $3.1 million and $3.4 million at June 30, 2014, 2013 and 2012, respectively, a decrease of approximately $307,000 in 2014 and a decrease of approximately $313,000 in 2013, when compared with prior year balances. Decreases in deferred outflows of resources resulted from the amortization expense for the period.

Liabilities

Total liabilities amounted to $1.04 billion, $1.04 billion and $1.06 billion at June 30, 2014, 2013 and 2012, respectively, a decrease of $2.2 million or less than 1% in 2014 and a decrease of $19.4 million or 2% in 2013, when compared with the prior year balances.

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

Accounts payable and accrued liabilities decreased by $6.5 million or 7% from $97.6 million at June 30, 2013 to $91.1 million at June 30, 2014. In 2013, these current liabilities decreased by $1.6 million or 2% from $99.2 million at June 30, 2012. The decrease in 2014 mainly resulted from the payment of $6.4 million to the Comprehensive Cancer Center of the University of Puerto Rico, a public corporation of the Commonwealth, for its Commonwealth's appropriations held by the University (as custodian of these funds) and the payments of invoices for construction projects, electricity and others. The decrease in 2013 mainly resulted from the decrease in unpaid medical plan invoices and a decrease in amounts due to another Commonwealth's component units as a result of lower unpaid utilities invoices, which were partially offset by the increase in the Due to Commonwealth's component units related to unpaid medical services offered to the University's patients.

Long-term debt obligations decreased by $20.7 million or 3% from $671.7 million at June 30, 2013 to $651.0 million at June 30, 2014. In 2013, long-term debt obligations decreased by $23.8 million or 3% from $695.5 million at June 30, 2012. The decrease in 2014 mainly resulted from principal paid on long-term debt of $29.3 million, net of advances of $10.5 million taken from the lines of credit with GDB for the University's capital improvement program. The decrease in 2013 mainly resulted from principal paid on long-term debt of $32.3 million, net of advances of $9.6 million taken from the lines of credit with GDB for the University's capital improvement program. 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. In June 2011, the University obtained a $5 million non-revolving line of credit with GDB, which was increased to $75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2014 and 2013 as follows: advances taken from the line of credit with GDB for the University's capital improvement program amounted to approximately $10.5 million and $9.6 million in 2014 and 2013, respectively, which were partially offset by the principal repayments in the line of credit with GDB for working capital purposes of approximately $8.7 million in 2014. The balances outstanding under the $125 million and $75 million lines of credit amounted to $63.2 million and $23.4 million, respectively, at June 30, 2014. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. The balance outstanding of the two-term loans amounted to $1.4 million at June 30, 2014.

Long-term debt obligations include the University's revenue bonds amounted to $492.5 million and $512.4 million as of June 30, 2014 and 2013, respectively. These bonds are currently rated "Caa1" by Moody's Investors Service (Moody's) and "BB" by Standard & Poor's Ratings Services (S&P). In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the AFICA bonds) amounted to $70.6 million and $72.5 million as of June 30, 2014 and 2013, respectively. The AFICA bonds are currently rated "Caa2" by Moody's and "BB" by S&P.

Other long-term debt liabilities increased by $25.0 million or 9% from $272.6 million at June 30, 2013 to $297.6 million at June 30, 2014. In 2013, other long-term debt liabilities increased by $6.1 million or 2% from $266.5 million at June 30, 2012. The increases in 2014 and 2013 mainly resulted from the increases in the liability for the deferred compensation plan.

The liability for the deferred compensation plan amounted to $102.5 million, $88.6 million and $77.0 million at June 30, 2014, 2013 and 2012, respectively, an increase of $13.9 million or 16% in 2014 and an increase of $11.6 million or 15% in 2013, when compared with prior year balances. The increases in the liability for the deferred compensation plan are mainly related to net contributions made by participants to the plan and the net increase in fair value of the investments. The University offers certain employees a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, 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. The University believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

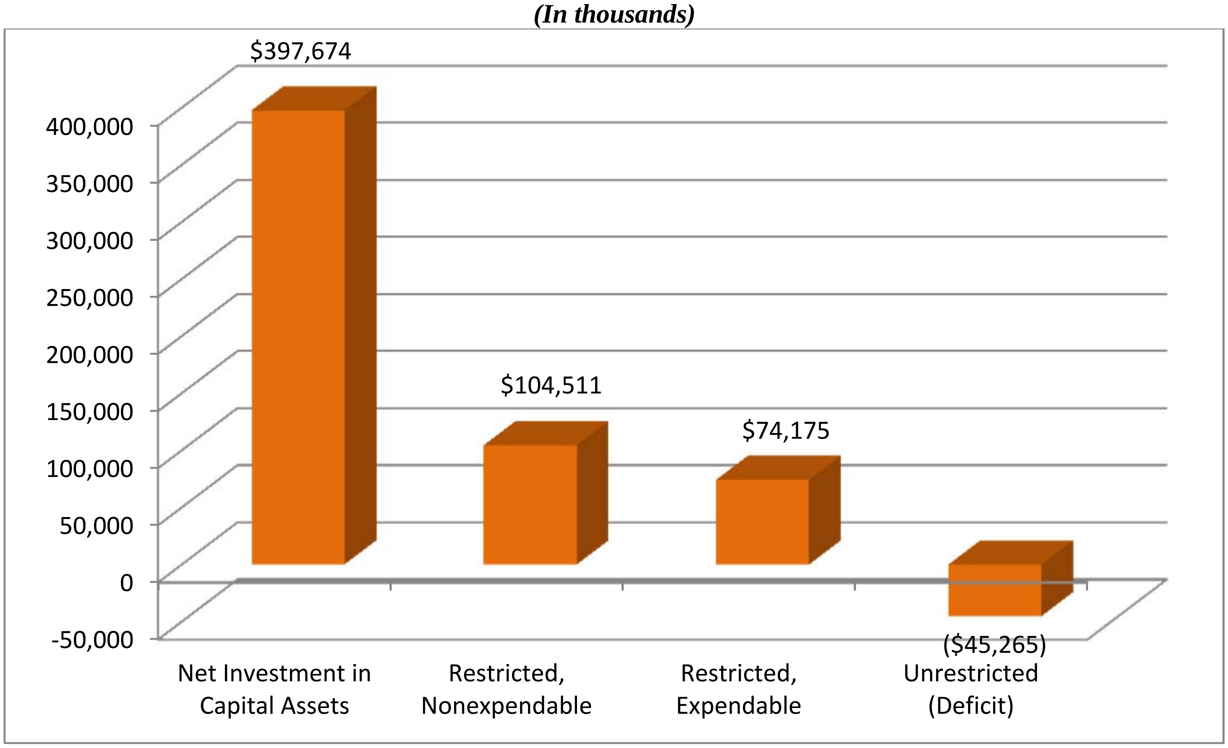
Also, other long-term liabilities include the accrual for compensated absences which amounted to $177.6 million, $165.6 million and $167.1 million at June 30, 2014, 2013 and 2012, respectively, an increase of $12.0 million or 7% in 2014 and a decrease of $1.5 million or 1% in 2013, when compared with prior year balances. Changes in compensated absences are mainly related to variations on the use of vacations and sick leaves by employees and total employees at the end of periods.

Net Position

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to $531.1 million, $501.2 million and $471.9 million at June 30, 2014, 2013 and 2012, respectively, an increase of $29.9 million or 6% in 2014 and of $29.3 million or 6% in 2013, when compared with the prior year balances. These changes are explained in the section entitled "*Statements of Revenues, Expenses and Changes in Net Position*".

The major classifications of the net position at June 30, 2014 are shown in the following illustration:

Chart 1 – Net Position
(In thousands)



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

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

Operating Revenues

Total operating revenues amounted to $263.8 million, $299.4 million and $370.2 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $35.6 million or 12% in 2014 and a decrease of $70.8 million or 19% in 2013. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in patient services revenues.

Tuitions and fees decreased by approximately $19.8 million or 29% from $67.8 million in 2013, to $48.0 million in 2014, mainly as a result of the elimination of the stabilization fee effective July 1, 2013 and the increase in the provision for doubtful accounts, which were partially offset by a decrease in the scholarship allowances and slight increase in the student enrollment at the University. The University tuition is among the lowest in Puerto Rico and in the United States of America. A stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the University up to June 30, 2013. The stabilization fee amounted to $400 per student per semester. This stabilization fee increased revenue from tuitions and fees by $42.9 million in fiscal year ended June 30, 2013. On January 26, 2013, the stabilization fee was repealed by the former Board of Trustees of the University effective July 1, 2013. The provision for doubtful accounts increased by approximately $2.4 million, from

$1.4 million in 2013 to $3.8 million in 2014, as a result of the aging deterioration of these accounts. Scholarship allowances decreased by $22.3 million or 31%, from $70.9 million in 2013 to $48.6 million in 2014, as a result of the elimination of the stabilization fee. For fiscal year 2014, the student body of the University consisted of approximately 57,368 students, an increase of 425 students when compared with approximately 56,943 students for fiscal year 2013. In 2013, tuitions and fees decreased by approximately $4.7 or 6%, from $72.5 million in 2012, mainly as a result of an increase in the scholarship allowance, which was partially offset by a slight increase in the student enrollment at the University. Scholarship allowances increased by $3.9 million or 6%, from $67.0 million in 2012 to $70.9 million in 2013. For fiscal year 2013, the student body of the University consisted of approximately 56,943 students, an increase of 283 students when compared with approximately 56,660 students for fiscal year 2012. In accordance with a Board of Trustees Resolution, tuition cost per credit has been increased 4% annually per incoming class since academic year 2007-2008 to academic year 2012-2013. 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 an additional year until the University completes a study of tuition costs.

In 2014, revenues from governmental grants and contracts decreased by $15.0 million or 12% from $129.9 million in 2013 to $114.9 million in 2014. In 2013, revenues from governmental grants and contracts decreased by $44.3 million or 25% from $174.2 million in 2012. The decrease in 2014 mainly resulted from a decrease of $15.1 million or 14% in the federal grants and contracts as a result of lower grants and contracts for research and development and improving teacher quality, and a higher provision for doubtful accounts which increased by $2.8 million from $2.8 million in 2013 to $5.6 million in 2014. Although the Commonwealth's grants and contracts remained flat when compared to 2013 balance, the provision for doubtful accounts increased by $8.6 million from $3.2 million in 2013 to $11.8 million in 2014 as a result of the aging deterioration of these accounts. The decrease in 2013 mainly resulted from a Commonwealth's grant and contract for professional development of public school teachers and other purposes which increased these revenues by approximately $26.3 million in 2012. No such grant was obtained in 2013. Also, the provision for doubtful accounts related to the Commonwealth grants and contracts increased by $8.5 million from a credit to provision of $5.3 million in 2012 to a provision of $3.2 million in 2013. In addition, federal grants and contracts decreased by $15.9 million or 13% from $125.0 million in 2012, to $109.1 million in 2013. The decrease in 2013 mainly resulted from a situation related to the National Science Foundation (NSF) federal awards and the increase of $2.8 million in the provision for doubtful accounts related to the federal grants and contracts. Effective April 23, 2012, NSF, an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University has not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF 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. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University. NSF federal awards amounted to $4.6 million and $14.1 million for the years ended June 30, 2013 and 2012, respectively.

Patient services revenue amounted to $67.7 million, $65.5 million and $86.8 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $2.2 million or 3% in 2014 and a decrease of $21.3 million or 25% in 2013. Patient service revenue depends on medical services, including laboratories, rendered to the University's patients. Also, the provision for doubtful accounts increased by $7.7 million in 2014 and by $8.4 million in 2013, as a result of the aging deterioration of these accounts.

Non-operating Revenues

Total non-operating revenues amounted to $1.09 billion, $1.04 billion and $996.1 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $45.9 million or 4% in 2014 and an increase of $49.2 million or 5% in 2013.

The Commonwealth appropriations amounted to $938.1 million, $902.0 million and $834.1 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $36.1 million or 4% in 2014 and an increase of $67.9 million or 8% in 2013.

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, $756.8 million and $685.9 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $77.1 million or 10% in 2014 and an increase of $70.9 million or 10% in 2013. On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, and revised the formula for the Commonwealth appropriations effective July 1, 2013. In addition, the average total amount of annual general fund revenues collected by the Commonwealth has increased in the last two fiscal years which resulted in more appropriations from the Commonwealth to the University. 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 freezes 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 will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

Appropriations from the Commonwealth also include unremitted distributions of income received by the University from the Puerto Rico Tourism Company ("PRTC"), a public corporation of the Commonwealth, 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, 2014, 2013 and 2012 amounted to approximately $64.4 million, $67.9 million and $70.9 million, respectively, a decrease of $3.5 million or 5% in 2014 and a decrease of $3.0 million or 4% in 2013.

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 $39.7 million, $77.4 million and $77.2 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $37.7 million or 49% in 2014 and a slight increase of approximately $144,000 in 2013. In 2013 and 2012, these Commonwealth's appropriations included $30 million from appropriations received from the Special Scholarship Fund. By virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University.

Federal Pell Grant program revenues amounted to $162.0 million in 2014, $161.6 million in 2013 and $174.1 million in 2012, an increase of approximately $384,000 in 2014 and a decrease of $12.5 million or 7% in 2013. The increase in 2014 was mainly due to the increase in the number of eligible participants. The decrease in 2013 was mainly due to the decrease in the Federal Pell Grant assistance along with a decrease in the number of eligible participants. Federal Pell Grant program assistance was reduced as a result of changes in the eligibility requirements such as: the minimum expected family contribution that qualifies for the maximum Pell Grant was reduced from $30,000 to $23,000 and the Pell lifetime eligibility period was reduced from 18 to 12 semesters, among other changes.

Capital appropriations amounted to $5.1 million in 2014, $5.2 million in 2013 and $465,000 in 2012, a slight decrease of approximately $128,000 in 2014 and an increase of $4.8 million in 2013. The decrease in 2013 mainly related to capital contributions of $4.3 million received from the Puerto Rico Science, Technology and Research Trust (the "Trust") for the construction of the University's Molecular Science Building and purchase and installation of laboratory and other equipment to make it operational.

The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2014:

Chart 2 – Major Sources of Operating Revenues
(In thousands)

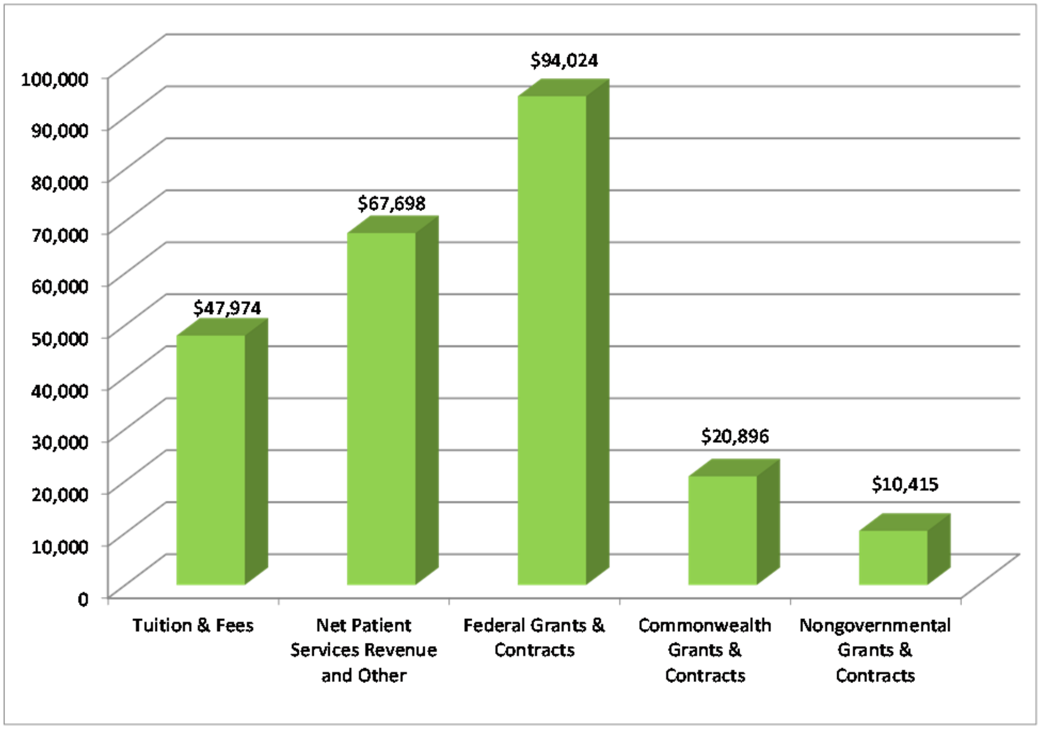
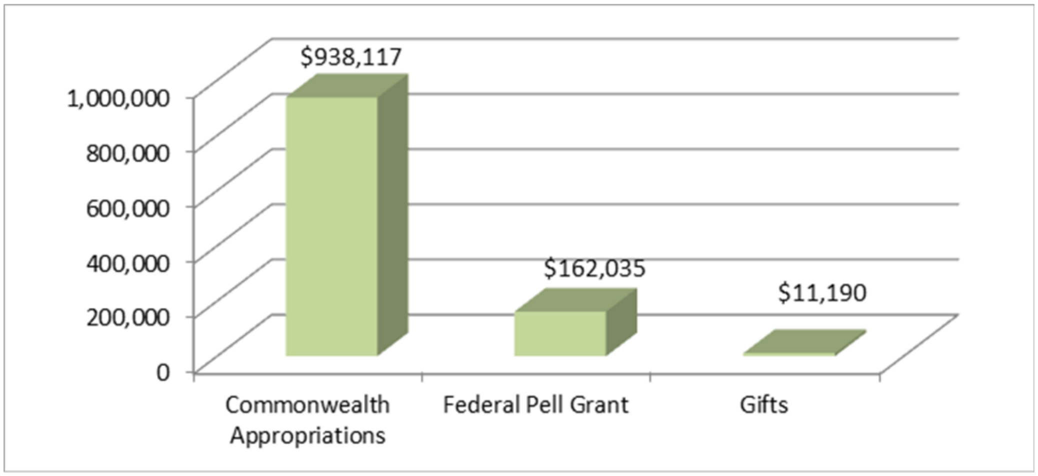
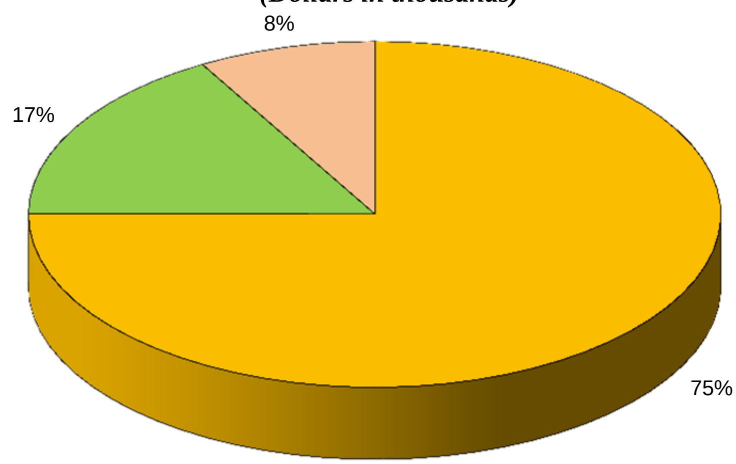


Chart 3 – Major Sources of Nonoperating Revenues
(In thousands)



Federal grants represent 75% 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, 2014:

Chart 4 - Operating Grants Revenues
(Dollars in thousands)



Federal	$	94,024	75%
Commonwealth		20,896	17%
Nongovernmental		10,415	8%
Total	$	125,335	100%

Operating Expenses

The University's expenses are presented using natural expense classifications. Total operating expenses amounted to $1.33 billion, $1.32 billion and $1.32 billion for the years ended June 30, 2014, 2013 and 2014, respectively, an increase of $7.4 million or less than 1% in 2014 and an increase of $2.2 million or less than 1% in 2013. Operating expenses increased in 2014 mainly as a result of salary increases granted to faculty personnel and to the exempt staff. The increase of operating expenses in 2013 is mainly resulted from the increase in fringe benefits.

Salaries and benefits, the most significant component of operating expenses, amounted to $873.1 million, $855.0 million and $828.1 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $18.1 million or 2% in 2014 and an increase of $26.9 million or 3% in 2013.

Salaries amounted to $628.5 million in 2014, $601.2 million in 2013 and $607.4 million in 2012, an increase of $27.3 million or 5% in 2014 and a decrease of $6.2 million or 1% in 2013. Salaries increased in 2014 mainly in the faculty personnel which increased by $18.7 million and in the exempt staff which increased by $8.7 million as a result of salary increases given to employees, which were partially offset by a reduction of about 218 positions of retired employees and of employees under contracted services. Meanwhile in 2013, it decreased mainly in the exempt staff by $5.7 million as a result of a reduction of about 140 positions of retired employees and of employees under contracted services.

Benefits amounted to $244.6 million in 2014, $253.8 million in 2013 and $220.7 million in 2012, a decrease of $9.2 million or 4% in 2014 and an increase of $33.1 million or 15% in 2013. Benefits changes mainly resulted from approximately $29.8 million in special bonuses granted to all its employees in August and September 2012, as a result of the negotiations of the collective bargaining agreements and the certifications approved by the former Board of Trustees of the University. In addition, the University increased its contribution rate to the retirement plan from 14.7% in 2012 to 15.8% in 2013 and in 2014, and made additional contributions to the Retirement System of $10.0 million in 2013 and $10.5 million in 2014, which resulted in an increase of $14.1 million and $2.3 million in the contribution benefit to the retirement plan in 2013 and 2014, respectively. In addition, the pharmacy component of the medical plan increased by $7.0 million or 11% in 2014 and decreased by $5.6 million or 8% in 2013 as a result of the utilization given by participants.

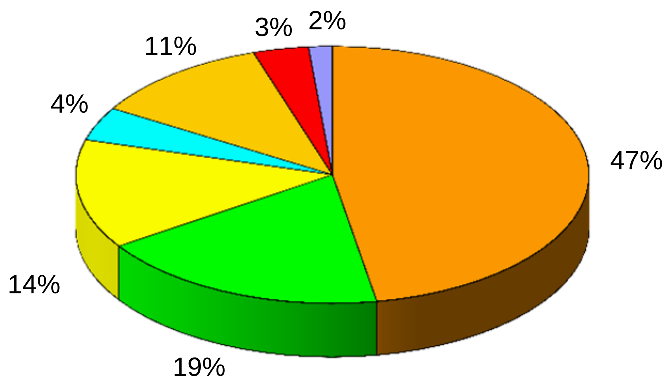
Scholarships and fellowships amounted to $183.2 million, $184.5 million and $204.0 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $1.3 million or 1% in 2014 and a decrease of $19.5 million or 10% in 2013. The decreases in 2014 and 2013 resulted from a decrease in the number of eligible participants mainly as a result of changes in the eligibility requirements in the Federal Pell Grant program.

Supplies and other services and utilities amounted to $208.0 million, $212.5 million and $222.0 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $4.5 million or 2% in 2014 and a decrease of $9.5 million or 4% in 2013. The decreases in 2014 and 2013 resulted from the cost control measures taken by University. The decrease in 2014 mainly resulted from the decrease in professional services, which was partially offset by the increase in the utilities (mainly in water supply). The decrease in 2013 mainly resulted from the decrease in the use of educational, medical and printing materials and the decrease in the utilities (mainly electricity). Utilities amounted to $56.5 million, $54.4 million and $58.2 million for the years ended June 30, 2014, 2013 and 2012, respectively, an increase of $2.1 million or 4% in 2014 and a decrease of $3.8 million or 6% in 2013. The increase in 2014 mainly resulted from an increase in water supply of $3.2 million, which was partially offset by a decrease in electricity of $2.5 million. The decrease in utilities in 2013 mainly resulted from lower electricity cost.

Other expenses amounted to $66.3 million, $71.3 million and $67.0 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $5.0 million or 7% in 2014 and an increase of $4.3 million or 6% in 2013. The changes in 2014 and 2013 mainly resulted from the changes in the depreciation and amortization expense. Depreciation and amortization expense amounted to $46.5 million, $49.5 million and $46.5 million for the years ended June 30, 2014, 2013 and 2012, respectively, a decrease of $3.0 million or 6% in 2014 and an increase of $3.0 million or 7% in 2013.

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2014:

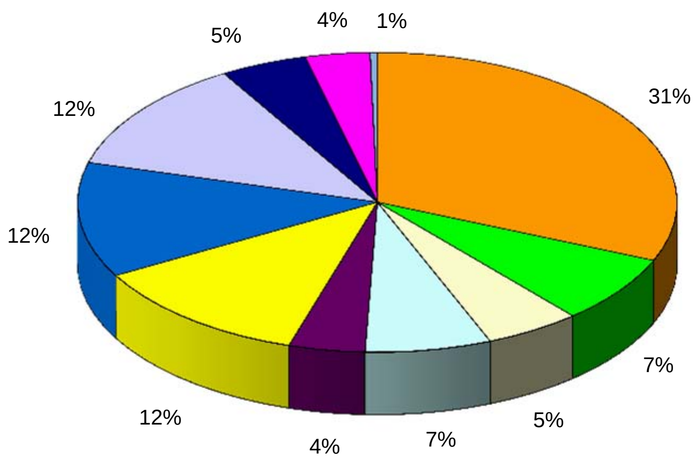
Chart 5 - Operating Expenses
(Dollars in thousands)



Salaries	$	628,483	47%
Benefits		244,643	19%
Scholarships and fellowships		183,171	14%
Supplies and other services		151,526	11%
Utilities		56,496	4%
Depreciation and amortization		46,499	3%
Other expenditures		19,826	2%
Total	$	1,330,644	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, 2014:

Chart 6 - Expenses by Function
(Dollars in thousands)



Instruction	$	417,260	31%
Research		97,727	7%
Public service		68,680	5%
Academic support		90,363	7%
Student services		54,632	4%
Institutional support		161,016	12%
Operation and maintenance		165,062	12%
Student aid		162,033	12%
Patient service		62,186	5%
Depreciation and amortization		46,499	4%
Other		5,186	1%
Total	$	1,330,644	100%

Operating Loss and Net Change in Net Position

For the year ended June 30, 2014, the University reported an operating loss of $1.07 billion. After adding nonoperating revenues of $1.09 billion, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations, additions to term and permanent endowments and transfers in of $5.7 million, the net position increased by $29.9 million for the year ended June 30, 2014 or 6% over the prior year net position.

For the year ended June 30, 2013, the University reported an operating loss of $1.02 billion. After adding nonoperating revenues of $1.04 billion, primarily from the Commonwealth's appropriations and Federal programs, and capital appropriations, additions to term and permanent endowments and transfers in of $7.9 million, the net position increased by $29.3 million for the year ended June 30, 2013 or 6% over the prior year net position.

Statements of Cash Flows

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

Subsequent Events

Subsequent events were evaluated through March 31, 2015, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2014 financial statements.

On July 1, 2014, Moody's Investors Service (Moody's) downgraded the University's revenue bonds from Ba3 to Caa1 and the DUI's AFICA bonds from Ba1 to Caa2. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds. On July 14, 2014, Standard & Poor's Rating Services (S&P) downgraded the University's revenue bonds and the DUI's AFICA bonds from BB+ to BB.

Both rating actions followed the downgrade on July 1, 2014 by Moody's and on July 14, 2014 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds, which it has generally mirrored given the University's significant dependence on Commonwealth's appropriations, plus its constrained ability and willingness to raise tuition and other auxiliary revenues sufficient to mitigate cuts. The outlook is negative. The University is highly reliant on the Commonwealth for operating revenues and for governance coupled with reliance on GDB for liquidity and financial management support.

On February 13, 2015, S&P downgraded the University's revenue bonds and the DUI's AFICA bonds from BB to B. The rating action followed the downgrade on February 12, 2015 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds. The outlook is negative.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $12.8 million or 1% in 2014**

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, 2014, consisted mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes. Capital assets decreased by $12.8 million or 1% from $957.4 million at June 30, 2013 to $944.6 million at June 30, 2014. The change in 2014 mainly resulted from the University's investment in construction projects and other capital assets for educational facilities that amounted to $35.9 million, which effect was totally offset by the depreciation and amortization expense of $46.5 million. Construction commitments at June 30, 2014, entered into by the University, amounted to approximately $34.9 million. Refer to Note 7 to the financial statements for further information regarding the University's net capital assets.

- **Long-term debt obligations decreased by $20.7 million or 3% in 2014**

The decrease in 2014 mainly resulted from principal paid on long-term debt obligations of $29.3 million, net of advances of $10.5 million taken from the lines of credit with GDB for the University's capital improvement program.

Long-term debt obligations include the University's revenue bonds and amounted to $492.5 million as of June 30, 2014. The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. These bonds are currently rated "Caa1" by Moody's Investors Service (Moody's) and "B" by Standard & Poor's Ratings Services (S&P).

In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the "AFICA bonds") amounted to $70.6 million as of June 30, 2014. The AFICA bonds are currently rated "Caa2" by Moody's and "B" by S&P. The AFICA bonds were principally issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University. In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc. for the use of Project. The lease payments from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as may be established in the financing documents, and will be pledged to guarantee such payments. The variable component of the lease payments will be used to cover operating, maintenance, administrative, management, and other fees and costs, which will be established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

In October 2010, the University obtained a $100 million revolving line of credit facility with 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. In June 2011, the University obtained a $5 million non-revolving line of credit with GDB, which was increased to $75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. These lines of credit improved the University's cash positions at June 30, 2014 as follows: advances taken from the line of credit with GDB for the University's capital improvement program amounted to approximately $10.5 million, which were partially offset by the principal repayments in the line of credit with GDB for working capital purposes of approximately $8.7 million. The balances outstanding under the $125 million and $75 million lines of credit amounted to $63.2 million and $23.4 million, respectively, at June 30, 2014.

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. The balance outstanding of the two term loans amounted to $1.4 million at June 30, 2014.

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

Economic Outlook

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

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

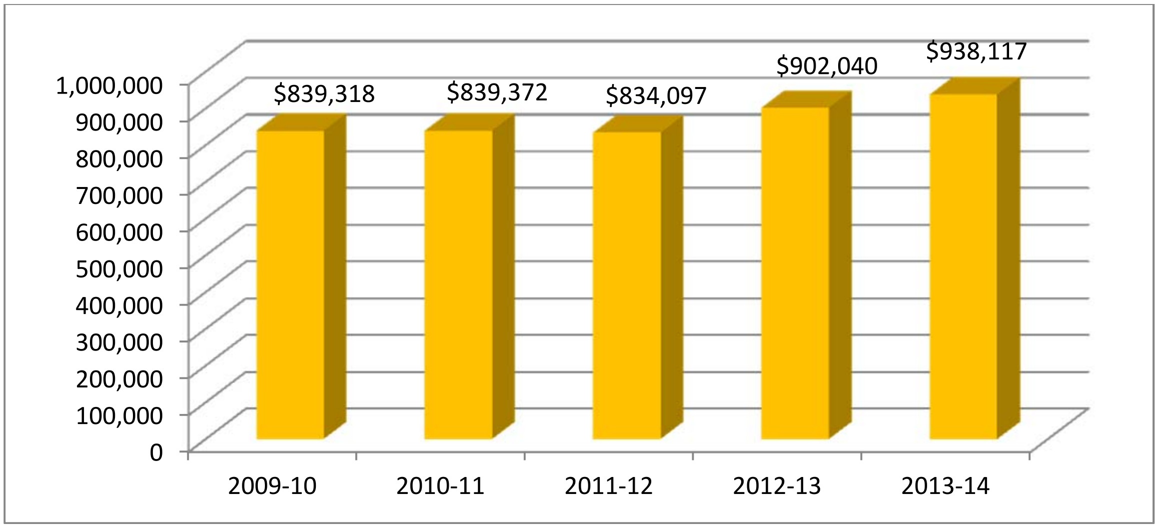
The Puerto Rico economy is currently in a recession that began officially in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5%. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing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

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, and high levels of debt and pension obligations. The Commonwealth's very high level of debt and the resulting required allocation of revenues to service this debt have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has been required to finance, further increasing the amount of its debt. More recently, the Commonwealth's high level of debt, among other factors, has adversely affected its credit ratings and its ability to obtain financing at favorable interest rates. The Commonwealth expects that its ability to finance future budget deficits will be severely limited, and, therefore, that it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget. While the Commonwealth may seek to reduce or entirely eliminate the practice of financing deficits or debt service, there is no assurance 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 an indefinite basis. Moreover, the effort to achieve budgetary balance may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect its revenues.

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

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

Chart 7 – Commonwealth Appropriations (1)
(In thousands)



(1) Includes restricted funds for special activities.

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 freezes 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 will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

The University is highly reliant on the Commonwealth for operating revenues and for governance coupled with reliance on the Government Development Bank for Puerto Rico ("GDB"), a component unit of the Commonwealth, for liquidity and financial management support.

The Commonwealth's net deficit which amounted to $47.2 billion at June 30, 2013, its combined unfunded actuarial accrued liability and the funded ratios of its pension plans and the significant balances of loans due to GDB present liquidity risks regarding the Commonwealth's ability to meet its financial obligations and to fund all necessary governmental programs and services.

GDB has loans to the Commonwealth and its public entities amounting to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public entities. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public entities which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

In July 2014, Moody's Investors Service (Moody's) and Standard & Poor's Rating Services ("S&P") downgraded the University's revenue bonds and the DUI's AFICA bonds. Both rating actions followed the downgrades in July 2014 by Moody's and by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds, which it has generally mirrored given the University's significant dependence on Commonwealth's appropriations, plus its constrained ability and willingness to raise tuition and other auxiliary revenues sufficient to mitigate cuts. The outlook is negative.

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

Request for Information

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

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Net Position as of June 30, 2014 (In thousands)

	Primary Government				Component Units			
	University of Puerto Rico (UPR)	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	UPR Parking System, Inc.	Materials Characterization Center, Inc.	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 83,366	$ 1,057	$ –	$ 84,423	$ 9,256	$ 1,077	$ 254	$ 10,587
Restricted cash and cash equivalents	23,848	–	–	23,848	–	–	–	–
Restricted investments at fair value:								
Deposited with trustee	54,720	15,212	–	69,932	–	–	–	–
Others	1,895	–	–	1,895	–	–	–	–
Accounts receivable, net	87,015	–	–	87,015	9,436	229	292	9,957
Internal balance- net investment in direct financing lease, current portion	–	1,876	(1,876)	–				
Due from:								
Commonwealth of Puerto Rico	5,000	–	–	5,000	–	–	–	–
University of Puerto Rico Retirement System	38,146	–	–	38,146	–	–	–	–
University of Puerto Rico	–	1,455	(1,455)	–	9,403			9,403
Inventories	2,849	–	–	2,849	957	–	–	957
Prepaid expenses and other assets	777	21	–	798	265	8	70	343
Total current assets	297,616	19,621	(3,331)	313,906	29,317	1,314	616	31,247
Noncurrent assets:								
Restricted cash and cash equivalents	259	2,216	–	2,475	–	–	–	–
Restricted investments at fair value:								
Endowment funds	103,802	–	–	103,802	–	–	–	–
Healthcare Deferred Compensation Plan	102,470	–	–	102,470	–	–	–	–
Other long-term investments at fair value	2,787	–	–	2,787	–	–	–	–
Internal balance- net investment in direct financing lease, net of current portion	–	59,167	(59,167)	–				
Due from Commonwealth of Puerto Rico	–	–	–	–	642	–	–	642
Prepaid pension asset and other assets	93,564	276	–	93,840	–	–	–	–
Notes receivable, net	4,062	–	–	4,062	–	–	–	–
Capital assets (net of accumulated depreciation and amortization):								
Land and other nondepreciable assets	91,019	–	–	91,019	1,216	56	–	1,272
Depreciable assets	853,572	–	–	853,572	6,490	155	156	6,801
Total noncurrents assets	1,251,535	61,659	(59,167)	1,254,027	8,348	211	156	8,715
Total assets	1,549,151	81,280	(62,498)	1,567,933	37,665	1,525	772	39,962
Deferred outflows of resources-								
Deferred refunding loss	2,818	–	–	2,818	–	–	–	–
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	87,758	4,753	(1,455)	91,056	18,441	82	38	18,561
Current portion of long-term debt	27,114	2,075	–	29,189	1,556	–	–	1,556
Internal balance- obligation under capital lease, current portion	1,876	–	(1,876)	–	–	–	–	–
Due to University of Puerto Rico	–	–	–	–	18,807	–	–	18,807
Other current liabilities	39,422	–	–	39,422	–	–	–	–
Total current liabilities	156,170	6,828	(3,331)	159,667	38,804	82	38	38,924
Noncurrent liabilities:								
Long-term debt, net of current portion	553,367	68,487	–	621,854	14,280	–	–	14,280
Internal balance- obligation under capital lease, net of current portion	59,167	–	(59,167)	–	–	–	–	–
Other long-term liabilities	258,135	–	–	258,135	1,229	–	–	1,229
Total noncurrent liabilities	870,669	68,487	(59,167)	879,989	15,509	–	–	15,509
Total liabilities	1,026,839	75,315	(62,498)	1,039,656	54,313	82	38	54,433
Net position (deficit):								
Net investment in capital assets	397,674	–	–	397,674	–	211	156	367
Restricted, nonexpendable:								
Scholarships and fellowships	41,886	–	–	41,886	–	–	–	–
Research	49,486	–	–	49,486	–	–	–	–
Other	13,139	–	–	13,139	–	–	–	–
Restricted, expendable:								
Loans	7,794	–	–	7,794	–	–	–	–
Capital projects	7,038	2,262	–	9,300	–	–	–	–
Debt service	48,824	8,257	–	57,081	–	–	–	–
Unrestricted (deficit)	(40,711)	(4,554)	–	(45,265)	(16,648)	1,232	578	(14,838)
Total net position (deficit)	$ 525,130	$ 5,965	$ –	$ 531,095	$ (16,648)	$ 1,443	$ 734	$ (14,471)

See accompanying notes.

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

	Primary Government				Component Units			
	University of Puerto Rico (UPR) *As Restated and Adjusted*	Desarrollos Universi-tarios, Inc.	Elimi-nations	Total	Servicios Médicos Universi-tarios, Inc.	UPR Parking System, Inc.	Materials Cha-racterization Center, Inc.	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 65,751	$ 705	$ –	$ 66,456	$ 11,019	$ 1,098	$ 435	$ 12,552
Restricted cash and cash equivalents	16,891	–	–	16,891	–	–	–	–
Restricted investments at fair value:								
Deposited with trustee	54,666	15,496	–	70,162	–	–	–	–
Others	1,853	–	–	1,853	–	–	–	–
Accounts receivable, net	112,112	–	–	112,112	12,775	87	223	13,085
Internal balance- net investment in direct financing lease, current portion	–	1,586	(1,586)	–				
Due from:								
Commonwealth of Puerto Rico	14,220	–	–	14,220	–	–	–	–
University of Puerto Rico Retirement System	22,339	–	–	22,339	–	–	–	–
University of Puerto Rico	–	1,659	(1,659)	–	8,645			8,645
Inventories	3,374	–	–	3,374	1,182	–	–	1,182
Prepaid expenses and other assets	608	18	–	626	190	8	65	263
Total current assets	**291,814**	**19,464**	**(3,245)**	**308,033**	**33,811**	**1,193**	**723**	**35,727**
Noncurrent assets:								
Restricted cash and cash equivalents	1,774	2,081	–	3,855	–	–	–	–
Restricted investments at fair value:								
Endowment funds	90,521	–	–	90,521	–	–	–	–
Healthcare Deferred Compensation Plan	88,561	–	–	88,561	–	–	–	–
Other long-term investments at fair value	2,458	–	–	2,458	–	–	–	–
Internal balance- net investment in direct financing lease, net of current portion	–	61,772	(61,772)	–				
Due from Commonwealth of Puerto Rico	5,000	–	–	5,000	183	–	–	183
Prepaid pension asset and other assets	79,232	289	–	79,521	–	–	–	–
Notes receivable, net	4,598	–	–	4,598	–	–	–	–
Capital assets (net of accumulated depreciation and amortization):								
Land and other nondepreciable assets	96,483	–	–	96,483	833	–	–	833
Depreciable assets	860,874	–	–	860,874	6,061	168	93	6,322
Total noncurrents assets	**1,229,501**	**64,142**	**(61,772)**	**1,231,871**	**7,077**	**168**	**93**	**7,338**
Total assets	**1,521,315**	**83,606**	**(65,017)**	**1,539,904**	**40,888**	**1,361**	**816**	**43,065**
Deferred outflows of resources- Deferred refunding loss	**3,125**	**–**	**–**	**3,125**	**–**	**–**	**–**	**–**
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	94,399	4,841	(1,659)	97,581	19,121	74	40	19,235
Current portion of long-term debt	27,311	1,960	–	29,271	1,517	–	–	1,517
Internal balance- obligation under capital lease, current portion	1,586	–	(1,586)	–	–	–	–	–
Due to University of Puerto Rico	–	–	–	–	17,243	–	–	17,243
Other current liabilities	36,558	–	–	36,558	–	–	–	–
Total current liabilities	**159,854**	**6,801**	**(3,245)**	**163,410**	**37,881**	**74**	**40**	**37,995**
Noncurrent liabilities:								
Long-term debt, net of current portion	571,876	70,546	–	642,422	16,170	–	–	16,170
Internal balance- obligation under capital lease, net of current portion	61,772	–	(61,772)	–	–	–	–	–
Other long-term liabilities	236,024	–	–	236,024	1,348	–	–	1,348
Total noncurrent liabilities	**869,672**	**70,546**	**(61,772)**	**878,446**	**17,518**	**–**	**–**	**17,518**
Total liabilities	**1,029,526**	**77,347**	**(65,017)**	**1,041,856**	**55,399**	**74**	**40**	**55,513**
Net position (deficit):								
Net investment in capital assets	388,239	–	–	388,239	–	168	93	261
Restricted, nonexpendable:								
Scholarships and fellowships	35,288	–	–	35,288	–	–	–	–
Research	45,871	–	–	45,871	–	–	–	–
Other	10,968	–	–	10,968	–	–	–	–
Restricted, expendable:								
Loans	8,323	–	–	8,323	–	–	–	–
Capital projects	1,210	2,140	–	3,350	–	–	–	–
Debt service	48,694	8,601	–	57,295	–	–	–	–
Unrestricted (deficit)	(43,679)	(4,482)	–	(48,161)	(14,511)	1,119	683	(12,709)
Total net position (deficit)	**$ 494,914**	**$ 6,259**	**$ –**	**$ 501,173**	**$ (14,511)**	**$ 1,287**	**$ 776**	**$ (12,448)**

See accompanying notes.

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014 (In thousands)

	Primary Government				Component Units			
	University of Puerto Rico (UPR)	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	UPR Parking System, Inc.	Materials Characterization Center, Inc.	Total
Revenues								
Operating revenues:								
Tuitions and fees (net of scholarship allowances and others of $52,416)	$ 47,974	$ –	$ –	$ 47,974	$ –	$ –	$ –	$ –
Net patient services revenue and other (net of provision to allowances of $16,824)	67,698	–	–	67,698	39,766	–	–	39,766
Federal grants and contracts (net of provision to allowances of $5,576)	94,024	–	–	94,024	–	–	–	–
Commonwealth grants and contracts (net of provision to allowances of $11,762)	20,896	–	–	20,896	–	–	–	–
Nongovernmental grants and contracts (net of provision to allowances of $485)	10,415	–	–	10,415	–	–	–	–
Sales and services of educational departments	11,096	–	–	11,096	–	–	–	–
Auxiliary enterprises (net of credit to allowances of $396)	2,714	–	–	2,714	–	–	–	–
Other operating revenues	8,944	3,339	(3,339)	8,944	2,012	1,495	504	4,011
Total operating revenues	**263,761**	**3,339**	**(3,339)**	**263,761**	**41,778**	**1,495**	**504**	**43,777**
Operating expenses:								
Salaries:								
Faculty	360,541	–	–	360,541	–	–	–	–
Exempt staff	266,992	–	–	266,992	4,548	–	–	4,548
Nonexempt wages	658	292	–	950	10,275	326	120	10,721
Benefits	244,575	68	–	244,643	2,576	63	18	2,657
Scholarships and fellowships	183,171	–	–	183,171	–	–	–	–
Supplies and other services	152,367	2,498	(3,339)	151,526	19,251	334	326	19,911
Utilities	56,326	170	–	56,496	3,935	8	2	3,945
Depreciation and amortization	46,499	–	–	46,499	1,638	45	54	1,737
Other expenses	19,793	33	–	19,826	924	5	26	955
Total operating expenses	**1,330,922**	**3,061**	**(3,339)**	**1,330,644**	**43,147**	**781**	**546**	**44,474**
Operating income (loss)	**(1,067,161)**	**278**	**–**	**(1,066,883)**	**(1,369)**	**714**	**(42)**	**(697)**
Nonoperating revenues (expenses):								
Commonwealth and other appropriations	938,117	–	–	938,117	–	–	–	–
Federal Pell Grant program	162,035	–	–	162,035	–	–	–	–
Gifts	11,190	–	–	11,190	–	–	–	–
Net investment income	9,470	417	–	9,887	–	5	–	5
Interest on capital assets - related debt	(24,894)	(3,655)	2,666	(25,883)	(768)	–	–	(768)
Interest on notes payable	(4,036)	–	–	(4,036)	–	–	–	–
Interest income from internal balance-investment in direct financing lease	–	2,666	(2,666)	–	–	–	–	–
Other nonoperating revenues (expenses), net	(199)	–	–	(199)	–	–	–	–
Net nonoperating revenues (expenses)	**1,091,683**	**(572)**	**–**	**1,091,111**	**(768)**	**5**	**–**	**(763)**
Income (loss) before other revenues (expenses)	**24,522**	**(294)**	**–**	**24,228**	**(2,137)**	**719**	**(42)**	**(1,460)**
Capital appropriations	**5,091**	**–**	**–**	**5,091**	**–**	**–**	**–**	**–**
Additions to term and permanent endowments	**40**	**–**	**–**	**40**	**–**	**–**	**–**	**–**
Transfers in (out)	**563**	**–**	**–**	**563**	**–**	**(563)**	**–**	**(563)**
Change in net position	**30,216**	**(294)**	**–**	**29,922**	**(2,137)**	**156**	**(42)**	**(2,023)**
Net position (deficit):								
Beginning of year, as restated and adjusted	**494,914**	**6,259**	**–**	**501,173**	**(14,511)**	**1,287**	**776**	**(12,448)**
End of year	**$ 525,130**	**$ 5,965**	**$ –**	**$ 531,095**	**$ (16,648)**	**$ 1,443**	**$ 734**	**$ (14,471)**

See accompanying notes.

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

	Primary Government				Component Units			
	University of Puerto Rico (UPR) *As Restated and Adjusted*	Desarrollos Universi-tarios, Inc.	Elimi-nations	Total	Servicios Médicos Universi-tarios, Inc.	UPR Parking System, Inc.	Materials Cha-racterization Center, Inc.	Total
Revenues								
Operating revenues:								
Tuitions and fees (net of scholarship allowances and others of $72,275)	$ 67,794	$ –	$ –	$ 67,794	$ –	$ –	$ –	$ –
Net patient services revenue and other (net of provision to allowances of $12,549)	65,478	–	–	65,478	49,214	–	–	49,214
Federal grants and contracts (net of provision to allowances of $2,772)	109,124	–	–	109,124	–	–	–	–
Commonwealth grants and contracts (net of provision to allowances of $3,190)	20,789	–	–	20,789	–	–	–	–
Nongovernmental grants and contracts (net of provision to allowances of $504)	8,423	–	–	8,423	–	–	–	–
Sales and services of educational departments	11,871	–	–	11,871	–	–	–	–
Auxiliary enterprises (net of provision to allowances of $932)	1,348	–	–	1,348	–	–	–	–
Other operating revenues	14,580	3,235	(3,235)	14,580	2,211	1,451	481	4,143
Total operating revenues	**299,407**	**3,235**	**(3,235)**	**299,407**	**51,425**	**1,451**	**481**	**53,357**
Operating expenses:								
Salaries:								
Faculty	341,884	–	–	341,884	–	–	–	–
Exempt staff	258,274	–	–	258,274	4,246	–	–	4,246
Nonexempt wages	741	275	–	1,016	9,594	316	94	10,004
Benefits	253,761	53	–	253,814	3,627	56	16	3,699
Scholarships and fellowships	184,484	–	–	184,484	–	–	–	–
Supplies and other services	158,947	2,341	(3,235)	158,053	20,566	338	292	21,196
Utilities	54,255	184	–	54,439	3,541	12	1	3,554
Depreciation and amortization	49,527	5	–	49,532	1,557	18	47	1,622
Other expenses	21,721	55	–	21,776	2,488	13	33	2,534
Total operating expenses	**1,323,594**	**2,913**	**(3,235)**	**1,323,272**	**45,619**	**753**	**483**	**46,855**
Operating income (loss)	**(1,024,187)**	**322**	**–**	**(1,023,865)**	**5,806**	**698**	**(2)**	**6,502**
Nonoperating revenues (expenses):								
Commonwealth and other appropriations	902,040	–	–	902,040	–	–	–	–
Federal Pell Grant program	161,651	–	–	161,651	–	–	–	–
Gifts	8,889	–	–	8,889	–	–	–	–
Net investment income	3,886	428	–	4,314	–	4	–	4
Interest on capital assets - related debt	(26,604)	(3,766)	4,216	(26,154)	(865)	–	–	(865)
Interest on notes payable	(4,219)	–	–	(4,219)	–	–	–	–
Interest income from internal balance-investment in direct financing lease	–	4,216	(4,216)	–	–	–	–	–
Other nonoperating revenues (expenses), net	(1,266)	–	–	(1,266)	967	–	–	967
Net nonoperating revenues	**1,044,377**	**878**	**–**	**1,045,255**	**102**	**4**	**–**	**106**
Income (loss) before other revenues	**20,190**	**1,200**	**–**	**21,390**	**5,908**	**702**	**(2)**	**6,608**
Capital appropriations	**5,219**	**–**	**–**	**5,219**	**–**	**–**	**–**	**–**
Additions to term and permanent endowments	**2,054**	**–**	**–**	**2,054**	**–**	**–**	**–**	**–**
Transfers in (out)	**628**	**–**	**–**	**628**	**–**	**(628)**	**–**	**(628)**
Change in net position	**28,091**	**1,200**	**–**	**29,291**	**5,908**	**74**	**(2)**	**5,980**
Net position (deficit):								
Beginning of year, as previously reported	**472,360**	**6,679**	**–**	**479,039**	**(20,419)**	**1,213**	**778**	**(18,428)**
Adjustment of beginning net position	**(5,537)**	**(1,620)**	**–**	**(7,157)**	**–**	**–**	**–**	**–**
End of year	**$ 494,914**	**$ 6,259**	**$ –**	**$ 501,173**	**$ (14,511)**	**$ 1,287**	**$ 776**	**$ (12,448)**

See accompanying notes.

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

	Primary Government for the Year Ended June 30, 2014				Primary Government for the Year Ended June 30, 2013			
	University of Puerto Rico	Desarrollos Universi-tarios, Inc.	Elimi-nations	Total	University of Puerto Rico	Desarrollos Universi-tarios, Inc.	Elimi-nations	Total
Cash flows from operating activities								
Tuition and fees	**$ 48,893**	**$ –**	**$ –**	**$ 48,893**	$ 67,712	$ –	$ –	$ 67,712
Grants and contracts	**148,744**	**–**	**–**	**148,744**	158,288	–	–	158,288
Patient services	**76,758**	**–**	**–**	**76,758**	59,746	–	–	59,746
Auxiliary enterprises	**2,318**	**–**	**–**	**2,318**	2,280	–	–	2,280
Sales and services educational departments and others	**12,111**	**–**	**–**	**12,111**	26,451	–	–	26,451
Payments to suppliers	**(180,362)**	**(2,776)**	**3,367**	**(179,771)**	(180,252)	(2,601)	3,430	(179,423)
Payments to employees	**(603,309)**	**(328)**	**–**	**(603,637)**	(590,152)	(334)	–	(590,486)
Payments for benefits	**(249,682)**	**–**	**–**	**(249,682)**	(268,914)	–	–	(268,914)
Payments for utilities	**(63,441)**	**–**	**–**	**(63,441)**	(58,999)	–	–	(58,999)
Payments for scholarships and fellowships	**(183,171)**	**–**	**–**	**(183,171)**	(184,484)	–	–	(184,484)
Loans issued to students, net of repayments (repayments, net of loans issued to students)	**536**	**–**	**–**	**536**	(658)	–	–	(658)
Other receipts (payments)	**–**	**3,365**	**(3,367)**	**(2)**	–	3,425	(3,430)	(5)
Net cash provided by (used in) operating activities	**(990,605)**	**261**	**–**	**(990,344)**	(968,982)	490	–	(968,492)
Cash flows from noncapital financing activities								
Commonwealth appropriations	**952,337**	**–**	**–**	**952,337**	910,040	–	–	910,040
Federal Pell program	**162,035**	**–**	**–**	**162,035**	161,651	–	–	161,651
Endowment gifts	**39**	**–**	**–**	**39**	2,054	–	–	2,054
Proceeds from noncapital debt	**–**	**–**	**–**	**–**	6,928	–	–	6,928
Principal paid on noncapital debt	**(8,719)**	**–**	**–**	**(8,719)**	–	–	–	–
Interest paid on notes payable	**(4,044)**	**–**	**–**	**(4,044)**	(4,182)	–	–	(4,182)
Gifts and grants for other than capital purposes	**11,190**	**–**	**–**	**11,190**	8,889	–	–	8,889
Other non-operating receipts (payments)	**(198)**	**–**	**–**	**(198)**	(1,266)	–	–	(1,266)
Net cash provided by noncapital financing activities	**1,112,640**	**–**	**–**	**1,112,640**	1,084,114	–	–	1,084,114
Cash flows from capital and related financing activities								
Capital appropriations	**5,091**	**–**	**–**	**5,091**	5,219	–	–	5,219
Purchases of capital assets	**(32,186)**	**–**	**–**	**(32,186)**	(53,831)	–	–	(53,831)
Proceeds from capital debt	**10,476**	**–**	**–**	**10,476**	2,670	–	–	2,670
Principal paid on capital debt and lease	**(19,669)**	**(1,960)**	**1,066**	**(20,563)**	(31,738)	(1,860)	1,481	(32,117)
Interest paid on capital debt and lease	**(29,202)**	**(3,682)**	**3,915**	**(28,969)**	(29,813)	(3,790)	4,216	(29,387)
Decrease (increase) in deposit with trustee	**(54)**	**284**	**–**	**230**	(17)	(436)	–	(453)
Net cash used in capital and related financing activities	**(65,544)**	**(5,358)**	**4,981**	**(65,921)**	(107,510)	(6,086)	5,697	(107,899)
Cash flows from investing activities								
Proceeds from sales and maturities of investments	**48,970**	**–**	**–**	**48,970**	65,649	–	–	65,649
Purchases of investments	**(69,572)**	**–**	**–**	**(69,572)**	(80,786)	–	–	(80,786)
Collections of interest and dividend income on investments	**2,412**	**510**	**–**	**2,922**	3,886	430	–	4,316
Advances to the University of Puerto Rico (UPR) Retirement System	**(38,146)**	**–**	**–**	**(38,146)**	(22,339)	–	–	(22,339)
Advance repayments from the UPR Retirement System	**22,339**	**–**	**–**	**22,339**	–	–	–	–
Contribution from component unit	**563**	**–**	**–**	**563**	628	–	–	628
Principal collected from internal balance- investment in direct financing lease	**–**	**1,066**	**(1,066)**	**–**	–	1,481	(1,481)	–
Interest collected from internal balance- investment in direct financing lease	**–**	**3,915**	**(3,915)**	**–**	–	4,216	(4,216)	–
Other receipts (payments)	**–**	**93**	**–**	**93**	–	(238)	–	(238)
Net cash provided by (used in) investing activities	**(33,434)**	**5,584**	**(4,981)**	**(32,831)**	(32,962)	5,889	(5,697)	(32,770)
Net change in cash and cash equivalents	**23,057**	**487**	**–**	**23,544**	(25,340)	293	–	(25,047)
Cash and cash equivalents:								
Beginning of year	**84,416**	**2,786**	**–**	**87,202**	109,756	2,493	–	112,249
End of year	**$ 107,473**	**$ 3,273**	**$ –**	**$ 110,746**	$ 84,416	$ 2,786	$ –	$ 87,202

(Continued)

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

	Primary Government for the Year Ended June 30, 2014			Primary Government for the Year Ended June 30, 2013		
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Total	University of Puerto Rico *As Restated*	Desarrollos Universitarios, Inc.	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	**$ (1,067,161)**	**$ 278**	**$ (1,066,883)**	$ (1,024,187)	$ 322	$ (1,023,865)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	**46,499**	**–**	**46,499**	49,527	5	49,532
Provision for doubtful accounts	**37,251**	**–**	**37,251**	12,464	–	12,464
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Grants and contracts receivables	**(12,056)**	**–**	**(12,056)**	1,986	–	1,986
Prepaid expenses, inventories and other	**(13,441)**	**(2)**	**(13,443)**	(13,232)	(4)	(13,236)
Increase (decrease) in:						
Accounts payable and accrued liabilities	**43,261**	**(19)**	**43,242**	(6,288)	173	(6,115)
Accrued salaries, wages, benefits and other liabilities	**(24,958)**	**4**	**(24,954)**	10,748	(6)	10,742
Net cash provided by (used in) operating activities	**$ (990,605)**	**$ 261**	**$ (990,344)**	$ (968,982)	$ 490	$ (968,492)
Supplemental schedule of noncash investing, capital and financing activities:						
Increase (decrease) in unrealized gains on investments	**$ 5,063**	**$ –**	**$ 5,063**	$ (1,315)	$ –	$ (1,315)
Amortization of:						
Bonds premiums (discounts)	**$ 1,860**	**$ (15)**	**$ 1,845**	$ 1,883	$ (16)	$ 1,867
Deferred refunding loss	**$ 307**	**$ –**	**$ 307**	$ 313	$ –	$ 313

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

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

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

A. Reporting Entity (continued)

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

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

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

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

Servicios Médicos Universitarios, Inc.

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

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

A. Reporting Entity (continued)

University of Puerto Rico Parking System, Inc.

University of Puerto Rico Parking System, Inc. ("UPRPS") is a legally separate entity from the University and is governed by a separate board. UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. Actually, UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses. The University appoints a voting majority of UPRPS board and is also financially accountable for UPRPS. UPRPS's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the years ended June 30, 2014 and 2013. Complete financial statements of UPRPS can be obtained directly by contacting the UPRPS's administrative offices.

Materials Characterization Center, Inc.

Materials Characterization Center, Inc. ("MCC") is a legally separate entity from the University and is governed by a separate board. MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Science of the 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 years ended June 30, 2014 and 2013. Complete financial statements of MCC can be obtained directly by contacting the MCC's administrative offices.

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Estimates and Assumptions

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

D. Reclassifications

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

E. Cash Equivalents

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

F. Investments

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

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

G. Allowance for Doubtful Accounts

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

H. Interfund Balances and Transactions

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

I. Inventories

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

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

J. Capital Assets

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

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

K. Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the University should be reported at the lower of carrying value or fair value. No impairment charges were recorded during the years ended June 30, 2014 and 2013.

L. Bond Premium/Discount and Deferred Refunding Loss

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

M. Deferred Compensation Plan

The University offers certain employees a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, 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. The University believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

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

N. Compensated Absences

The vacation policy of the University generally provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. The University pays, annually, the excess of 90 days of accumulated sick leave to the employees. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, provided the employee has at least 10 years of service with the University. At June 30, 2014 and 2013, the cost of the excess of 90 days of the accumulated sick leave was approximately $10,031,000 and $9,867,000, respectively, which is included in other current liabilities in the accompanying statements of net position.

O. Classification of Net Position

The University's net position is classified as follows:

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

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

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

- *Unrestricted component of net position* is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty

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

O. Classification of Net Position (continued)

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

P. Classification of Revenues

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

Q. Scholarship Allowances and Student Financial Aid

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

R. Net Patient Service Revenue

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

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

S. Grants and Contracts

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

T. Gifts and Pledges

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

U. Pension

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

V. Postemployment Benefits Other Than Pensions

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

W. New Accounting Standards Adopted

In fiscal year 2014, the University adopted the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board (“GASB”):

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65).

- GASB Statement No. 66, *Technical Corrections- 2012- an Amendment of GASB Statements No. 10 and No. 62* (GASB Statement No. 66).

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

W. New Accounting Standards Adopted (continued)

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB Statement No. 70).

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the GASB in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources and limiting the use of the term deferred in financial statement presentations. At transition, the impact of GASB Statement No. 65 was as follows:

- **Refunding of Debt—**The difference between the reacquisition price and the net carrying amount of the old debt is now required to be presented as a deferred inflow or deferred outflow of resources. The University reclassified the statement of net position at June 30, 2013 by approximately $3,125,000 as a deferred outflow of resources, which had previously been reported as a deduction to the new debt.

- **Debt Issuance Costs**—Required to be recognized as an expense in the period incurred. The net position of the University and its blended component unit as of July 1, 2012 were decreased by approximately $5,537,000 and $1,620,000, respectively, for a total amount of approximately $7,157,000, reflecting the cumulative retrospective effect of derecognizing the issuance costs which had previously been deferred in the statement of net position. In addition, the issuance cost amortization expense of the University and its blended component unit of approximately $2,270,000 and $68,000, respectively, for a total amount of approximately $2,338,000, included as interest expense on capital assets related debt on the statement of revenues, expenses and changes in net position for the year ended June 30, 2013 were derecognized.

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

W. New Accounting Standards Adopted (continued)

GASB Statement No. 66's objective is to resolve conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statement No. 54 and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This Statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for: (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The adoption of this statement had no impact on the University's financial statements.

GASB Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. There was no impact on the University's financial statements as a result of the implementation of GASB Statement No. 70.

X. Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27* (GASB Statement No. 68), which is effective for periods beginning after June 15, 2014.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB Statement No. 69), which is effective for periods beginning after December 15, 2013.

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

W. New Accounting Standards Adopted (continued)

- 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 is effective for periods beginning after June 15, 2014.

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) in which:

a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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 currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines 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 will be based on the new actuarial reports to be prepared under the new GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*). The impact of GASB Statement No. 68 will be establishing its

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

W. New Accounting Standards Adopted (continued)

new net pension liability for the University to an amount resembling the existing actuarial deficiency in the University of Puerto Rico Retirement System (the "Retirement System") which at June 30, 2014 amounted to approximately $2.1 billion. This existing actuarial deficiency was determined using data, assumptions and results of the annual actuarial valuation of the Retirement System as of June 30, 2013.

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.

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.

The University has not completed the process of evaluating the impact of GASB Statements No. 68, No. 69, and No. 71 on its financial statements.

2. Cash and Cash Equivalents

The University's cash and cash equivalents as of June 30, 2014 and 2013 consisted of the following (expressed in thousands):

	2014		
	Unrestricted	**Restricted**	**Total**
Cash on hand	**$ 121**	**$ –**	**$ 121**
Due from commercial banks	**3,322**	**4,449**	**7,771**
Total cash on hand and due from commercial banks	**3,443**	**4,449**	**7,892**
Cash equivalents:			
Deposit accounts, certificates of deposit with Government Development Bank for Puerto Rico	**79,919**	**18,033**	**97,952**
Money market funds	**4**	**1,625**	**1,629**
Total cash equivalents	**79,923**	**19,658**	**99,581**
Total	**$ 83,366**	**$ 24,107**	**$ 107,473**

	2013		
	Unrestricted	**Restricted**	**Total**
Cash on hand	$ 144	$ –	$ 144
Due from commercial banks	984	14,877	15,861
Total cash on hand and due from commercial banks	1,128	14,877	16,005
Cash equivalents:			
Deposit accounts, certificates of deposit, with:			
Commercial banks	5,850	–	5,850
Economic Development Bank for Puerto Rico	58,637	–	58,637
Money market funds	136	3,788	3,924
Total cash equivalents	64,623	3,788	68,411
Total	$ 65,751	$ 18,665	$ 84,416

2. Cash and Cash Equivalents (continued)

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and its discretely presented component units are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico ("Treasury"), and such deposits are maintained in separate bank accounts in the name of the University and its discretely presented component units. Such authorized depositories, except for the Government Development Bank for Puerto Rico ("GDB") and the Economic Development Bank for Puerto Rico ("EDB"), public corporations of the Commonwealth, collateralize the amount deposited in excess of federal depository insurance ($250,000 at June 30, 2014) 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, 2014, the University and its component units do not have balances in cash accounts with commercial banks outside of Puerto Rico. The deposits at GDB and EDB and in money market funds are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

Restricted cash equivalents of the University's permanent endowment funds amounted to approximately $259,000 and $1,774,000 as of June 30, 2014 and 2013, respectively. Refer to Note 3.

Restricted cash equivalents of the University's construction funds amounted to approximately $8,226,000 and $6,184,000 as of June 30, 2014 and 2013, respectively.

Restricted cash equivalents of the University's internship program for first labor experience fund amounted to approximately $9,807,000 as of June 30, 2014.

As of June 30, 2014 and 2013, the University's cash deposited in the banks amounted to approximately $123,480,000 and $114,835,000, respectively.

A. Blended Component Unit's Cash and Cash Equivalents

DUI's cash and cash equivalents as of June 30, 2014 and 2013 amounted to approximately $3,273,000 and $2,786,000, 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, 2014 and 2013, DUI's cash deposited in the banks amounted to approximately $3,532,000 and $3,219,000, respectively. DUI's uninsured and uncollateralized cash and cash equivalents that were exposed to custodial credit risk amounted to approximately $3,282,000 and $2,969,000 as of June 30, 2014 and 2013, respectively.

B. Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2014 and 2013 amounted to approximately $10,587,000 and $12,552,000, respectively, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2014 and 2013, the discretely presented component units' cash deposited in the banks amounted to approximately $11,894,000 and $13,713,000, respectively.

3. Investments

The primary government's investments held at June 30, 2014 and 2013 are summarized in the following table (expressed in thousands):

	2014	2013
University:		
U.S. Treasury notes	**$ 68,398**	$ 67,382
U.S. sponsored agencies bonds and notes	**3,718**	4,886
U.S. municipal bonds	**2,787**	2,458
Foreign government bonds	**914**	1,538
Mortgage-backed securities	**15,024**	17,032
Asset-backed securities	**5,712**	2,227
Corporate bonds	**19,829**	16,278
Common stock and convertibles	**38,948**	30,018
External investment pools	**102,470**	88,561
Certificates of deposit	**7,871**	7,349
Guaranteed investment certificate	**–**	327
Others	**3**	3
Total University's Investments	**265,674**	238,059
DUI:		
U.S. sponsored agency notes	**5,848**	5,848
Money market funds	**9,364**	9,648
Total DUI's Investments	**15,212**	15,496
Total Primary Government	**$ 280,886**	$ 253,555

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

The University's investment policy excludes the investments designated to fund the University's Healthcare Deferred Compensation Plan. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return.

Restricted Investments in Sinking Funds

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

The University's funds held by trustee at June 30, 2014 and 2013 amounted to approximately $54,720,000 and $54,666,000, respectively, and consisted of U.S. Treasury notes purchased with remaining maturities of six months or less.

3. Investments (continued)

Restricted Investments in Sinking Funds (continued)

DUI's funds held by trustee at June 30, 2014 and 2013 amounted to approximately $12,145,000 and $12,429,000, respectively, and consisted of money market funds and an U.S. sponsored agency notes purchased with remaining maturities of six months or less.

Restricted Investments in Construction Fund

DUI maintains a Construction Fund account, related to the issuance of the AFICA bonds. As of June 30, 2014 and 2013, the account balance amounted to approximately $3,067,000 and consisted of a money market fund.

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2014 and 2013 amounted to approximately $103,802,000 and $90,521,000, 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.

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

As of June 30, 2014 and 2013, almost all the University's endowment funds only authorize the realized portion of the net appreciation of their investments (including interest and dividend income on investment and cash equivalents) to be spent in amounts that range from 85% to 100% in accordance with the donor specific instructions. Unrealized net appreciation on investments of the endowment funds is not available for authorization for expenditure by the Governing Board. As of June 30, 2014, net appreciation of approximately $8,639,000 is restricted to specific purposes.

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, amounted to approximately $102,470,000 and $88,561,000 as of June 30, 2014 and 2013, 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.

3. Investments (continued)

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

The external investment pools of the University's Healthcare Deferred Compensation Plan include the ING Life Insurance and Annuity Company – Fixed Account, a 2a-7 like external pool, which amounted to approximately $77,966,000 and $68,478,000 as of June 30, 2014 and 2013.

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, 2014, the primary government's credit quality distribution for securities is as follows (expressed in thousands):

	Carrying Value	Quality Rating AAA	AA+ to AA	A+ to A-	BBB+	Unrated	No Risk
U.S. Treasury notes	$ 68,398	$ –	$ –	$ –	$ –	$ –	$ 68,398
U.S. sponsored agencies bonds and notes	9,566	–	9,566	–	–	–	–
U.S. municipal bonds	2,787	333	1,644	550	260	–	–
Foreign government bonds	914	–	914	–	–	–	–
Mortgage-backed securities	15,024	2,590	9,935	–	–	–	2,499
Asset-backed securities	5,712	5,712	–	–	–	–	–
Corporate bonds	19,829	362	9,538	9,929	–	–	–
Common stock and convertibles	38,948	–	–	–	–	38,948	–
External investment pools	102,470	–	–	–	–	102,470	–
Certificates of deposit	7,871	–	–	–	–	7,871	–
Money market funds	9,364	9,364	–	–	–	–	–
Others	3	–	–	–	–	3	–
Total	$ 280,886	$ 18,361	$ 31,597	$ 10,479	$ 260	$ 149,292	$ 70,897

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, 2014, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolio is managed by brokerage firms.

Certificates of deposit include deposits at GDB amounting to approximately $7,713,000 as of June 30, 2014. The deposits at GDB are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

3. Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. Government and the ING Life Insurance and Annuity Company – Fixed Account (external investment pool), represented 5% or more of the total investment portfolio at June 30, 2014.

The following table summarizes the type and maturity of investments held by the University at June 30, 2014 (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	$ 54,720	$ 10,979	$ 2,699	$ –	$ –	$ 68,398
U.S. sponsored agencies bonds and notes	6,377	3,189	–	–	–	9,566
U.S. municipal bonds	–	133	517	2,137	–	2,787
Foreign government bonds	–	914	–	–	–	914
Mortgage-baked securities	–	–	3,920	11,104	–	15,024
Asset-baked securities	–	3,544	2,168	–	–	5,712
U.S. corporate bonds	–	11,827	8,002	–	–	19,829
Certificates of deposit	7,871	–	–	–	–	7,871
External investment pools	80,056	430	–	1,076	20,908	102,470
Common stock and convertibles	–	–	–	–	38,948	38,948
Money market funds	9,364	–	–	–	–	9,364
Others	3	–	–	–	–	3
Total	$ 158,391	$ 31,016	$ 17,306	$ 14,317	$ 59,856	$ 280,886

At June 30, 2014, the University has variable rate interest investments amounting to approximately $86,000, which reset in a semiannual basis at 100% of an interest rate index plus a spread.

4. Accounts Receivable

The University's accounts receivable as of June 30, 2014 and 2013 are as follows (expressed in thousands):

	2014	2013
Due from Commonwealth's:		
Agencies	$ **27,062**	$ 30,903
Component units	**50,959**	43,553
Municipalities	**5,401**	2,997
Due from Federal Government	**37,606**	29,140
Due from Servicios Médicos Universitarios, Inc.	**24,000**	21,768
Due from medical plans	**108,342**	99,897
Other	**26,229**	28,392
	279,599	256,650
Less allowance for doubtful accounts	**(192,584)**	(144,538)
Accounts receivable, net	$ **87,015**	$ 112,112

Due from Commonwealth's agencies mainly includes accounts receivable from the Department of Health amounted to approximately $12,538,000 and $10,332,000 at June 30, 2014 and 2013, 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 amounted to approximately $5,725,000 and $10,311,000, respectively, for contracts for professional development of public school teachers, autism programs and others.

Due from Commonwealth's component units includes accounts receivable from the Puerto Rico Medical Service Administration ("PRMSA") amounted to approximately $32,919,000 and $27,493,000 as of June 30, 2014 and 2013, respectively. These accounts receivable mainly come from unpaid medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA's patients.

Due from Commonwealth's component units also includes accounts receivable from the Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR") amounted to approximately $4,071,000 at June 30, 2014. These accounts receivable mainly come from 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.

4. Accounts Receivable (continued)

In addition, due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company ("PRTC") of approximately $5,122,000 and $6,008,000 at June 30, 2014 and 2013, 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, 2014 was collected in July 2014. PRTC appropriations (nonoperating revenues) for the years ended June 30, 2014 and 2013 amounted to approximately $64,441,000 and $67,864,000, respectively, and are included as part of Commonwealth appropriations in the accompanying statements of revenues, expenses and changes in net position.

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

A. Component Units

The Component Units' accounts receivable as of June 30, 2014 and 2013 are as follows (expressed in thousands):

	2014	2013
The Hospital:		
Patient accounts	**$ 39,499**	$ 40,103
Others	**982**	2,834
UPRPS- others	**229**	87
MCC- others	**313**	234
	41,023	43,258
Less allowance for doubtful accounts:		
The Hospital	**(31,045)**	(30,161)
MCC	**(21)**	(12)
	(31,066)	(30,173)
Accounts receivable, net	**$ 9,957**	$ 13,085

5. Related-Party Transactions and the University's Significant Dependence on the Commonwealth of Puerto Rico

Due from Commonwealth of Puerto Rico

As of June 30, 2014 and 2013, the University has a due from Commonwealth of Puerto Rico (the Commonwealth) of approximately $5,000,000 and $19,220,000, respectively.

Due from Commonwealth as of June 30, 2014 and 2013 includes $5,000,000 and $10,000,000, respectively, related to revenue from the Commonwealth legislative scholarships for fiscal years 2008 and 2009, which the Commonwealth is paying to the University in annual payments of $5.0 million.

5. Related-Party Transactions and the University's Significant Dependence on the Commonwealth of Puerto Rico (continued)

Due from Commonwealth of Puerto Rico (continued)

Due from Commonwealth also included a payment plan approved on September 7, 2004 in which the Commonwealth agreed to pay approximately $94,710,000 to the University on behalf of the Puerto Rico Department of Health and the Commonwealth of Puerto Rico, over the course of ten years. Due from Commonwealth under this payment plan amounted to approximately $1,720,000 as of June 30, 2013 and was received in fiscal year 2014.

In addition, due from Commonwealth included approximately $7,500,000 as of June 30, 2013 for funds to be received from the Special Scholarship Fund by virtue of Act No. 176 of November 2010 which was received in fiscal year 2014.

Appropriations from Commonwealth of Puerto Rico

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 and $756,803,000 for the years ended June 30, 2014 and 2013, respectively. On April 7, 2013, Act No. 7 amended Act No. 2 of January 20, 1966, as amended, and revised the formula for the Commonwealth appropriations effective July 1, 2013. In addition, the average total amount of annual general fund revenues collected by the Commonwealth has increased in the last two fiscal years which resulted in more appropriations from the Commonwealth to the University.

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 freezes 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 will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

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 $39,747,000 and $77,373,000 for the years ended June 30, 2014 and 2013, respectively. For the year ended June 30, 2013, these Commonwealth's appropriations included $30,000,000 from appropriations received from the Special Scholarship Fund. By virtue of Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the University of Puerto Rico. The purpose of the fund was to provide financial aid to graduate and undergraduate students. The fund was administered by the University. On April 7, 2013, Act No. 176 was derogated by Act No. 7, which among other matters, eliminated the Special Scholarship Fund for the University.

5. Related-Party Transactions and the University's Significant Dependence on the Commonwealth of Puerto Rico (continued)

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 $38,146,000 and $22,339,000 as of June 30, 2014 and 2013, respectively, which resulted from unpaid advances given by the University to the Retirement System in fiscal years 2014 and 2013, respectively. During the year ended June 30, 2014, the University collected the whole amount due by the Retirement System at June 30, 2013. The amount due by the Retirement System is unsecured, non-interest bearing and is payable upon demand.

Other Related-Party Transactions

The University's accounts payable and accrued liabilities include the following related-party transactions as of June 30, 2014 and 2013 (expressed in thousands):

	2014	**2013**
Due to the Commonwealth's:		
Agencies	**$ 974**	$ 974
Component units	**25,499**	25,319
Due to Servicios Médicos Universitarios, Inc.	**9,403**	8,645
Total	**$ 35,876**	$ 34,938

Due to Commonwealth's component units includes accounts payable to the Puerto Rico Medical Service Administration (PRMSA) of approximately $12,585,000 and $11,863,000 as of June 30, 2014 and 2013, respectively. These accounts payable mainly come from unpaid medical services provided by the PRMSA to the University's patients.

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

The Hospital's accounts payable and accrued liabilities include amounts due to the Commonwealth's component units of approximately $10,591,000 and $10,901,000 as of June 30, 2014 and 2013 for utilities expenditures (mainly electricity).

For additional related-party transactions see Notes 2, 3, 4, 6, 8, 9, 10, 11 and 12.

5. Related-Party Transactions and the University's Significant Dependence on the Commonwealth of Puerto Rico (continued)

The University's Significant Dependence on the Commonwealth of Puerto Rico

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

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

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, and high levels of debt and pension obligations. The Commonwealth's very high level of debt and the resulting required allocation of revenues to service this debt have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has been required to finance, further increasing the amount of its debt. More recently, the Commonwealth's high level of debt, among other factors, has adversely affected its credit ratings and its ability to obtain financing at favorable interest rates. The Commonwealth expects that its ability to finance future budget deficits will be severely limited, and, therefore, that it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget. While the Commonwealth may seek to reduce or entirely eliminate the practice of financing deficits or debt service, there is no assurance 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 an indefinite basis. Moreover, the effort to achieve budgetary balance may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect its revenues.

The University is highly reliant on the Commonwealth for operating revenues and for governance coupled with reliance on the Government Development Bank for Puerto Rico ("GDB"), a component unit of the Commonwealth, for liquidity and financial management support.

The Commonwealth's net deficit which amounted to $47.2 billion at June 30, 2013, its combined unfunded actuarial accrued liability and the funded ratios of its pension plans and the significant balances of loans due to GDB present liquidity risks regarding the Commonwealth's ability to meet its financial obligations and to fund all necessary governmental programs and services.

5. Related-Party Transactions and the University's Significant Dependence on the Commonwealth of Puerto Rico (continued)

The University's Significant Dependence on the Commonwealth of Puerto Rico (continued)

GDB has loans to the Commonwealth and its public entities amounting to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public entities. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public entities which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

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

6. Interfund Balances and Transactions

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

Capital Lease Agreement

In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc., a nonprofit corporation and a blended component unit of the University. The agreement is for the use of Plaza Universitaria (the Project), a residential and commercial facility for the use of students and other persons or entities conducting business with the University. The University will make basic lease payments, payable monthly, in amounts sufficient to pay principal of and interest on the DUI's AFICA Bonds payable and will be pledged to guarantee such payments. In addition, the University will pay as supplemental lease payments, such amounts as may be required under the management contract then in effect for the cost of maintaining and repairing the Project. Under the term of the lease agreement, the University will make the lease payment directly to the AFICA Bonds trustee. At the expiration date of the agreement, the University may purchase the Project for $1.

Also, DUI will maintain 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, 2014 and 2013 on this capital lease is approximately $61,044,000 and $63,358,000, respectively. The effective interest rate was 6.35% and 6.60% at June 30, 2014 and 2013, respectively.

6. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

The activity of the principal balance of the capital lease obligation for the years ended June 30, 2014 and 2013 is as follows (expressed in thousands):

	2014	2013
Beginning Balance	**$ 63,358**	$ 64,693
Additions	**–**	–
Reductions	**(2,315)**	(1,335)
Ending Balance	**61,043**	63,358
Less current portion	**1,876**	1,586
Total noncurrent portion	**$ 59,167**	$ 61,772

During the years ended June 30, 2014 and 2013, the University paid approximately $4,981,000 and $5,697,000, respectively, under the capital lease agreement. In July 2013, the trustee directed DUI to reduce loan repayments of the AFICA bonds by approximately $720,000 for the fiscal year 2014 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, 2014 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 these transactions results in amending capital lease obligation amortization, reducing the scheduled payments 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 credits resulted in the reduction of interest expense on the capital lease obligation by approximately $869,000 during the year ended June 30, 2014. Future credit granted by the trustee, will have a similar effect, when so granted.

In July 2014, the trustee directed DUI and consequently, the University to reduce loan repayments and basic lease payments, respectively, by approximately $1.8 million for fiscal year 2015.

6. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

The future minimum lease payments under the capital lease are as follows (expressed in thousands):

Year Ending June 30,	Amount
2015	$ 5,700
2016	5,702
2017	5,702
2018	5,699
2019	5,699
2020-2024	28,498
2025-2029	28,498
2030-2033 [1]	17,101
Total future minimum lease payments	102,599
Less amounts representing interest costs	(41,556)
Present value of minimum lease payments	$ 61,043

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

Other Transactions

In addition, the University and DUI have entered into other internal balance transactions related to DUI operations of Plaza Universitaria facilities. Net amount due under the operations and management agreement amounted to approximately $1,455,000 and $1,659,000 as of June 30, 2014 and 2013, respectively.

During the years ended June 30, 2014 and 2013, the University incurred the following expenditures under the operations and management agreement (expressed in thousands):

	2014	2013
Fixed management fee	**$ 900**	$ 900
Reimbursable expenditures fee	**2,439**	2,335
Total	**$ 3,339**	$ 3,235

6. Interfund Balances and Transactions (continued)

Other Transactions (continued)

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

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

7. Capital Assets

Changes in the primary government's capital assets for the years ended June 30, 2014 and 2013 are as follows (expressed in thousands):

	2014				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress	46,867	17,650	(23,114)	–	41,403
	96,483	17,650	(23,114)	–	91,019
Other capital assets:					
Land improvements	36,930	–	896	–	37,826
Building, fixed equipment, improvements and infrastructure	1,063,639	–	21,171	–	1,084,810
Equipment, software and library materials	300,778	18,278	1,047	(11,964)	308,139
Building and equipment under capital lease	99,489	–	–	–	99,489
	1,500,836	18,278	23,114	(11,964)	1,530,264
Less accumulated depreciation and amortization for:					
Land improvements	(20,918)	(1,314)	–	–	(22,232)
Buildings, fixed equipment, improvements and infrastructure	(363,744)	(25,160)	–	–	(388,904)
Equipment, software and library materials	(235,662)	(17,301)	–	9,769	(243,194)
Building and equipment under capital lease	(19,638)	(2,724)			(22,362)
	(639,962)	(46,499)	–	9,769	(676,692)
Other capital assets, net of accumulated depreciation	860,874	(28,221)	23,114	(2,195)	853,572
Capital assets, net	$ 957,357	$ (10,571)	$ –	$ (2,195)	$ 944,591

7. Capital Assets (continued)

	2013				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,616	$ –	$ –	$ –	$ 49,616
Construction in progress	59,408	32,358	(44,899)	–	46,867
	109,024	32,358	(44,899)	–	96,483
Other capital assets:					
Land improvements	36,280	–	650	–	36,930
Building, fixed equipment, improvements and infrastructure	1,021,641	–	41,998	–	1,063,639
Equipment, software and library materials	284,671	22,227	2,251	(8,371)	300,778
Building and equipment under capital lease	99,298	191	–	–	99,489
	1,441,890	22,418	44,899	(8,371)	1,500,836
Less accumulated depreciation and amortization for:					
Land improvements	(19,613)	(1,305)	–	–	(20,918)
Buildings, fixed equipment, improvements and infrastructure	(339,837)	(23,907)	–	–	(363,744)
Equipment, software and library materials	(221,517)	(21,571)	–	7,426	(235,662)
Building and equipment under capital lease	(16,889)	(2,749)			(19,638)
	(597,856)	(49,532)	–	7,426	(639,962)
Other capital assets, net of accumulated depreciation	844,034	(27,114)	44,899	(945)	860,874
Capital assets, net	$ 953,058	$ 5,244	$ –	$ (945)	$ 957,357

As of June 30, 2014 and 2013, the carrying value of the University's assets recorded under capital leases amounted to approximately $77,128,000 and $79,852,000, respectively. Amortization expense on these assets amounted to approximately $2,724,000 and $2,749,000 in 2014 and 2013, respectively. In addition, the carrying value of the University's medical equipments that collateralized the term notes payable to a commercial bank (see Note 8) amounted to approximately $1,521,000 as of June 30, 2014.

Capitalized interest on construction in progress amounted to approximately $1,546,000 and $2,677,000 for the years ended June 30, 2014 and 2013, respectively.

A. Component Units

Changes in the Component Units' capital assets for the years ended June 30, 2014 and 2013 are as follows (expressed in thousands):

	2014				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 833	$ 1,546	$ (1,107)	$ –	$ 1,272
	833	1,546	(1,107)	–	1,272
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	3,975	455	383	–	4,813
Equipment, software and library materials	18,237	654	724	–	19,615
	22,212	1,109	1,107	–	24,428
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(2,405)	(295)	–	–	(2,700)
Equipment, software and library materials	(13,485)	(1,442)	–	–	(14,927)
	(15,890)	(1,737)	–	–	(17,627)
Other capital assets, net of accumulated depreciation	6,322	(628)	1,107	–	6,801
Capital assets, net	$ 7,155	$ 918	$ –	$ –	$ 8,073

7. Capital Assets (continued)

A. Component Units (continued)

	2013				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 1,084	$ 1,351	$ (1,602)	$ -	$ 833
	1,084	1,351	(1,602)	–	833
Other capital assets:					
Building, fixed equipment, improvements and infrastructure	2,900	448	627	–	3,975
Equipment, software and library materials	16,395	867	975	–	18,237
	19,295	1,315	1,602	–	22,212
Less accumulated depreciation and amortization for:					
Buildings, fixed equipment, improvements and infrastructure	(2,190)	(215)	–	–	(2,405)
Equipment, software and library materials	(12,078)	(1,407)	–	–	(13,485)
	(14,268)	(1,622)	–	–	(15,890)
Other capital assets, net of accumulated depreciation	5,027	(307)	1,602	–	6,322
Capital assets, net	$ 1,084	$ 1,044	$ –	$ –	$ 7,155

8. Noncurrent Liabilities

Changes in the primary government's noncurrent liabilities for the years ended June 30, 2014 and 2013 are as follows (expressed in thousands):

	2014						
	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt:							
The University:							
Notes payable	$ 86,760	$ 10,475	$ (9,211)	$ –	$ 88,024	$ 8,099	$ 79,925
Bonds payable	512,427	–	(18,110)	(1,860)	492,457	19,015	473,442
Total University's long-term debt	599,187	10,475	(27,321)	(1,860)	580,481	27,114	553,367
DUI's long-term debt- bonds payable	72,506	–	(1,960)	16	70,562	2,075	68,487
Total Primary Government's long-term debt	$ 671,693	$ 10,475	$ (29,281)	$ (1,844)	$ 651,043	$ 29,189	$ 621,854
The University's other long-term liabilities:							
Deferred compensation payable	$ 88,561	$ –	$ –	$ 13,909	$ 102,470	$ –	$ 102,470
Claims liability	18,405	–	(3,811)	2,932	17,526	2,258	15,268
Compensated absences	165,616	11,945	–	–	177,561	37,164	140,397
Total University's other long-term liabilities	$ 272,582	$ 11,945	$ (3,811)	$ 16,841	$ 297,557	$ 39,422	$ 258,135

8. Noncurrent Liabilities (continued)

2013	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt:							
The University:							
Notes payable	$ 77,635	$ 9,598	$ (473)	$ –	$ 86,760	$ 9,201	$ 77,559
Bonds payable	543,537	–	(29,930)	(1,180)	512,427	18,110	494,317
Total University's long-term debt	621,172	9,598	(30,403)	(1,180)	599,187	27,311	571,876
DUI's long-term debt- bonds payable	74,350	–	(1,860)	16	72,506	1,960	70,546
Total Primary Government's long-term debt	$ 695,522	$ 9,598	$ (32,263)	$ (1,164)	$ 671,693	$ 29,271	$ 642,422
The University's other long-term liabilities:							
Deferred compensation payable	$ 77,012	$ –	$ –	$ 11,549	$ 88,561	$ –	$ 88,561
Claims liability	22,401	–	(1,640)	(2,356)	18,405	1,641	16,764
Compensated absences	167,126	–	(1,510)	–	165,616	34,917	130,699
Total University's other long-term liabilities	$ 266,539	$ –	$ (3,150)	$ 9,193	$ 272,582	$ 36,558	$ 236,024

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

9. Notes Payable

The University obtained a $125 million line of credit with the Government Development Bank for Puerto Rico ("GDB"), a public corporation of the Commonwealth, for working capital purposes. This line of credit was converted into a ten year term loan in October 2011 payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan is collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. This term loan matures on October 1, 2022 and bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2014). The balance outstanding of this term loan amounted to approximately $63,208,000 and $71,927,000 at June 30, 2014 and 2013, respectively.

In addition, the University has a $75.0 million non-revolving line of credit facility with GDB to complete certain construction projects of the University's Program for Permanent Improvements. This line of credit bears interest per annum equal to prime rate plus 150 basis points, with a floor of 6% (6% at June 30, 2014). The balance outstanding of this line of credit amounted to approximately $23,394,000 and $12,918,000 at June 30, 2014 and 2013, respectively. The unused balance of this line of credit amounted to $51.6 million at June 30, 2014. This line of credit was amended in January 2014 to extend the maturity date to January 31, 2016.

9. Notes Payable (continued)

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipments to be used in the Medical Sciences Campus. These term loans are payable in 60 monthly payments as follows: three interest only payments and 57 principal and interest payments amounting to 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 $1,422,000 and $1,915,000 at June 30, 2014 and 2013, respectively.

The table that follows represents debt service payments on notes payable as of June 30, 2014. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2014 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
		(In thousands)	
2015	$ 8,099	$ 5,035	$ 13,134
2016	31,514	4,050	35,564
2017	7,958	2,679	10,637
2018	7,585	2,219	9,804
2019	7,585	1,764	9,349
2020-2023	25,283	2,592	27,875
	$ 88,024	$ 18,339	$ 106,363

A. Notes Payable – Component Unit

Servicios Médicos Universitarios, Inc. (the "Hospital") has notes payable amounting to approximately $15,836,000 and $17,687,000 as of June 30, 2014 and 2013, respectively. A summary of the Hospital's notes payable at June 30, 2014 and 2013 follows (expressed in thousands):

	2014	2013
Term loan payable with GDB	**$ 15,026**	$ 16,338
Non-interest bearing note payable to Puerto Rico Aqueduct and Sewer Authority	**810**	990
Others	**–**	359
	15,836	17,687
Less: current portion	**1,556**	1,517
Noncurrent portion	**$ 14,280**	$ 16,170

9. Notes Payable (continued)

A. Notes Payable –Component Unit (continued)

The Hospital operates and administers the healthcare unit located in Carolina. This facility was acquired by the University and includes land, building and medical equipment. During 2009, the Hospital restructured its line of credit facility with GDB and accrued interest in the aggregated amount of 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 was required to make a down payment of $2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately $172,000 and bears interest per annum equal to prime rate plus 150 basis points (4.75 % at June 30, 2014). The loan is guaranteed by the University.

The non-interest bearing note payable to Puerto Rico Aqueduct and Sewer Authority ("PRASA"), a public corporation of the Commonwealth, resulted from trade accounts payable to PRASA amounting to approximately $1,053,000 that were restructured into an unsecured long-term debt in fiscal year 2013. This note is payable in 70 monthly installments of approximately $15,000. The note matures on December 15, 2018.

The activity of the principal balance of the long- term debt for the years ended June 30, 2014 and 2013 is as follows (expressed in thousands):

	2014	2013
Beginning Balance	**$ 17,687**	$ 19,445
Additions	**–**	1,053
Reductions	**(1,851)**	(2,811)
Ending Balance	**$ 15,836**	$ 17,687

The table that follows represents debt service payments on long-term debt as of June 30, 2014. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2014 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
		(In thousands)	
2015	$ 1,556	$ 684	$ 2,240
2016	1,622	617	2,239
2017	1,692	547	2,239
2018	1,766	474	2,240
2019	1,753	397	2,150
2020-2024	7,447	740	8,187
	$ 15,836	$ 3,459	$ 19,295

9. Notes Payable (continued)

A. Notes Payable –Component Unit (continued)

MCC has a $250,000 unsecured line of credit facility with a commercial bank at prime rate plus 250-basis points. At June 30, 2014 and 2013, there is no outstanding balance on this line of credit.

10. Bonds Payable

A. University's Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of the university's bonds payable as of June 30, 2014 and 2013 (dollars expressed in thousands):

Series	Balance as of June 30, 2014	Balance as of June 30, 2013	Annual Interest Rate (%)	Due Date June 30, 2014
P - Serial	**$ 197,410**	$ 209,935	5.00%	2015-2026
P - Term	**47,645**	47,645	5.00%	2027-2030
Q - Serial	**93,305**	98,890	5.00%	2015-2026
Q - Term	**132,415**	132,415	5.00%	2027-2036
	470,775	488,885		
Plus unamortized premium	**21,682**	23,542		
	$ 492,457	$ 512,427		

At June 30, 2014, the University's bonds payable require payments of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2015	$ 19,015	$ 23,539	$ 42,554
2016	19,970	22,588	42,558
2017	20,965	21,589	42,554
2018	22,010	20,541	42,551
2019	23,115	19,441	42,556
2020 to 2024	134,110	78,668	212,778
2025 to 2029	119,565	45,328	164,893
2030 to 2034	80,140	19,041	99,181
2035 to 2036	31,885	2,411	34,296
	$ 470,775	$ 253,146	$ 723,921

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.

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds

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

The blended component unit's AFICA bonds payable at June 30, 2014 and 2013, consist of (dollars expressed in thousands):

Description	Interest Rate	Maturity	2014 Face Amount	2013 Face Amount
Serial Bonds	5.63%	July 1, 2013	**$ –**	$ 1,960
Serial Bonds	5.63%	July 1, 2014	2,075	2,075
Serial Bonds	5.63%	July 1, 2015	2,190	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			**70,750**	72,710
Less unaccreted interest			**(188)**	(204)
Total			**$ 70,562**	$ 72,506

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds (continued)

At June 30, 2014, 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
2015	$ 2,075	$ 3,569	$ 5,644
2016	2,190	3,449	5,639
2017	2,315	3,322	5,637
2018	2,445	3,188	5,633
2019	2,580	3,047	5,627
2020 to 2024	15,130	12,979	28,109
2025 to 2029	19,335	8,681	28,016
2030 to 2034	24,680	3,205	27,885
Total	$ 70,750	$ 41,440	$ 112,190

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

10. Bonds Payable (continued)

C. Pledged Revenues

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

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

The University's revenues pledged were as follows for the years ended June 30, 2014 and 2013 (dollars expressed in thousands):

	2014	2013
Pledged Revenues:		
Tuition and other fees	**$ 83,254**	$ 80,982
Student fees	**5,101**	4,506
Stabilization Fee	**–**	42,879
Rental and other charges received for the right of use and occupancy of the facilities in the University system	**1,865**	1,829
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	**380**	391
Funds paid to the University in respect to overhead allowance on federal research projects	**12,903**	13,056
Other income	**28,770**	29,287
Total Pledged Revenues	**132,273**	172,930
Sinking Fund Reserve Interest	**134**	181
Total Pledged Revenues Plus Interest	**$ 132,407**	$ 173,111
Aggregate Debt Service:		
Principal and Interest Requirement	**$ 42,554**	$ 55,237
Senior Debt Service Coverage Ratio	**3.11**	3.13
DUI's AFICA Bonds (Subordinate to the University's Bonds)	**$ 5,642**	$ 5,597
Aggregate Debt Service	**$ 48,196**	$ 60,834
Total Debt Service Ratio	**2.75**	2.85

10. Bonds Payable (continued)

C. Pledged Revenues (continued)

The Trust Agreements governing the bonds issued required a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2014, the University was in compliance with the total debt service coverage ratio requirement.

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

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

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

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

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

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

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

The University complied with the sinking fund requirements at June 30, 2014.

In addition, the blended component unit’s term bonds are subject to mandatory redemption in part commencing on July 1, 2022 to the extent of the sinking fund requirement for said bonds at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The blended component unit complied with the sinking fund requirements at June 30, 2014.

11. Commitments and Contingent Liabilities

A. Claims Liability

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

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

Changes in the claims liability amount for medical malpractice in the years ended June 30, 2014 and 2013 were (expressed in thousands):

	2014	**2013**
Claims payable - July 1	**$ 9,572**	$ 11,956
Incurred claims and changes in estimates	**1,091**	(1,084)
Payments for claims and adjustments expenses	**(2,786)**	(1,300)
Claims payable - June 30	**$ 7,877**	$ 9,572

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 $9,649,000 and $8,833,000 as of June 30, 2014 and 2013, respectively, to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

B. Federal Assistance Programs

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the University's financial statements.

11. Commitments and Contingent Liabilities (continued)

B. Federal Assistance Programs (continued)

Effective April 23, 2012, the National Science Foundation ("NSF"), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University because the University had not corrected the time and effort reporting deficiencies as established in its Corrective Action Plan related to previous audits' findings. NSF is responsible for promoting science and engineering through research programs and education projects. NSF 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 ("ERS") policies and procedures, the creation of a system-wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University.

C. Construction Commitments

Construction commitments at June 30, 2014, entered by the University, amounted to approximately $34.9 million.

D. Operating Lease Agreements

The University rents a building of an outside clinic of the medical practice plan of the Medical Sciences Campus under non-cancelable long-term operating lease agreement which expires in July 2018. This lease contains escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2014 and 2013 amounted to approximately $1,740,000 and $1,344,000, respectively. At June 30, 2014, the minimum annual future rentals, without considering renewal options, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2015	$ 1,125
2016	216
2017	237
2018	125
2019	115
Thereafter	202
	$ 2,020

11. Commitments and Contingent Liabilities (continued)

D. Operating Lease Agreements (continued)

Servicios Médicos Universitarios, Inc. (the "Hospital") is obligated under the terms and conditions of various non-cancelable long-term operating lease agreements for equipment which expire in fiscal year 2016. Aggregate rent expense was approximately $149,000 and $97,000 for the years ended June 30, 2014 and 2013, respectively. At June 30, 2014, the minimum annual future rentals, without considering renewal options, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2015	$ 45
2016	21
	$ 66

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, 2014 and 2013 amounted to approximately $414,000 and $512,000, respectively. At June 30, 2014, total future minimum rental income on operating leases, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2015	$ 115
2016	115
2017	44
2018	14
	$ 288

E. Guaranty Commitment

The University guarantees the Hospital long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to approximately $15,026,000 at June 30, 2014, which matures on June 30, 2025. See Note 9A.

F. Blended Component Unit

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

11. Commitments and Contingent Liabilities (continued)

F. Blended Component Unit (continued)

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

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

G. Component Unit

Since inception, the Hospital, based on the opinion of its legal counsel, is considered an instrumentality of the Commonwealth. Under Law Number 98 of August 24, 1994, the responsibility of the Hospital for claim losses is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Based on the review of these facts and circumstances, the Hospital's management has recorded a provision for claims losses of $150,000 for the fiscal years ended June 30, 2014 and 2013 and has recorded an accrual of approximately $1,229,000 and $1,348,000 as of June 30, 2014 and 2013, respectively, to cover claims and lawsuits that may be assessed against the Hospital.

11. Commitments and Contingent Liabilities (continued)

G. Component Unit (continued)

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

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

12. 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, and visiting professors. It is qualified and exempt from Puerto Rico and United States income taxes. The System is not subject to the requirements of the Employees Retirement Income Security Act of 1974 "(ERISA"). The 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.

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

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

12. University of Puerto Rico Retirement System (continued)

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

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

Funding Policy – The contribution requirements of participants and the University are established and may be amended by the Governing Board. Plan members are required to contribute from 7% to 11% of their annual covered salary up to certain specified amounts, as defined. The University is supposed to contribute at an actuarially determined rate; the rate as of June 30, 2014 and 2013 was 15.8% of annual covered payroll. The actuarially determined employer contribution rate comes from actuarial valuation at start of the fiscal year. It takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the plan fund.

Annual Pension Cost and Prepaid Pension Asset – The University's annual pension cost and prepaid pension asset movement for the years ended June 30, 2014 and 2013 were as follows (dollars expressed in thousands):

	2014	2013 *(As Restated)*
Annual required contribution (ARC)	**$ 78,204**	$ 77,772
Interest on the net pension asset	**(6,128)**	(5,112)
Adjustments to ARC	**3,730**	3,111
Annual cost (expense)	**75,806**	75,771
Employer contribution	**91,689**	88,481
Change in the net pension asset	**15,883**	12,710
Prepaid pension asset.- beginning of year	**76,602**	63,892
Prepaid pension asset- end of year	**$ 92,485**	$ 76,602
Percentage of annual cost contributed	120.95%	116.77%

12. University of Puerto Rico Retirement System (continued)

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

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

Fiscal Year Ending		Annual Pension Cost (APC)		Employer Contribution	Percentage of APC Contributed		Net Pension Obligation (Asset)
6/30/2014	$	75,806	$	91,689	121.0%	$	(92,485)
6/30/2013 ***(As Restated)***	$	75,771	$	88,481	116.8%	$	(76,602)
6/30/2012	$	70,336	$	75,140	106.8%	$	(63,892)

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

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

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

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

12. University of Puerto Rico Retirement System (continued)

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

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

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

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

The University provides the following OPEB:

- Medical Subsidy: Fixed subsidy of $125 per month ($1,500 per year) per participant ($0 for spouse) is paid by the University for the life of the participant at retirement to 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.

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

At June 30, 2014, membership in the OPEB Program consisted of the following:

Retirees and beneficiaries currently receiving benefits	8,081
Current participating employees	11,763
Total membership	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.

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

The following tables show the components of the University's annual OPEB cost for the fiscal years ended June 30, 2014 and 2013, 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):

	2014	2013
ARC	**$ 10,682**	$ 10,128
Interest on the net OPEB obligation	**127**	103
Adjustments to ARC	**(110)**	(89)
Annual OPEB cost (expense)	**10,699**	10,142
Employer contribution	**(8,325)**	(9,530)
Change in the net OPEB obligation	**2,374**	612
Net OPEB obligation- beginning of year	**3,187**	2,575
Net OPEB obligation- end of year	**$ 5,561**	$ 3,187
Percentage of annual OPEB cost contributed	77.81%	93.97%

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

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, 2013, the most recent actuarial valuation date (dollars expressed in thousands):

Actuarial Accrued liability (AAL)	**$ 209,184**
Unfunded AAL	**$ 209,184**
Funded ratio	**0%**

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 10,699	77.8%	$ 5,561
6/30/2013	$ 10,142	94.0%	$ 3,187
6/30/2012	$ 10,142	98.9%	$ 2,575

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

OPEB Actuarial Valuation – The University’s other Post-Employment Benefits Program actuarial valuation was conducted by Deloitte Consulting LLP as of July 1, 2013, members of the American Academy of Actuaries. As permitted by GASB Statement No. 45, the actuarial valuation is performed every two years.

Significant Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2013
Actual Cost Method	Projected Unit Credit
Amortization Method	Level Dollar amortization over 30 Years
Percentage Electing to Receive:	
Medical Subsidy	85% (applied to current and future retirees)
Tuition Remission	.7%
Tuition Remission	$538 per retiree in fiscal 2014 increasing 4.0% per year
Mortality	RP-2000 Healthy Combined Mortality Table for healthy 1994 Group Annuity Mortality Table lives set forward 10 years for disabled lives
Payroll Growth	4%
Discount Rate	4%

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

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

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

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

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

During most of the preceding years (up to June 30, 2009 and in 2014), the Hospital has experienced significant operating losses having an accumulated net position deficiency of approximately $16,648,000 as of June 30, 2014. 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 $31,045,000 as of June 30, 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, 2014.

Some of these measures had an impact in the Hospital's operations and as a result, the Hospital's operations reported an income before other revenues since the year ended June 30, 2010 to June 30, 2013. However, in September 2013, the Federal Centers for Disease Control and Prevention ("CDC") issued a preliminary report, which indicated that a 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 net position of approximately $2,137,000.

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.

15. Functional Information

The primary government's operating expenses by functional classification during the years ended June 30, 2014 and 2013 were as follows (expressed in thousands):

2014

Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 398,323	$ 6,888	$ 10,622	$ 53	$ –	$ 1,374	$ 417,260
Research	54,453	15,229	22,238	511	–	5,296	97,727
Public service	51,514	1,361	14,524	1,140	–	141	68,680
Academic support	70,060	587	19,612	88	–	16	90,363
Student service	43,620	638	9,878	5	–	491	54,632
Institutional support	120,452	314	27,483	3,543	–	9,224	161,016
Operation & maintenance	83,418	38	30,319	50,994	–	293	165,062
Student aid	3,699	157,573	637	–	–	124	162,033
Independent operation	57	6	68	–	–	–	131
Patient service	46,869	503	14,549	160	–	105	62,186
Auxiliary enterprises	661	34	1,596	2	–	5	2,298
Depreciation and amortization	–	–	–	–	46,499	–	46,499
Other	–	–	–	–	–	2,757	2,757
	$ 873,126	$ 183,171	$ 151,526	$ 56,496	$ 46,499	$ 19,826	$ 1,330,644

2013 (As Restated)

Functional Classification	Salaries and Benefits	Scholarships and Fellowships	Supplies and other Services	Utilities	Depreciation and Amortization	Other Expenses	Total
Instruction	$ 382,330	$ 7,541	$ 16,563	$ 49	$ –	$ 3,679	$ 410,162
Research	59,012	17,109	31,456	702	–	7,247	115,526
Public service	49,569	1,343	16,899	1,658	–	–	69,469
Academic support	70,458	713	18,975	67	–	1,422	91,635
Student service	42,414	639	10,689	8	–	2,555	56,305
Institutional support	120,183	253	11,664	4,107	–	3,454	139,661
Operation & maintenance	83,307	13	28,570	47,609	–	2,035	161,534
Student aid	3,573	156,313	820	–	–	173	160,879
Independent operation	57	10	130	–	–	13	210
Patient service	42,979	510	17,964	53	–	1,142	62,648
Auxiliary enterprises	759	40	1,982	2	–	–	2,783
Depreciation and amortization	–	–	–	–	49,532	–	49,532
Other	347	–	2,341	184	–	56	2,928
	$ 854,988	$ 184,484	$ 158,053	$ 54,439	$ 49,532	$ 21,776	$ 1,323,272

16. The University's Restatement

Subsequent to the issuance of the University's 2013 financial statements, management of the University identified several errors in such previously issued financial statements. In 2014, the University discovered that its prepaid pension asset as of June 30, 2013 was understated by $10.0 million as a result of a special contribution made by the University to the Retirement System in fiscal year 2013 that was not taken into consideration in the determination of the prepaid pension asset balance. This special contribution was previously recorded in the benefits expense line of the University's statement of revenues, expenses and changes in net position for the year ended June 30, 2013. The University's change in net position for the year ended June 30, 2013, and consequently its net position as of June 30, 2013, increased by approximately $10,000,000 as a result of the correction of this prior year adjustment.

In addition, the University found that the University's investment balances were not properly classified in the statement of net position as of June 30, 2013. The University reclassified approximately $92,872,000 of unrestricted short-term investments as follows: $1,853,000 as restricted short-term investments, $88,561,000 as long-term restricted investments of the Healthcare Deferred Compensation Plan and $2,458,000 as unrestricted other long-term investments as of June 30, 2013.

16. The University's Restatement (continued)

The University accounted for the correction of these errors as prior year adjustments and restated the University's fiscal year 2013 financial statements as follows (dollars expressed in thousands):

University of Puerto Rico's Financial Statements	As Previously Reported	Adoption Effect of GASB No. 65 [(1)]	Total Amount	Adjustment	As Restated
Statement of Net Position as of June 30, 2013:					
Current assets:					
Investments at fair value	$ 92,872	$ –	$ 92,872	$ (92,872)	$ –
Restricted investments at fair value:					
Others	–	–	–	1,853	1,853
Total current assets	382,833	–	382,833	(91,019)	291,814
Noncurrent assets:					
Restricted investments at fair value:					
Healthcare Deferred Compensation Plan	–	–	–	88,561	88,561
Other long-term investments at fair value	–	–	–	2,458	2,458
Prepaid pension asset and other assets	72,499	(3,267)	69,232	10,000	79,232
Total noncurrent assets	1,131,749	(3,267)	1,128,482	101,019	1,229,501
Total assets	1,514,582	(3,267)	1,511,315	10,000	1,521,315
Net position (deficit)	488,181	(3,267)	484,914	10,000	494,914
Statement of Revenues, Expenses and Changes in Net Position for the Year Ended June 30, 2013:					
Operating expenses:					
Benefits	$ 263,761	$ –	$ 263,761	$ (10,000)	$ 253,761
Total operating expenses	1,333,594	–	1,333,594	(10,000)	1,323,594
Operating loss	(1,034,187)	–	(1,034,187)	10,000	(1,024,187)
Income before other revenues	7,920	2,270	10,190	10,000	20,190
Change in net position	15,821	2,270	18,091	10,000	28,091
Net position (deficit)- end of year	488,181	(3,267)	484,914	10,000	494,914
Statement of Cash Flows for the Year Ended June 30, 2013:					
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ (1,034,187)	$ –	$ (1,034,187)	$ 10,000	$ (1,024,187)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Changes in operating assets and liabilities:					
Prepaid expenses, inventories and other	(3,232)	–	(3,232)	(10,000)	(13,232)

[(1)] For the adoption effect of GASB No. 65, refer to Note 1 to the financial statements.

17. Subsequent Events

Subsequent events were evaluated through March 31, 2015, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2014 financial statements.

On July 1, 2014, Moody's Investors Service (Moody's) downgraded the University's revenue bonds from Ba3 to Caa1 and the DUI's AFICA bonds from Ba1 to Caa2. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds. On July 14, 2014, Standard & Poor's Rating Services (S&P) downgraded the University's revenue bonds and the DUI's AFICA bonds from BB+ to BB.

Both rating actions followed the downgrade on July 1, 2014 by Moody's and on July 14, 2014 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds, which it has generally mirrored given the University's significant dependence on Commonwealth's appropriations, plus its constrained ability and willingness to raise tuition and other auxiliary revenues sufficient to mitigate cuts. The outlook is negative. The University is highly reliance on the Commonwealth for operating revenues and for governance coupled with reliance on GDB for liquidity and financial management support.

On February 13, 2015 S&P downgraded the University's revenue bonds and the DUI's AFICA bonds from BB to B. The rating action followed the downgrade on February 12, 2015 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds. The outlook is negative.

Required Supplementary Information

University of Puerto Rico
Schedules of Funding Progress
(Dollars in thousands) (Unaudited)

Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered ((b – a) / c)
6/30/2013	$ 1,070,402	$ 2,622,367	$ 1,551,965	40.8%	$ 491,291	315.9%
6/30/2012	$ 1,039,441	$ 2,617,989	$ 1,578,548	39.7%	$ 499,028	316.3%
6/30/2011	$ 1,041,628	$ 2,542,444	$ 1,500,816	41.0%	$ 510,707	293.9%
6/30/2010	$ 1,028,918	$ 2,436,913	$ 1,407,995	42.2%	$ 540,867	260.3%
6/30/2009	$ 1,034,645	$ 2,331,619	$ 1,296,974	44.4%	$ 570,122	227.5%
6/30/2008	$ 1,024,987	$ 2,223,220	$ 1,198,233	46.1%	$ 542,604	220.8%

Postemployment Benefits Other Than Pensions Program

Actuarial Valuation Date	Actual value of Assets (a)	Actual Accrued Liability (AAL) (b)	UAAL (b - a)	Funded Ratio (a / b)
7/1/2013	$ –	$ 209,184	$ (209,184)	0%
7/1/2011	$ –	$ 197,324	$ (197,324)	0%
7/1/2009	$ –	$ 189,417	$ (189,417)	0%
7/1/2007	$ –	$ 184,233	$ (184,233)	0%

Other Financial Information

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

	2014		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from Reserve Account	$ 22	$ –	$ 22
Transfer from unrestricted current funds	42,570	–	42,570
Interest earned on investments	27	107	134
Total receipts	42,619	107	42,726
Deductions:			
Payments of bond interest	24,444	–	24,444
Payments of bond principal	18,110	–	18,110
Net decrease in fair value of investments	22	73	95
Transfer to Reserve Account	–	22	22
Total disbursements	42,576	95	42,671
Net increase for the year	43	12	55
Balances at beginning of year	–	54,678	54,678
Balance at end of year	$ 43	$ 54,690	$ 54,733

	2013		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from Reserve Account	$ 54	$ –	$ 54
Transfer from unrestricted current funds	55,172	–	55,172
Interest earned on investments	30	151	181
Total receipts	55,256	151	55,407
Deductions:			
Payments of bond interest	25,307	–	25,307
Payments of bond principal	29,930	–	29,930
Net increase in fair value of investments	19	92	111
Transfer to Reserve Account	–	54	54
Total disbursements	55,256	146	55,402
Net increase for the year	–	5	5
Balances at beginning of year	–	54,673	54,673
Balance at end of year	$ –	$ 54,678	$ 54,678

Report on Internal Control and on Compliance

Building a better
working world

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

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

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

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, 2014, 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 31, 2015. Our report includes a reference to other auditors who audited the financial statements of Servicios Medicos Universitarios, Inc. (the "Hospital"), Desarrollos Universitarios, Inc., University of Puerto Rico Parking System, Inc. and Materials Characterization Center, Inc. (collectively, the "Companies") as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported or separately by those auditors. The financial statements of the Hospital and the Companies were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

2014-001 - 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.

- Prior period errors were identified subsequent to the prior year financial statements being issued that caused the prior year financial statements to be restated.

- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.

- The accounting and financial reporting operations of certain units of the University, specifically the Medical Sciences Campus and the Mayagüez Campus, are not able to detect or prevent accounting errors effectively nor efficiently which resulted in multiple audit adjustments.

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

Effect
There were numerous post-closing and audit adjustments, including restatements related to the prior year financial statements, that were recorded by the University as noted above.

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

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

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

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

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

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

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

Compliance and Other Matters

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

The University's Response to Finding

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

Purpose of this Report

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

Ernst & Young LLP

March 31, 2015

Stamp No. E158158
affixed to
original of
this report.

EY | Assurance | Tax | Transactions | Advisory

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

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

ey.com