FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL SCHEDULES

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

Ernst & Young LLP

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University of Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Years Ended June 30, 2013 and 2012

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Report of Independent Auditors

Governing Board
University of Puerto Rico

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Required Supplementary Information

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

Supplementary and Other Information

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

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

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Other Reporting Required by *Government Auditing Standards*

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

Ernst & Young LLP

March 30, 2014

Stamp No. E98645
affixed to
original of
this report.

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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. Some component units, despite being legally separate from the primary government, are so integrated with the primary government that they are in substance part of the primary government. These component units are blended with the primary government.

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

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

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

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

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

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

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

Financial Highlights

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

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

Condensed Statements of Net Position (In thousands)

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

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

	Year Ended June 30		
	2013	**2012**	**2011**
Operating revenues			
Tuition and fees, net	**$ 67,794**	$ 72,475	$ 73,451
Governmental grants and contracts, net	**129,913**	174,166	161,547
Patient services, net	**65,478**	86,819	71,466
Other operating revenues, net	**36,222**	36,730	47,872
Total operating revenues	**299,407**	370,190	354,336
Operating expenses			
Salaries and benefits	**864,988**	828,079	860,079
Scholarships and fellowships	**184,484**	203,959	215,205
Supplies and other services and utilities	**212,492**	221,998	205,706
Other operating expenses	**71,308**	66,993	69,418
Total operating expenses	**1,333,272**	1,321,029	1,350,408
Operating loss	**(1,033,865)**	(950,839)	(996,072)
Nonoperating revenues (expenses)			
Commonwealth appropriations	**902,040**	834,097	839,372
Federal Pell Grant program	**161,651**	174,139	179,160
Federal ARRA program	**–**	–	15,000
Other nonoperating revenues (expenses), net	**(20,774)**	(12,530)	4,759
Net nonoperating revenues	**1,042,917**	995,706	1,038,291
Income before other revenues	**9,052**	44,867	42,219
Capital appropriations	**5,219**	465	5,580
Additions to term and permanent endowments	**2,054**	1,817	11,044
Transfers in	**628**	294	134
Change in net position	**16,953**	47,443	58,977
Net Position			
Beginning of year, *as restated*	**479,039**	431,596	372,619
End of year	**$ 495,992**	$ 479,039	$ 431,596

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

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

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

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

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

New Accounting Standards Adopted

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

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

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

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

Analysis of Net Position and Changes in Net Position

Statements of Net Position

Assets

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

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

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

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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

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

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

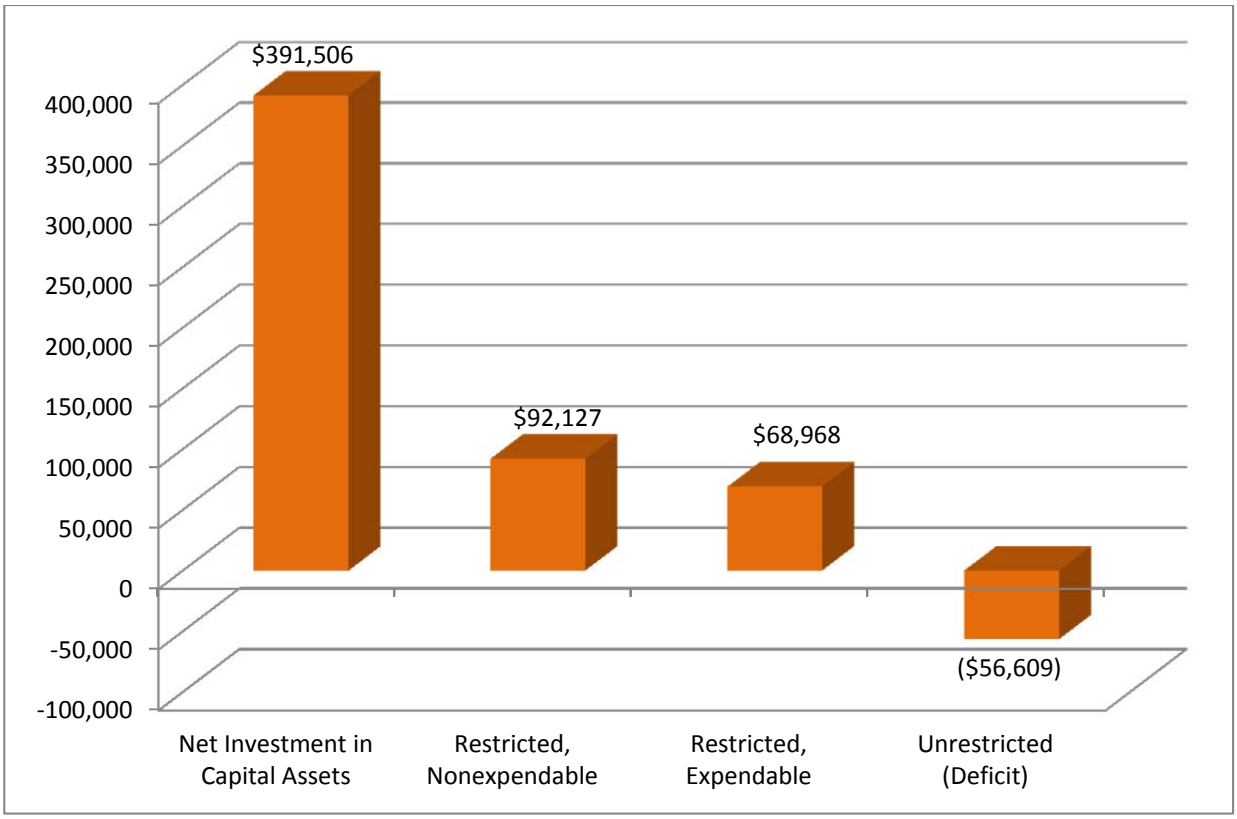
Compensated absences amounted to $165.6 million, $167.1 million and $156.7 million at June 30, 2013, 2012 and 2011, respectively, a decrease of $1.5 million or 1% in 2013 and an increase of $10.4 million or 7% in 2012, when compared with prior year balances. Changes in compensated absences are mainly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

Net Position

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

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

Chart 1 – Net Position
(Dollars in thousands)



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

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

Operating Revenues

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

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

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

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

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

Non-operating Revenues

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

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

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

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

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

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

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

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

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

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

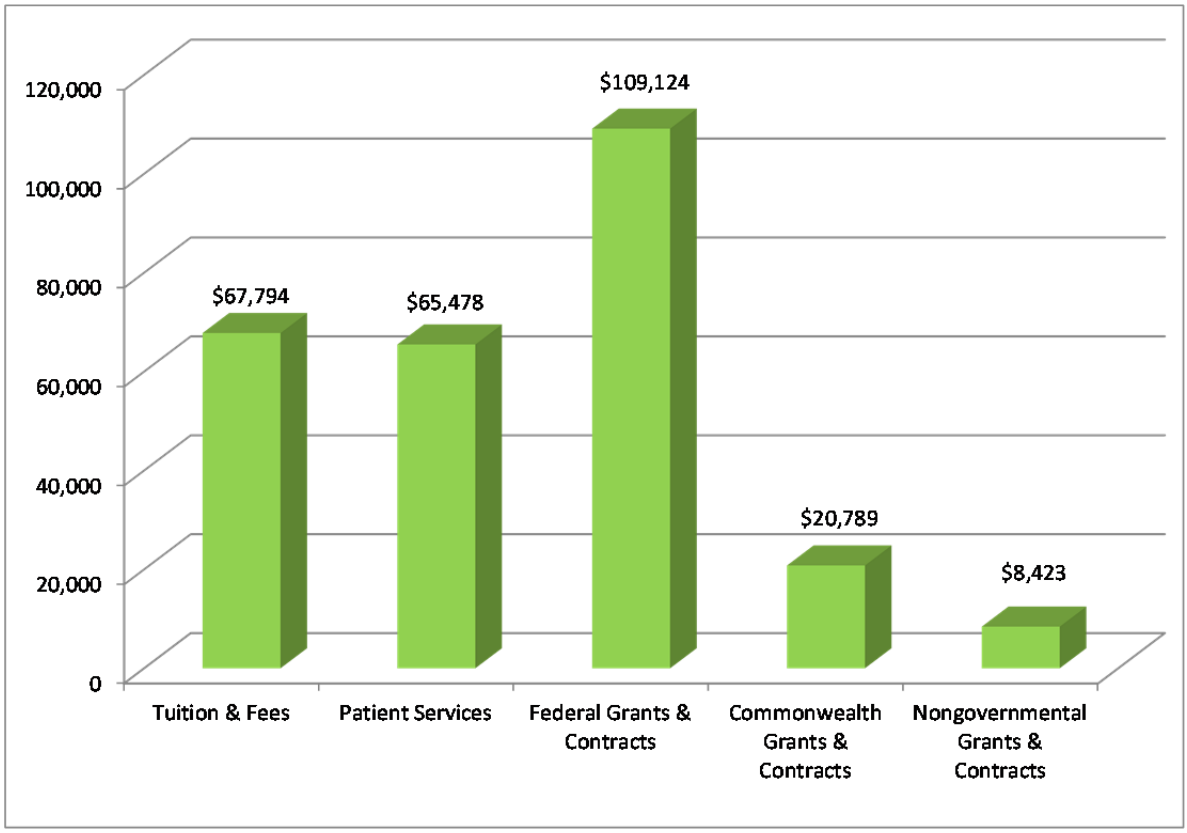
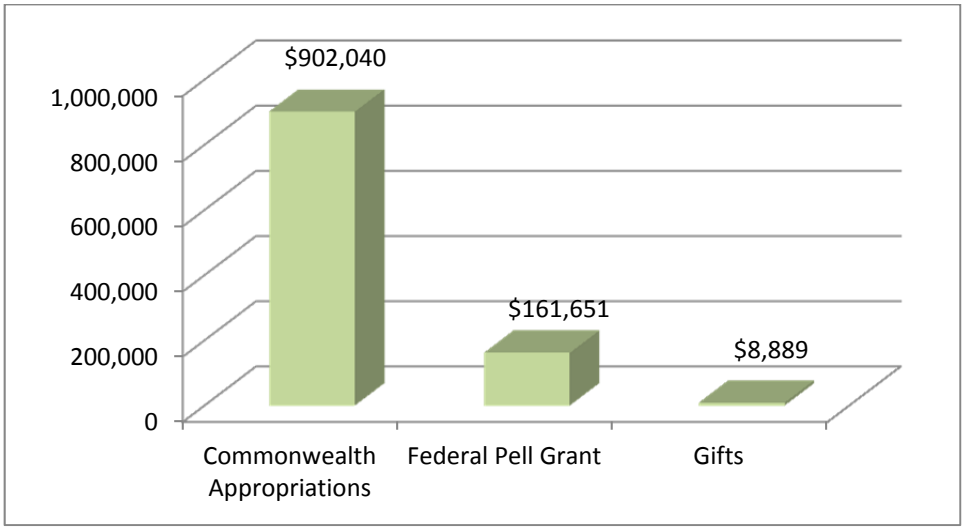
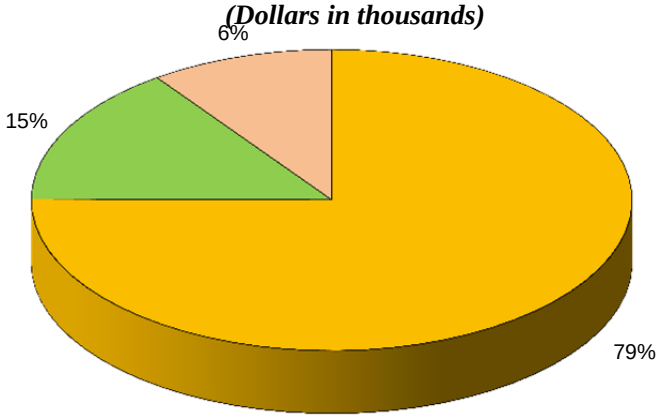


Chart 3 – Major Sources of Nonoperating Revenues
(Dollars in thousands)



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

Chart 4 - Operating Grants Revenues
(Dollars in thousands)



Federal	$	109,124	79%
Commonwealth		20,789	15%
Nongovernmental		8,423	6%
Total	$	138,336	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 $1.35 billion for the years ended June 30, 2013, 2012 and 2011, respectively, an increase of $12.2 million or 1% in 2013 and a decrease $29.4 million or 2% in 2012. The increase of operating expenses in 2013 is mainly resulted from the increase in fringe benefits. The reduction of operating expenses in 2012 was the result of the cost control measures taken by University.

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

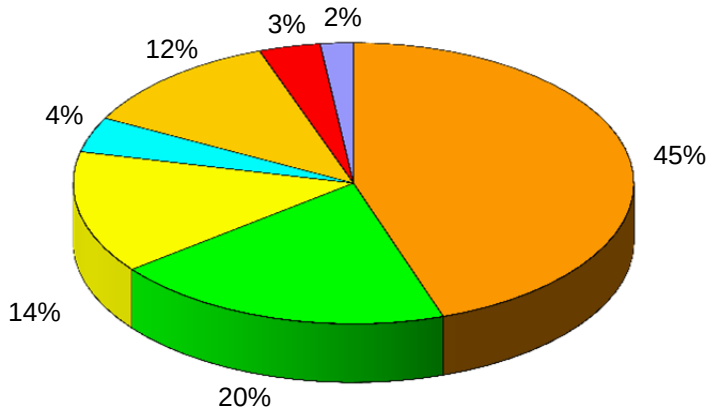
Scholarships and fellowships amounted to $184.5 million, $204.0 million and $215.2 million for the years ended June 30, 2013, 2012 and 2011, respectively, a decrease of $19.5 million or 10% in 2013 and a decrease of $11.2 million or 5% in 2012. The decreases in 2013 and 2012 resulted from a decrease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

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

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

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

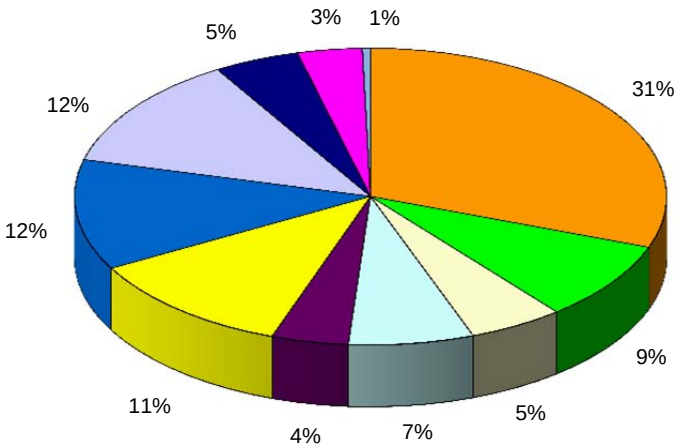
Chart 5 - Operating Expenses
(Dollars in thousands)



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

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

Chart 6 - Expenses by Function
(Dollars in thousands)



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

Operating Loss and Net Change in Net Position

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

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

Statements of Cash Flows

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

Subsequent Events

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

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

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

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

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

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

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

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

Federal Assistance Programs

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

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

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

Capital Assets and Debt Administration

- **Capital assets, net increased by $4.3 million in 2013**

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

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

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

Long-term debt obligations include the University's revenue bonds and amounted to $509.3 million as of June 30, 2013. The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. These bonds are currently rated "Ba3" by Moody's Investors Service (Moody's) and "BB+" by Standard & Poor's Ratings Services (S&P).

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

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

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

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

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

Economic Outlook

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

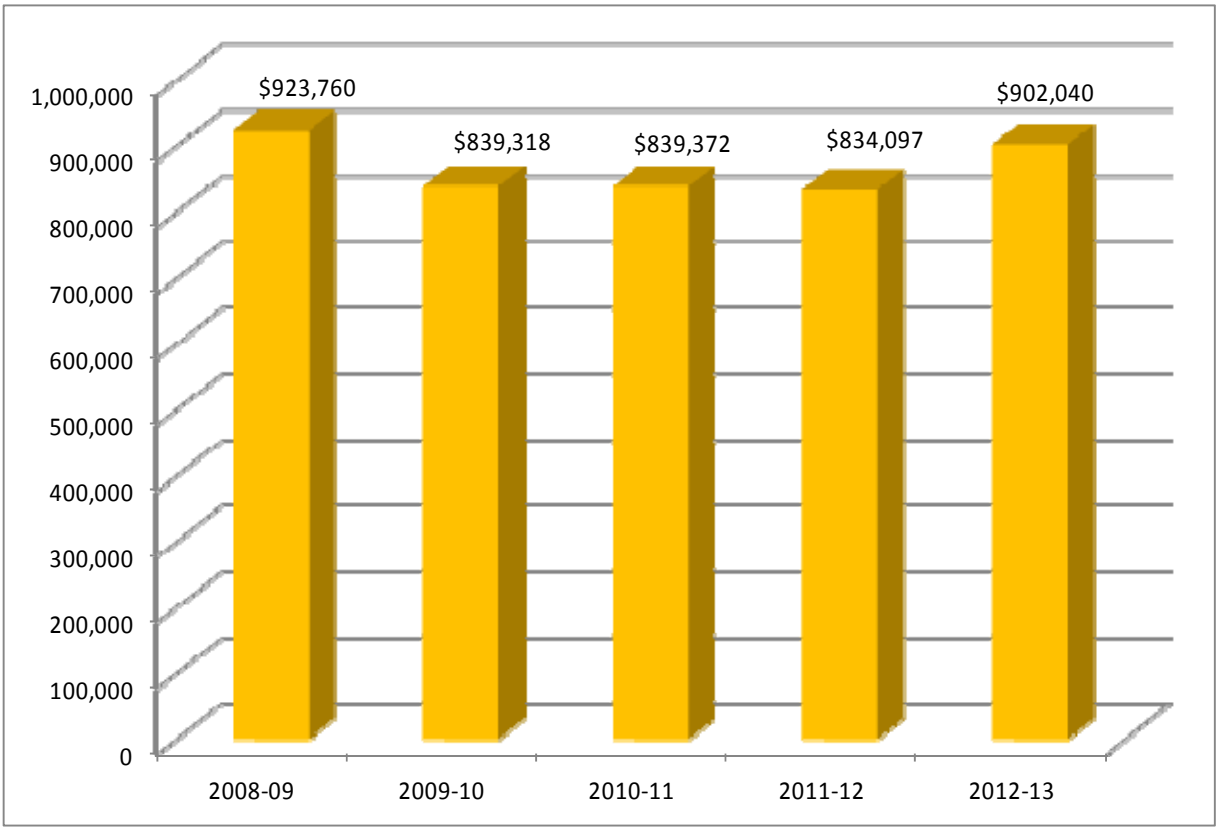
Puerto Rico uses the U.S. currency and forms part of the U.S. financial system. Factors affecting the U.S. economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest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

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

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

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

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



[1]Includes restricted funds for special activities.

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

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

Request for Information

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

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

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

See accompanying notes.

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

	Primary Government				Component Units			
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 94,529,117	$ 527,488	$ –	$ 95,056,605	$ 7,240,915	$ 981,691	$ 389,980	$ 8,612,586
Restricted cash and cash equivalents	12,056,085	–	–	12,056,085	–	–	–	–
Investments at fair value	80,135,053	–	–	80,135,053	–	–	–	–
Restricted investments at fair value- deposited with trustee	54,649,587	15,059,470	–	69,709,057	–	–	–	–
Accounts receivable, net	126,562,190	–	–	126,562,190	15,378,692	179,797	246,476	15,804,965
Internal balance- net investment in direct financing lease, current portion	–	1,472,628	(1,472,628)	–	–	–	–	–
Due from Commonwealth of Puerto Rico	15,500,000	–	–	15,500,000	–	–	–	–
Due from University of Puerto Rico	–	1,685,751	(1,685,751)	–	9,318,328	–	–	9,318,328
Inventories	3,311,406	–	–	3,311,406	1,008,543	–	–	1,008,543
Prepaid expenses and deferred charges	476,496	14,818	–	491,314	229,368	8,857	57,939	296,164
Total current assets	**387,219,934**	**18,760,155**	**(3,158,379)**	**402,821,710**	**33,175,846**	**1,170,345**	**694,395**	**35,040,586**
Noncurrent assets:								
Restricted cash and cash equivalents	3,170,788	1,965,583	–	5,136,371	–	–	–	–
Restricted investments at fair value	88,120,242	–	–	88,120,242	–	–	–	–
Internal balance- net investment in direct financing lease, net of current portion	–	63,220,500	(63,220,500)	–	–	–	–	–
Due from Commonwealth of Puerto Rico	11,720,254	–	–	11,720,254	155,636	–	–	155,636
Prepaid pension asset and other assets	70,118,269	1,920,252	–	72,038,521	–	–	–	–
Notes receivable, net	3,940,201	–	–	3,940,201	–	–	–	–
Capital assets (net of accumulated depreciation and amortization):								
Land and other nondepreciable assets	109,024,213	–	–	109,024,213	1,083,642	–	–	1,083,642
Depreciable assets	844,029,672	4,433	–	844,034,105	4,767,399	124,425	134,836	5,026,660
Total noncurrents assets	**1,130,123,639**	**67,110,768**	**(63,220,500)**	**1,134,013,907**	**6,006,677**	**124,425**	**134,836**	**6,265,938**
Total assets	**1,517,343,573**	**85,870,923**	**(66,378,879)**	**1,536,835,617**	**39,182,523**	**1,294,770**	**829,231**	**41,306,524**
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	96,017,574	4,841,754	(1,685,751)	99,173,577	22,344,401	82,011	51,578	22,477,990
Current portion of long-term debt	30,404,791	1,860,000	–	32,264,791	1,791,641	–	–	1,791,641
Internal balance- obligation under capital lease, current portion	1,472,628	–	(1,472,628)	–	–	–	–	–
Due to University of Puerto Rico	–	–	–	–	16,596,452	–	–	16,596,452
Other current liabilities	37,222,070	–	–	37,222,070	–	–	–	–
Total current liabilities	**165,117,063**	**6,701,754**	**(3,158,379)**	**168,660,438**	**40,732,494**	**82,011**	**51,578**	**40,866,083**
Noncurrent liabilities:								
Long-term debt, net of current portion	587,328,733	72,490,252	–	659,818,985	17,653,223	–	–	17,653,223
Internal balance- obligation under capital lease, net of current portion	63,220,500	–	(63,220,500)	–	–	–	–	–
Other long-term liabilities	229,317,139	–	–	229,317,139	1,215,796	–	–	1,215,796
Total noncurrent liabilities	**879,866,372**	**72,490,252**	**(63,220,500)**	**889,136,124**	**18,869,019**	**–**	**–**	**18,869,019**
Total liabilities	**1,044,983,435**	**79,192,006**	**(66,378,879)**	**1,057,796,562**	**59,601,513**	**82,011**	**51,578**	**59,735,102**
Net position (deficit):								
Net investment in capital assets	352,899,491	4,433	–	352,903,924	–	124,425	134,836	259,261
Restricted, nonexpendable:								
Scholarships and fellowships	32,041,023	–	–	32,041,023	–	–	–	–
Research	46,733,728	–	–	46,733,728	–	–	–	–
Other	10,920,969	–	–	10,920,969	–	–	–	–
Restricted, expendable:								
Loans	8,008,289	–	–	8,008,289	–	–	–	–
Capital projects	–	2,104,511	–	2,104,511	–	–	–	–
Debt service	52,564,612	8,212,375	–	60,776,987	–	–	–	–
Unrestricted (deficit)	(30,807,974)	(3,642,402)	–	(34,450,376)	(20,418,990)	1,088,334	642,817	(18,687,839)
Total net position (deficit)	**$ 472,360,138**	**$ 6,678,917**	**$ –**	**$ 479,039,055**	**$ (20,418,990)**	**$ 1,212,759**	**$ 777,653**	**$ (18,428,578)**

See accompanying notes.

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

	Primary Government				Component Units			
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total
Revenues								
Operating revenues:								
Tuitions and fees (net of scholarship allowances and others of $72,275,333)	$ 67,793,717	$ –	$ –	$ 67,793,717	$ –	$ –	$ –	$ –
Net patient services revenue and other (net of provision to allowances of $12,548,658)	65,477,636	–	–	65,477,636	49,213,741	–	–	49,213,741
Federal grants and contracts (net of provision to allowances of $2,771,539)	109,123,980	–	–	109,123,980	–	–	–	–
Commonwealth grants and contracts (net of provision to allowances of $3,189,597)	20,789,467	–	–	20,789,467	–	–	–	–
Nongovernmental grants and contracts (net of provision to allowances of $503,990)	8,423,102	–	–	8,423,102	–	–	–	–
Sales and services of educational departments	11,871,220	–	–	11,871,220	–	–	–	–
Auxiliary enterprises (net of provision to allowances of $932,237)	1,348,063	–	–	1,348,063	–	–	–	–
Other operating revenues	14,580,045	3,234,986	(3,234,986)	14,580,045	2,211,183	1,451,110	480,964	4,143,257
Total operating revenues	**299,407,230**	**3,234,986**	**(3,234,986)**	**299,407,230**	**51,424,924**	**1,451,110**	**480,964**	**53,356,998**
Operating expenses:								
Salaries:								
Faculty	341,883,809	–	–	341,883,809	–	–	–	–
Exempt staff	258,274,590	–	–	258,274,590	4,246,213	–	–	4,246,213
Nonexempt wages	740,902	274,569	–	1,015,471	9,593,566	315,952	93,343	10,002,861
Benefits	263,760,805	53,021	–	263,813,826	3,627,119	56,035	15,912	3,699,066
Scholarships and fellowships	184,484,054	–	–	184,484,054	–	–	–	–
Supplies and other services	158,946,614	2,341,231	(3,234,986)	158,052,859	20,565,893	337,937	292,251	21,196,081
Utilities	54,255,329	183,626	–	54,438,955	3,541,540	11,949	797	3,554,286
Depreciation and amortization	49,527,495	4,433	–	49,531,928	1,557,158	17,911	47,123	1,622,192
Other expenses	21,720,981	56,438	–	21,777,419	2,487,558	13,223	33,277	2,534,058
Total operating expenses	**1,333,594,579**	**2,913,318**	**(3,234,986)**	**1,333,272,911**	**45,619,047**	**753,007**	**482,703**	**46,854,757**
Operating income (loss)	**(1,034,187,349)**	**321,668**	**–**	**(1,033,865,681)**	**5,805,877**	**698,103**	**(1,739)**	**6,502,241**
Nonoperating revenues (expenses):								
Commonwealth and other appropriations	902,040,122	–	–	902,040,122	–	–	–	–
Federal Pell Grant program	161,651,248	–	–	161,651,248	–	–	–	–
Gifts	8,888,503	–	–	8,888,503	–	–	–	–
Net investment income	3,885,624	427,926	–	4,313,550	–	4,359	–	4,359
Interest on capital assets - related debt	(28,873,961)	(3,834,233)	4,216,317	(28,491,877)	(864,526)	–	–	(864,526)
Interest on notes payable	(4,218,935)	–	–	(4,218,935)	–	–	–	–
Interest income from internal balance- investment in direct financing lease	–	4,216,317	(4,216,317)	–	–	–	–	–
Other nonoperating revenues (expenses), net	(1,265,547)	–	–	(1,265,547)	966,667	–	–	966,667
Net nonoperating revenues	**1,042,107,054**	**810,010**	**–**	**1,042,917,064**	**102,141**	**4,359**	**–**	**106,500**
Income (loss) before other revenues	**7,919,705**	**1,131,678**	**–**	**9,051,383**	**5,908,018**	**702,462**	**(1,739)**	**6,608,741**
Capital appropriations	**5,219,203**	**–**	**–**	**5,219,203**	**–**	**–**	**–**	**–**
Additions to term and permanent endowments	**2,054,042**	**–**	**–**	**2,054,042**	**–**	**–**	**–**	**–**
Transfers in (out)	**628,011**	**–**	**–**	**628,011**	**–**	**(628,011)**	**–**	**(628,011)**
Change in net position	**15,820,961**	**1,131,678**	**–**	**16,952,639**	**5,908,018**	**74,451**	**(1,739)**	**5,980,730**
Net position (deficit):								
Beginning of year	**472,360,138**	**6,678,917**	**–**	**479,039,055**	**(20,418,990)**	**1,212,759**	**777,653**	**(18,428,578)**
End of year	**$ 488,181,099**	**$ 7,810,595**	**$ –**	**$ 495,991,694**	**$ (14,510,972)**	**$ 1,287,210**	**$ 775,914**	**$ (12,447,848)**

See accompanying notes.

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

	Primary Government				Component Units			
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	University of Puerto Rico Parking System, Inc.	Materials Characterization Center, Inc.	Total
Revenues								
Operating revenues:								
Tuitions and fees (net of scholarship allowances of $66,985,162)	$ 72,474,954	$ –	$ –	$ 72,474,954	$ –	$ –	$ –	$ –
Net patient services revenue and other	86,819,429	–	–	86,819,429	43,263,543	–	–	43,263,543
Federal grants and contracts	125,037,138	–	–	125,037,138	–	–	–	–
Commonwealth grants and contracts (net of credit to allowances $5,322,450)	49,128,919	–	–	49,128,919	–	–	–	–
Nongovernmental grants and contracts	13,823,194	–	–	13,823,194	–	–	–	–
Sales and services of educational departments	11,620,001	–	–	11,620,001	–	–	–	–
Auxiliary enterprises (net of provision to allowances of $136,405)	2,986,223	–	–	2,986,223	–	–	–	–
Other operating revenues	8,299,862	3,286,245	(3,286,245)	8,299,862	1,830,992	1,262,830	466,099	3,559,921
Total operating revenues	**370,189,720**	**3,286,245**	**(3,286,245)**	**370,189,720**	**45,094,535**	**1,262,830**	**466,099**	**46,823,464**
Operating expenses:								
Salaries:								
Faculty	342,326,653	–	–	342,326,653	–	–	–	–
Exempt staff	263,976,483	–	–	263,976,483	4,085,276	–	–	4,085,276
Nonexempt wages	811,761	267,261	–	1,079,022	9,692,343	272,740	96,337	10,061,420
Benefits	220,640,249	56,597	–	220,696,846	2,175,430	59,276	23,655	2,258,361
Scholarships and fellowships	203,958,904	–	–	203,958,904	–	–	–	–
Supplies and other services	164,710,063	2,381,195	(3,286,245)	163,805,013	19,660,431	315,223	303,524	20,279,178
Utilities	58,027,211	165,817	–	58,193,028	3,323,787	12,759	1,003	3,337,549
Depreciation and amortization	46,473,333	8,659	–	46,481,992	1,551,374	14,856	46,225	1,612,455
Other expenses	20,448,034	62,962	–	20,510,996	337,787	2,766	17,253	357,806
Total operating expenses	**1,321,372,691**	**2,942,491**	**(3,286,245)**	**1,321,028,937**	**40,826,428**	**677,620**	**487,997**	**41,992,045**
Operating income (loss)	**(951,182,971)**	**343,754**	**–**	**(950,839,217)**	**4,268,107**	**585,210**	**(21,898)**	**4,831,419**
Nonoperating revenues (expenses):								
Commonwealth and other appropriations	834,097,217	–	–	834,097,217	–	–	–	–
Federal Pell Grant program	174,139,169	–	–	174,139,169	–	–	–	–
Gifts	12,166,408	–	–	12,166,408	–	–	–	–
Net investment income	2,381,749	426,263	–	2,808,012	–	1,605	–	1,605
Interest on capital assets - related debt	(23,477,739)	(3,939,910)	4,310,412	(23,107,237)	(974,053)	–	–	(974,053)
Interest on notes payable	(4,570,254)	–	–	(4,570,254)	–	–	–	–
Interest income from internal balance- investment in direct financing lease	–	4,310,412	(4,310,412)	–	–	–	–	–
Other nonoperating revenues, net	173,075	–	–	173,075	–	–	–	–
Net nonoperating revenues (expenses)	**994,909,625**	**796,765**	**–**	**995,706,390**	**(974,053)**	**1,605**	**–**	**(972,448)**
Income (loss) before other revenues	**43,726,654**	**1,140,519**	**–**	**44,867,173**	**3,294,054**	**586,815**	**(21,898)**	**3,858,971**
Capital appropriations	**465,279**	**–**	**–**	**465,279**	**–**	**–**	**–**	**–**
Additions to term and permanent endowments	**1,817,010**	**–**	**–**	**1,817,010**	**–**	**–**	**–**	**–**
Transfers in (out)	**293,668**	**–**	**–**	**293,668**	**34,496,756**	**(293,668)**	**–**	**34,203,088**
Change in net position	**46,302,611**	**1,140,519**	**–**	**47,443,130**	**37,790,810**	**293,147**	**(21,898)**	**38,062,059**
Net position (deficit):								
Beginning of year, as restated (Note 1)	426,057,527	5,538,398	–	431,595,925	(58,209,800)	919,612	799,551	(56,490,637)
End of year	**$ 472,360,138**	**$ 6,678,917**	**$ –**	**$ 479,039,055**	**$ (20,418,990)**	**$ 1,212,759**	**$ 777,653**	**$ (18,428,578)**

See accompanying notes.

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

	Primary Government for the Year Ended June 30, 2013				Primary Government for the Year Ended June 30, 2012			
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total
Cash flows from operating activities								
Tuition and fees	$ 67,711,964	$ –	$ –	$ 67,711,964	$ 72,089,231	$ –	$ –	$ 72,089,231
Grants and contracts	158,288,427	–	–	158,288,427	169,312,230	–	–	169,312,230
Patient services	59,745,490	–	–	59,745,490	70,853,228	–	–	70,853,228
Auxiliary enterprises	2,280,300	–	–	2,280,300	2,986,223	–	–	2,986,223
Sales and services educational departments and other	26,451,265	–	–	26,451,265	20,213,531	–	–	20,213,531
Payments to suppliers	(180,252,145)	(2,601,294)	3,430,316	(179,423,123)	(178,868,605)	(2,614,564)	3,248,548	(178,234,621)
Payments to employees	(590,151,788)	(333,579)	–	(590,485,367)	(601,788,241)	(322,354)	–	(602,110,595)
Payments for benefits	(268,914,339)	–	–	(268,914,339)	(220,710,086)	–	–	(220,710,086)
Payments for utilities	(58,998,903)	–	–	(58,998,903)	(55,745,561)	–	–	(55,745,561)
Payments for scholarships and fellowships	(184,484,053)	–	–	(184,484,053)	(203,958,903)	–	–	(203,958,903)
Loans issued to students, net of repayments	(658,116)	–	–	(658,116)	(627,807)	–	–	(627,807)
Other receipts (payments)	–	3,424,877	(3,430,316)	(5,439)	(1,723,492)	3,233,151	(3,248,548)	(1,738,889)
Net cash provided by (used in) operating activities	(968,981,898)	490,004	–	(968,491,894)	(927,968,252)	296,233	–	(927,672,019)
Cash flows from noncapital financing activities								
Commonwealth appropriations	910,040,121	–	–	910,040,121	857,037,324	–	–	857,037,324
Federal Pell program	161,651,248	–	–	161,651,248	174,139,169	–	–	174,139,169
Endowment gifts	2,054,042	–	–	2,054,042	1,817,010	–	–	1,817,010
Proceeds from noncapital debt	6,927,749	–	–	6,927,749	–	–	–	–
Principal paid on noncapital debt	–	–	–	–	(28,706,660)	–	–	(28,706,660)
Interest paid on notes payable	(4,182,096)	–	–	(4,182,096)	(4,629,396)	–	–	(4,629,396)
Gifts and grants for other than capital purposes	8,888,503	–	–	8,888,503	12,166,408	–	–	12,166,408
Other non-operating receipts (payments)	(1,265,547)	–	–	(1,265,547)	173,075	–	–	173,075
Net cash provided by noncapital financing activities	1,084,114,020	–	–	1,084,114,020	1,011,996,930	–	–	1,011,996,930
Cash flows from capital and related financing activities								
Capital appropriations	5,219,203	–	–	5,219,203	465,279	–	–	465,279
Purchases of capital assets	(53,831,338)	–	–	(53,831,338)	(35,965,027)	–	–	(35,965,027)
Proceeds from sales of capital assets	–	–	–	–	231,413	–	–	231,413
Proceeds from capital debt	2,669,942	–	–	2,669,942	12,674,324	–	–	12,674,324
Principal paid on capital debt and lease	(31,737,441)	(1,860,000)	1,480,983	(32,116,458)	(28,462,025)	(1,760,000)	1,391,520	(28,830,505)
Interest paid on capital debt and lease	(29,813,159)	(3,789,625)	4,216,317	(29,386,467)	(24,469,100)	(3,891,438)	4,310,412	(24,050,126)
Decrease (increase) in deposit with trustee	(16,647)	(435,973)	–	(452,620)	26	(437,797)	–	(437,771)
Net cash provided by (used in) capital and related financing activities	(107,509,440)	(6,085,598)	5,697,300	(107,897,738)	(75,525,110)	(6,089,235)	5,701,932	(75,912,413)
Cash flows from investing activities								
Proceeds from sales and maturities of investments	65,648,824	–	–	65,648,824	35,790,786	–	–	35,790,786
Purchases of investments	(80,786,186)	–	–	(80,786,186)	(45,229,314)	–	–	(45,229,314)
Collections of interest and dividend income on investments	3,885,626	429,864	–	4,315,490	2,381,749	429,120	–	2,810,869
Advances to the University of Puerto Rico Retirement System	(22,338,674)	–	–	(22,338,674)	–	–	–	–
Contribution from component unit	628,011	–	–	628,011	293,668	–	–	293,668
Principal collected from internal balance- investment in direct financing lease	–	1,480,983	(1,480,983)	–	–	1,391,520	(1,391,520)	–
Interest collected from internal balance- investment in direct financing lease	–	4,216,317	(4,216,317)	–	–	4,310,412	(4,310,412)	–
Other receipts (payments)	–	(238,577)	–	(238,577)	–	(888,459)	–	(888,459)
Net cash provided by (used in) investing activities	(32,962,399)	5,888,587	(5,697,300)	(32,771,112)	(6,763,111)	5,242,593	(5,701,932)	(7,222,450)
Net change in cash and cash equivalents	(25,339,717)	292,993	–	(25,046,724)	1,740,457	(550,409)	–	1,190,048
Cash and cash equivalents:								
Beginning of year	109,755,990	2,493,071	–	112,249,061	108,015,533	3,043,480	–	111,059,013
End of year	$ 84,416,273	$ 2,786,064	$ –	$ 87,202,337	$ 109,755,990	$ 2,493,071	$ –	$ 112,249,061

(Continued)

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

	Primary Government for the Year Ended June 30, 2013			Primary Government for the Year Ended June 30, 2012		
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Total	University of Puerto Rico	Desarrollos Universitarios, Inc.	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	**$ (1,034,187,349)**	**$ 321,668**	**$ (1,033,865,681)**	$ (951,182,971)	$ 343,754	$ (950,839,217)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	**49,527,495**	**4,433**	**49,531,928**	46,473,333	8,659	46,481,992
Provision for doubtful accounts	**12,464,377**	**–**	**12,464,377**	7,104,484	–	7,104,484
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Grants and contracts receivables	**1,985,792**	**–**	**1,985,792**	(29,062,334)	–	(29,062,334)
Prepaid expenses, inventories and other	**(3,231,466)**	**(3,533)**	**(3,234,999)**	(844,756)	(11,755)	(856,511)
Increase (decrease) in:						
Accounts payable and accrued liabilities	**(6,288,260)**	**173,425**	**(6,114,835)**	(7,884,460)	(45,928)	(7,930,388)
Accrued salaries, wages, benefits and other liabilities	**10,747,513**	**(5,989)**	**10,741,524**	7,428,452	1,503	7,429,955
Net cash provided by (used in) operating activities	**$ (968,981,898)**	**$ 490,004**	**$ (968,491,894)**	$ (927,968,252)	$ 296,233	$ (927,672,019)
Supplemental schedule of noncash investing, capital and financing activities:						
Due from Servicios Médicos Universitarios, Inc. forgiven by the University of Puerto Rico	**$ –**	**$ –**	**$ –**	$ 34,496,756	$ –	$ 34,496,756

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

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

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

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

A. Reporting Entity (continued)

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

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

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

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

Servicios Médicos Universitarios, Inc.

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

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

A. Reporting Entity (continued)

University of Puerto Rico Parking System, Inc.

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

Materials Characterization Center, Inc.

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

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, 2013 and 2012.

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

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

M. Deferred Compensation Plan

The University offers certain employees a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor. The University believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

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

N. Compensated Absences

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

Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. The University pays, annually, the excess of 90 days of accumulated sick leave to the employees. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, provided the employee has at least 10 years of service with the University. At June 30, 2013 and 2012, the cost of the excess of 90 days of the accumulated sick leave was approximately $9,867,000 and $10,886,000, respectively, which is included in other current liabilities in the accompanying statements of net position.

O. Classification of Net Position

The University's net position is classified as follows:

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

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

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

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

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

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (GASB Statement No. 60)*

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34 (GASB Statement No. 61)*

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

W. New Accounting Standards Adopted (continued)

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB Statement No. 62)*

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB Statement No. 63)*

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

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

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

W. New Accounting Standards Adopted (continued)

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

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

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

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

W. New Accounting Standards Adopted (continued)

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

X. Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections- 2012- an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2014.

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

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

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, which is effective for periods beginning after June 15, 2014.

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

2. Cash and Cash Equivalents

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

	2013		
	Unrestricted	Restricted	Total
Cash on hand and due from commercial banks	$ 1,128,382	$ 14,877,546	$ 16,005,928
Cash equivalents:			
Deposit accounts, mainly certificates of deposits, with:			
Commercial banks	5,849,551	–	5,849,551
Economic Development Bank for Puerto Rico	58,636,618	–	58,636,618
Money market funds	136,534	3,787,642	3,924,176
Total cash equivalents	64,622,703	3,787,642	68,410,345
Total	$ 65,751,085	$ 18,665,188	$ 84,416,273

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

2. Cash and Cash Equivalents (continued)

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

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

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

A. Blended Component Unit's Cash and Cash Equivalents

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

B. Component Units's Cash and Cash Equivalents

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

3. Investments

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

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

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

Restricted Investments in Sinking Funds

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

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

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

3. Investments (continued)

Restricted Investments in Construction Fund

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

Restricted Investments in Permanent Endowment Funds

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

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

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

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, amounted to $88,560,626 and $77,011,969 as of June 30, 2013 and 2012, respectively. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. These investments are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant.

3. Investments (continued)

Credit Risk

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

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

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

Custodial Credit Risk

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

3. Investments (continued)

Interest Rate Risk

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

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

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

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

4. Accounts Receivable

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

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

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

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

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

4. Accounts Receivable (continued)

A. Component Units

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

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

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

Due from Commonwealth of Puerto Rico

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

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

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

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

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

Due from University of Puerto Rico Retirement System

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

Other Related-Party Transactions

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

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

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

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

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

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

6. Interfund Balances and Transactions

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

Capital Lease Agreement

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

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

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

6. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

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

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

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

Other Transactions

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

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

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

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

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

7. Capital Assets

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

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

7. Capital Assets (continued)

	2012				
	Beginning Balance	Additions	Transfers	Disposals and Others	Ending Balance
Capital assets not being depreciated:					
Land	$ 49,615,849	$ –	$ –	$ –	$ 49,615,849
Construction in progress	109,213,590	23,843,784	(73,649,010)	–	59,408,364
	158,829,439	23,843,784	(73,649,010)	–	109,024,213
Other capital assets:					
Land improvements	35,706,696	–	573,531	–	36,280,227
Building, fixed equipment, improvements and infrastructure	954,420,659	–	69,322,109	(2,101,796)	1,021,640,972
Equipment, software and library materials	274,299,987	12,121,243	3,753,370	(5,503,803)	284,670,797
Building and equipment under capital lease	99,298,249	–	–	–	99,298,249
	1,363,725,591	12,121,243	73,649,010	(7,605,599)	1,441,890,245
Less accumulated depreciation and amortization for:					
Land improvements	(18,318,975)	(1,294,162)	–	–	(19,613,137)
Buildings, fixed equipment, improvements and infrastructure	(316,862,597)	(22,974,527)	–	–	(339,837,124)
Equipment, software and library materials	(207,559,466)	(19,229,664)	–	5,272,390	(221,516,740)
Building and equipment under capital lease	(13,905,500)	(2,983,639)			(16,889,139)
	(556,646,538)	(46,481,992)	–	5,272,390	(597,856,140)
Other capital assets, net of accumulated depreciation	807,065,961	(34,360,749)	73,649,010	(2,333,209)	844,034,105
Capital assets, net	$ 965,908,492	$ (10,516,965)	$ –	$ (2,333,209)	$ 953,058,318

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

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

7. Capital Assets (continued)

A. Component Units

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

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

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

8. Noncurrent Liabilities

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

2013	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt:							
The University:							
Notes payable	$ 77,634,716	$ 9,597,691	$ (472,723)	$ –	$ 86,759,684	$ 9,201,037	$ 77,558,647
Bonds payable	540,098,808	–	(29,930,000)	(867,344)	509,301,464	18,110,000	491,191,464
Total University's long-term debt	617,733,524	9,597,691	(30,402,723)	(867,344)	596,061,148	27,311,037	568,750,111
DUI's long-term debt	74,350,252	–	(1,860,000)	16,209	72,506,461	1,960,000	70,546,461
Total Primary Government's long-term debt	$ 692,083,776	$ 9,597,691	$ (32,262,723)	$ (851,135)	$ 668,567,609	$ 29,271,037	$ 639,296,572
The University's other long-term liabilities:							
Deferred compensation payable	$ 77,011,969	$ 11,548,657	$ –	$ –	$ 88,560,626	$ –	$ 88,560,626
Claims liability	22,401,000	–	(1,640,551)	(2,356,249)	18,404,200	1,640,551	16,763,649
Compensated absences	167,126,240	–	(1,509,628)	–	165,616,612	34,917,072	130,699,540
Total University's other long-term liabilities	$ 266,539,209	$ 11,548,657	$ (3,150,179)	$ (2,356,249)	$ 272,581,438	$ 36,557,623	$ 236,023,815

2012	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Long-term debt:							
The University:							
Notes payable	$ 93,705,769	$ 12,674,324	$ (28,745,377)	$ –	$ 77,634,716	$ 474,791	$ 77,159,925
Bonds payable	567,641,248	–	(27,040,000)	(502,440)	540,098,808	29,930,000	510,168,808
Total University's long-term debt	661,347,017	12,674,324	(55,785,377)	(502,440)	617,733,524	30,404,791	587,328,733
DUI's long-term debt	76,093,144	–	(1,760,000)	17,108	74,350,252	1,860,000	72,490,252
Total Primary Government's long-term debt	$ 737,440,161	$ 12,674,324	$ (57,545,377)	$ (485,332)	$ 692,083,776	$ 32,264,791	$ 659,818,985
The University's other long-term liabilities:							
Deferred compensation payable	$ 69,561,616	$ 7,450,353	$ –	$ –	$ 77,011,969	$ –	$ 77,011,969
Claims liability	23,830,822	–	(2,107,714)	677,892	22,401,000	2,107,714	20,293,286
Compensated absences	156,749,820	13,900,646	(3,524,226)	–	167,126,240	35,114,356	132,011,884
Total University's other long-term liabilities	$ 250,142,258	$ 21,350,999	$ (5,631,940)	$ 677,892	$ 266,539,209	$ 37,222,070	$ 229,317,139

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, 2013). The balance outstanding of this term loan amounted to $71,926,858 and $64,999,109 at June 30, 2013 and 2012, respectively.

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

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

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

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

9. Notes Payable (continued)

A. Notes Payable – Component Unit

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

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

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

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

9. Notes Payable (continued)

A. Notes Payable –Component Unit (continued)

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

	2013	2012
Beginning Balance	**$ 19,444,864**	$ 20,903,613
Additions	**1,052,904**	561,787
Reductions	**(2,811,157)**	(2,020,536)
Ending Balance	**$ 17,686,611**	$ 19,444,864

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

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

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

10. Bonds Payable

A. University's Bonds

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

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

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

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

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

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds

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

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

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

10. Bonds Payable (continued)

B. Blended Component Unit's Bonds (continued)

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

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

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

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

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

10. Bonds Payable (continued)

C. Pledged Revenues

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

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

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

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

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

10. Bonds Payable (continued)

C. Pledged Revenues (continued)

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

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

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

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

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

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

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

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

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

11. Commitments and Contingent Liabilities

A. Claims Liability

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

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

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

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

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

B. Federal Assistance Programs

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

11. Commitments and Contingent Liabilities (continued)

B. Federal Assistance Programs (continued)

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

C. Construction Commitments

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

D. Operating Lease Agreements

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

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

11. Commitments and Contingent Liabilities (continued)

D. Operating Lease Agreements (continued)

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

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

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

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

E. Guaranty Commitment

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

F. Blended Component Unit

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

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.

11. Commitments and Contingent Liabilities (continued)

G. Component Unit

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

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

12. University of Puerto Rico Retirement System

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

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

12. University of Puerto Rico Retirement System (continued)

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

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

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

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

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

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

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

12. University of Puerto Rico Retirement System (continued)

The three-year trend information is as follows:

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

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

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

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

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

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

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

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

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

The University provides the following OPEB:

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

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

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

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

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

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

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

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

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

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

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

The three-year trend information is as follows:

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

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

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

Significant Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2011
Actual Cost Method	Projected Unit Credit
Amortization Method	Level Dollar amortization over 30 Years
Medical Subsidy	85%
Tuition Remission	$497 per retiree in fiscal 2012 increasing 4.0% per year
Mortality	RP-2000 Healthy Combined Mortality Table for healthy RP-2000 Healthy Combined Mortality Table lives set forward 10 years for disabled lives
Payroll Growth	4%
Discount Rate	4%

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

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

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

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

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

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

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

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

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

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

15. Functional Information

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

2013

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

2012

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

16. Subsequent Events

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

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

16. Subsequent Events (continued)

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

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

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

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

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

Required Supplementary Information

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	$ 1,070,402,499	$ 2,622,367,510	$ 1,551,965,011	40.8%	$ 491,291,305	315.9%
6/30/2012	$ 1,039,441,000	$ 2,617,989,147	$ 1,578,548,147	39.7%	$ 499,027,788	316.3%
6/30/2011	$ 1,041,628,000	$ 2,542,444,021	$ 1,500,816,021	41.0%	$ 510,706,620	293.9%
6/30/2010	$ 1,028,918,000	$ 2,436,913,244	$ 1,407,995,244	42.2%	$ 540,867,018	260.3%
6/30/2009	$ 1,034,645,000	$ 2,331,619,466	$ 1,296,974,466	44.4%	$ 570,122,184	227.5%
6/30/2008	$ 1,024,987,000	$ 2,223,219,684	$ 1,198,232,684	46.1%	$ 542,603,556	220.8%

Postemployment Benefits Other Than Pensions Program

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

Other Financial Information

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

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

	2012		
	Bond Service Account	**Bond Reserve Account**	**Total**
Additions:			
Transfer from Reserve Account	$ 28,825	$ –	$ 28,825
Transfer from unrestricted current funds	53,289,191	–	53,289,191
Interest earned on investments	34,944	199,827	234,771
Total receipts	53,352,960	199,827	53,552,787
Deductions:			
Payments of bond interest	26,281,245	–	26,281,245
Payments of bond principal	27,040,000	–	27,040,000
Net increase in fair value of investments	31,715	183,125	214,840
Transfer to Reserve Account	–	28,825	28,825
Total disbursements	53,352,960	211,950	53,564,910
Net increase for the year	–	(12,123)	(12,123)
Balances at beginning of year	–	54,685,610	54,685,610
Balance at end of year	$ –	$ 54,673,487	$ 54,673,487

Report on Internal Control

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

Governing Board
University of Puerto Rico

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

Internal Control Over Financial Reporting

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

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

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

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2013-001 - Financial Statement Close Process

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

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

- Multiple audit/post-closing entries that were not initially identified by the University's internal controls were required to properly record revenue and expense activity, accounts receivable activity, cash activity, prepaid expenses activity and certain liabilities. These entries were considered material to the financial statements.

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

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

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

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

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

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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*.

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The University's Response to Finding

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

Purpose of this Report

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

Ernst & Young LLP

March 30, 2014

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