FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL SCHEDULES

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)
Year Ended June 30, 2015
With Report of Independent Auditors

University of Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements, Required Supplementary Information
and Supplemental Schedules

Year Ended June 30, 2015

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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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 1.18% in 2015, total net position constituting 0.35% in 2015, and total revenues constituting 0.03% in 2015 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 year ended June 30, 2015. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. The financial statements of the Hospital and the Companies were not audited in accordance with *Government Auditing Standards*.We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The University's Ability to Continue as a Going Concern

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

Adoption of GASB Statement No. 68*, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*

As discussed in Note 13 to the financial statements, the University of Puerto Rico changed its method of accounting for pensions as a result of the adoption of Government Auditing Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

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Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 through 37, schedule of changes in the university's net pension liability and related ratios on page 107, schedule of university's contributions – pension plan on page 108 and the schedule of funding progress-postemployment benefits other than pensions program on page 112 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The schedule of expenditures of federal awards on page 120, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other financial information on page 113 (the Schedules), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other financial information on page 113 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 7, 2016, 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

September 7, 2016

Stamp No. E247995
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 are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

The Governor appointed the original members for a term of six years. The terms for the students and professors are one year.

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

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

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

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

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

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

Blended Component Unit: Desarrollos Universitarios, Inc. ("DUI"), 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. ("SMU")
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.

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

The following discussion presents an overview of the financial position and financial activities of the Primary Government (hereafter referred as the "University") for the years ended June 30, 2015 and 2014. It excludes its discretely presented component units. This discussion and analysis should be read in conjunction with the basic financial statements of the University, including the notes thereto.

Financial Highlights

As of June 30, 2015, the University has total assets of $1.47 billion, total deferred outflows of resources of $90.8 million, total liabilities of $3.10 billion, total deferred inflows of resources of $107.1 million and net deficit of $1.64 billion.

The University's net deficit mainly decreased in fiscal year 2015 as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* (GASB Statement No. 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB Statement No. 71) which mainly resulted in a noncash impact that established a net pension liability of $2.24 billion at July 1, 2014 which decreased the net position at July 1, 2014 by $2.24 billion. In addition, the net position increased by $65.8 million or 12% in fiscal year 2015 when compared to prior year net position of $531.1 million, before adoption of GASB Statement No. 68 and GASB Statement No. 71. 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, 2015 and 2014, follows:

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

	June 30	
	2015	**2014**
		(As Previously Reported)
Assets:		
Current assets	**$ 326,476**	$ 313,906
Noncurrent assets:		
Investments	**213,502**	209,059
Capital assets, net	**923,827**	944,591
Other assets	**9,210**	100,377
Total assets	**1,473,015**	1,567,933
Deferred outflows of resources	**90,768**	2,818
Total assets and deferred outflows of resources	**1,563,783**	1,570,751
Liabilities:		
Current liabilities	**172,607**	159,667
Noncurrent liabilities:		
Long-term debt	**565,417**	621,854
Net pension liability	**2,104,040**	–
Other liabilities	**255,012**	258,135
Total liabilities	**3,097,076**	1,039,656
Total deferred inflows of resources	**107,138**	–
Total liabilities and deferred inflows of resources	**3,204,214**	1,039,656
Net position (deficit):		
Net investment in capital assets	**397,005**	397,674
Restricted:		
Nonexpendable	**105,131**	104,511
Expendable	**77,027**	74,175
Unrestricted (deficit)	**(2,219,594)**	(45,265)
Total net position (deficit)	**$ (1,640,431)**	$ 531,095

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

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

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

Going Concern

The discussion in note 2 to the basic financial statements provides information regarding the University's financial risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the University together with other factors further described in note 2 to the financial statements and summarized below, have led the University's management to conclude that there is substantial doubt as to the ability of the University to continue as a going concern.

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

The University had a deficit position of approximately $1.6 billion as of June 30, 2015. The University has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations and has historically relied on the Governmental Development Bank (GDB) for liquidity and financial management support. Approximately 70% of the University's total revenues are derived from Commonwealth's appropriations which amounted to approximately $937.4 million for the year ended June 30, 2015. Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition. The University's ability to continue receiving similar operational support and financing from the Commonwealth and the GDB is uncertain.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended. Under Act 2, the Commonwealth appropriates for the University an amount

equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ending on June 30, 2015, 2016 and 2017. Also, on July 30, 2015, the Governor signed Executive Order Num. OE-2015-27 establishing a 1.5% budget reserve to be set aside by all component units including the University. In addition, Commonwealth appropriations include revenues received under the Gambling Law (slot machines and others) from the Puerto Rico Tourism Company, a component unit of the Commonwealth, which amounted to $63.5 million and $64.4 million for the years ended June 30, 2015 and 2014, respectively.

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

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited the GDB's ability to continue providing liquidity to the Commonwealth and have caused the GDB to fail to make a principal payment on its debt obligations. These factors are reflected in

the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of other component units of the Commonwealth, including the GDB and the University, all of which were lowered multiple notches in the grading levels.

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

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board that has plenary authority over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

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

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis.

Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. The current level of resources provided to the University could be adversely affected in the future as a result of the severe financial condition of the Commonwealth.

Unless the Commonwealth is able to obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all of its obligations as they come due while at the same time providing essential government services. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the oversight board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

The University had also been highly reliant on the GDB, a component unit of the Commonwealth, for liquidity and financial management support. The Commonwealth and its public entities have not been able to repay their loans from the GDB, which has significantly affected the GDB's liquidity and ability to repay its obligations.

The GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by the GDB to the Commonwealth and its component units constitute a significant portion of the GDB's assets. As a result, the GDB's liquidity and financial condition depends to a large extent on the repayment of loans made by the Commonwealth and its component units, which face significant fiscal and financial challenges. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units, which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances. The GDB's financial condition and liquidity has significantly deteriorated during fiscal years 2015 and 2016 as a result of some of the same factors that have affected the Commonwealth, including lack of market access and the inability of the Commonwealth and its instrumentalities to repay their loans to the GDB.

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

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act ("Act No. 21"). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the University. The temporary period set forth in

Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the University require executive action of the Governor to become effective.

On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (EO 10), declaring the GDB to be in a state of emergency pursuant to Act No. 21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing the GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at the GDB and loan disbursements by the GDB. The procedures implemented by the EO 10 may result in restrictions on the ability of the University to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by the GDB during the period of the EO 10, which is in effect until June 30, 2016. However, while the EO 10 created a stay on the enforcement of certain financial debt obligations of the GDB, it did not impose a moratorium on any financial debt obligation of the GDB.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, the GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of the GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain the GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on the GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to the GDB and the GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, the GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on the GDB emergency operational restrictions and debt moratorium described below.

Due to the conditions and events described above, the GDB's management believes substantial doubt exists as to the GDB's ability to continue as a going concern. The conditions discussed above create significant uncertainty with regard to the timing and amount of repayment of deposits and other amounts owed to the University by the GDB. Further, the significant financial difficulties being experienced by the GDB is likely to have a significant adverse impact on the University, given its reliance on the GDB for funding and lack of available funding alternatives.

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

Specifically to the University, EO 31 establishes the following: (i) designates any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspends such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designates any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspends the payment of such obligation of the University. EO 31 does not suspend the payment obligations of the University with respect to any other obligation.

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

Compliance with the Act No. 21's suspension of payments of certain debt service obligations of, and/or transfers of certain revenues by the Commonwealth and several other instrumentalities, including the University, may constitute an event of default under certain of the relevant governing bond documentation. However, pursuant to Section 201 of the Act No. 21, EO 30 and EO 31 provide that no entity or person may take action or commence any proceeding, including the exercise of any remedy (such as acceleration of amounts otherwise due), related to, whether directly or indirectly, the obligations covered by such suspensions of payments and/or transfers under the Act No. 21.

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or any Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds, filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral.

Given the high dependency of the University on Commonwealth appropriations and on the GDB's potential credit extension to fund the University's operational and short-term needs as they arise, as both Commonwealth's and the GDB's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, the University's financial condition and liquidity could be adversely affected. As a consequence, the University may not be able to avoid future defaults on its obligations. Management has plans to address the University's liquidity situation and continue providing services. However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able

and willing to refinance or modify the terms of the University's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the University's ability to continue as a going concern

In response to any potential delays of appropriations payments by the Commonwealth and the lack of available financing, the University has developed various cash flow scenarios in an attempt to meet payment of key disbursements and has established additional controls over cash management and budget monitoring. The Board of Governors of the University, recognizing both the importance of the current and projected financial difficulties facing Puerto Rico and the University commissioned several internal and external studies to address, among others, the following areas:

- Increase the cost effectiveness of the University's Central Administration;
- Reduce duplication of functions and services;
- Improve measurable financial and educational outcomes;
- Improve working and reporting relationships;
- Better align the goals of the University, work of the Central Administration, and missions of the eleven campuses and affiliated auxiliary organizations;
- Enhance capacity for the Central Administration to provide system-wide strategic leadership;
- Establish a more strategic relationship between the Central Administration and the Board of Governors.

The reports issued by these studies have provided recommendations over comprehensive change in governance; expectations of leaders; the study's structure of the system including the roles of the Central Administration; as well as ideas for further cost reduction and growth opportunities. Management and the Board of Governors are analyzing the recommendations included in the reports in order to determine possible courses of actions.

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

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

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

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

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

The required supplementary information consists of three schedules concerning the following: (1) the supplementary information (two schedules) of the University's Employees Retirement Plan as required by

the GASB Statement No. 68, and (2) the supplementary information (one schedule) of the University´s Postemployment Benefits Other Than Pensions Program as required by the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

New Accounting Standards Adopted

As of July 1, 2014, the University implemented GASB Statement No. 68 and GASB Statement No. 71 related to its pension retirement system.

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

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

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

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

At transition, the noncash impact of GASB Statement No. 68 and GASB Statement No. 71 decreased the net position as of July 1, 2014 by $2.24 billion, derecognized the prepaid pension asset previously recorded

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

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

Analysis of Net Position and Changes in Net Position

Statements of Net Position (Deficit)

Assets

Total assets amounted to $1.47 billion and $1.57 billion as of June 30, 2015 and 2014, respectively. Total assets decreased by $94.9 million or 6% in 2015, when compared with the prior year balance.

Current assets primarily consist of cash and cash equivalents, short-term investments and accounts receivable. As of June 30, 2015, cash and cash equivalents, investments and accounts receivable, including due from Commonwealth and from University of Puerto Rico Retirement System (Retirement System), comprise approximately 32%, 21% and 46%, respectively, of the current assets; meanwhile 80% and 19% of the noncurrent assets are capital assets and investments, respectively. As of June 30, 2014, cash and cash equivalents, investments and accounts receivable, including due from Commonwealth and from the University's Retirement System, comprise approximately 35%, 23% and 41%, respectively, of the current assets; meanwhile 75% and 17% of the noncurrent assets are capital assets and investments, respectively.

Cash and cash equivalents (mainly certificates of deposit) amounted to $106.4 million and $110.7 million at June 30, 2015 and 2014, respectively. The decrease in the University's cash position of $4.3 million or 4% in 2015 mainly resulted from the $15.0 million increase in the due from Commonwealth, mainly as a result of a portion of the formula appropriations for June 2015 that were collected in July 2015, and the repayments of $9.2 million in the line of credit with the GDB for working capital purposes, which effects were partially offset by the decrease in operating expenses and from the advances of $4.5 million taken from the line of credit with the GDB for the University's capital improvement program. For a more detailed information of the cash and cash equivalents movements, refer to the University's statements of cash flows

for the year ended June 30, 2015.

Total investments amounted to $282.0 million at June 30, 2015, an increase of $1.1 million or less than 1% when compared to a balance of $280.9 million at June 30, 2014. The increase in 2015 was mainly due to matured, restricted cash equivalents that were reinvested into long-term investments, which effect was partially offset by an impairment loss on the University's deposits with a governmental bank of $21.7 million and the decrease in the DUI's restricted investments designated in the sinking fund. In July 2014, excess funds in the sinking fund were used by DUI to reduce loan repayments of the AFICA bonds by $1.8 million for the fiscal year 2015 and similarly, the University reduced its basic lease payments by the same amount for partial credit for investment earnings on the trust accounts.

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

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

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

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, the GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of the GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain the GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on the GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to the GDB and the GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on the GDB emergency operational restrictions and debt moratorium described below. The GDB has continued to pay interest on its debt obligations.

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

As a result, an impairment loss on deposits held with GDB was recorded in the University's basic financial statements for the year ended June 30, 2015 as follows (expressed in thousands):

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

In addition, management estimates that an additional impairment loss on deposits held with the GDB of approximately $69.8 million will be recorded in the University's financial statements for the year ended June 30, 2016 corresponding to new certificates of deposit opened during the fiscal year ended June 30, 2016 for a total impairment loss on deposits held with the GDB of approximately $91.5 million as of June 30, 2016. The realizable balance of the deposits held with the GDB as of June 30, 2015 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2015 year end.

Accounts receivable, net, increased by $5.1 million or 6%, from $87.0 million at June 30, 2014 to $92.1 million at June 30, 2015. The increase in accounts receivable, net in 2015 mainly resulted from the increase in the due from Federal Government which effect was partially offset by the increase in the allowance for doubtful accounts as result of the aging deterioration of the accounts receivable.

Most of the University's accounts receivable are with Commonwealth's agencies, component units and municipalities and with medical plans and other entities located in Puerto Rico. Gross accounts receivable increased by $23.5 million or 8%, from $279.6 million at June 30, 2014 to $303.1 million at June 30, 2015. The increase in gross accounts receivable in 2015 mainly resulted from the increase in the due from Federal Government of $16.4 million or 44%, from $37.6 million at June 30, 2014, to $54.0 million at June 30, 2015.

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

Due from Commonwealth's component units at June 30, 2015 includes an account receivable from the Puerto Rico Medical Service Administration ("PRMSA"), a component unit of the Commonwealth, which amounted to $38.3 million and $32.9 million at June 30, 2015 and 2014, respectively, for contracted medical services provided by the faculty members of the Medical Sciences Campus of the University to the PRMSA. In addition, due from Commonwealth's component units includes the accounts receivable from the Puerto Rico Tourism Company ("PRTC"), a component unit of the Commonwealth, which amounted to $5.5 million and $5.1 million at June 30, 2015 and 2014, respectively, for unremitted distributions of income to be received by the University under the Gambling Law that were collected at the beginning of the next fiscal year. Due from Commonwealth's component units also includes accounts receivable from the

Comprehensive Cancer Center of the University of Puerto Rico ("CCCUPR"), a component unit of the Commonwealth, which amounted to $1.3 million and $4.1 million at June 30, 2015 and 2014, respectively, for unpaid charges of salaries, fringe benefits and other expenses incurred by certain professors of the Medical Science Campus of the University for cancer research and investigations provided to the CCCUPR.

The allowance for doubtful accounts increased by $18.4 million or 10%, from $192.6 million at June 30, 2014 to $211.0 million at June 30, 2015, primarily as a result of the deterioration of the financial condition of the Commonwealth and several of its component units as previously discussed. The University maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable based on type of receivables and expectations of repayment. In establishing the required allowance, management considers one or more of the following: type of receivables, Commonwealth guidelines, historical losses adjusted to take into account current market conditions, the amounts of receivable in dispute, the current receivables aging, and current payment patterns. The University has significant amounts receivable from the Commonwealth's and its instrumentalities. There is significant uncertainty in regards to the collection of such receivables due to the financial challenges these entities are facing. The University has considered this in its estimate of the specific governmental allowance for uncollectible accounts and fully reserved for all receivables from the Commonwealth affiliated entities that have not been collected in the twelve months period post the balance sheet date. The University reviews its allowance for doubtful accounts annually. Past due balances over a specified amount are reviewed individually for collectibility. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Due from the Commonwealth increased by $15.0 million, from $5.0 million at June 30, 2014 to $20.0 million at June 30, 2015. Due from Commonwealth increased in 2015 as a result of $20.0 million of the formula appropriations for June 2015 that were collected in July 2015, which effect was partially offset by the ultimate collections received of $5.0 million from a prior year payment plan.

Due from University of Puerto Rico Retirement System increased by $475,000, from $38.1 million at June 30, 2014 to $38.6 million at June 30, 2015. The balance mainly resulted from unpaid advances given by the University to the Retirement System in 2014. The amount due from the University's Retirement System was unsecured, non-interest bearing and payable upon demand. In December 2015, the University collected the whole amount due from the Retirement System at June 30, 2015.

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

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

Deferred Outflows of Resources

Deferred outflows of resources, which represents resources applicable to a future reporting period, increased by $88.0 million, from $2.8 million at June 30, 2014 to $90.8 million at June 30, 2015. The increase in 2015 mainly resulted from the recognition of deferred outflows of resources for the pension plan employer's contributions made after June 30, 2014 (measurement date) of $88.3 million at June 30, 2015 as a result of the University's adoption of GASB Statement No. 68 and GASB Statement No. 71. Deferred outflows of resources also include the deferred refunding loss on the University' revenue bonds of $2.5 million at June 30, 2015 which decreased by $301,000 for the amortization expense for the period.

Liabilities

Total liabilities amounted to $3.10 billion and $1.04 billion at June 30, 2015 and 2014, respectively, an increase of $2.06 billion in 2015, when compared with the prior year balance. The increase in 2015 mainly resulted from the recognition of the net pension liability which amounted to $2.10 billion at June 30, 2015 as a result of the University's adoption of GASB Statement No. 68.

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

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

Long-term debt obligations decreased by $27.6 million or 4%, from $651.0 million at June 30, 2014 to $623.4 million at June 30, 2015. The decrease in 2015 mainly resulted from principal paid on long-term debt of $30.3 million, net of advances of $4.5 million taken from the lines of credit with the GDB for the University's capital improvement program.

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

In October 2011, the University converted a line of credit with the GDB used for working capital purposes into a ten-year term loan payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan is collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. In addition, the University has a $75 million non-revolving line of credit with the GDB to complete certain construction projects of the

University's Program for Permanent Improvements. Advances taken from the line of credit with the GDB for the University's capital improvement program amounted to approximately $4.5 million in 2015, meanwhile the principal repayments in the term loan with the GDB used for working capital purposes amounted to approximately $9.2 million in 2015. The $75.0 million line of credit expired on January 31, 2016. Management requested an extension of this line of credit. The GDB is evaluating the extension of this line of credit. The balances outstanding under the term loan and the $75 million line of credit with GDB amounted to $54.5 million and $27.9 million, respectively, at June 30, 2015. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipment to be used in the Medical Sciences Campus. The balance outstanding of the two-term loans amounted to $909,000 at June 30, 2015.

Other long-term debt liabilities increased by $2.10 billion, from $303.1 million at June 30, 2014 to $2.40 billion at June 30, 2015. The increase in 2015 mainly resulted from the recognition of the net pension liability which amounted to $2.10 billion at June 30, 2015 as a result of the University's adoption of GASB Statement No. 68.

The liability for the deferred compensation plan amounted to $103.0 million and $102.5 million at June 30, 2015 and 2014, respectively, an increase of $498,000 or 1ess than one percent, when compared with prior year balance. The University offers to certain employees of the Medical Sciences Campus a non-qualified deferred compensation plan which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, which is managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

Also, other long-term liabilities include the accrual for compensated absences which amounted to $166.6 million and $177.6 million at June 30, 2015 and 2014, respectively, a decrease of $10.9 million or 6% in 2015, when compared with prior year balance. Changes in compensated absences are mainly related to variations on the use of vacations and sick leaves by employees, salary increases and the total number of employees at the end of periods.

Deferred Inflows of Resources

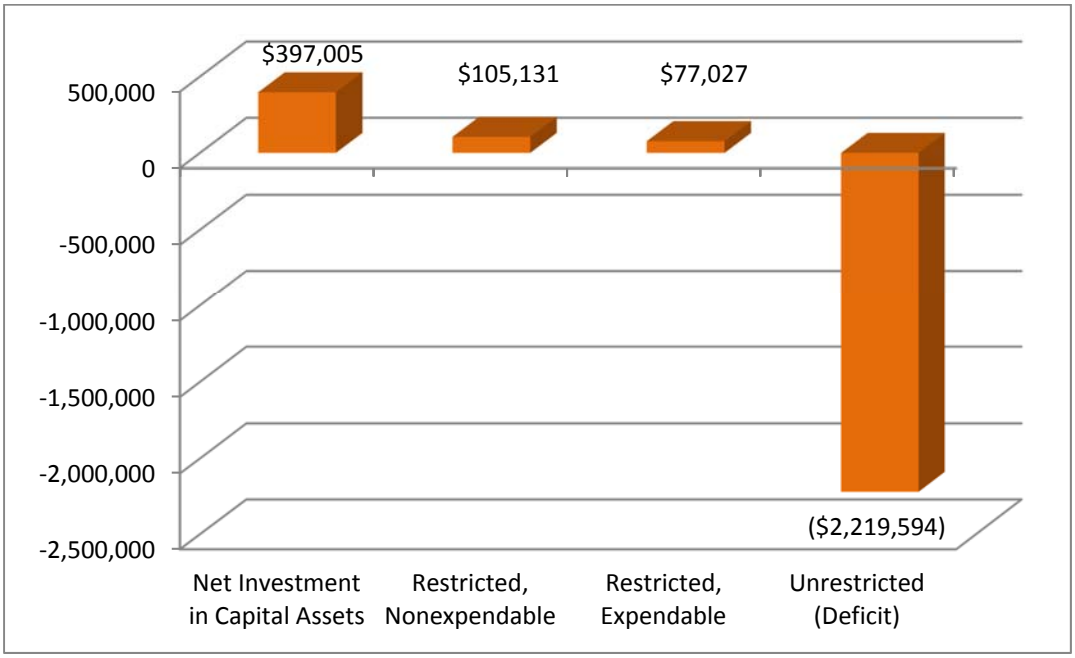
Deferred inflows of resources, which is an acquisition of resources by the University that is applicable to a future reporting period, amounted to $107.1 million at June 30, 2015 and it is related to the pension plan activities as a result of the University's adoption of GASB Statement No. 68.

Net Position (Deficit)

Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position amounted to a deficit of $1.64 billion at June 30, 2015 and a net position of $531.1 million at June 30, 2014, a decrease of $2.17 billion in 2015, when compared with the prior year balance. Effective July 1, 2014, the University recognized a decrease of $2.24 billion in its net position at July 1, 2014 as a cumulative effect of change in accounting for pension costs as required by GASB Statement No. 68 and GASB Statement No. 71. In addition, the change in the net position amounted to an increase of $65.8 million for the year ended June 30, 2015. These changes are explained in the section entitled "*Statements of Revenues, Expenses and Changes in Net Position*".

The major classifications of the net position (deficit) at June 30, 2015 are shown in the following illustration:

Chart 1 – Net Position (Deficit)
(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 have been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.

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

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

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

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

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

Operating Revenues

Total operating revenues amounted to $260.2 million and $263.8 million for the years ended June 30, 2015 and 2014, respectively, a decrease of $3.6 million or 1% in 2015. The changes in operating revenues mainly resulted from the changes in tuitions and fees, in governmental grants and contracts and in patient services revenues.

Tuitions and fees decreased by $759,000 or 2%, from $48.0 million in 2014 to $47.2 million in 2015, mainly as a result of a slight decrease in the tuition gross income and an increase in the scholarship allowances, which effects were partially offset by a decrease in the provision for doubtful accounts. Scholarship allowances increased by $2.5 million or 5%, from $48.6 million in 2014 to $51.1 million in 2015, as a result of the increase in eligible participants. The provision for doubtful accounts decreased by $3.0 million in 2015, from $3.8 million in 2014 to $735,000 in 2015. In 2014, the allowance for doubtful accounts was increased as a result of the aging deterioration of these accounts. For fiscal year 2015, the student body of the University consisted of 57,571 students, an increase of 250 students when compared with 57,321 students for fiscal year 2014.

The University tuition is among the lowest in Puerto Rico and in the United States of America. In accordance with a Board of Trustees Resolution, tuition cost per credit was increased 4% annually per incoming class from academic year 2007-2008 to academic year 2012-2013. On July 30, 2013, the

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

In 2015, revenues from governmental grants and contracts increased by $483,000, from $114.9 million in 2014 to $115.4 million in 2015. The increase in 2015 mainly resulted from a decrease of $17.1 million in the provision for doubtful accounts, which effect was partially offset by a decrease of $16.6 million in revenues from these grants and contracts, principally from Commonwealth grants and contracts.

Patient services revenue amounted to $57.8 million and $67.7 million for the years ended June 30, 2015 and 2014, respectively, a decrease of $9.9 million or 15% in 2015. Patient service revenue depends on medical services, including laboratories, rendered by the University's Medical Sciences Campus faculty members. Also, the provision for doubtful accounts increased by $815,000 in 2015, as a result of the aging deterioration of these accounts.

Non-operating Revenues, Net

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

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

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations amounted to $833.9 million for the years ended June 30, 2015 and 2014. On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act freezes the benefit under the formula-based appropriation of the University to the amount appropriated for fiscal year ended June 30, 2014. The Fiscal Sustainability Act will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

In addition, the Commonwealth has appropriated amounts for general current obligations, for capital improvement programs, and for loans and financial assistance to students. These Commonwealth appropriations amounted to $39.9 million and $39.7 million for the years ended June 30, 2015 and 2014, respectively, a slight increase of $153,000 in 2015.

Appropriations from the Commonwealth also include unremitted distributions of income received by the University from the PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. PRTC appropriations for the years ended June 30, 2015 and 2014

amounted to $63.5 million and $64.4 million, respectively, a decrease of $913,000 or 1% in 2015.

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

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

Capital appropriations amounted to $2.3 million in 2015 and $5.1 million in 2014, a decrease of $2.8 million in 2015. The decrease in 2015 mainly related to lower capital contributions received from federal agencies.

The following illustrations present the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2015:

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

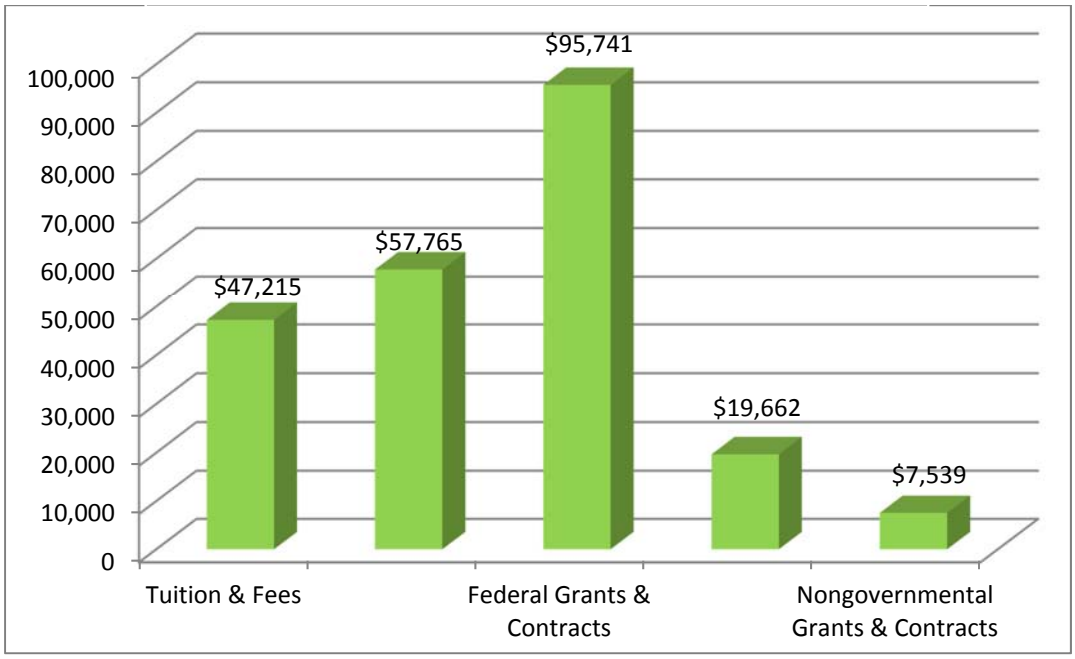
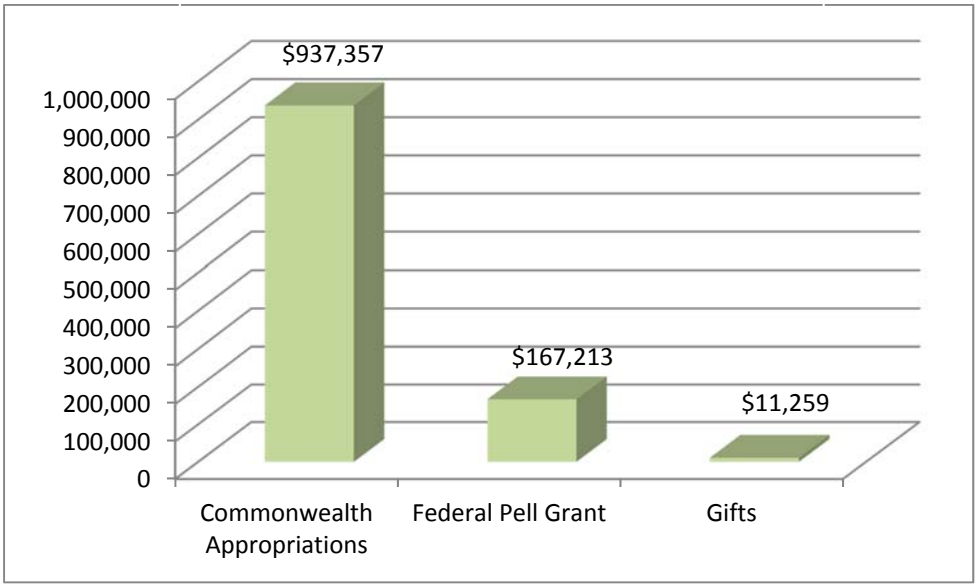
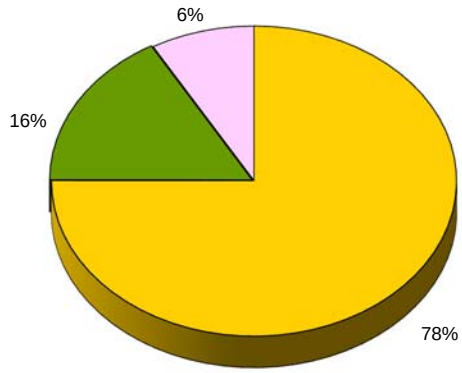


Chart 3 – Major Sources of Nonoperating Revenues
(In thousands)



Federal grants represent 78% 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, 2015:

Chart 4 - Operating Grants Revenues
(Dollars in thousands)



Federal	$	95,741	78%
Commonwealth		19,662	16%
Nongovernmental		7,539	6%
Total	$	122,942	100%

Operating Expenses

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

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

Salaries amounted to $611.0 million in 2015 and $628.5 million in 2014, a decrease of $17.5 million or 3% in 2015. Salaries decreased in 2015 in faculty personnel by $3.7 million, mainly as a result of the liquidation of the excess of accumulated sick leave of $4.4 million paid in 2014, and in exempt staff salaries which decreased by $13.7 million, mainly as a result of the liquidation of the excess of accumulated sick leave and other compensations of $8.1 million paid in 2014 and a reduction of about 165 positions of retired employees and of employees under contracted services.

Benefits amounted to $ 211.5 million in 2015 and $244.6 million in 2014, a decrease of $33.1 million or 14% in 2015. The decrease in 2015 mainly resulted from the reduction in the accrued sick leave and other accrued benefits liabilities of $23.2 million for employees' utilizations and the decrease in the pension cost of $9.5 million, which effects were partially offset by an increase in the medical plan insurance costs of $2.4 million.

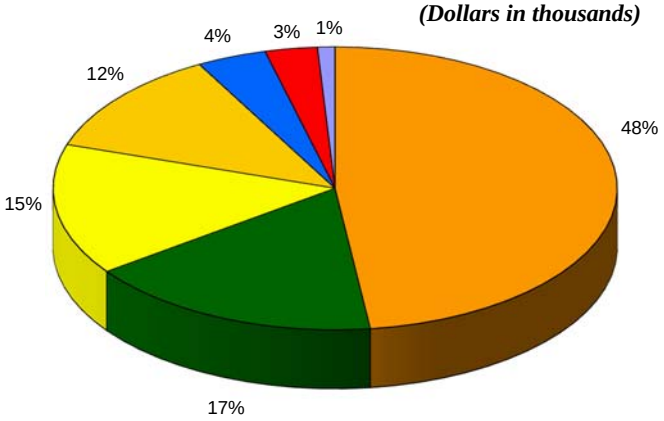
Scholarships and fellowships amounted to $185.4 million and $183.2 million for the years ended June 30, 2015 and 2014, respectively, an increase of $2.2 million or 1% in 2015. The increases in 2015 resulted from an increase in the number of eligible participants in the Federal Pell Grant program.

Supplies and other services and utilities amounted to $196.9 million and $208.0 million for the years ended June 30, 2015 and 2014, respectively, a decrease of $11.1 million or 5% in 2015. The decrease in 2015 mainly resulted from the utilities (electricity and water) which amounted to $48.2 million and $56.5 million for the years ended June 30, 2015 and 2014, respectively, a decrease of $8.3 million or 15% in 2015. The decrease in utilities in 2015 mainly resulted from lower electricity cost. In addition, maintenance expense and professional services decreased by $3.7 million and $2.1 million, respectively, in 2015 as a result of the cost control measures taken by the University.

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

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2015:

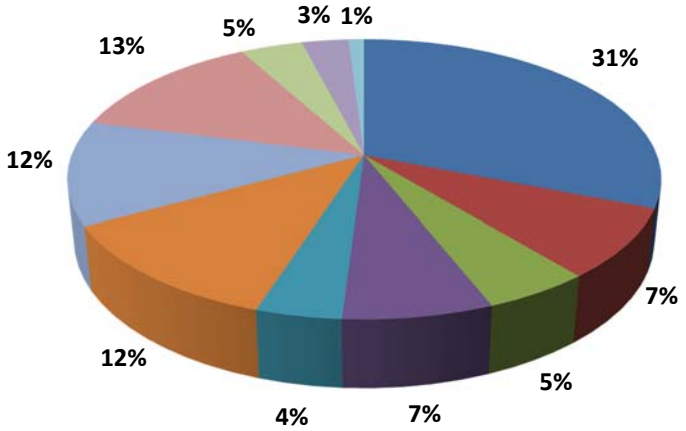
Chart 5 - Operating Expenses
(Dollars in thousands)



Salaries	$	611,007	48%
Benefits		211,530	17%
Scholarships and fellowships		185,442	15%
Supplies and other services		148,682	12%
Utilities		48,206	4%
Depreciation and amortization		44,715	3%
Other expenditures		16,624	1%
Total	$	1,266,206	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, 2015:

Chart 6 - Expenses by Function
(Dollars in thousands)



Instruction	$	390,731	31%
Research		96,512	7%
Public service		65,816	5%
Academic support		90,158	7%
Student services		51,519	4%
Institutional support		149,214	12%
Operations and maintenance		151,462	12%
Student aid		163,892	13%
Patient services		60,204	5%
Depreciation and amortization		44,715	3%
Others		1,983	1%
Total	$	1,266,206	100%

Operating Loss and Net Change in Net Position (Deficit)

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

Cumulative Effect of Change in Accounting for Pension Costs

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

Statements of Cash Flows

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

Subsequent Events

Subsequent events were evaluated through September 7, 2016, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2015 financial statements.

On September 11, 2015, S&P downgraded the University's revenue bonds and the DUI's AFICA bonds from CCC- to CC. The rating action followed the downgrade on September 10, 2015 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds given the University's significant dependence on the Commonwealth. The outlook is negative.

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation.

On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Governing Board of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. Voya has not transferred the plan assets to the University waiting for the resolution of this complaint by the U.S. District Court for the Puerto Rico District.

On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint seeks relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. Specifically, this complaint for declaratory relief seeks federal judicial review as expressly provided for by PROMESA of the issues arising under PROMESA, the Trust Agreements, and other relevant law, in light of the University's financial condition and its efforts to distribute all Plan assets. Voya has not yet transferred the plan assets to the University waiting for the resolution of this complaint

by the U.S District Court for the Puerto Rico District.

On June 30, 2016, the Governing Board of the University reestablished the annual increase per incoming class (approximately 2% increase) in the tuition cost per credit for academic year 2016-2017.

On July 26, 2016, the Governor of Puerto Rico approved the House of Representatives Project No. 2962, authorizing GDB to consolidate and restructure its loans granted to Commonwealth entities, including the University and SMU and certain municipalities, of approximately $4.4 billion (including principal and interest) that are payable from Commonwealth appropriations into a new loan with a cut of about 40%. The University and the SMU loans (including principal and interest) included in the project amounted to approximately $80.2 million and 13.0 million, respectively. The project transfers the responsibility of the repayment of the new loan to the General Fund of the Commonwealth. This new loan will be payable over a 35-year period at an interest rate of 5%. If this restructuring is realized, it will represent the liquidation of the University and SMU lines of credit with GDB with a contribution of the Commonwealth (approximately 60% of the debt with GDB) and a forgiveness of debt (approximately 40% of the debt with the GDB).

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board. Refer to Going Concern Section for additional information.

On June 30, 2016, the Governor of Puerto Rico signed EO 31 declaring the University in a state of emergency pursuant to Act No. 21. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI starting in July 2016. Refer to Going Concern Section for additional information.

Management estimates that an additional impairment loss on deposits held with the GDB of approximately $69.8 million will be recorded in the University's financial statements for the year ended June 30, 2016 corresponding to new certificates of deposit opened during the fiscal year ended June 30, 2016 for a total impairment loss on deposits held with GDB of approximately $91.5 million as of June 30, 2016. The realizable balance of the deposits held with GDB was determined based on the corresponding actual collections received from the GDB after year end.

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

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, or exercise control over, any property of or

from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or any Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds, filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral.

Capital Assets and Debt Administration

- **Capital assets, net, decreased by $20.8 million or 2% in 2015**

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, 2015, consisted mainly of renovation and rehabilitation of existing facilities, restoration of historic buildings, and modifications of existing facilities in light of new technology, educational standards and the requirements of modern building codes. Capital assets decreased by $20.8 million or 2%, from $944.6 million at June 30, 2014 to $923.8 million at June 30, 2015. The decrease in 2015 mainly resulted from the depreciation and amortization expense of $44.7 million and the capital asset dispositions of $3.7 million, which effects were partially offset by the University's investment in construction projects and other capital assets for educational facilities that amounted to $27.6 million in 2015. Construction commitments at June 30, 2015, entered into by the University, amounted to approximately $48.3 million. Refer to Note 8 to the financial statements for further information regarding the University's net capital assets.

- **Long-term debt obligations decreased by $27.6 million or 4% in 2015**

The decrease in 2015 mainly resulted from principal paid on long-term debt obligations of $30.3 million, net of advances of $4.5 million taken from the line of credit with GDB for the University's capital improvement program.

Long-term debt obligations include the University's revenue bonds and amounted to $471.6 million as of June 30, 2015. The University issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which were used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. These bonds are rated "Ca" by Moody's Investors Service (Moody's) and "CC" by Standard & Poor's Ratings Services (S&P).

In addition, long-term debt obligations include the Desarrollos Universitarios, Inc's AFICA bonds (the "AFICA bonds") which amounted to $68.5 million as of June 30, 2015. The AFICA bonds are rated "Ca" by Moody's and "CC" by S&P. The AFICA bonds were principally issued to finance the development, construction and equipment of the Plaza Universitaria Project (the Project), a residential and commercial

facility for the use of students and other persons or entities conducting business with the University. In October 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc. for the use of Project. The lease payments from the University shall have a fixed component and a variable component. The fixed component shall be in an amount sufficient to guarantee to bondholders the payment of principal and interest on the AFICA Bonds as is established in the financing documents, and is pledged to guarantee such payments. The variable component of the lease payments is used to cover operating, maintenance, administrative, management, and other fees and costs, which is established periodically and reviewed annually between the parties, as well as such amounts for reserves and special funds, which may be required under the financing documents related to the bond issue.

In October 2010, the University obtained a $100 million revolving line of credit facility with GDB for working capital purposes, which was increased to $125 million in October 2011. This line of credit was converted into a ten-year term loan in October 2011 payable in monthly equal principal payments plus interest starting on October 1, 2013. The term loan is collateralized by the University's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth of Puerto Rico income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended. The University obtained a non-revolving line of credit with GDB, which was increased to $75 million in August 2011, to complete certain construction projects of the University's Program for Permanent Improvements. In 2015, advances taken from the line of credit with GDB for the University's capital improvement program amounted to approximately $4.5 million, meanwhile the principal repayments in the term loan with GDB used for working capital purposes amounted to approximately $9.2 million. The $75.0 million line of credit expired on January 31, 2016. The balances outstanding under the term loan and the $75 million line of credit with GDB amounted to $54.5 million and $27.9 million, respectively, at June 30, 2015. In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipment for use by the Medical Sciences Campus. The balance outstanding of the two term loans amounted to $909,000 at June 30, 2015.

On June 30, 2016, the Governor of Puerto Rico signed OE 31 which (i) declares the University to be in a state of emergency and announced the commencement of an emergency period (as such term is defined in Section 103 of the Act 21) for the University. Specifically to the University, EO 31 establishes the following: (i) designates any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspends such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designates any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspends the payment of such obligation of the University. EO 31 does not suspend the payment obligations of the University with respect to any other obligation.

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

Compliance with the Act No. 21's suspension of payments of certain debt service obligations of, and/or transfers of certain revenues by the Commonwealth and the several other instrumentalities, including the University, may constitute an event of default under certain of the relevant governing bond documentation.

However, pursuant to Section 201 of the Act No. 21, EO 31 provide that no entity or person may take action or commence any proceeding, including the exercise of any remedy (such as acceleration of amounts otherwise due), related to, whether directly or indirectly, the obligations covered by such suspensions of payments and/or transfers under the Act No. 21.

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. Refer to Refer to Going Concern Section for additional information.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds, filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral.

On July 26, 2016, the Governor of Puerto Rico approved the House of Representatives Project No. 2962, authorizing GDB to consolidate and restructure its loans granted to Commonwealth entities, including the University and SMU and certain municipalities, of approximately $4.4 billion (including principal and interest) that are payable from Commonwealth appropriations into a new loan with a cut of about 40%. The University and the SMU loans (including principal and interest) included in the project amounted to approximately $80.2 million and 13.0 million, respectively. The project transfers the responsibility of the repayment of the new loan to the General Fund of the Commonwealth. This new loan will be payable over a 35-year period at an interest rate of 5%. If this restructuring is realized, it will represent the liquidation of the University and SMU lines of credit with GDB with a contribution of the Commonwealth (approximately 60% of the debt with GDB) and a forgiveness of debt (approximately 40% of the debt with GDB).

Refer to Notes 2, 7, 9, 10, 11, and 17 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.

The Puerto Rico economy has been in a recession since 2006. There has been an overall contraction in sectors of Puerto Rico's economy, principally within the manufacturing and construction sectors, coupled with declines in retail sales, budget shortfalls and diminished consumer buying power resulting in higher

costs of living.

Despite the decline in population and the increase in the average age of the population, the number of students has continued to increase as a result of the lower cost of tuition and the shifting of students from private institutions to the University.

As described above, the Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations.

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

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)
Statement of Net Position (Deficit) as of June 30, 2015 (In thousands)

	Primary Institution				Component Units			
	University of Puerto Rico (UPR)	Desarrollos Universi-tarios, Inc.	Elimi-nations	Total	Servicios Médicos Universi-tarios, Inc.	UPR Parking System, Inc.	Materials Cha-racterization Center, Inc.	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 98,649	$ 947	$ —	$ 99,596	$ 13,555	$ 1,141	$ 156	$ 14,852
Restricted cash and cash equivalents	3,537	—	—	3,537	—	—	—	—
Restricted investments at fair value:								
Deposited with trustee	54,709	13,822	—	68,531	—	—	—	—
Accounts receivable, net	92,090	—	—	92,090	9,266	203	387	9,856
Internal balance- net investment in direct financing lease, current portion	—	2,054	(2,054)	—				
Due from:								
Commonwealth of Puerto Rico	20,000	—	—	20,000	—	—	—	—
University of Puerto Rico Retirement System	38,621	—	—	38,621	—	—	—	—
University of Puerto Rico	—	1,656	(1,656)	—	9,785			9,785
Inventories	2,641	—	—	2,641	588	—	—	588
Other assets	1,436	24	—	1,460	255	8	73	336
Total current assets	311,683	18,503	(3,710)	326,476	33,449	1,352	616	35,417
Noncurrent assets:								
Restricted cash and cash equivalents	972	2,288	—	3,260	—	—	—	—
Restricted investments at fair value:								
Endowment funds	99,610	—	—	99,610	—	—	—	—
Healthcare Deferred Compensation Plan	102,968	—	—	102,968	—	—	—	—
Others	8,150	—	—	8,150	—	—	—	—
Other long-term investments at fair value	2,774	—	—	2,774	—	—	—	—
Internal balance- net investment in direct financing lease, net of current portion	—	57,779	(57,779)	—				
Due from Commonwealth of Puerto Rico	—	—	—	—	225	—	—	225
Notes receivable, net	5,663	—	—	5,663	—	—	—	—
Capital assets (net of accumulated depreciation and amortization):								
Land and other nondepreciable assets	88,494	—	—	88,494	1,845	116	—	1,961
Depreciable assets	835,333	—	—	835,333	7,297	130	203	7,630
Other assets	24	263	—	287	—	—	—	—
Total noncurrent assets	1,143,988	60,330	(57,779)	1,146,539	9,367	246	203	9,816
Total assets	1,455,671	78,833	(61,489)	1,473,015	42,816	1,598	819	45,233
Deferred outflows of resources:								
Deferred refunding loss	2,517	—	—	2,517	—	—	—	—
Deferred outflows from pension activities	88,251	—	—	88,251	—	—	—	—
Total deferred outflows of resources	90,768	—	—	90,768	—	—	—	—
Total assets and deferred outflows of resources	1,546,439	78,833	(61,489)	1,563,783	42,816	1,598	819	45,233
Liabilities								
Current liabilities:								
Accounts payable and accrued liabilities	70,261	4,688	(1,656)	73,293	17,439	41	31	17,511
Current portion of long-term debt	55,841	2,190	—	58,031	1,710	—	—	1,710
Internal balance- obligation under capital lease, current portion	2,054	—	(2,054)	—	—	—	—	—
Due to University of Puerto Rico	—	—	—	—	20,411	—	—	20,411
Other current liabilities	41,283	—	—	41,283	—	—	—	—
Total current liabilities	169,439	6,878	(3,710)	172,607	39,560	41	31	39,632
Noncurrent liabilities:								
Long-term debt, net of current portion	499,106	66,311	—	565,417	12,996	—	—	12,996
Internal balance- obligation under capital lease, net of current portion	57,779	—	(57,779)	—	—	—	—	—
Other long-term liabilities	2,359,052	—	—	2,359,052	1,286	—	—	1,286
Total noncurrent liabilities	2,915,937	66,311	(57,779)	2,924,469	14,282	—	—	14,282
Total liabilities	3,085,376	73,189	(61,489)	3,097,076	53,842	41	31	53,914
Deferred inflow or resources from pension activities	107,138	—	—	107,138	—	—	—	—
Total liabilities and deferred inflows of resources	3,192,514	73,189	(61,489)	3,204,214	53,842	41	31	53,914
Net position (deficit):								
Net investment in capital assets	397,005	—	—	397,005	—	246	203	449
Restricted, nonexpendable:								
Scholarships and fellowships	43,383	—	—	43,383	—	—	—	—
Research	48,619	—	—	48,619	—	—	—	—
Other	13,129	—	—	13,129	—	—	—	—
Restricted, expendable:								
Loans	10,010	—	—	10,010	—	—	—	—
Capital projects	8,754	2,299	—	11,053	—	—	—	—
Debt service	48,893	7,071	—	55,964	—	—	—	—
Unrestricted (deficit)	(2,215,868)	(3,726)	—	(2,219,594)	(11,026)	1,311	585	(9,130)
Total net position (deficit)	$ (1,646,075)	$ 5,644	$ —	$ (1,640,431)	$ (11,026)	$ 1,557	$ 788	$ (8,681)

See accompanying notes to basic financial statements.

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

	Primary Institution				Component Units			
	University of Puerto Rico (UPR)	Desarrollos Universitarios, Inc.	Eliminations	Total	Servicios Médicos Universitarios, Inc.	UPR Parking System, Inc.	Materials Characterization Center, Inc.	Total
Operating revenues:								
Tuitions and fees (net of scholarship allowances and others of $51,820)	$ 47,215	$ –	$ –	$ 47,215	$ –	$ –	$ –	$ –
Net patient services revenue and other (net of provision for allowances of $19,115)	57,765	–	–	57,765	49,089	–	–	49,089
Federal grants and contracts (net of credit for allowances of $205)	95,741	–	–	95,741	–	–	–	–
Commonwealth grants and contracts (net of provision to allowances of $439)	19,662	–	–	19,662	–	–	–	–
Nongovernmental grants and contracts (net of provision for allowances of $2,339)	7,539	–	–	7,539	–	–	–	–
Sales and services of educational departments	12,321	–	–	12,321	–	–	–	–
Auxiliary enterprises (net of provision for allowances of $10)	2,032	–	–	2,032	–	–	–	–
Other operating revenues	17,908	3,260	(3,260)	17,908	1,022	1,558	582	3,162
Total operating revenues	260,183	3,260	(3,260)	260,183	50,111	1,558	582	52,251
Operating expenses:								
Salaries:								
Faculty	356,858	–	–	356,858	–	–	–	–
Exempt staff	253,242	–	–	253,242	3,515	–	–	3,515
Nonexempt wages	622	285	–	907	10,537	356	121	11,014
Benefits	211,459	71	–	211,530	2,358	62	18	2,438
Scholarships and fellowships	185,442	–	–	185,442	–	–	–	–
Supplies and other services	149,558	2,384	(3,260)	148,682	21,953	311	347	22,611
Utilities	47,847	359	–	48,206	3,224	9	1	3,234
Depreciation and amortization	44,715	–	–	44,715	1,346	45	34	1,425
Other expenses	16,595	29	–	16,624	858	5	6	869
Total operating expenses	1,266,338	3,128	(3,260)	1,266,206	43,791	788	527	45,106
Operating income (loss)	(1,006,155)	132	–	(1,006,023)	6,320	770	55	7,145
Nonoperating revenues (expenses):								
Commonwealth and other appropriations	937,357	–	–	937,357	–	–	–	–
Federal Pell Grant program	167,213	–	–	167,213	–	–	–	–
Gifts	11,259	–	–	11,259	–	–	–	–
Net investment income	3,115	433	–	3,548	–	4	–	4
Impairment loss on deposits with governmental bank (note 4)	(21,668)	–	–	(21,668)	–	–	–	–
Interest on capital assets - related debt	(24,427)	(3,538)	2,652	(25,313)	(697)	–	–	(697)
Interest on notes payable	(3,497)	–	–	(3,497)	–	–	–	–
Interest income from internal balance-investment in direct financing lease	–	2,652	(2,652)	–	–	–	–	–
Other nonoperating revenues (expenses), net	685	–	–	685	–	(660)	–	(660)
Net nonoperating revenues (expenses)	1,070,037	(453)	–	1,069,584	(697)	(656)	–	(1,353)
Income (loss) before other revenues (expenses)	63,882	(321)	–	63,561	5,623	114	55	5,792
Capital appropriations	2,266	–	–	2,266	–	–	–	–
Additions to term and permanent endowments	6	–	–	6	–	–	–	–
Change in net position	66,154	(321)	–	65,833	5,623	114	55	5,792
Net position (deficit):								
Beginning net position as previously reported	525,130	5,965	–	531,095	(16,649)	1,443	733	(14,473)
Cumulative effect of a change in accounting principle	(2,237,359)	–	–	(2,237,359)	–	–	–	–
End of year	$ (1,646,075)	$ 5,644	$ –	$ (1,640,431)	$ (11,026)	$ 1,557	$ 788	$ (8,681)

See accompanying notes to basic financial statements.

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

	Primary Government for the Year Ended June 30, 2015			
	University of Puerto Rico	Desarrollos Universitarios, Inc.	Eliminations	Total
Cash flows from operating activities				
Tuition and fees	$ 46,064	$ –	$ –	$ 46,064
Grants and contracts	113,545	–	–	113,545
Patient services	60,836	–	–	60,836
Auxiliary enterprises	1,859	–	–	1,859
Sales and services educational departments and others	31,890	–	–	31,890
Payments to suppliers	(172,240)	(2,810)	3,048	(172,002)
Payments to employees	(611,156)	(346)	–	(611,502)
Payments for benefits	(239,271)	–	–	(239,271)
Payments for utilities	(47,847)	–	–	(47,847)
Payments for scholarships and fellowships	(185,442)	–	–	(185,442)
Loans issued to students	(855)	–	–	(855)
Other receipts (payments)	–	3,045	(3,048)	(3)
Net cash used in operating activities	(1,002,617)	(111)	–	(1,002,728)
Cash flows from noncapital financing activities				
Commonwealth appropriations	922,356	–	–	922,356
Federal Pell program	167,213	–	–	167,213
Endowment gifts	6	–	–	6
Principal paid on noncapital debt	(8,682)	–	–	(8,682)
Interest paid on notes payable	(3,620)	–	–	(3,620)
Gifts and grants for other than capital purposes	11,259	–	–	11,259
Other non-operating receipts	25	–	–	25
Net cash provided by noncapital financing activities	1,088,557	–	–	1,088,557
Cash flows from capital and related financing activities				
Capital appropriations	2,266	–	–	2,266
Purchases of capital assets	(27,666)	–	–	(27,666)
Proceeds from capital debt	4,507	–	–	4,507
Principal paid on capital debt and lease	(19,679)	(2,075)	151	(21,603)
Interest paid on capital debt and lease	(28,871)	(3,569)	3,710	(28,730)
Decrease in deposit with trustee	11	1,390	–	1,401
Net cash used in capital and related financing activities	(69,432)	(4,254)	3,861	(69,825)
Cash flows from investing activities				
Proceeds from sales and maturities of investments	36,574	–	–	36,574
Purchases of investments	(60,398)	–	–	(60,398)
Collections of interest and dividend income on investments	2,816	443	–	3,259
Advances to the University of Puerto Rico (UPR) Retirement System	(475)	–	–	(475)
Contribution from component unit	660	–	–	660
Principal collected from internal balance- investment in direct financing lease	–	151	(151)	–
Interest collected from internal balance- investment in direct financing lease	–	3,710	(3,710)	–
Other receipts	–	23	–	23
Net cash provided by (used in) investing activities	(20,823)	4,327	(3,861)	(20,357)
Net change in cash and cash equivalents	(4,315)	(38)	–	(4,353)
Cash and cash equivalents:				
Beginning of year	107,473	3,273	–	110,746
End of year	$ 103,158	$ 3,235	$ –	$ 106,393

(Continued)

See accompanying notes to basic financial statements.

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

	Primary Government for the Year Ended June 30, 2015		
	University of Puerto Rico	Desarrollos Universi-tarios, Inc.	Total
Reconciliation of operating income (loss) to net cash used in operating activities			
Operating income (loss)	$ (1,006,155)	$ 132	$ (1,006,023)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation and amortization	44,715	–	44,715
Provision for doubtful accounts	20,031	–	20,031
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Grants and contracts receivables	(25,125)	–	(25,125)
Prepaid expenses, inventories and other	4,611	(215)	4,396
Decrease in:			
Accounts payable and accrued liabilities	(34,836)	(24)	(34,860)
Accrued salaries, wages, benefits and other liabilities	(5,858)	(4)	(5,862)
Net cash used in operating activities	$ (1,002,617)	$ (111)	$ (1,002,728)
Supplemental schedule of noncash investing, capital and financing activities:			
Unrealized gains on investments	$ 391	$ –	$ 391
Amortization of:			
Bonds premiums (discounts)	$ 1,831	$ (14)	$ 1,817
Deferred refunding loss	$ 301	$ –	$ 301
Impairment loss on deposits with governmental bank (note 4)	$ 21,668	$ –	$ 21,668

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

The University is 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 students and professors are one year.

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

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

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

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

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

Reporting Entity (continued)

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

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

Desarrollos Universitarios, Inc.

Desarrollos Universitarios, Inc. ("DUI") is a legally separate entity from the University and is governed by a separate board. DUI was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. DUI was organized to develop, construct, and operate academic, residential, administrative, office, commercial, and maintenance facilities for the use of students and other persons or entities conducting business with the University. DUI developed the Plaza Universitaria Project, which consists 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)

University of Puerto Rico Parking System, Inc.

University of Puerto Rico Parking System, Inc. ("UPRPS") is a legally separate entity from the University and is governed by a separate board. UPRPS was organized on May 5, 2000, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. UPRPS was organized to operate the parking facilities of the University system. Actually, UPRPS operates the parking facilities of the Medical Sciences and Rio Piedras campuses. The University appoints a voting majority of UPRPS board and is also financially accountable for UPRPS. UPRPS's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the year ended June 30, 2015. Complete financial statements of UPRPS can be obtained directly by contacting the UPRPS's administrative offices.

Materials Characterization Center, Inc.

Materials Characterization Center, Inc. ("MCC") is a legally separate entity from the University and is governed by a separate board. MCC was organized on April 15, 1999, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. MCC was organized to provide a much-needed accessible and reliable center to chemically and physically characterize materials from the pharmaceutical as well as other manufacturing endeavors. MCC is administrated in conjunction with the College of Natural Sciences of the Río Piedras Campus of the University. The University appoints a voting majority of MCC board and is also financially accountable for MCC. MCC's assets, liabilities, revenues, expenses and changes in its net position were not significant as of and for the year ended June 30, 2015. 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:

Measurement Focus and Basis of Accounting

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

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,* an Amendment of GASB Statement No. 34. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, telecommunications and institutional computing have been eliminated, where appropriate.

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

Estimates and Assumptions

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

Cash Equivalents

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

Investments

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

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

Receivables

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

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

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

Receivables (continued)

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

Interfund Balances and Transactions

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

Inventories

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

Capital Assets

All capital expenditures of $5,000 ($1,000 before July 1, 2014) or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets, or in the case of assets under capital lease, over the term of the lease, whichever is shorter, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment, library materials and software, and 7 to 30 years for land improvements.

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

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

Impairment of Capital Assets

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

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

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

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

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

Deferred Compensation Plan

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

Compensated Absences

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

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

Compensated Absences (continued)

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, 2015, the cost of the excess of 90 days of the accumulated sick leave was approximately $10,897,000, which is included in other current liabilities in the accompanying statement of net position.

Deferred Outflows and Inflows of Resources

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

Classification of Net Position

The University's net position is classified as follows:

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

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

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

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

Classification of Net Position (continued)

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

Classification of Revenues

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

Scholarship Allowances and Student Financial Aid

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

Net Patient Service Revenue

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

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

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 is recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed and for grants without either of the above requirements, the revenue is recognized as it is received.

Gifts and Pledges

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

Pension

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

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

Pension (continued)

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

Postemployment Benefits Other Than Pensions

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

New Accounting Standards Adopted

In fiscal year 2015, the University adopted the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board ("GASB"):

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

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

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

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

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

New Accounting Standards Adopted (continued)

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

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

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

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

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

New Accounting Standards Adopted (continued)

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

Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72), which is effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 requires the University to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements.

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

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

Future Adoption of Accounting Pronouncements (continued)

information similar to that required by GASB Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

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

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

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

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

Future Adoption of Accounting Pronouncements (continued)

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

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB Statement No. 79), which is effective for reporting periods beginning after June 15, 2015, except for the provisions of paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB Statement No. 31), as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

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

Future Adoption of Accounting Pronouncements (continued)

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

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

- GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No 67, No. 68, and No. 73*. (GASB Statement No. 82), which is effective for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. GASB Statement No. 82 addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard

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

Future Adoption of Accounting Pronouncements (continued)

of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

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

2. Going Concern

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

2. Going Concern (continued)

going concern in accordance with GASB Statement No. 56.

The University had a total net deficit position of approximately $1.6 billion as of June 30, 2015. The University has had significant recurring operating losses and it is highly dependent on the Commonwealth appropriations to finance its operations and has historically relied on the Government Development Bank (GDB) for liquidity and financial management support. Approximately 70% of the University's total revenues are derived from the Commonwealth's appropriations which amounted to approximately $937.4 million for the year ended June 30, 2015. Moreover, the University has limited ability to raise operating revenues due to the economic and political related challenges of maintaining enrollment and increasing tuition. The University's ability to continue receiving similar operational support and financing from the Commonwealth and the GDB is uncertain.

Appropriations received by the University from the Commonwealth are mainly supported by Act No. 2 of January 20, 1966, as amended ("Act 2"). Under Act 2, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act froze the benefit under the formula-based appropriation of the University at $833.9 million for the three fiscal years ending on June 30, 2015, 2016 and 2017. Also, on July 30, 2015, the Governor signed Executive Order Num. OE-2015-27 establishing a 1.5% budget reserve to be set aside by all component units including the University. In addition, the Commonwealth appropriations include revenues received under the Gambling Law (slot machines and others) from the Puerto Rico Tourism Company, a component unit of the Commonwealth, which amounted to $63.5 million and $64.4 million for the years ended June 30, 2015 and 2014, respectively.

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

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds.

2. Going Concern (continued)

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited the GDB's ability to continue providing liquidity to the Commonwealth and have caused the GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of other component units of the Commonwealth, including the GDB and the University, all of which were lowered multiple notches in the grading levels.

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

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board that has plenary authority over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

2. Going Concern (continued)

Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

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

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. The current level of resources provided to the University could be adversely affected in the future as a result of the severe financial condition of the Commonwealth.

Unless the Commonwealth is able to obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all of its obligations as they come due while at the same time providing essential government services. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the oversight board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

The University had also been highly reliant on GDB, a component unit of the Commonwealth, for liquidity and financial management support. The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

2. Going Concern (continued)

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by GDB to the Commonwealth and its component units constitute a significant portion of GDB's assets. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made by the Commonwealth and its component units, which face significant fiscal and financial challenges. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units, which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances. The GDB's financial condition and liquidity has significantly deteriorated during fiscal years 2015 and 2016 as a result of some of the same factors that have affected the Commonwealth, including lack of market access and the inability of the Commonwealth and its instrumentalities to repay their loans to GDB.

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

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act ("Act No. 21"). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the University. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension in the Governor's discretion. The provisions regarding the moratorium and stay in respect of any obligations owed by the University require executive action of the Governor to become effective.

On April 8, 2016, the Governor of Puerto Rico signed an executive order, EO-2016-010 (EO 10), declaring GDB to be in a state of emergency pursuant to Act No. 21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the EO 10 may result in restrictions on the ability of the University to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the EO 10, which is in effect until June 30, 2016. However, while the EO 10 created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB.

2. Going Concern (continued)

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described below.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to GDB's ability to continue as a going concern. The conditions discussed above create significant uncertainty with regard to the timing and amount of repayment of deposits and other amounts owed to the University by the GDB. Further, the significant financial difficulties being experienced by the GDB is likely to have a significant adverse impact on the University, given its reliance on the GDB for funding and lack of available funding alternatives.

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

Specifically to the University, EO 31 establishes the following: (i) designates any of the University's obligations, pursuant to the Trust Agreement, dated June 1, 1971, as amended, to transfer Pledged Revenues (as such term is defined in the Trust Agreement) to the Trustee as an enumerated obligation (as such term is defined in Section 103 of the Act No. 21); and suspends such obligations of the University to transfer Pledged Revenues to the Trustee, and (ii) designates any obligation of the University pursuant to the Lease Agreement with DUI, dated December 21, 2010, as a covered obligation (as such term is defined in Section 103 of the Act No. 21); and suspends the payment of such obligation of the University. EO 31 does not suspend the payment obligations of the University with respect to any other obligation.

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

2. Going Concern (continued)

Compliance with the Act No. 21's suspension of payments of certain debt service obligations of, and/or transfers of certain revenues by the Commonwealth and several other instrumentalities, including the University, may constitute an event of default under certain of the relevant governing bond documentation. However, pursuant to Section 201 of the Act No. 21, EO 30 and EO 31 provide that no entity or person may take action or commence any proceeding, including the exercise of any remedy (such as acceleration of amounts otherwise due), related to, whether directly or indirectly, the obligations covered by such suspensions of payments and/or transfers under the Act No. 21.

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or any Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds, filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral.

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

In response to any potential delays of appropriations payments by the Commonwealth and the lack of available financing, the University has developed various cash flow scenarios in an attempt to meet payment of key disbursements and has established additional controls over cash management and budget monitoring. The Board of Governors of the University, recognizing both the importance of the current and projected financial difficulties facing Puerto Rico and the University commissioned several internal and external studies to address, among others, the following areas:

2. Going Concern (continued)

- Increase the cost effectiveness of the University's Central Administration;
- Reduce duplication of functions and services;
- Improve measurable financial and educational outcomes;
- Improve working and reporting relationships;
- Better align the goals of the University, work of the Central Administration, and missions of the eleven campuses and affiliated auxiliary organizations;
- Enhance capacity for the Central Administration to provide system-wide strategic leadership;
- Establish a more strategic relationship between the Central Administration and the Board of Governors.

The reports issued by these studies have provided recommendations over comprehensive change in governance; expectations of leaders; the study's structure of the system including the roles of the Central Administration; as well as ideas for further cost reduction and growth opportunities. Management and the Board of Governors are analyzing the recommendations included in the reports in order to determine possible courses of actions.

3. Cash and Cash Equivalents

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

	Unrestricted	Restricted	Total
Cash on hand	$ 110	$ –	$ 110
Due from commercial banks in Puerto Rico	3,873	2,114	5,987
Total cash on hand and due from commercial banks	3,983	2,114	6,097
Cash equivalents:			
Deposit accounts with:			
Government Development Bank for Puerto Rico	57,154	–	57,154
Commercial banks in Puerto Rico	37,369	–	37,369
Money market funds	143	2,395	2,538
Total cash equivalents	94,666	2,395	97,061
Total	$ 98,649	$ 4,509	$ 103,158

3. Cash and Cash Equivalents (continued)

Custodial credit risk related to deposits is the risk that in the event of a financial institution failure, the University's deposits might not be recovered. The University and its discretely presented component units are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico ("Treasury"), and such deposits are maintained in separate bank accounts in the name of the University and its discretely presented component units. Such authorized depositories, except for the Government Development Bank for Puerto Rico ("GDB"), a public corporation of the Commonwealth, collateralize the amount deposited in excess of federal depository insurance ($250,000 at June 30, 2015) 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, 2015, the University and its component units do not have balances in cash accounts with commercial banks outside of Puerto Rico. The deposits at GDB and in money market funds are uninsured and uncollateralized. These deposits are exposed to custodial credit risk. Refer to Note 4.

Restricted cash equivalents of the University's permanent endowment funds amounted to approximately $2,395,000 as of June 30, 2015. Refer to Note 4.

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

Blended Component Unit's Cash and Cash Equivalents

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

Discretely Presented Component Units' Cash and Cash Equivalents

The discretely presented component units' cash and cash equivalents as of June 30, 2015, amounted to approximately $14,852,000, and mainly consisted of cash on hand and cash accounts in Puerto Rico commercial banks. As of June 30, 2015, the discretely presented component units' cash deposited in the banks amounted to approximately $15,240,000.

4. Investments

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

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

Restricted Investments in Sinking Funds

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

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

Restricted Investments in Construction Fund

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

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

4. Investments (continued)

Restricted Investments in Permanent Endowment Funds

Restricted investments held in the University's permanent endowment funds at June 30, 2015 amounted to approximately $99,610,000. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended.

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

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

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

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

Investments designated to fund the University's Healthcare Deferred Compensation Plan, which consisted of external investment pools, amounted to approximately $102,968,000 as of June 30, 2015. At the employee's election, such amounts may be invested in mutual funds, which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. These investments are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors. Participants' rights under the plan are equal to that of general creditors of the University in an amount equal to the fair value of the deferred account for each participant. Refer to Note 17.

The external investment pools of the University's Healthcare Deferred Compensation Plan include the Voya Retirement Insurance and Annuity Company Fixed Account, a nonparticipating guaranteed investment contract, which amounted to approximately $79,995,000 as of June 30, 2015.

4. Investments (continued)

Other Restricted Investments

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

Credit Risk

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

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

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

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and DUI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2015, the custody of these investments is held by the trust departments of commercial banks in the name of the University and DUI and the portfolios are managed by brokerage firms.

Certificates of deposit include deposits at GDB amounting to approximately $9,591,000 as of June 30, 2015. The deposits at GDB are uninsured and uncollateralized. These deposits are exposed to custodial credit risk.

4. Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties. No investment in any one issuer other than the U.S. Government and the Voya Retirement Insurance and Annuity Company Fixed Account (a nonparticipating guaranteed investment contract), represented 5% or more of the total investment portfolio at June 30, 2015.

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

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

Impairment Loss on Deposits with Governmental Bank

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

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

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

4. Investments (continued)

Impairment Loss on Deposits with Governmental Bank (continued)

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described below. The GDB has continued to pay interest on its debt obligations.

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

As a result, an impairment loss on deposits held with GDB was recorded in the University's basic financial statements for the year ended June 30, 2015 as follows (expressed in thousands):

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

In addition, management estimates that an additional impairment loss on deposits held with GDB of approximately $69.8 million will be recorded in the University's financial statements for the year ended June 30, 2016 corresponding to new certificates of deposit opened during the fiscal year ended June 30, 2016 for a total impairment loss on deposits held with the GDB of approximately $91.5 million as of June 30, 2016. The realizable balance of the deposits held with the GDB as of June 30, 2015 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2015 year end.

5. Accounts Receivable

The University's accounts receivable as of June 30, 2015 is as follows (expressed in thousands):

Due from Commonwealth's:		
Agencies	$	28,163
Component units		54,011
Municipalities		3,712
Due from Federal Government		54,057
Due from Servicios Médicos Universitarios, Inc.		24,932
Due from medical plans		110,800
Other		27,393
		303,068
Less allowance for doubtful accounts		(210,978)
Accounts receivable, net	$	92,090

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

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

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

In addition, due from Commonwealth's component units includes an account receivable from the Puerto Rico Tourism Company ("PRTC") which amounted to approximately $5,499,000 at June 30, 2015. This account receivable includes unremitted distributions of income to be received by the University from PRTC under the Gambling Law (slot machines and others) by virtue of Act No. 36 of 2005 which are payable upon demand. Due from PRTC at June 30, 2015 was collected in July 2015. PRTC appropriations (nonoperating revenues) for the year ended June 30, 2015 amounted to approximately $63,528,000 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 contracted medical services provided by the faculty members of the Medical Science Campus of the University to the Hospital.

5. Accounts Receivable (continued)

Component Units

The Component Units' accounts receivable as of June 30, 2015 is as follows (expressed in thousands):

The Hospital:		
Patient accounts	$	41,380
Others		1,029
UPRPS- others		203
MCC- others		398
		43,010
Less allowance for doubtful accounts:		
The Hospital		(33,143)
MCC		(11)
		(33,154)
Accounts receivable, net	$	9,856

6. Related-Party Transactions

Due from Commonwealth of Puerto Rico

As of June 30, 2015, the University has a due from Commonwealth of Puerto Rico (the Commonwealth) of approximately $20,000,000, related to part of the Commonwealth formula appropriations for June 2015 that were collected in July 2015.

Appropriations from Commonwealth of Puerto Rico

Appropriations from the Commonwealth are the principal source of revenues of the University and are mainly supported by Act No. 2 of January 20, 1966, as amended. Under the Act, the Commonwealth appropriates for the University an amount equal to 9.60% of the average total amount of annual general fund revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year (the Commonwealth formula appropriations). The Commonwealth formula appropriations amounted to approximately $833,929,000 for the year ended June 30, 2015. 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.

6. Related-Party Transactions

Appropriations from Commonwealth of Puerto Rico (continued)

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a temporary fiscal emergency law designed to address the fiscal condition of the Commonwealth. Among other things, the Fiscal Sustainability Act freezes the benefit under the formula-based appropriation of the University to the amount appropriated for fiscal year ended June 30, 2014. The Fiscal Sustainability Act will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met.

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

Due from the University of Puerto Rico Retirement System

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

Other Related-Party Transactions

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

Due to:		
Commonwealth's component units	$	18,661
Servicios Médicos Universitarios, Inc.		9,788
University's Retirement System		8,862
Total	$	28,449

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

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

Due to the University's Retirement System mainly resulted for an unpaid additional contribution to the Retirement System approved by the Governing Board of the University for the year ended June 30, 2015.

6. Related-Party Transactions (continued)

Other Related-Party Transactions (continued)

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

For additional related-party transactions see Notes 3, 4, 5, 7, 9, 10, 11, 12, and 13.

7. Interfund Balances and Transactions

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

Capital Lease Agreement

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

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

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

7. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

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

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

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

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or the Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

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

7. Interfund Balances and Transactions (continued)

Capital Lease Agreement (continued)

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

Year Ending June 30,	Amount
2016	$ 5,702
2017	5,702
2018	5,699
2019	5,699
2020	5,701
2021-2025	28,497
2026-2030	28,498
2031-2033 [1]	11,401
Total future minimum lease payments	96,899
Less amounts representing interest costs	(37,066)
Present value of minimum lease payments	$ 59,833

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

Other Transactions

In addition, the University and DUI have entered into other internal balance transactions related to DUI operations of Plaza Universitaria facilities. Net amount due under the operations and management agreement amounted to approximately $1,656,000 as of June 30, 2015.

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

Fixed management fee	$ 900
Reimbursable expenditures fee	2,360
Total	$ 3,260

Refer to Note 12, “Commitments and Contingent Liabilities” Section “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.

8. Capital Assets

Changes in the primary government's capital assets for the year ended June 30, 2015 is as follows (expressed in thousands):

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

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

Capitalized interest on construction in progress amounted to approximately $1,895,000 for the year ended June 30, 2015.

8. Capital Assets (continued)

Component Units

Changes in the Component Units' capital assets for the year ended June 30, 2015 is as follows (expressed in thousands):

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

9. Noncurrent Liabilities

Changes in the primary government's noncurrent liabilities for the year ended June 30, 2015 is as follows (expressed in thousands):

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

The beginning balance of other long-term liabilities was increased by approximately $2.2 billion to recognize the net pension benefit liability as a result of the adoption of GASB Statement No. 68.

9. Noncurrent Liabilities (continued)

Notes payable and bonds payable are further discussed in Notes 10 and 11, respectively. Claim liability, net pension liability and OPEB obligation are further discussed in Notes 12, 13, and 14, respectively.

10. 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, 2015). The balance outstanding of this term loan amounted to approximately $54,526,000 at June 30, 2015. Refer to Note 17.

In addition, the University had 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, 2015). The balance outstanding of this line of credit amounted to approximately $27,901,000 at June 30, 2015. The unused balance of this line of credit amounted to $47.1 million at June 30, 2015. This line of credit expired on January 31, 2016. Refer to Note 17.

In January 2012, the University entered into two term loan agreements with a commercial bank for a total amount of $2.4 million for the acquisition of medical equipment for use by the Medical Sciences Campus. These term loans are payable in 60 monthly payments as follows: three interest only payments and 57 principal and interest payments amounting to approximately $47,000. These term loans are collateralized with the acquired medical equipment, mature on February 1, 2017 and bear interest per annum equal to 4%. The balance outstanding of these terms loan amounted to approximately $909,000 at June 30, 2015.

10. Notes Payable (continued)

The table that follows represents debt service payments on notes payable as of June 30, 2015. Although interest rates on variable rate debts change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2015 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
	(In thousands)		
2016	$ 35,871	$ 4,151	$ 40,022
2017	7,810	2,627	10,437
2018	7,435	2,175	9,610
2019	7,435	1,729	9,164
2020	7,435	1,282	8,717
2021-2023	17,350	1,258	18,608
	$ 83,336	$ 13,222	$ 96,558

Notes Payable – Component Unit

Servicios Médicos Universitarios, Inc. (the "Hospital") has notes payable amounting to approximately $14,706,000 as of June 30, 2015. A summary of the Hospital's notes payable at June 30, 2015 follows (expressed in thousands):

Term loan payable with GDB (see note 2)	$ 13,651
Non-interest bearing note payable to Puerto Rico Aqueduct and Sewer Authority	645
Term loan payable with a commercial bank	410
	14,706
Less: current portion	1,710
Noncurrent portion	$ 12,996

The Hospital operates and administers the healthcare unit located in Carolina. This facility was acquired by the University and includes land, building and medical equipment. During 2009, the Hospital restructured its line of credit facility with GDB and accrued interest in the aggregated amount of approximately $23,361,000 into a term loan and extended the maturity date to June 30, 2025. As part of the term loan agreement, the Hospital made a down payment of $2,700,000. The term loan is payable in 192 monthly installments of principal and interest of approximately $172,000 and bears interest per annum equal to prime rate plus 150 basis points (4.75 % at June 30, 2015). 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 approximately $1,053,000 that were restructured into an unsecured long-term debt in fiscal year 2013. This note is payable in 70 monthly installments of approximately $15,000. The note matures on December 15, 2018.

10. Notes Payable (continued)

Notes Payable – Component Unit (continued)

In June 2015, the Hospital entered into a term loan agreement with a commercial bank for a total amount of $410,000 for the acquisition of medical equipment. The term loan is payable in 60 monthly payments of approximately $7,900. The term loan is collateralized with the acquired medical equipment, mature on June 4, 2020 and bears interest per annum equal to 5.95%. The balance outstanding of this term loan amounted to $410,000 at June 30, 2015.

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

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

Beginning Balance	$	15,836
Additions		410
Reductions		(1,540)
Ending Balance	$	14,706

The table that follows represents debt service payments on long-term debt as of June 30, 2015. 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, 2015 will remain the same for their term.

Fiscal Year Ending June 30	Principal	Interest	Total
		(In thousands)	
2016	$ 1,710	$ 640	$ 2,350
2017	1,769	566	2,335
2018	1,847	487	2,334
2019	1,840	405	2,245
2020	1,836	319	2,155
2021-2025	5,704	424	6,128
	$ 14,706	$ 2,841	$ 17,547

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

11. Bonds Payable

University's Bonds

The University has issued revenue bonds designated as "University System Revenue Bonds", the proceeds of which have been used mainly to finance new activities 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, 2015 (dollars expressed in thousands):

Series	Principal	Annual Interest Rate (%)	Due Date
P - Serial	$ 184,255	5.00%	2016-2026
P - Term	47,645	5.00%	2027-2030
Q - Serial	87,445	5.00%	2016-2026
Q - Term	132,415	5.00%	2027-2036
	451,760		
Plus unamortized premium	19,851		
Total	$ 471,611		

At June 30, 2015, the University's bonds payable require payments of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2016	$ 19,970	$ 22,588	$ 42,558
2017	20,965	21,589	42,554
2018	22,010	20,541	42,551
2019	23,115	19,441	42,556
2020	24,270	18,285	42,555
2021 to 2025	140,815	71,963	212,778
2026 to 2030	113,575	39,349	152,924
2031 to 2035	70,710	15,034	85,744
2036	16,330	817	17,147
	$ 451,760	$ 229,607	$ 681,367

11. Bonds Payable (continued)

University's Bonds (continued)

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.

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, 2015, consist of (dollars expressed in thousands):

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

11. Bonds Payable (continued)

Blended Component Unit's Bonds (continued)

At June 30, 2015, the blended component unit's AFICA bonds payable require payment of principal and interest as follows (expressed in thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2016	$ 2,190	$ 3,449	$ 5,639
2017	2,315	3,322	5,637
2018	2,445	3,188	5,633
2019	2,580	3,047	5,627
2020	2,725	2,898	5,623
2021 to 2025	15,905	12,194	28,099
2026 to 2030	20,300	7,690	27,990
2031 to 2034	20,215	2,083	22,298
	$ 68,675	$ 37,871	$ 106,546

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

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

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

11. Bonds Payable (continued)

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 year ended June 30, 2015 (dollars expressed in thousands):

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

The Trust Agreements governing the bonds issued require a ratio of total pledged revenues plus interest earned on reserve account to principal and interest requirements for the University's bonds of at least 1.5 to 1 (total debt service coverage ratio). At June 30, 2015, the University was in compliance with the total debt service coverage ratio requirement.

11. Bonds Payable (continued)

Pledged Revenues (continued)

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, 2015.

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, 2015.

For the suspension of the monthly payments to the trustee of the University's bonds and to DUI under the capital lease agreement (which are paid directly to the trustee of the DUI's AFICA bonds) in July 2016, refer to Note 2.

11. Bonds Payable (continued)

Pledged Revenues (continued)

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking any indebtedness from, enforce any judgment, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or the Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

12. Commitments and Contingent Liabilities

Claims Liability

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

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

Changes in the claims liability amount for medical malpractice in the year ended June 30, 2015 was (expressed in thousands):

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

In addition, the University is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of approximately $10,511,000 as of June 30, 2015, to cover claims and lawsuits that may be assessed against the University. The University continues to carry commercial insurance for these risks of loss.

12. Commitments and Contingent Liabilities (continued)

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.

Construction Commitments

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

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 April 2021. This lease contains escalation clauses providing for increased rental. Rent charged to operations in fiscal year 2015 amounted to approximately $1,842,000. At June 30, 2015, the minimum annual future rentals, without considering renewal options, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2016	$ 1,438
2017	1,458
2018	1,347
2019	1,031
2020	115
Thereafter	87
	$ 5,476

Servicios Médicos Universitarios, Inc. (the "Hospital") is obligated under the terms and conditions of various non-cancelable long-term operating lease agreements for equipment which expire in fiscal year 2017. Aggregate rent expense was approximately $99,000 for the year ended June 30, 2015. At June 30, 2015, the minimum annual future rentals, without considering renewal options, is approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2016	$ 34
2017	27
	$ 61

12. Commitments and Contingent Liabilities (continued)

Operating Lease Agreements (continued)

In addition, the Hospital leases to physicians and other third parties office facilities located in the Hospital's premises under rent agreements, some of which are renewed annually. Rent income for the year ended June 30, 2015 amounted to approximately $322,000 At June 30, 2015, total future minimum rental income on operating leases, are approximately as follows (expressed in thousands):

Fiscal Year Ending June 30	Amount
2016	$ 280
2017	280
2018	280
2019	281
	$ 1,121

Guaranty Commitment

The University guarantees the Hospital's long-term debt (a term loan and a line of credit) with the Government Development Bank for Puerto Rico amounting to approximately $13,651,000 at June 30, 2015, which matures on June 30, 2025. See Note 10.

Blended Component Unit

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

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

12. Commitments and Contingent Liabilities (continued)

Blended Component Unit (continued)

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.

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 year ended June 30, 2015 and has recorded an accrual of approximately $1,286,000 as of June 30, 2015, to cover claims and lawsuits that may be assessed against the Hospital.

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

13. University of Puerto Rico Retirement System

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

13. University of Puerto Rico Retirement System (continued)

As of June 30, 2014, membership in the Retirement System consisted of the following:

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

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

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

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

Retirement Benefits

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

The amount of service retirement annuity is as follows:

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

- Before age 65 – for participants with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If the member completed 30 years of service before July 1973, the annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to no more than 85% of average compensation.
- Before age 65 – for participants with less than 30 years of service: 1.5% of average compensation per year of service for participants with 20 or fewer years. Percentage increases by .05% for each year in excess of 20 years up to maximum of 1.95% per year. Amount is reduced by .5% for each month the participant is under age 58 at the time the annuity begins.

13. University of Puerto Rico Retirement System (continued)

- After age 65 – same as before age 65.
- Average compensation – the average of the highest-paid 36 months of service without limit on compensation.
- Minimum annuity – $250 per month.

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

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

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

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

13. University of Puerto Rico Retirement System (continued)

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

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

Disability Benefits

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

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

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

Death Benefits

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

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

13. University of Puerto Rico Retirement System (continued)

Christmas Bonus

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

Vested Benefits

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

Non-vested Termination Benefits

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

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

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

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

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

13. University of Puerto Rico Retirement System (continued)

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

   - Only full supplement election: 8% of the monthly compensation up to $2,916.67.
   - If Certification No. 94 (1997-98) of the Governing Board election: 9% of the monthly compensation up to $4,166.67.
   - If Certification No. 139 (2001-2002) of the Governing Board election: 11% of monthly compensation up to the monthly compensation cap. Effective July 1, 2014, the monthly compensation cap was frozen at $5,796.42.

The Governing Board of the University establishes contribution rates to the Retirement System based on an actuarially determined rate recommended by an independent actuary at the beginning of the fiscal year. The actuarially determined rate is the estimated amount to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The University is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2015, the average active employee contribution rate was 7.7% of annual pay, and the University's average contribution rate was 15.2% of annual payroll. The actuarially determined employer contribution rate takes into account payment of administrative expenses. Therefore, administrative expenses are paid out of the trust fund. The University contributed 17.8% of covered-employee payroll in 2015. The University's contributions to the Retirement System amounted to approximately $88,251,000 for the year ended June 30, 2015.

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

Employer's Net Pension Liability- The University's net pension liability as of June 30, 2015 was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2013 that was updated to roll forward the total pension liability to June 30, 2014 and assuming no liability gains and losses. The components of the employer's net pension liability as of June 30, 2015 were as follows (dollars in thousands):

Total pension liability	$	3,428,068
Plan's fiduciary net position		1,324,028
Employer's net pension liability	$	2,104,040
Plan's fiduciary net position as a percentage of the total pension liability		38.62%

13. University of Puerto Rico Retirement System (continued)

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at beginning of year	$ 3,398,136	$ 1,161,573	$ 2,236,563
Changes for the year:			
Service cost	49,499	–	49,499
Interest	173,630	–	173,630
Changes in assumptions or other inputs	(24,034)	–	(24,034)
Contributions - employer		91,689	(91,689)
Contributions - members		37,900	(37,900)
Net investment income		206,595	(206,595)
Benefit payments	(169,163)	(169,163)	–
Administrative expenses		(4,566)	4,566
Net changes	29,932	162,455	(132,523)
Balance at end of year	$ 3,428,068	$ 1,324,028	$ 2,104,040

For the year ended June 30, 2015, the University recognized pension expense of approximately $66,304,000.

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

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 88,251	$ –
Changes in assumptions or other inputs	–	14,790
Net difference between projected and actual earnings on plan investments	–	92,348
Total	$ 88,251	$ 107,138

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

13. University of Puerto Rico Retirement System (continued)

Amounts reported as deferred inflows of resources from pension activities will be recognized in the pension expense as follows (in thousands):

Year Ending June 30:		
2016	$	(32,331)
2017		(28,633)
2018		(23,087)
2019		(23,087)
Total	$	(107,138)

(a) *Actuarial Methods and Assumptions*

The actuarial cost method used to measure the total pension liability was the individual entry age normal cost method. The actuarial valuation used the following actuarial assumptions:

Asset valuation method	Market value of assets
Inflation	3.50%
Investment rate of return	8.00%, compounded annually, net of investment expenses, including inflation
Municipal bond index	4.35%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Discount rate	5.31%
Projected salary increases	5.00% per year
Mortality	Pre-retirement Mortality: RP-2000 Annuitant Mortality Table, projected for future mortality improvements to 2026 using Scale AA Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Table, projected for future mortality improvements to 2018 using Scale AA Post-retirement Disabled Mortality: 100% of disabled life mortality rates from Social Security Actuarial Study No. 75

There was no change in the actuarial assumptions nor change in the benefit terms that affected the measurement of the total pension liability since the prior measurement date.

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

The long-term expected rate of return on pension plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

13. University of Puerto Rico Retirement System (continued)

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

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

(c) *Date of Depletion and Discount Rate*

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

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

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2027. Therefore, the long-term expected rate of return on pension plan investments of 8% was applied to all periods of projected benefit payments through June 30, 2027 and the applicable municipal bond index rate of 4.35%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2014, was applied to all periods of projected benefit payments after June 30, 2027. The SEIR of 5.31% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability as of June 30, 2014.

The SEIR at the beginning of the measurement period was 5.24% based on the long-term expected rate of return on pension plan investments of 8% applied to all periods of projected benefit payments through June 30, 2027 and the applicable municipal bond index rate of 4.27% as of June 30, 2013 applied to all periods of projected benefit payments after June 30, 2027.

13. University of Puerto Rico Retirement System (continued)

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

The following presents the net pension liability calculated using the discount rate of 5.31%, as well as what it would be if it were calculated using a discount rate of 1 percent-point lower (4.31%) or 1 percent-point higher (6.31%) than the current rate (dollars in thousands):

	1% decrease (4.31%)	Current discount rate (5.31%)	1% increase (6.31%)
Net pension liability – June 30, 2015	$ 2,476,399	$ 2,104,040	$ 1,789,677

(e) *Net Pension Liability for Fiscal Year 2016*

As of June 30, 2016, the net pension liability measured as of June 30, 2015 amounted to $1,796,727,000, a decrease of approximately $307.3 million or 14.6% when compared with the net pension liability recorded as of June 30, 2015 that is measured as of June 30, 2014. The total pension liability used to calculate the net pension liability as of June 30, 2016 was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2014 that was updated to roll forward the total pension liability to June 30, 2015 and assuming no liability gains and losses. The decrease mainly resulted from an increase in the discount rate used to measure the total pension liability for fiscal year 2016 to 6.37 percent. The projection of cash flows used to determine the discount rate for fiscal year 2016 assumed that plan member contributions will be made at the current contribution rate and that the Plan contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Effective July 1, 2015, the contribution rates reflect amortization of the Retirement System's unfunded actuarial accrued liability over a closed 40 – year period from that date as establishing by Certification No. 146 (2014-2015) of the Governing Board issued on June 4, 2015. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the plan year ending June 30, 2044. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments through June 30, 2044 and the applicable municipal bond index rate of 3.82%, based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of June 30, 2015, was applied to all periods of projected benefit payments after June 30, 2044. The SEIR of 6.37% that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability for the fiscal year 2016.

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

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

The University provides the following OPEB:

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

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

Retirees and beneficiaries currently receiving benefits	8,081
Current participating employees	11,763
Total membership	19,844

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

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

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

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

ARC	$ 12,002
Interest on the net OPEB obligation	195
Adjustments to ARC	(192)
Annual OPEB cost	12,005
Employer contribution	(9,933)
Change in the net OPEB obligation	2,072
Net OPEB obligation- beginning of year	5,561
Net OPEB obligation- end of year	$ 7,633
Percentage of annual OPEB cost contributed	82.74%

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

The following table shows the University's funded status of the OPEB Program as of July 1, 2014, the most recent actuarial valuation date (dollars expressed in thousands):

Actuarial Accrued liability (AAL)	$ 241,317
Unfunded AAL	$ 241,317
Funded ratio	0%

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 12,005	82.7%	$ 7,633
6/30/2014	$ 10,699	77.8%	$ 5,561
6/30/2013	$ 10,142	94.0%	$ 3,187

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

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

Significant Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2014
Actual Cost Method	Projected Unit Credit
Amortization Method	Level Dollar amortization over 30 Years
Percentage Electing to Receive:	
Medical Subsidy	85% (applied to current and future retirees)
Tuition Remission	0.7%
Tuition Remission	$538 per retiree in fiscal 2015 increasing 4.0% per year
Mortality for Healthly Participants	RP-2014 Employee and Healthy Annuitant base mortality tables for males and females without collar or amount adjustments, as published in the final RP-2014 report, adjusted to the 2006 base year by factoring out the projection under Scale MP-2014, as described in Section 8.3 of the Society of Actuaries' Retirement Plans Experience Committee ("RPEC") Response to Comments on RP-2014 Mortality Tables Exposure Draft, with generational mortality improvements using Scale MP-2015.
Mortality for Disabled Participants	RP-2014 Employee and Disabled Annuitant base mortality tables for males and females without collar or amount adjustments, as published in the final RP-2014 report, adjusted to the 2006 base year by factoring out the projection under Scale MP-2014, as described in Section 8.3 of the Society of Actuaries' Retirement Plans Experience Committee ("RPEC") Response to Comments on RP-2014 Mortality Tables Exposure Draft, with generational mortality improvements using Scale MP-2015 .
Payroll Growth	3.5%
Discount Rate	3.5%

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

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

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

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.

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

In prior years (up to June 30, 2009 and in 2014), the Hospital had experienced significant operating losses having an accumulated net position deficiency of approximately $11,026,000 as of June 30, 2015. Most of these accumulated losses are mainly related to the fact that, as a former public hospital operated by the Puerto Rico Department of Health, it provides a significant amount of services to indigent population for which the Hospital does not obtain a payment. Most of these patients are indigent persons not subscribed to the Health Reform Program, homeless and resident aliens without medical insurance coverage, among others. The medical services provided to these patients were supposed to be paid to the Hospital by the Puerto Rico Department of Health. However, since the beginning of the operations, the Puerto Rico Department of Health has been unable to pay for such services. As shown in the accompanying financial statements, the Hospital has provided allowances for uncollectible accounts receivable in the approximated amount of approximately $33,143,000 as of June 30, 2015.

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

The Hospital's management believes that all these factors had a material impact in the Hospital's results of operations during its years of operations and, consequently, has resulted in the accumulated deficit at June 30, 2015.

Some of these measures had an impact in the Hospital's operations and as a result, the Hospital reported operating income for the years ended June 30, 2010 to June 30, 2013 and for the year ended June 30, 2015.

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

The Hospital's management, with the assistance of its Board of Directors, is working with a management plan toward its operational activities as well as the Hospital's ability to generate sufficient cash flows to cover its current obligations and to improve the Hospital's public image and its physical facilities. For the year ended June 30, 2015, the Hospital reported an increase in its net position of approximately $5,623,000.

16. Functional Information

The primary government's operating expenses by functional classification during the year ended June 30, 2015 was as follows (expressed in thousands):

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

17. Subsequent Events

Subsequent events were evaluated through September 7, 2016, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2015 financial statements.

On September 11, 2015, S&P downgraded the University's revenue bonds and the DUI's AFICA bonds from CCC- to CC. The rating action followed the downgrade on September 10, 2015 by S&P of the Commonwealth of Puerto Rico (the Commonwealth) and certain public corporations (including GDB)'s bonds given the University's significant dependence on the Commonwealth. The outlook is negative.

On May 11, 2016, the plan participants of the University's Healthcare Deferred Compensation Plan of the Medical Sciences Campus recommended, by majority of more than fifty percent (96.9%) to terminate the University's Healthcare Deferred Compensation Plan. Its Board of Directors ratified such recommendation.

On June 30, 2016, the Governing Board of the University ratified the termination of Voya Institutional Trust Company as Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. The members of the Governing Board of the University were designated as the Successor Trustees of the Trust of the University's Healthcare Deferred Compensation Plan. In addition, the Governing Board of the University approved the dissolution of the University's Healthcare Deferred Compensation Plan and the distribution of the deferred funds to its participants. Voya has not transferred the plan assets to the University waiting for the resolution of this complaint by the U.S. District Court for the Puerto Rico District.

17. Subsequent Events (continued)

On August 22, 2016, Voya filed a complaint in the U.S. District Court for the District of Puerto Rico against the Governor of the Commonwealth, the University and its President. The complaint seeks relief from the Court relating to its administration of the Trust in light of the financial crisis in Puerto Rico and its effect on the University. Specifically, this complaint for declaratory relief seeks federal judicial review as expressly provided for by PROMESA of the issues arising under PROMESA, the Trust Agreements, and other relevant law, in light of the University's financial condition and its efforts to distribute all Plan assets. Voya has not yet transferred the plan assets to the University waiting for the resolution of this complaint by the U.S District Court for the Puerto Rico District.

On June 30, 2016, the Governing Board of the University reestablished the annual increase per incoming class (approximately 2% increase) in the tuition cost per credit for academic year 2016-2017.

On July 26, 2016, the Governor of Puerto Rico approved the House of Representatives Project No. 2962, authorizing the GDB to consolidate and restructure its loans granted to Commonwealth entities, including the University and SMU and certain municipalities, of approximately $4.4 billion (including principal and interest) that are payable from Commonwealth appropriations into a new loan with a principal reduction of about 40%. The University and the SMU loans (including principal and interest) included in the project amounted to approximately $80.2 million and 13.0 million, respectively. The project transfers the responsibility of the repayment of the new loan to the General Fund of the Commonwealth. This new loan will be payable over a 35-year period at an interest rate of 5%. If this restructuring is realized, it will represent the liquidation of the University and SMU lines of credit with the GDB with a contribution of the Commonwealth (approximately 60% of the debt with the GDB) and a forgiveness of debt (approximately 40% of the debt with the GDB).

Refer to the following notes for additional information of the following subsequent events:

1. Note 2:

    - On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.
    - On June 30, 2016, the Governor of the Commonwealth signed EO 31, declaring the University in a state of emergency pursuant to Act No. 21. In compliance with EO 31, the University suspended the monthly payments to the trustee of the Trust Agreement that govern the University System Revenue Bonds and the monthly payments of the Lease Agreement with DUI in July 2016.

2. Note 3 for management's estimate of the additional impairment loss on deposits with GDB of approximately $69.8 million that will be recorded in the University's financial statements for the year ended June 30, 2016 corresponding to new certificates of deposit opened during the fiscal year ended June 30, 2016.

17. Subsequent Events (continued)

3. Note 13 for the Deed of Confirmation and Acknowledgment of Trust of the University Retirement System filed by the University in July 2016 and the net pension liability for fiscal year 2016.

On August 5, 2016, the trustee of the DUI's AFICA Bonds notified to the University that it failed to make the basic lease payment to the trustee on July 25, 2016 and that a default under the lease agreement with DUI constitutes an event of default under the DUI's AFICA Bonds Trust Agreement. As such, the University is in default of this obligation. The trustee is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including DUI and the University, or exercise any act that is stayed by PROMESA, the Act No. 21, or any Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising at this time any rights or remedies against the Commonwealth or any of its instrumentalities, including DUI and the University.

On August 19, 2016, the U.S. Bank Trust National Association, in its capacity as Trustee for the University of Puerto Rico System Revenue Bonds, filed a civil lawsuit under the United States Court, District of Puerto Rico against the Commonwealth and its Governor, the University and its President. The motion seeks relief from the stay of the PROMESA, or Executive Orders related thereto, and a preliminary injunction against the Commonwealth's diversion and expropriation of pledged revenues, which constitute the University's Bonds' collateral.

Required Supplementary Information

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

Total Pension Liability:		
Service cost	$	49,499
Interest		173,630
Changes in benefit terms		–
Differences between expected and actual experience		–
Changes in assumptions		(24,034)
Benefit payments, including refunds of member contributions		(169,163)
Net change in total pension liability		29,932
Total pension liability, beginning		3,398,136
Total pension liability, ending (a)	$	3,428,068
Fiduciary Net Position:		
Contributions - employer	$	91,689
Contributions - member		37,900
Net investment income		206,595
Benefit payments		(169,163)
Administrative expenses		(4,566)
Net change in plan net position		162,455
Fiduciary net position, beginning		1,161,573
Fiduciary net position, ending (b)	$	1,324,028
Employer's Net Pension Liability - Ending (a) - (b)	$	2,104,040
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		38.62%
Covered-Employee Payroll	$	491,291
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll		428.27%

Note: The University's net pension liability as of June 30, 2015 was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2013 that was updated to roll forward the total pension liability to June 30, 2014 and assuming no liability gains and losses.

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

See notes to required supplementary information

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

Fiscal Year Ended June 30	Actuarial Determined Contribution (ADC)	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (1)
2014	$ 78,204	$ 91,689	$ (13,485)	$ 515,856	17.77%
2013	77,772	78,481	(709)	491,291	15.97%
2012	72,186	75,140	(2,954)	491,063	15.30%
2011	68,487	70,761	(2,274)	526,820	13.43%
2010	63,722	71,177	(7,455)	558,961	12.73%
2009	64,072	72,605	(8,533)	577,227	12.58%
2008	59,246	81,553	(22,307)	543,538	15.00%
2007	57,524	78,311	(20,787)	518,237	15.11%
2006	55,400	73,658	(18,258)	490,263	15.02%
2005	84,672	69,291	15,381	460,174	15.06%

(1) ADC Rate for each fiscal year comes from actuarial valuation at start of that fiscal year (e.g., the June 30, 2014, Required Contribution was established in the June 30, 2013 actuarial valuation).

See notes to required supplementary information and independent auditors'report.

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

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

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

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

The actuarially determined contributions were developed using a One-Year Lag methodology, under which the actuarial valuation determines the employer contribution for the second following year (e.g. Fiscal Year 2015 contributions were determined using an actuarial valuation as of June 30, 2013). The methods and assumptions used to determine the actuarially determined contribution are as follows:

University of Puerto Rico

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

	2015	2014	2013	2012	2011
Valuation date	June 30, 2013 (Lag)	June 30, 2012 (Lag)	June 30, 2011 (Lag)	June 30, 2010 (Lag)	June 30, 2009 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	3.50%	3.50%	3.50%	3.50%	3.50%
Investment rate of return	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation
Municipal bond index	4.35%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index	Not applicable	Not applicable	Not applicable	Not applicable
Discount rate	5.31%	8.00%	8.00%	8.00%	8.00%
Projected salary increases	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction
Mortality:					
Pre-retirement Mortality	RP-2000 Annuitant Mortality Table with projection	RP-2000 Annuitant Mortality Table with projection	RP-2000 Annuitant Mortality Table with projection	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	RP-2000 Healthy Annuitant Mortality Table with projection	RP-2000 Healthy Annuitant Mortality Table with projection	RP-2000 Healthy Annuitant Mortality Table with projection	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Disabled Mortality	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

University of Puerto Rico

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

	2010	2009	2008	2007	2006
Valuation date	June 30, 2008 (Lag)	June 30, 2007 (Lag)	June 30, 2006 (Lag)	June 30, 2005 (Lag)	June 30, 2004 (Lag)
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level dollar amount	Level dollar amount
Remaining amortization period	30 years- constant (open basis)	30 years- constant (open basis)	30 years- constant (open basis)	30 years - (closed basis)	31 years - (closed basis)
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation	3.50%	3.50%	3.50%	3.50%	3.50%
Investment rate of return	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation	8.00%, compunded annually, net of investment expenses and including inflation
Municipal bond index	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Discount rate	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction	5.00% per year, including inflaction
Mortality:					
Pre-retirement Mortality	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Healthy Mortality	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table	1994 Group Annuity Mortality Table
Post-retirement Disabled Mortality	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75	100% of disabled life mortality rates from Social Security Actuarial Study No. 75

University of Puerto Rico
Schedule of Funding Progress -
Postemployment Benefits other than Pensions Program
(Dollars in thousands) (Unaudited)

Postemployment Benefits Other Than Pensions Program

Actuarial Valuation Date	Actual value of Assets (a)	Actual Liability (AAL) (b)	UAAL (b - a)	Funded Ratio (a / b)
7/1/2014	$ –	$ 241,317	$ (241,317)	0%
7/1/2013	$ –	$ 209,184	$ (209,184)	0%
7/1/2011	$ –	$ 197,324	$ (197,324)	0%
7/1/2009	$ –	$ 189,417	$ (189,417)	0%
7/1/2007	$ –	$ 184,233	$ (184,233)	0%

Other Financial Information

University of Puerto Rico
Schedule of Changes in the University's Sinking Fund Reserve
Year Ended June 30, 2015
(Dollars in thousands) (Unaudited)

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

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

Cash	$ 1
Investments	54,709
Accrued interest receivable	12
Total	$54,722

Report on Internal Control and on Compliance

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

Governing Board
University of Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the "University") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated September 7, 2016. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a material weakness.

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Compliance and Other Matters

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

The University's Response to the Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Ernst & Young LLP

September 7, 2016

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original of
this report.

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