



AUDITED FINANCIAL STATEMENTS AND  
SINGLE AUDIT OF FEDERAL FINANCIAL  
ASSISTANCE PROGRAMS

University of Puerto Rico  
Year Ended June 30, 2008  
With Report of Independent Auditors

University of Puerto Rico  
 Audited Financial Statements and Single Audit  
 of Federal Financial Assistance Programs

Year Ended June 30, 2008

**Contents**

Report of Independent Auditors .....	1
Management’s Discussion and Analysis.....	3
Audited Financial Statements	
Statements of Net Assets.....	13
Statements of Revenues, Expenses and Changes in Net Assets.....	15
Statements of Cash Flows .....	16
Balance Sheets – Discretely Presented Component Unit (Servicios Médicos Universitarios, Inc.) .....	18
Statements of Operations and Deficiency in Unrestricted Net Assets-Discretely Presented Component Unit (Servicios Médicos Universitarios, Inc.) .....	19
Statements of Cash Flows - Discretely Presented Component Unit (Servicios Médicos Universitarios, Inc.) .....	20
Statements of Financial Position - Discretely Presented Component Unit (Desarrollos Universitarios, Inc.) .....	21
Statements of Activities and Changes in Net Assets (Deficiency in Net Assets) - Discretely Presented Component Unit (Desarrollos Universitarios, Inc.).....	22
Statements of Cash Flows - Discretely Presented Component Unit (Desarrollos Universitarios, Inc.) .....	23
Notes to Financial Statements .....	24
Required Supplementary Information	
Supplementary Schedule of Funding Progress (Unaudited) .....	56
Other Financial Information	
Schedules of Changes in Sinking Fund Reserve (Unaudited).....	57
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with <i>Government Auditing Standards</i> .....	58
Supplementary Reports on Federal Financial Assistance Programs	
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	60
Schedule of Expenditure of Federal Awards.....	63
Notes to Schedule of Expenditure of Federal Awards.....	69
Summary of Schedule of Prior Audits Findings.....	72
Schedule of Findings and Questioned Costs .....	76



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## Report of Independent Auditors

Board of Trustees  
University of Puerto Rico

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the University), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the University's financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital) and Desarrollos Universitarios, Inc. (the Company), which represent 100% of the aggregate discretely presented component units, as of and for the years ended June 30, 2008 and 2007 and March 31, 2008 and 2007, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us. The Hospital's report included an explanatory paragraph stating that it has experienced recurring losses since it commenced operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Our opinion, insofar as it relates to amounts included for the Hospital and the Company, is solely based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Puerto Rico and the aggregate discretely presented component units of the University of Puerto Rico as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows thereon for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 13 to the financial statements, the Hospital has experienced recurring losses since it commenced operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern.



In accordance with *Government Auditing Standards*, we have also issued our report, dated June 9, 2009, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and the Schedule of Funding Progress of the University of Puerto Rico Retirement System, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University of Puerto Rico financial statements. The schedule of changes in sinking fund reserves included in page 57 is presented for purposes of additional analysis and is not a required part of the financial statements. Such schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ernst & Young LLP*

June 9, 2009

Stamp No. 2410348  
affixed to  
original of  
this report.

**University of Puerto Rico  
Management's Discussion and Analysis  
June 30, 2008 and 2007**

**Introduction**

The following discussion presents an overview of the financial position and financial activities of the University of Puerto Rico (the University) for the years ended June 30, 2008 and 2007. This discussion and analysis was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

**Financial Highlights**

The financial position of the University remains strong at June 30, 2008, with total assets of \$1,495,128,612, total liabilities of \$1,069,106,547 and net assets of \$426,022,065. The University's net assets decreased (\$697,806) during the year ended June 30, 2008, when compared to the year ended June 30, 2007. These changes are explained in the section entitled "Analysis of Financial Position and Changes in Financial Position." An overview of the statements is presented below along with a financial analysis of the transactions impacting the statements.

Condensed financial statements for the University as of and for the years ended June 30, 2008, 2007 and 2006 follow:

<b>Condensed Statements of Net Assets</b>			
	<b>June 30</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Current assets	\$ 292,427,106	\$ 344,095,972	\$ 341,443,766
Noncurrent assets:			
Due from Commonwealth of Puerto Rico	96,770,389	84,232,509	56,000,001
Capital assets	834,398,195	796,685,602	659,326,528
Other assets	271,532,922	258,215,364	81,705,901
Total assets	<u>1,495,128,612</u>	<u>1,483,229,447</u>	<u>1,138,476,196</u>
<b>Liabilities</b>			
Current liabilities	144,435,900	133,037,509	199,479,385
Noncurrent liabilities	924,670,647	923,472,066	552,867,652
Total liabilities	<u>1,069,106,547</u>	<u>1,056,509,575</u>	<u>752,347,037</u>
<b>Net assets</b>			
Invested in capital assets net of related debt	275,018,751	231,026,259	207,167,597
Restricted:			
Nonexpendable	65,446,685	62,406,256	52,247,594
Expendable	86,479,410	120,847,524	113,179,703
Unrestricted	(922,781)	12,439,834	13,534,265
Total net assets	<u>\$ 426,022,065</u>	<u>\$ 426,719,873</u>	<u>\$ 386,129,159</u>

**University of Puerto Rico**  
**Management's Discussion and Analysis (continued)**

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	Year Ended June 30		
	2008	2007	2006
<b>Operating revenues</b>			
Tuition and fees (net of scholarship)	\$ 51,286,439	\$ 49,269,042	\$ 51,115,866
Grants and contracts	140,464,523	148,409,147	133,858,642
Patient services	48,665,826	48,669,981	49,667,252
Other operating revenues	37,860,307	39,919,317	45,743,758
Total operating revenues	<u>278,277,095</u>	<u>286,267,487</u>	<u>280,385,518</u>
<b>Operating expenses</b>	<u>1,351,283,567</u>	<u>1,266,523,365</u>	<u>1,196,233,066</u>
Operating loss	(1,073,006,472)	(980,255,878)	(915,847,548)
<b>Nonoperating revenues and expenses</b>			
State appropriations	935,880,735	896,492,596	854,981,674
Other nonoperating revenues and expenses, including interest on indebtedness	<u>116,162,315</u>	<u>104,908,125</u>	<u>125,315,363</u>
Net nonoperating revenues	<u>1,052,043,050</u>	<u>1,001,400,721</u>	<u>980,297,037</u>
(Loss) income before other revenues	(20,963,422)	21,144,843	64,449,489
<b>Capital appropriations</b>	17,576,892	12,607,556	10,160,608
<b>Addition to permanent endowment</b>	2,688,724	6,838,313	3,865,074
Total increase/decrease in net assets	<u>\$ (697,806)</u>	<u>\$ 40,590,712</u>	<u>\$ 78,475,171</u>

**Using the Financial Statements**

The University's financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This was followed in November 1999 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*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

**University of Puerto Rico**  
**Management's Discussion and Analysis (continued)**

**Analysis of Financial Position and Changes in Financial Position**

*Statements of Net Assets*

The statements of net assets present the assets, liabilities and net assets of the University as of June 30, 2008 and 2007. The net assets are displayed in three parts, invested in capital assets net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purposes. The statements of net assets, along with all of the University's basic financial statements, are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided by and expenses are recognized when others provide the service to the University, regardless of when cash is exchanged.

Assets included in the statements of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Of these amounts, cash and cash equivalents, investments and accounts receivable comprise approximately 6%, 38% and 54%, respectively, of current assets and 69% of noncurrent assets are capital assets as of June 30, 2008. As of June 30, 2007, these amounts comprise approximately 14%, 35% and 46% of current assets and 70% of noncurrent assets are capital assets. As of June 30, 2006, these amounts comprise approximately 26%, 29% and 42% of current assets and 83% of noncurrent assets are capital assets.

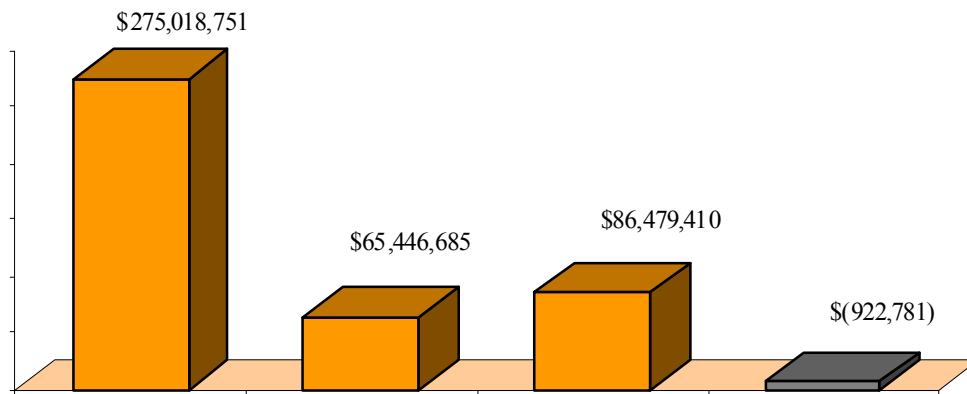
The University's cash, cash equivalents and investments increased from \$239,586,325 at June 30, 2006 to \$414,403,362 at June 30, 2007 and decreased to \$356,401,170 at June 30, 2008. The decrease in investments at fair value is mainly caused by the decrease in market value. Current accounts receivable decreased from \$159,522,765 to \$158,213,051.

Current liabilities consist primarily of accounts payable and accrued liabilities and the current portion of long-term debt. Accounts payable and accrued liabilities increased from \$85,079,562 to \$93,117,021 between June 30, 2007 and 2008. Non-current liabilities consist primarily of bonded indebtedness. Long-term debt, net of current portion, decreased from \$656,019,072 to \$652,511,547 between June 30, 2008 and 2007.

**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

Net assets represent the residual interest in the University's assets after liabilities are deducted. The major classifications of the net assets are shown in the following illustration:

**Table 1 - Net Assets - June 30, 2008**



Invested in Capital Assets	\$ 275,018,751
Restricted Nonexpendable	65,446,685
Restricted Expendable	86,479,410
Unrestricted	(922,781)

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

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

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

*Statements of Revenues, Expenses and Changes in Net Assets*

Changes in total University net assets as presented in the statements of net assets are based on the activity presented in the statements of revenues, expenses and changes in net assets. The purpose of



**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

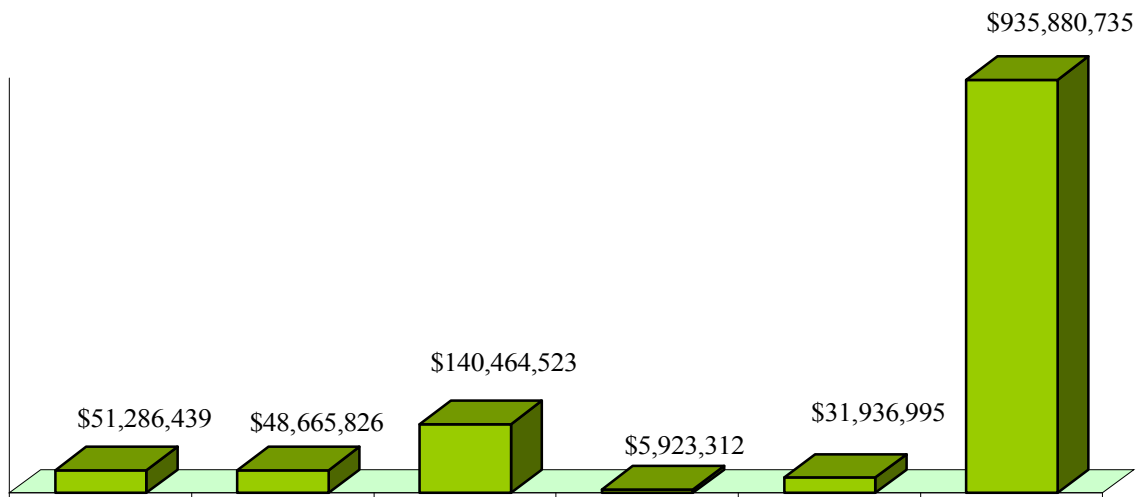
these statements are to present the revenues earned by the University, both operating and nonoperating, and the expenses paid and accrued by the University and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are received 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.

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

The following illustration presents the major sources of the University revenues (both operating and nonoperating) for the year ended June 30, 2008:

**Table 2 - Revenues - Year Ended June 30, 2008**



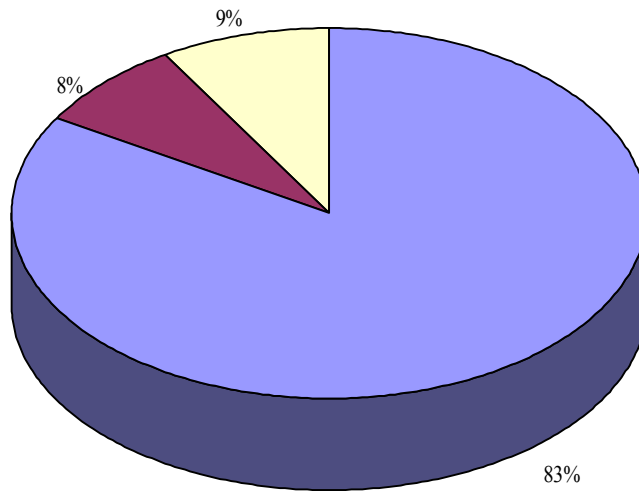
**Operating and Nonoperating Revenues**

Tuitions & Fees (net of scholarship)	\$	51,286,439
Patient services		48,668,826
State and Federal Grants & Contracts		140,464,523
Auxiliary Enterprises		5,923,312
Other Operating Revenues		31,936,995
Commonwealth Appropriations		935,880,735

**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

Federal grants represent 83% of the University grants revenues. The following illustration presents the grants revenues of the University of Puerto Rico, year ended June 30, 2008:

Table 3 - Analysis of Grants Revenues



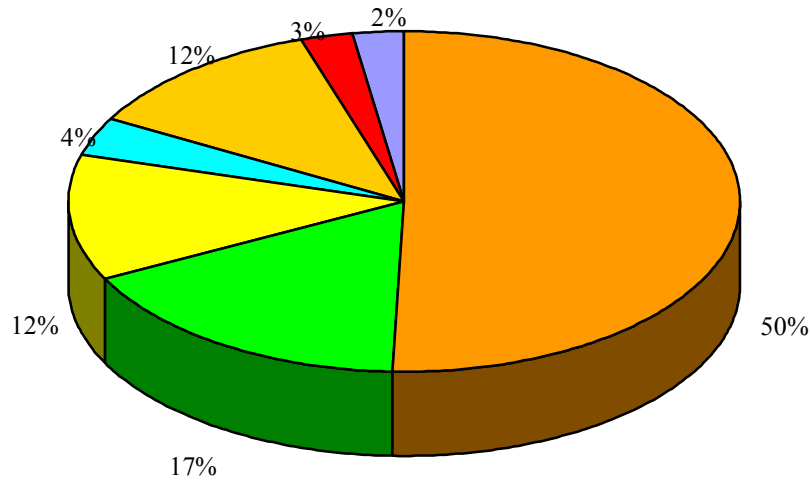
Federal	\$	128,404,162	83%
Commonwealth		12,060,361	8%
Other		13,329,915	9%

University expenses are presented using natural expense classifications. Salaries and benefits represent 69% of the University's operating expenses.

**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

The following illustration presents the major University operating expenses, using natural classification for the year ended June 30, 2008:

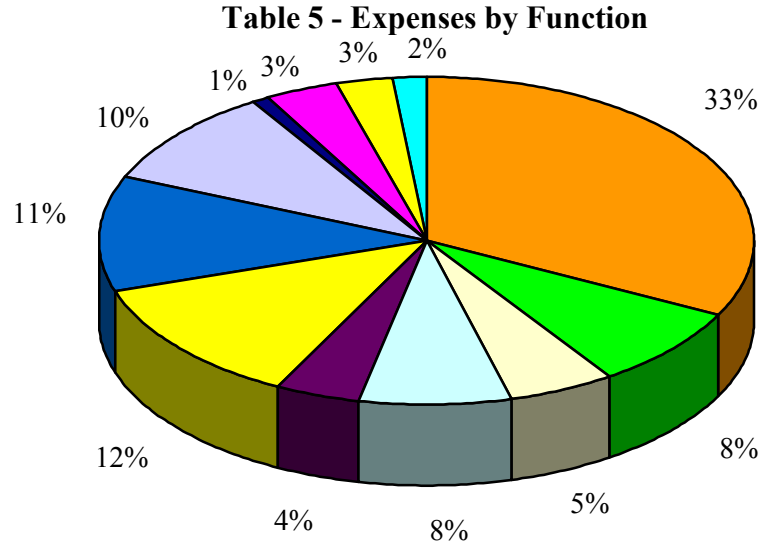
**Table 4 - Operating Expenses**



Salaries	\$	682,306,485	50%
Benefits		230,017,087	17%
Scholarship and other services		160,492,568	12%
Utilities		49,147,600	4%
Supplies and other services		160,098,118	12%
Depreciation		37,125,069	3%
Other expenditures		32,096,640	2%

**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

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, 2008:



Instruction	\$ 440,662,362	33%
Research	107,219,612	8%
Public Service	70,878,920	5%
Academic Support	101,861,929	8%
Student Services	57,002,998	4%
Institutional Support	166,842,002	12%
Operation and Maintenance of Plant	155,196,511	11%
Scholarships and Fellowships	132,763,706	10%
Auxiliary Enterprises	11,292,906	1%
Patient Service	46,740,070	3%
Depreciation	37,125,069	3%
Other	23,697,480	2%

For the year ended June 30, 2008, the University reported an operating loss of \$1,073,006,472. After adding nonoperating revenues and expenses, primarily state appropriations and Federal Pell Grant, the total decrease in net assets for the year amounted to \$(697,806).

**University of Puerto Rico**  
**Management's Discussion and Analysis (continued)**

*Statements of Cash Flows*

The Statements of Cash Flows present information related to cash flows of the University by the following categories: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

Increases in cash and cash equivalents from noncapital financing activities were due primarily to the receipt of state appropriations. This increase was offset by decreases in cash and cash equivalents from investing activities resulting from purchases of short-term investments, decreases in cash and cash equivalents used for capital and related financing activities and cash used in operating activities. Cash and cash equivalents decrease from capital and related financing activities was due primarily to purchases of capital assets and payments of principal and interest on debt. The decrease in cash and cash equivalents from operating activities is consistent with the University's operating loss.

**Capital Assets and Debt Administration**

Significant capital assets additions for the year ended June 30, 2008 and 2007, consist 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.

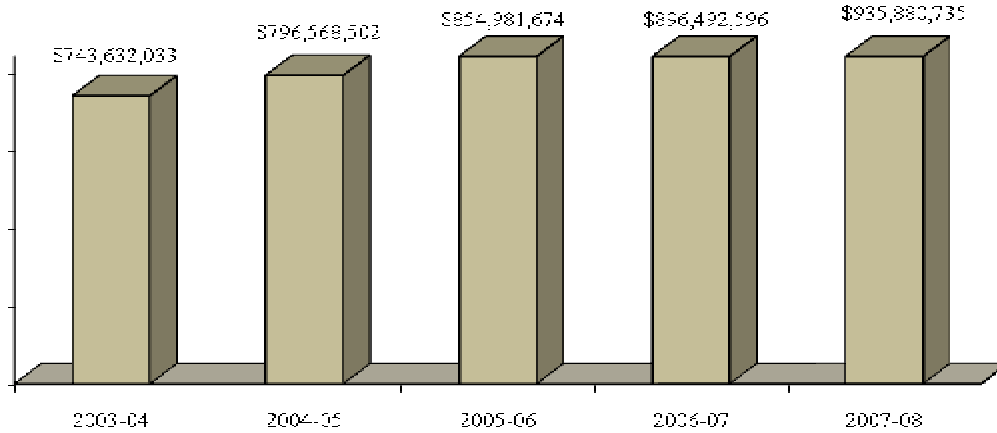
**Economic Outlook**

The economy of Puerto Rico must be analyzed as a region within the U.S. economy, since it is part of the U.S. monetary and banking system, as well as within its territorial boundaries. The main drive of the Puerto Rican economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the Mainland.

**University of Puerto Rico  
Management's Discussion and Analysis (continued)**

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

**Table 6 - Commonwealth Appropriations**



The University administration is not aware of any currently known facts, decisions or conditions that are expected to have a significant effect on the University's financial position or results of operation during fiscal year 2008 beyond those unknown variations having a global effect on virtually all types of business operations. While the University's overall financial position is strong, various factors influence the University's ultimate financial success.

**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 Finance Director. The executive offices of the University are located at 1187 Flamboyán Street, Jardín Botánico Sur, San Juan, Puerto Rico 00926.

**University of Puerto Rico  
Statements of Net Assets**

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,167,865	\$ 49,595,830
Investments at fair value	56,187,238	64,851,571
Investments with bond trustees at fair value	54,485,622	58,233,345
Accounts receivable (less allowances for doubtful accounts of \$132,409,296 and \$106,514,050 for 2008 and 2007, respectively)	158,213,051	159,522,765
Due from Commonwealth of Puerto Rico	7,570,127	8,155,254
Inventories	3,798,653	4,882,571
Prepaid expenses and deferred charges	574,677	7,009,890
Total current assets	299,997,233	352,251,226
Noncurrent assets:		
Restricted cash and cash equivalents	5,826,799	4,544,892
Investments at fair value	220,733,646	237,177,724
Due from Commonwealth of Puerto Rico	89,200,262	76,077,255
Prepaid expenses and other assets	42,628,122	13,772,652
Notes receivable, net	2,344,355	2,720,096
Capital assets (net of accumulated depreciation of \$441,681,276 and \$411,324,335 for 2008 and 2007, respectively)	834,398,195	796,685,602
Total noncurrent assets	1,195,131,379	1,130,978,221
Total assets	1,495,128,612	1,483,229,447
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	93,117,021	85,079,562
Current portion of long-term debt	21,455,000	19,760,000
Obligation under capital lease, current portion	1,063,344	2,178,105
Other current liabilities	28,800,535	26,019,842
Total current liabilities	144,435,900	133,037,509
Noncurrent liabilities:		
Long-term debt, net of current portion	652,511,547	656,019,072
Obligation under capital lease, noncurrent portion	68,649,242	68,597,825
Other long-term liabilities	203,509,858	198,855,169
Total noncurrent liabilities	924,670,647	923,472,066
Total liabilities	1,069,106,547	1,056,509,575

*(Continues)*

**University of Puerto Rico**  
**Statements of Net Assets (continued)**

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	<b>275,018,751</b>	231,026,259
Restricted, nonexpendable:		
Scholarship and fellowships	<b>42,774,078</b>	39,560,872
Research	<b>18,942,504</b>	19,080,230
Other	<b>3,730,103</b>	3,765,154
Restricted, expendable:		
Research	<b>18,659,467</b>	20,946,073
Loans	<b>7,948,550</b>	7,685,906
Capital projects	<b>1,948,575</b>	24,791,044
Debt service	<b>51,875,735</b>	56,233,963
Other	<b>6,047,083</b>	11,190,537
Unrestricted	<b>(922,781)</b>	12,439,834
Total net assets	<b>\$ 426,022,065</b>	<b>\$ 426,719,872</b>

*See accompanying notes.*



**University of Puerto Rico**  
**Statements of Revenues, Expenses and Changes in Net Assets**

	June 30	
	2008	2007
<b>Revenues</b>		
Operating revenues:		
Tuitions and fees (net of scholarship allowances of \$41,390,629 and \$37,277,970 for 2008 and 2007, respectively)	\$ 51,286,439	\$ 49,269,042
Net hospital patient services and other	48,665,826	48,669,981
Federal grants and contracts	128,404,162	125,667,791
Commonwealth grants and contracts (net of allowances of \$6,895,713 and \$4,985,386 for 2008 and 2007, respectively)	12,060,361	22,741,356
Nongovernmental grants and contracts	13,329,915	14,753,879
Sales and services of educational departments	5,379,271	4,316,666
Auxiliary enterprises (net of scholarship allowances of \$159,257 and \$162,750 for 2008 and 2007, respectively)	5,923,312	7,157,572
Other operating revenues	13,227,809	13,691,200
Total operating revenues	278,277,095	286,267,487
<b>Operating Expenses</b>		
Salaries:		
Faculty	396,824,902	377,460,983
Exempt staff	284,370,248	272,900,601
Nonexempt wages	1,111,335	1,656,715
Benefits	230,017,087	218,195,408
Scholarship and fellowship	160,492,568	150,573,298
Utilities	49,147,600	44,530,281
Supplies and other services	160,098,118	149,551,732
Depreciation	37,125,069	33,774,910
Other expenses	32,096,640	17,879,437
Total operating expenses	1,351,283,567	1,266,523,365
Operating loss	(1,073,006,472)	(980,255,878)
Nonoperating revenues (expenses):		
Commonwealth appropriations	935,880,735	896,492,596
Federal Pell Grant program	121,234,272	109,492,991
Gifts	6,279,553	6,461,769
Net investment income	4,774,072	9,116,461
Interest on indebtedness	(18,607,741)	(20,812,346)
Other nonoperating revenues	2,482,159	649,250
Net nonoperating revenues	1,052,043,050	1,001,400,721
(Loss) income before other revenues	(20,963,422)	21,144,843
Capital appropriations	17,576,892	12,607,556
Additions to term and permanent endowment	2,688,724	6,838,313
(Decrease) increase in net assets	(697,806)	40,590,712
<b>Net Assets</b>		
Beginning of year	426,719,871	386,129,159
End of year	\$ 426,022,065	\$ 426,719,871

*See accompanying notes.*

**University of Puerto Rico  
Statements of Cash Flows**

	<b>Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 50,867,832	\$ 49,253,880
Grants and contracts	142,566,272	157,423,396
Pell grants	121,234,272	109,492,991
Patient services	48,665,826	48,669,981
Auxiliary enterprises	5,926,805	6,857,754
Sales and services educational departments and other	18,607,080	4,358,816
Payments to suppliers and vendors	(176,721,917)	(63,480,929)
Payments to employees	(682,306,485)	(651,271,784)
Payments for utilities	(49,147,600)	(44,044,748)
Payments for benefits	(230,017,087)	(140,576,178)
Payments for scholarships and fellowships	(160,492,568)	(150,677,612)
New loans issued to students	(773,384)	(1,297,397)
Student loan repayments	1,166,043	1,046,166
Other payments	(2,338,352)	(30,361,913)
Net cash used in operating activities	<u>(912,763,263)</u>	<u>(704,607,577)</u>
<b>Cash flows from noncapital financing activities</b>		
Commonwealth appropriations	935,880,735	896,492,595
Endowment gifts	2,688,724	6,838,313
Gifts and grants for other than capital purposes	3,899,829	7,111,019
Net cash provided by noncapital financing activities	<u>942,469,288</u>	<u>910,441,927</u>
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations	17,576,892	12,607,555
Additions of capital assets	(76,453,802)	(172,561,024)
Principal paid on indebtedness	(20,355,173)	(292,474,805)
Interest paid on capital indebtedness	(18,607,741)	(20,812,346)
Deposit with trustee	3,747,723	(19,117,090)
Capital lease	(1,063,344)	(70,775,930)
Proceeds from capital debt	6,420,879	503,882,775
Net cash used in capital and related financing activities	<u>(88,734,566)</u>	<u>(59,250,865)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	47,532,056	36,058,961
Purchase of investments	(22,423,645)	(228,742,925)
Interest on investments	4,774,072	9,116,461
Net cash provided by (used in) investing activities	<u>29,882,483</u>	<u>(183,567,503)</u>
Net change in cash and cash equivalents	<u>(29,146,058)</u>	<u>(36,984,018)</u>
Cash and cash equivalents:		
Beginning of year	54,140,722	91,124,740
End of year	<u>\$ 24,994,664</u>	<u>\$ 54,140,722</u>

*(Continues)*

**University of Puerto Rico**  
**Statements of Cash Flows (continued)**

	Year Ended June 30	
	2008	2007
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (1,073,006,472)	\$ (980,255,878)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	37,125,069	33,774,910
Reduction of capital assets	1,616,141	1,427,039
Amortization on bond premium, discount and future appreciated principal	2,863,442	2,276,213
Changes in assets and liabilities, net:		
Grants and contracts receivables	(11,228,166)	66,662,920
Prepaid expenses, inventories and other	(21,336,339)	10,504,164
Accounts payable, accrued liabilities and capital lease	15,472,841	70,755,022
Accrued salaries and wages and other liabilities	135,730,221	90,248,033
Net cash used in operating activities	\$ (912,763,263)	\$ (704,607,577)

*See accompanying notes.*

**Discretely Presented Component Unit**  
**Servicios Médicos Universitarios, Inc.**  
**(A Not-for Profit Organization)**  
**Balance Sheets**

	<b>June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 674,716	\$ 32,062
Patient accounts receivable, net of allowance for doubtful accounts of \$21,260,231 in 2008 and \$41,822,363 in 2007	14,525,193	14,367,224
Accounts receivable - other	232,268	180,173
Inventories of supplies	1,605,671	1,556,395
Prepaid expenses	247,777	252,272
Total current assets	17,285,625	16,388,126
Property and equipment, net	4,677,296	3,660,070
Total assets	\$ 21,962,921	\$ 20,048,196
 <b>Liabilities and deficiency in unrestricted net assets</b>		
Current liabilities:		
Current portion of long term debt	\$ 15,367,611	\$ 15,367,611
Accounts payable	24,946,113	23,067,511
Accrued interest	5,700,516	4,767,455
Estimated third-party payor settlements-medicare	675,570	1,047,750
Accrued payroll taxes and employee benefits	1,237,481	1,181,499
Accrued expenses	784,453	1,717,360
Total current liabilities	48,711,744	47,149,186
Long-term debt, net of current portion	1,632,389	1,632,389
Due to related parties	35,940,772	34,800,479
Accrued claim losses	1,015,551	480,000
Total liabilities	87,300,456	84,062,054
Deficiency in unrestricted net assets	(65,337,535)	(64,013,858)
Total liabilities and deficiency in unrestricted net assets	\$ 21,962,921	\$ 20,048,196

*See accompanying notes.*

**Discretely Presented Component Unit**  
**Servicios Médicos Universitarios, Inc.**  
**(A Not-for-Profit Organization)**  
**Statements of Operations and Deficiency in Unrestricted Net Assets**

	<b>Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Unrestricted revenues and other support</b>		
Net patient service revenue	\$ 47,202,698	\$ 39,888,022
Contributions	592,000	-
Other revenue	1,247,311	1,705,766
Total revenues and other support	<u>49,042,009</u>	<u>41,593,788</u>
<b>Expenses</b>		
Salaries and benefits	15,954,944	17,379,152
Contracted services	5,382,947	3,238,090
Professional services	1,333,232	1,123,287
Supplies	12,902,106	12,853,696
Utilities	2,493,003	2,509,198
Interest	1,160,177	1,254,105
Provision for bad debts	7,779,349	8,434,671
Provision for claim losses	650,000	480,000
Depreciation and amortization	1,005,093	865,812
Other	1,704,835	1,826,988
Total expenses	<u>50,365,686</u>	<u>49,964,999</u>
Excess of expenses over revenue	(1,323,677)	(8,371,211)
Deficiency in unrestricted net assets, at beginning of year	<u>(64,013,858)</u>	<u>(55,642,647)</u>
Deficiency in unrestricted net assets, at end of year	<u><u>\$ (65,337,535)</u></u>	<u><u>\$ (64,013,858)</u></u>

*See accompanying notes.*

**Discretely Presented Component Unit**  
**Servicios Médicos Universitarios, Inc.**  
**(A Not-for-Profit Organization)**  
**Statements of Cash Flows**

	<b>Year Ended June 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Change in unrestricted net assets	\$ (1,323,677)	\$ (8,371,211)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,005,093	865,812
Provision for bad debts	7,779,349	8,434,671
Provision for claim losses	650,000	480,000
Increase in patient accounts receivable	(7,937,317)	(8,801,514)
(Increase) decrease in inventory of supplies	(49,276)	264,532
Decrease in prepaid expenses	286,100	465,483
Decrease (increase) in accounts receivable-other	43,573	(388,054)
Increase in accounts payable	1,596,996	3,041,995
Increase in estimated third-party payor settlements-Medicare	(372,180)	(777,510)
(Decrease) increase in accrued expenses, payroll taxes and employee benefits	(876,925)	1,563,238
Increase in accrued interest	933,061	1,086,300
Decrease in accrual claim	(114,449)	-
Total adjustments	<u>2,944,025</u>	<u>6,234,953</u>
Net cash provided by (used in) operating activities	<u>1,620,348</u>	<u>(2,136,258)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,022,319)	(657,968)
<b>Cash flows from financing activities</b>		
Net advances from University of Puerto Rico and other related parties	<u>1,044,625</u>	<u>2,245,668</u>
Net cash provided by financing activities	<u>1,044,625</u>	<u>2,245,668</u>
Net increase (decrease) in cash	<u>642,654</u>	<u>(548,558)</u>
Cash and cash equivalents, at beginning of year	<u>32,062</u>	<u>580,620</u>
Cash and cash equivalents, at end of year	<u>\$ 674,716</u>	<u>\$ 32,062</u>
<b>Supplemental disclosures of cash flows information</b>		
Cash paid for interest	<u>\$ 91,395</u>	<u>\$ 78,762</u>

*See accompanying notes.*

**Discretely Presented Component Unit  
Desarrollos Universitarios, Inc.  
(A Not-for-Profit Organization)  
Statements of Financial Position**

	Year Ended March 31	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 971,892	\$ 2,013,630
Restricted cash	320,790	65,805
Restricted funds held by trustee	9,814,784	10,369,384
Net investment in direct financing lease	70,165,021	71,030,863
Due from the University of Puerto Rico	3,397,623	1,558,351
Prepaid expenses	9,618	95,579
Bond issuance costs, net of accumulated amortization of \$31,656 and \$451,765 in 2008 and 2007, respectively	2,257,568	2,337,459
Other assets	24,163	60,224
Total assets	\$ 86,961,459	\$ 87,531,295
 <b>Liabilities and net assets</b>		
Liabilities:		
Construction contract, project management fee and other payables, including retainage of \$1,601,176 and \$1,663,995	\$ 1,784,507	\$ 2,497,062
Operating trade accounts payable	137,370	68,089
Accrued interest payable	1,051,395	1,066,245
Accrued expenses	1,024,221	797,452
Unearned student dormitories rental income	23,101	6,970
Student dormitories security deposits	120,045	29,345
Bonds payable, net of discount of \$299,310 and \$320,850 in 2008 and 2008, respectively	80,880,690	82,344,150
Total liabilities	85,021,329	86,809,313
Net assets	1,940,130	721,982
Total liabilities and net assets	\$ 86,961,459	\$ 87,531,295

*See accompanying notes.*

**University of Puerto Rico**  
**Desarrollos Universitarios, Inc.**  
**(A Not-for-Profit Organization)**  
**Statements of Activities and Changes in Net Assets**

	<b>Year Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Revenues:		
Income from investment in direct financing lease	\$ 4,644,540	\$ 2,353,057
Fixed management fee	758,000	379,000
Reimbursable expenditures fee	1,498,264	1,209,366
Total revenues	<u>6,900,804</u>	<u>3,941,423</u>
Expenses:		
Project operation and maintenance	1,593,647	1,045,402
General and administrative	324,626	138,678
Total expenses	<u>1,918,273</u>	<u>1,184,080</u>
Other income (expenses):		
Interest and other financing, related expenses	(4,287,033)	(2,120,625)
Interest income	522,650	357,082
Total other expenses	<u>(3,764,383)</u>	<u>(1,763,543)</u>
Change in unrestricted net assets	1,218,148	993,800
Unrestricted net assets (deficiency) at beginning of year	<u>721,982</u>	<u>(271,818)</u>
Unrestricted net assets at end of year	<u>\$ 1,940,130</u>	<u>\$ 721,982</u>

*See accompanying notes.*



**University of Puerto Rico  
Desarrollos Universitarios, Inc.  
(A Not-for-Profit Organization)  
Statements of Cash Flows**

	<b>Year Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 1,218,148	\$ 993,800
Adjustments to reconcile excess of expenses over revenues to net cash used in operating activities:		
Bond discount amortization	21,540	22,842
Amortization of bond issuance cost	79,891	80,604
Adjustment to project cost transferred to the University of Puerto Rico under direct financing lease	(191,087)	-
Changes in operating assets and liabilities:		
Increase in restricted cash	(254,985)	(65,805)
Principal collected from direct financing lease	1,056,929	497,453
(Increase ) decrease in due from University of Puerto Rico	(1,839,272)	(1,558,351)
Increase in project in process	-	(4,915,102)
(Increase) decrease in prepaid expenses	85,961	(587)
(Increase) decrease in other assets	36,061	(60,224)
Decrease in construction contract, project management fee and other payables	(643,274)	(679,834)
Decrease in accrued interest payable	(14,850)	(17,688)
Increase in accrued cost and expenses	226,769	392,816
Increase in unearned student dormitories rental income	16,131	6,970
Increase in student dormitories security deposits	90,700	29,345
Increase in unearned revenue	-	2,171,850
Net cash used in operating activities	(111,338)	(3,101,911)
<b>Cash flows from investing activities</b>		
Net proceeds from release of restricted funds held by trustee	554,600	4,097,134
<b>Cash flows from financing activities</b>		
Principal payments on bonds payable	(1,485,000)	(1,415,000)
Net change in cash	(1,041,738)	(419,777)
Cash at beginning of year	2,013,630	2,433,407
Cash at end of year	\$ 971,892	\$ 2,013,630

*See accompanying notes.*

**University of Puerto Rico**  
**Notes to Financial Statements**  
**June 30, 2008**

**1. Reporting Entity and Summary of Significant Accounting Policies**

**A. Reporting Entity**

The University of Puerto Rico (the University) is a public corporation of the Commonwealth of Puerto Rico (the Commonwealth) governed by a thirteen-member Board of Trustees, of which ten are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Board consist of one full-time student and two tenured professors. The Governor appointed the original members for terms from four to eight years. Upon expiration of their terms, the new members will be appointed for a period of six years. The terms for the student and professors are for one year.

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

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

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

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

**Servicios Médicos Universitarios, Inc.**

Servicios Médicos Universitarios, Inc. (the Hospital) is legally separated 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 care services to the residents of Puerto Rico. The University appoints a voting majority of the Hospital board and is also financially accountable for the Hospital. Complete financial statements of the Hospital can be obtained directly by contacting the Hospital's administrative offices.

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

##### Desarrollos Universitarios, Inc.

Desarrollos Universitarios, Inc. (the Company) is a legally separated entity from the University and is governed by a separate board. The Company was organized on January 22, 1997, under the laws of the Commonwealth of Puerto Rico, as a not-for-profit organization. The Company was organized to develop, construct, and operate academic, residential, administrative, office, commercial, and maintenance facilities for the use of students and other persons or entities conducting business with the University of Puerto Rico (the University). The Company developed the Plaza Universitaria Project, which consist of a student housing facility, a multi-story parking building and an institutions building to house administrative, student service and support functions and to a lesser extent to lease commercial space. The financing for the Projects is being 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 2007 the University entered into a capital lease agreement with the Company for the Plaza Universitaria project. The Company is fiscally dependent on the University. Complete financial statements of the Company can be obtained directly by contacting the Company's administrative offices.

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

##### B. Measurement Focus and Basis of Accounting

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. 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.

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

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

##### C. Reclassifications

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

##### D. Cash Equivalents

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

##### E. Investments

Investments are reported at fair value in the statements of net assets. Fair value is based on quoted market prices. The changes in the fair value of investments are reported in the statements of revenues, expenses and changes in net assets as a component of net investment income.

Donated investments are recorded at their fair value at the date of donation. Investments of the Deferred Compensation Plan are valued at fair value in order to measure the current liability attributable to plan participants.

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

Restricted funds of Desarrollos Universitarios, Inc. held by trustee at March 31, 2008 and 2007, consist of money market funds and zero coupon bonds purchased with remaining maturities of six months or less.

##### G. Capital Assets

All capital expenses of \$1,000 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment and library materials, 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 capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense has been incurred.

##### H. Inventories

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

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

##### I. Classification of Net Assets

The University's net assets are classified as follows:

*Invested in capital assets, net of related debt* represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted, nonexpendable* net assets consist of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Restricted, expendable* net assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted* net assets represent resources derived from student tuition and fees, state appropriations, hospital revenues, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

##### J. Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are recorded net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, 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.

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

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

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

##### L. Deferred Compensation Plan

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

##### M. Compensated Absences

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

Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. The University pays, annually, the excess of 90 days of accumulated sick leave to the employees. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, provided the employee has at least 10 years of service with the University. During the years ended June 30, 2008 and 2007, the cost of the excess of 90 days of the accumulated sick leave was \$10,748,463 and \$10,208,075, respectively.

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

##### N. Net Patient Service Revenue (Discretely Presented Component Unit)

Servicios Médicos Universitarios, Inc. has agreements with third-party payers that provide for payments to 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.

##### O. Classification of Revenues

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

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

Non-operating revenues include activities that have the characteristics of no exchange transactions, such as gifts and contributions, Federal Pell Grants and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations, investment income and gifts. Gifts to the endowment fund are classified as other nonoperating revenues.

##### P. Gifts and Pledges

Pledges of financial support from organizations and individuals representing and unconditional promise to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for No exchange Transactions*, and are not recorded as assets until the related gift has been received.

Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

## University of Puerto Rico

### Notes to Financial Statements (continued)

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

##### Q. Grants and Contracts

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

##### R. GASB Statement No. 45

During fiscal year 2008, the University adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The impact of the adoption on the financial statements of the University is considered not to be significant. Further details are disclosed in Note 12.

#### 2. Deposits

All the operating cash of the University is pooled into one bank account. Cash balances by funds represent the cash that is allocated to each fund of the University.

The University is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Treasury), and such deposits are maintained in separate bank accounts in the name of the University. Such authorized depositories, except for the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank for Puerto Rico (EDB), collateralize the uninsured deposits with securities that are pledged with the Department of the Treasury.

No collateral is required to be maintained for deposits at the GDB and EDB, both public corporations of the Commonwealth of Puerto Rico.

As of June 30, 2008 and 2007, the carrying value of cash and cash equivalents amounted to \$24,994,664 and \$54,140,722, respectively, and the cash deposited in the banks amounted to \$54,217,337 and \$62,648,245, respectively.



**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**3. Investments**

The University's investments held at June 30, 2008 and 2007, are summarized in the following table:

	<u>2008</u>	<u>2007</u>
Certificates of deposit	\$ 127,937	\$ 5,909,686
Government agency securities	73,596,054	81,397,420
Guaranteed investment certificate	161,230,999	179,491,255
Corporate bonds and preferred stock	20,912,375	15,249,929
Common stock and convertibles	21,493,012	19,927,139
Mutual Funds	54,046,129	58,287,211
	<u>\$ 331,406,506</u>	<u>\$ 360,262,640</u>

The custody of these investments is held by the trust department of a commercial bank in the name of the University and the portfolio is managed by a brokerage firm.

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

**Guaranteed Investment Certificate**

The University maintains a Construction Fund account, related to the issuance of the Series Q University of Puerto Rico System Revenue Bonds. As of June 30, 2008 and 2007, the account balance amounted to approximately \$161 and \$179 million, respectively. The account is held under a guaranteed investment certificate (the certificate) whereas the financial institution guarantees the University a fixed rate of return equal to 4.772%. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the guaranteed investment certificate is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2008 and 2007 the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**3. Investments (continued)**

**Credit Risk**

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2008, the University's credit quality distribution for securities is as follows:

	Carrying Value	Quality Rating			
		AAA-A	AA	Unrated	No Risk
Government agency securities	\$ 73,596,054	\$ -	\$ -	\$ -	\$ 73,596,054
Guaranteed investment certificate	161,230,999	-	161,230,999	-	-
Corporate Bonds and preferred stocks	20,912,375	20,912,375	-	-	-
Common Stocks and Convertibles	21,493,012	21,493,012	-	-	-
Mutual Funds	54,046,129	-	-	54,046,129	-
	<u>\$ 331,278,569</u>	<u>\$ 42,405,387</u>	<u>\$ 161,230,999</u>	<u>\$ 54,046,129</u>	<u>\$ 73,596,054</u>

**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. As of June 30, 2008, the weighted average maturity by investment type in each fund follows:

Investment Type	Maturities	Amount
Corporate Bonds	25/Apr/10 - 15/May/40	\$ 4,540,271
Corporate Bonds	15/Jul/09 - 15/May/44	1,257,566
Corporate Bonds	15/Jul/09 - 15/May/44	7,058,305
Corporate Bonds	29/Jul/10 - 15/May/44	152,698
Corporate Bonds	15/Jul/09 - 15/May/44	408,555
Corporate Bonds	15/Jul/09 - 15/May/44	7,477,443
Corporate Bonds	15/Mar/12 - 15/Oct/30	17,537
		<u>\$ 20,912,375</u>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**4. Accounts Receivable**

Accounts receivable as of June 30 are as follows:

	<b>2008</b>	<b>2007</b>
Commonwealth of Puerto Rico appropriations		
grants and contracts	\$ 43,886,782	\$ 37,112,832
Other government agencies	91,761,296	92,984,383
Due from Federal Government	23,799,975	22,329,643
Due from medical plans	67,311,384	60,044,847
Due from Servicios Médicos Universitarios, Inc.	33,296,756	33,296,756
Other	30,566,154	20,268,354
	<b>290,622,347</b>	<b>266,036,815</b>
Less allowance for doubtful accounts	(132,409,296)	(106,514,050)
Accounts receivable, net	<b>\$ 158,213,051</b>	<b>\$ 159,522,765</b>

On September 7, 2004, the Commonwealth of Puerto Rico approved a resolution to pay \$94,710,382 to the University on behalf of the Puerto Rico Department of Health and the Commonwealth of Puerto Rico, over the course of ten years. As of June 30, 2008, the University has received \$54,280,255 from this amount. The remaining balance will be received as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2008-2009	\$ 7,570,127
2009-2010	7,570,127
2010-2011	7,570,127
2011-2012	8,000,000
2012-2013	8,000,000
2013-2014	1,719,746
	<b>\$ 40,430,127</b>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**5. Capital Assets**

Changes in capital assets for the year ended June 30, 2008 and 2007, are as follows:

	2008				
	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	\$ 42,161,028	\$ -	\$ -	\$ -	\$ 42,161,028
Construction - in progress	97,985,272	60,199,286	(21,573,166)	(1,297,172)	135,314,220
	<u>140,146,300</u>	<u>60,199,286</u>	<u>(21,573,166)</u>	<u>(1,297,172)</u>	<u>177,475,248</u>
Other capital assets:					
Land improvements	31,593,642	-	67,040	-	31,660,682
Building, fixed equipment, improvements and infrastructure	722,924,139	-	20,111,537	-	743,035,676
Equipment and library materials	214,047,507	16,254,516	1,394,589	(7,086,998)	224,609,614
Building and equipment under capital lease	99,298,349	-	-	(100)	99,298,249
	<u>1,067,863,637</u>	<u>16,254,516</u>	<u>21,573,166</u>	<u>(7,087,098)</u>	<u>1,098,604,221</u>
Less accumulated depreciation for:					
Land improvements	(13,626,245)	(1,160,150)	-	-	(14,786,395)
Buildings, fixed equipment, improvements and infrastructure	(240,932,843)	(17,920,705)	-	-	(258,853,548)
Equipment and library materials	(154,903,405)	(15,033,300)	-	6,768,128	(163,168,577)
Building and equipment under capital lease	(1,861,842)	(3,010,914)	-	-	(4,872,756)
	<u>(411,324,335)</u>	<u>(37,125,069)</u>	<u>-</u>	<u>6,768,128</u>	<u>(441,681,276)</u>
Other capital assets, net of accumulated depreciation	656,539,302	(20,870,553)	21,573,166	(318,970)	656,922,945
Capital assets, net	<u>\$ 796,685,602</u>	<u>\$ 39,328,733</u>	<u>\$ -</u>	<u>\$ (1,616,142)</u>	<u>\$ 834,398,193</u>
	2007				
	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	\$ 33,534,290	\$ -	\$ 8,626,738	\$ -	\$ 42,161,028
Construction - in progress	138,489,823	52,364,572	(91,876,089)	(993,034)	97,985,272
	<u>172,024,113</u>	<u>52,364,572</u>	<u>(83,249,351)</u>	<u>(993,034)</u>	<u>140,146,300</u>
Other capital assets:					
Land improvements	30,855,329	-	738,313	-	31,593,642
Building, fixed equipment, improvements and infrastructure	638,398,067	2,249,147	82,303,525	(26,500)	722,924,239
Equipment and library materials	202,446,186	18,649,056	207,513	(7,255,248)	214,047,507
Building and equipment under capital lease	-	99,298,249	-	-	99,298,249
	<u>871,699,582</u>	<u>120,196,452</u>	<u>83,249,351</u>	<u>(7,281,748)</u>	<u>1,067,863,637</u>
Less accumulated depreciation for:					
Land improvements	(12,518,386)	(1,124,949)	-	17,090	(13,626,245)
Buildings, fixed equipment, improvements and infrastructure	(225,160,046)	(15,783,169)	-	10,372	(240,932,843)
Equipment and library materials	(146,718,735)	(15,004,950)	-	6,820,280	(154,903,405)
Building and equipment under capital lease	-	(1,861,842)	-	-	(1,861,842)
	<u>(384,397,167)</u>	<u>(33,774,910)</u>	<u>-</u>	<u>6,847,742</u>	<u>(411,324,335)</u>
Other capital assets, net of accumulated depreciation	487,302,415	86,421,542	83,249,351	(434,006)	656,539,302
Capital assets, net	<u>\$ 659,326,528</u>	<u>\$ 138,786,114</u>	<u>\$ -</u>	<u>\$ (1,427,040)</u>	<u>\$ 796,685,602</u>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**5. Capital Assets (continued)**

Amortization expense of assets recorded under capital leases amounted to \$3,010,914 and \$1,861,842 in 2008 and 2007, respectively.

**6. Lines of Credit**

As of June 30, 2008, the University has available a non-revolving line of credit agreement with GDB for the total authorized amount of \$60,000,000. This line of credit is guaranteed by the Commonwealth of Puerto Rico. As of June 30, 2008, the University had \$36,061,717 outstanding under this line of credit.

**7. Noncurrent Liabilities**

Changes in noncurrent liabilities for the year ended June 30, 2008 and 2007, are as follows:

		2008						
	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities	
Long-term debt:								
Notes payable	\$ 20,271,404	\$ 15,790,313		\$ -	\$ 36,061,717	\$ -	\$ 36,061,717	
Bonds payable	655,507,668	2,752,336	(19,760,000)	(595,173)	637,904,831	21,455,000	616,449,831	
<b>Total long-term</b>	<b>\$ 675,779,072</b>	<b>\$ 18,542,649</b>	<b>\$ (19,760,000)</b>	<b>\$ (595,173)</b>	<b>\$ 673,966,548</b>	<b>\$ 21,455,000</b>	<b>\$ 652,511,548</b>	
Other long-term liabilities:								
Deferred compensation payable	\$ 58,287,211		\$ (4,241,081)	\$ -	\$ 54,046,130	\$ -	\$ 54,046,130	
Claims liability	22,060,285		(863,150)	(2,072,388)	19,124,747	863,150	18,261,597	
Compensated absences	144,527,515	37,785,817	(21,531,924)	-	160,781,408	28,195,670	132,585,738	
Capital lease obligation	70,775,930		(1,063,344)	-	69,712,586	1,063,344	68,649,242	
<b>Total other long-term liabilities</b>	<b>\$ 295,650,941</b>	<b>\$ 37,785,817</b>	<b>\$ (27,699,499)</b>	<b>\$ (2,072,388)</b>	<b>\$ 303,664,871</b>	<b>\$ 30,122,164</b>	<b>\$ 273,542,707</b>	
		2007						
	Beginning Balance	Additions	Reductions	Other	Ending Balance	Less Due Within One Year	Noncurrent Liabilities	
Long-term debt:								
Notes payable	\$ 79,645,174	\$ 23,209,527	\$ (82,583,297)	\$ -	\$ 20,271,404	\$ -	\$ 20,271,404	
Bonds payable	382,449,715	546,150,000	(320,048,872)	46,956,825	655,507,668	19,760,000	635,747,668	
<b>Total long-term</b>	<b>\$ 462,094,889</b>	<b>\$ 569,359,527</b>	<b>\$ (402,632,169)</b>	<b>\$ 46,956,825</b>	<b>\$ 675,779,072</b>	<b>\$ 19,760,000</b>	<b>\$ 656,019,072</b>	
Other long-term liabilities:								
Deferred compensation payable	\$ 51,995,435	\$ 6,291,776	\$ -	\$ -	\$ 58,287,211	\$ -	\$ 58,287,211	
Claims liability	18,332,300	4,828,126	(1,100,141)	-	22,060,285	1,100,000	20,960,285	
Compensated absences	135,075,173	29,454,465	(20,002,123)	-	144,527,515	24,919,842	119,607,673	
Capital lease obligation	-	99,298,349	(28,522,419)	-	70,775,930	2,178,105	68,597,825	
<b>Total other long-term liabilities</b>	<b>\$ 205,402,908</b>	<b>\$ 139,872,716</b>	<b>\$ (49,624,683)</b>	<b>\$ -</b>	<b>\$ 295,650,941</b>	<b>\$ 28,197,947</b>	<b>\$ 267,452,994</b>	

Bonds payable are further discussed in Note 8-A.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable**

**A. Bonds**

The University has issued revenue bonds designated as “University System Revenue Bonds”, the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts incurred. The following is the balance of bonds payable as of June 30, 2008 and 2007:

<u>Series</u>	<u>Balance as of June 30, 2008</u>	<u>Annual Interest Rate (%)</u>	<u>Due Date</u>
C - Serial	\$ 489,000	3.00%	1972-2011
D - Serial	633,000	3.75%	1972-2011
F - Term	8,700,000	5.50%	1973-2012
M - Serial	4,940,000	4.35-5.45%	1996-2009
N - Capital Appreciation Serial Bonds	51,980,000	5.65-5.75%	1996-2013
O - Serial	7,060,000	4.5-3.75%	2001-2020
P - Serial	238,860,000	5.00%	2010-2026
P - Term	47,645,000	5.00%	2027-2030
Q - Serial	123,065,000	5.00%	2008-2026
Q - Term	132,415,000	5.00%	2027-2036
	<u>615,787,000</u>		
Less unamortized bond discount	(4,316)		
Plus unaccreted premium	34,715,169		
Less future appreciated principal	(7,867,143)		
Deferred loss on refunding	(4,725,879)		
	<u>\$ 637,904,831</u>		

<u>Series</u>	<u>Balance as of June 30, 2007</u>	<u>Annual Interest Rate (%)</u>	<u>Due Date</u>
C - Serial	\$ 639,000	3.00%	1972-2011
D - Serial	833,000	3.75%	1972-2011
F - Term	9,950,000	5.50%	2012
M - Serial	4,940,000	4.35-5.45%	1996-2009
N - Serial	9,840,000	4.35-5.45%	1996-2008
N - Capital Appreciation Serial Bonds	51,980,000	5.65-5.75%	2009-2013
O - Serial	11,215,000	4.5-3.75%	2001-2020
P - Serial	238,860,000	5.00%	2010-2026
P - Term	47,645,000	5.00%	2027-2030
Q - Serial	127,230,000	5.00%	2008-2026
Q - Term	132,415,000	5.00%	2027-2036
	<u>635,547,000</u>		
Less unamortized bond discount	(6,473)		
Plus unaccreted premium	35,310,342		
Less future appreciated principal	(10,339,329)		
Deferred loss on refunding	(5,003,872)		
	<u>\$ 655,507,668</u>		

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable (continued)**

**A. Bonds (continued)**

Capital Appreciation Serial Bonds interest accrues semi-annually and is added to the principal.

**B. Debt Service Requirement**

At June 30, 2008, bonds payable require payments of principal and interest as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 21,455,000	\$ 28,217,053	\$ 49,672,053
2010	20,825,000	27,644,555	48,469,555
2011	27,652,000	27,127,880	54,779,880
2012	27,040,000	26,281,245	53,321,245
2013 to 2017	107,990,000	117,467,000	225,457,000
2018 to 2022	121,635,000	91,136,000	212,771,000
2023 to 2027	130,715,000	58,127,500	188,842,500
2028 to 2032	97,665,000	28,380,000	126,045,000
2033 to 2036	60,810,000	7,786,000	68,596,000
	<u>\$ 615,787,000</u>	<u>\$ 412,167,233</u>	<u>\$ 1,027,954,233</u>

**C. Pledged Revenues**

The bonds are general obligations of the University and are collateralized by the pledge of, and a first charge 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. The revenues pledged were as follows for the years ended June 30, 2008 and 2007:

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable (continued)**

**C. Pledged Revenues (continued)**

<b>Pledged Revenues:</b>	<b>2008</b>	<b>2007</b>
Tuition and other fees collected	\$ 77,347,598	\$ 72,973,464
Student fees collected	6,431,462	6,160,271
Rental and other charges received for the right of use and occupancy of the facilities in the University system	1,289,912	1,241,694
Bookstore receipts (gross sales less cost of books and supplies sold)	464,502	810,127
Interest on investment of University funds, excluding funds invested pursuant to Article VI of the Trust Agreement	2,931,455	4,665,763
Funds paid to the University in respect to overhead allowance on federal research projects	16,260,829	18,981,291
Other income	30,028,753	27,788,421
	\$ 134,754,511	\$ 132,621,031

Interest earned on investments in the sinking fund reserve account amounted to \$2,884,891 and \$1,766,873 for the years ended June 30, 2008 and 2007, respectively.

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

The funds for retirement of indebtedness consist of a sinking fund which includes three separate accounts designated 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.



**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable (continued)**

**C. Pledged Revenues (continued)**

*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.

**D. Bonds Payable – Discretely Presented Component Unit**

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

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable (continued)**

**D. Bonds Payable – Discretely Presented Component Unit (continued)**

Bonds payable at March 31, 2008 and 2007, consist of:

<b>Description</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>2008 Face Amount</b>	<b>2007 Face Amount</b>
Serial Bonds	4.00%	July 1, 2007	\$ —	\$ 1,485,000
Serial Bonds	5.00%	July 1, 2008	<b>1,545,000</b>	1,545,000
Serial Bonds	4.13%	July 1, 2009	<b>1,620,000</b>	1,620,000
Serial Bonds	4.25%	July 1, 2010	<b>1,685,000</b>	1,685,000
Serial Bonds	5.63%	July 1, 2011	<b>1,760,000</b>	1,760,000
Serial Bonds	5.63%	July 1, 2012	<b>1,860,000</b>	1,860,000
Serial Bonds	5.63%	July 1, 2013	<b>1,960,000</b>	1,960,000
Serial Bonds	5.63%	July 1, 2014	<b>2,075,000</b>	2,075,000
Serial Bonds	5.63%	July 1, 2015	<b>2,190,000</b>	2,190,000
Serial Bonds	5.63%	July 1, 2016	<b>2,315,000</b>	2,315,000
Serial Bonds	5.63%	July 1, 2017	<b>2,445,000</b>	2,445,000
Serial Bonds	5.63%	July 1, 2018	<b>2,580,000</b>	2,580,000
Serial Bonds	5.63%	July 1, 2019	<b>2,725,000</b>	2,725,000
Serial Bonds	5.00%	July 1, 2020	<b>2,880,000</b>	2,880,000
Serial Bonds	5.00%	July 1, 2021	<b>3,020,000</b>	3,020,000
Serial Bonds	5.00%	July 1, 2033	<b>50,520,000</b>	50,520,000
			<b>\$ 81,180,000</b>	<b>\$ 82,665,000</b>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**8. Bonds Payable (continued)**

**D. Bonds Payable – Discretely Presented Component Unit (continued)**

Interest on the bonds is payable each January 1 and July 1, commencing on July 1, 2001, Bonds maturing after July 1, 2010 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.

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

**E. Compliance with the Loan Agreement with AFICA – Discretely Presented Component Unit**

At March 31, 2008 and 2007, the Company was not in compliance with Section 3.04 of the Loan Agreement with AFICA regarding allowed uses of funds in the Construction Fund, which are restricted to the payment of Project Costs, as defined in the Trust Agreement. Management and the Board of Directors understand that this situation does not jeopardize the tax exempt status of the underlying bonds. However, the Trustee and/or AFICA may notify in writing the Company's failure to observe this provision of the Loan Agreement and demand that it be remedied within sixty (60) days or that corrective action be instituted and diligently pursued by the Company within such period.

On October 15, 2008, the Trustee issued a Notice of Event of Default. Thereafter, on November 10, 2008, the Company received a payment from the University covering substantially all amounts due under the reimbursable expenses fee through June 30, 2008.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**9. Obligation under Capital Lease**

In October, 2007, the University entered into a capital lease agreement with Desarrollos Universitarios, Inc. a nonprofit corporation and component unit of the University. The agreement is for the use of Plaza Universitaria a residential and commercial facility for the use of students and other persons or entities conducting business with the University. The agreement began on October 1, 2006 and expires on June 25, 2033. The outstanding liability at June 30, 2008 and 2007 on this capital lease is \$69,712,586 and \$70,775,930, respectively.

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

<b>Future Minimum Lease Payments</b>	
<b>Year</b>	<b>Amount</b>
2009	\$ 5,699,375
2010	5,697,550
2011	5,700,938
2012	5,701,938
2013	5,697,312
2014 to 2018	28,505,906
2019 to 2023	28,495,531
2024 to 2028	28,499,500
2029 to 2033	28,502,500
Total minimum lease payments	142,500,550
Less amount representing interest	(72,787,964)
Present value of net minimum lease payments	<u>\$ 69,712,586</u>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**10. Commitments and Contingent Liabilities**

**A. Insurance**

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. Through January 1993, the University was insured under claims-made insurance policies with respect to medical malpractice risks for \$250,000 per occurrence up to an annual aggregate of \$500,000. Subsequent to such date, the University was unable to obtain insurance at a cost it considered to be economically justifiable, consequently, the University is now self-insured for such risks. Under Law Number 98 of August 24, 1994, the responsibility of the University is limited to a maximum amount of \$75,000 per person, or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. 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 in fiscal years 2008 and 2007 were:

	<u>2008</u>	<u>2007</u>
Claims payable - July 1	\$ 22,060,285	\$ 18,332,300
Incurred claims and changes in estimates	29,300,132	34,279,088
Payments for claims and adjustments expenses	<u>(32,235,670)</u>	<u>(30,551,103)</u>
Claims payable - June 30	<u>\$ 19,124,747</u>	<u>\$ 22,060,285</u>

The University continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Federal Assistance Programs**

The University participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The resolution of certain previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**10. Commitments and Contingent Liabilities (continued)**

**C. Discretely Presented Component Units**

**Servicios Médicos Universitarios, Inc.** (the Hospital) is a non-for-profit corporation organized to operate and administer healthcare unit locate in Carolina. This facility was acquired by the University and includes land, building and medical equipment.

The Hospital entered into a loan agreement (the Agreement) with the Government Development Bank of Puerto Rico (GDB) for an aggregate principal amount not to exceed \$17,000,000. As part of the Agreement, the University (the Guarantor) agreed to guaranty payment obligations.

On July 18, 2001, the Board of Trustees approved to amend the Working Capital Loan to \$15,367,611 and to decrease the Improvement Loan to \$1,632,389. The amendment was effective on August 1, 2001. In addition, the Guarantor will pay GDB, on the first day of July and January of each year, the balance of interest due and outstanding by the Hospital.

Scheduled principal repayments of the long-term debt for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 15,367,611
2010	—
2011	—
2012	—
2013	—
Thereafter	1,632,389
	<u>\$ 17,000,000</u>

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**10. Commitments and Contingent Liabilities (continued)**

**C. Discretely Presented Component Units (continued)**

**Desarrollos Universitarios, Inc.** (the Company) was incorporated on January 22, 1997. The Company is a non-for-profit corporation, with the sole purpose of developing, constructing and operating academic, residential, administrative, office, commercial and maintenance facilities (Plaza Universitaria) for use by students, faculty members, administrators, employees, visitors, invitees, and other members of or persons and entities related to or conducting business with the University community, or other activities conducted in such facility.

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

## **University of Puerto Rico**

### **Notes to Financial Statements (continued)**

#### **10. Commitments and Contingent Liabilities (continued)**

##### **C. Discretely Presented Component Units (continued)**

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

#### **11. University of Puerto Rico Retirement System**

The University of Puerto Rico Retirement System (the System) is a single-employer, defined benefit pension plan that covers all employees of the University of Puerto Rico (the University) with the exception of hourly, temporary, part-time, contract and substitute employees, and visiting professors. It is qualified and exempt from Puerto Rico and United States taxes.

The System issues stand-alone audited financial statements and can be obtained from the System's administrative offices.



**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**11. University of Puerto Rico Retirement System (continued)**

Effective July 1, 2006, the System changed its method of amortizing the unfunded actuarial liability from the "Level Dollar Amount" method to the "Level Percentage of Payroll" method. The newly adopted method is an accepted method of amortizing the unfunded actuarial liability of defined benefit plans. The change has been accounted for prospectively in the financial statements.

**Funding Policy and Annual Pension Cost**

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Contribution rates:	
University	10.9%
Plan members	7%
Annual pension cost	\$59,245,691
Contributions made	\$81,553,088
Actuarial valuation date	6/30/2008
Actuarial cost method	Entry age normal (traditional)
Amortization method	Level percentage of payroll
Remaining amortization period	30 years constant (open basis)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5%
*Includes inflation at	3.50%
Postretirement benefit increases	3% every two (2) years

Year Ending	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2008	\$ 59,245,691	\$ 81,553,088	137.7%	\$ (22,307,397)
6/30/2007	\$ 57,524,263	\$ 78,310,774	136.1%	\$ (20,786,511)
6/30/2006	\$ 55,399,680	\$ 73,658,083	133.0%	\$ (18,258,403)
6/30/2005	\$ 84,672,084	\$ 69,291,395	81.8%	\$ 15,380,689
6/30/2004	\$ 70,244,365	\$ 61,376,007	87%	\$ 8,868,358

Pension asset has been recorded in prepaid expense and other assets.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**12. Other Post-Employment Benefits (OPEB)**

In addition to the pension benefits described in Note 11, the University provides post-employment health care benefits for its retired employees. Substantially all of the employees may become eligible for this benefit if they reach normal retirement age while working for the University. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and by the University up to maximum of \$125 per month for each retiree. The cost of providing such benefits are recognized when paid.

The Governmental Accounting Standards Board released Statement No. 45 (GASB No. 45) in 2004. This statement requires employers to accrue the cost of Postemployment Benefit Plans while employees who will receive these benefits are providing services to the employer.

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

The Annual OPEB Cost is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on 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 following table shows the components of the University's annual OPEB cost for the fiscal year 2007-2008:

Annual OPEB cost (or ARC)	\$ 9,681,698
Actuarial Accrued Liability (AAL)	\$186,689,632
Unfunded AAL	\$186,689,632
Funded Ratio	0%

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the Net OPEB Obligation on a funded and unfunded basis are as follow:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/2008	\$9,681,698	85.6%	\$1,394,231

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**12. Other Post-Employment Benefits (OPEB) (continued)**

*OPEB Actuarial Valuation* – The University’s other Post-Employment Benefits Program actuarial valuation was conducted by Deloitte Consulting, LLP as of July 1, 2007, members of the American Academy of Actuaries. The valuation was performed in accordance with GASB Statement No. 45 requirements.

Significant Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2007
Actual Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Amortization over 30 years
Medical Subsidy	85%
Tuition Remission	\$460 per retiree in fiscal 2008, increasing 4.0% per year
Payroll Growth	4%
Discount Rate	4%

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection 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 the actuarial value of assets.

**13. Going Concern - Discretely Presented Component Unit**

Since the Hospital commenced operations, it has experienced significant operating losses having an accumulated net assets deficiency of \$65,337,535 as of June 30, 2008. The Hospital has received advances from the University to cover its cash needs from operations. Most of these accumulated losses are mainly related to the fact that, as a former public hospital operated by the 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 and aliens without medical insurance coverage. The medical services provided to these persons were supposed to be paid to the Hospital by the Puerto Rico Department of Health. However, since the beginning of the operations, the Department of Health has been unable to pay for such services. As shown in the accompanying financial statements, the Hospital has accumulated losses for uncollectible accounts receivable in the approximate amount of \$21,260,231.

## University of Puerto Rico

### Notes to Financial Statements (continued)

#### 13. Going Concern - Discretely Presented Component Unit (continued)

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 in the accumulated deficit at June 30, 2008.

The Hospital's management with the assistance of the University of Puerto Rico's administration continues implementing a management plan toward its operational activities as well as the Hospital's ability to get cash to comply with its current obligations.

Among the matters included in such management plan are the following:

- Extension of the medical privileges in the Hospital to faculty members within the Hospital's primary and secondary market area.
- Development of new business within the Hospital's building, for example space rentals for physicians and others.
- Marketing of the Ob-Gyn and pediatrics services.
- Marketing of the ophthalmology services, including a new physician that has a specialization in cornea diagnosis and treatment.
- More aggressive negotiation with medical insurance companies and restructuring the billing and collection department, in order to reduce to a minimum, denied reimbursement for service provided, to increase the reimbursement rates.
- Increasing the Hospital operating cash flow by improving the reimbursement rate through more aggressive negotiations with medical insurance companies and restructuring the billing and collection department with the acquisition and implementation of a new accounting, billing and collection, and emergency room tracking and clinical documentation information systems, in order to reduce to at minimum denied reimbursement for services provided.
- Refurbishing pediatrics, Ob-Gyn, Surgery and other hospital general and common areas, improve hospital image and be able to attract insured patients sector.
- Expansion of the Intensive Care Unit area with twelve new beds. This will improve service provided to critical patients and as result of this an increase in patient days.

The Hospital's financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the amounts and classifications of liabilities that might be necessary, should the Hospital be unable to continue as a going concern or in the event of any disposition of the Hospital's assets through a sale or by other means.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**14. Functional Information**

The University's operating expenses by functional classification during the years ended June 30, 2008 and 2007 were as follows:

2008							
Functional classification	Salaries and benefits	Supplies and other services	Scholarship and fellowship	Utilities	Depreciation	Other Expenditures	Total
Instruction	\$ 410,571,202	\$ 17,610,881	\$ 11,008,442	\$ 1,174,161	\$ -	\$ 297,676	\$ 440,662,362
Research	67,422,998	26,982,113	10,958,266	1,168,046	-	688,189	107,219,612
Public service	53,366,517	13,547,886	2,612,691	763,571	-	588,255	70,878,920
Academic support	79,961,708	17,280,054	4,361,716	134,338	-	124,113	101,861,929
Student service	45,669,139	10,339,543	954,213	3,251	-	36,852	57,002,998
Institutional support	125,970,369	36,992,224	531,730	1,920,365	-	1,427,314	166,842,002
Oper & Maintenance	78,109,943	29,214,526	29,990	43,853,045	-	3,989,007	155,196,511
Student Aid	2,401,587	666,013	129,685,290	1,116	-	9,700	132,763,706
Independent Operation	-	8,181	-	-	-	76,991	85,172
Patient Service	43,665,393	2,715,026	295,491	61,284	-	2,876	46,740,070
Auxiliary Enterprises	5,184,715	4,741,671	54,739	68,422	-	1,243,359	11,292,906
Depreciation	-	-	-	-	37,125,069	-	37,125,069
Other	-	-	-	-	-	23,612,308	23,612,308
	<u>\$ 912,323,571</u>	<u>\$ 160,098,118</u>	<u>\$ 160,492,568</u>	<u>\$ 49,147,599</u>	<u>\$ 37,125,069</u>	<u>\$ 32,096,640</u>	<u>\$ 1,351,283,567</u>

2007							
Functional classification	Salaries and benefits	Supplies and other services	Scholarship and fellowship	Utilities	Depreciation	Other Expenditures	Total
Instruction	\$ 383,324,453	\$ 18,945,647	\$ 10,846,926	\$ 1,126,143	\$ -	\$ 82,508	\$ 414,325,677
Research	66,284,908	21,338,866	11,755,699	1,026,227	-	4,995,303	105,401,003
Public service	49,857,343	11,488,554	2,153,249	395,646	-	26,200	63,920,992
Academic support	79,270,040	17,460,444	4,118,524	123,684	-	36,300	101,008,992
Student service	43,680,136	9,838,406	924,629	461	-	24,010	54,467,642
Institutional support	120,318,861	41,876,263	507,043	1,762,543	-	184,187	164,648,897
Oper & Maintenance	77,452,882	16,516,950	16,569	39,970,471	-	273,708	134,230,580
Student Aid	2,161,073	612,771	119,897,505	344	-	-	122,671,693
Independent Operation	-	462	-	-	-	-	462
Patient Service	43,117,786	2,623,561	282,541	63,117	-	15,697	46,102,702
Auxiliary Enterprises	4,746,225	5,326,439	70,613	61,645	-	1,268,137	11,473,059
Depreciation	-	-	-	-	33,774,910	-	33,774,910
Other	-	-	-	-	-	14,496,756	14,496,756
	<u>\$ 870,213,707</u>	<u>\$ 146,028,363</u>	<u>\$ 150,573,298</u>	<u>\$ 44,530,281</u>	<u>\$ 33,774,910</u>	<u>\$ 21,402,806</u>	<u>\$ 1,266,523,365</u>

## University of Puerto Rico

### Notes to Financial Statements (continued)

#### 15. Significant New Accounting Pronouncements

##### **Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues**

In September 2007, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements.

In addition to clarifying guidance on accounting for sales and pledges of receivables and future revenues, the Statement:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold,
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity,
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007.

##### **Pollution Remediation Obligations**

In November 2007, the GASB recently issued Statement No. 49, *Pollution Remediation Obligations*. The Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the Statement, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem,
- A government has violated a pollution prevention-related permit or license,
- A regulator has identified (or evidence indicates a regulator will do so) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up,
- A government is named in a lawsuit (or evidence indicates that it will be) to compel it to address the pollution,
- A government begins to clean up pollution or conducts related remediation activities (or the government legally obligates itself to do so).

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**15. Significant New Accounting Pronouncements (continued)**

**Pollution Remediation Obligations (continued)**

Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Statement 49 also would require governments to disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements.

Statement 49 will be effective for financial statements for periods beginning after December 15, 2007.

**Pension Disclosures**

In May 2007, the GASB recently issued Statement No. 50, *Pension Disclosures*, which more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits.

Specifically, Statement 50 amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, by requiring:

- Disclosure in the notes to the financial statements of pension plans and certain employer governments of the current funded status of the plan—in other words, the degree to which the actuarial accrued liabilities for benefits are covered by assets that have been set aside to pay the benefits—as of the most recent actuarial valuation date.
- Governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate; these governments previously were not required to provide this information.
- Disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution rate is determined.

The provisions of Statement 50 generally are effective for periods beginning after June 15, 2007, with early implementation encouraged. The requirements relating to governments using the aggregate actuarial cost method are effective for financial statements and required supplementary information that contains information from actuarial valuations as of June 15, 2007, or later.

**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**15. Significant New Accounting Pronouncements (continued)**

**Accounting and Financial Reporting for Intangible Assets**

In June 2007, the GASB recently issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to provide guidance regarding how to identify, account for, and report intangible assets.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

Statement 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.

Statement 51 provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.

The requirements Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The GASB made significant changes to the transition provisions, based on constituent response to the proposed version of the standards, to make it easier for governments to implement.

**Land and Other Real Estate Held as Investments by Endowments**

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

Statement 52 will be effective for financial statement periods beginning after June 15, 2008.



**University of Puerto Rico**

**Notes to Financial Statements (continued)**

**15. Significant New Accounting Pronouncements (continued)**

**Accounting and Financial Reporting for Derivative Instruments**

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Statement 53 will be effective for financial statement periods beginning after June 15, 2009.

**Fund Balance Reporting and Governmental Fund Type Definitions**

The GASB recently issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or “rainy-day” amounts should be reported.

GASB Statement 54 is effective for financial statements for periods beginning after June 15, 2010. Governments that wish to implement earlier than that date are encouraged to do so.

# Required Supplementary Information

**University of Puerto Rico**  
**Supplementary Schedule of Funding Progress**  
*(Unaudited)*

**Employees Retirement Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Excess of Assets over AAL (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>Excess as a Percentage of Covered (b - a) / c)</b>
6/30/2005	\$ 820,501,000	\$ 1,848,175,710	\$ 1,027,674,710	44%	\$ 460,956,060	222.90%
6/30/2006	\$ 869,211,000	\$ 1,930,131,983	\$ 1,060,920,983	45%	\$ 484,886,628	218.80%
6/30/2007	\$ 933,197,000	\$ 2,068,102,695	\$ 1,114,905,695	45%	\$ 513,486,180	217.10%

**Post Employment Plan**

<b>Actuarial Valuation Date</b>	<b>Actual Value of Assets (a)</b>	<b>Actual Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (a - b)</b>	<b>Funded Ratio (a / b)</b>
6/30/2007	\$ 0	\$ 184,232,820	\$ (184,232,820)	0%
6/30/2008	\$ 0	\$ 186,689,632	\$ (186,689,632)	0%

# Other Financial Information

**University of Puerto Rico**  
**Schedules of Changes in Sinking Fund Reserve**  
*(Unaudited)*

	2008		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from Reserve Account	\$ 2,198,378	\$ —	\$ 2,198,378
Transfer from unrestricted current funds	46,460,002	—	46,460,002
Net increase in fair market value of investments	3,271	—	3,271
Interest Earned on Investments	608,274	2,276,617	2,884,891
Total receipts	<u>49,269,925</u>	<u>2,276,617</u>	<u>51,546,542</u>
Deductions:			
Payments of bond interest	29,308,028	—	29,308,028
Payments of bond principal	19,760,000	—	19,760,000
Net decrease in fair market value of investments	202,754	477,035	679,789
Transfer to Reserve Account	—	2,110,521	2,110,521
Total disbursements	<u>49,270,782</u>	<u>2,587,556</u>	<u>51,858,338</u>
Net decrease for the year	(858)	(310,939)	(311,796)
Balances at beginning of year	857	54,797,389	54,798,246
Balance at end of year	<u>\$ (1)</u>	<u>\$ 54,486,450</u>	<u>\$ 54,486,450</u>

	2007		
	Bond Service Account	Bond Reserve Account	Total
Additions:			
Transfer from Reserve Account	\$ 9,562,744	\$ 16,589,826	\$ 26,152,570
Transfer from unrestricted current funds	30,331,662	—	30,331,662
Net increase in fair market value of investments	1,481,868	734,124	2,215,992
Interest Earned on Investments	258,731	1,508,142	1,766,873
Total receipts	<u>41,635,005</u>	<u>18,832,092</u>	<u>60,467,097</u>
Deductions:			
Payments of bond interest	14,760,000	1,385,961	16,145,961
Payments of bond principal	25,230,881	—	25,230,881
Transfer to Reserve Account	1,642,113	1,861,855	3,503,968
Total disbursements	<u>41,632,994</u>	<u>3,247,816</u>	<u>44,880,810</u>
Net increase for the year	2,011	15,584,276	15,586,287
Balances at beginning of year	(1,154)	39,213,113	39,211,959
Balance at end of year	<u>\$ 857</u>	<u>\$ 54,797,389</u>	<u>\$ 54,798,246</u>

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

Board of Trustees  
University of Puerto Rico

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Puerto Rico (the University), as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 9, 2009. Our report was modified to include a reference to other auditors. One of the report of other auditors included an explanatory paragraph stating that it has experience recurring losses since it commenced operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contain in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Servicios Médicos Universitarios, Inc. (the Hospital) and Desarrollos Universitarios, Inc. (the Company), as described in our report on the University's financial statements. The financial statements of the Hospital and the Company were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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 under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

June 9, 2009

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this report.

# Supplementary Reports on Federal Financial Assistance Programs





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## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees  
University of Puerto Rico

### **Compliance**

We have audited the compliance of the University of Puerto Rico (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-01, 08-02, 08-03, 08-04, 08-05, 08-06, 08-07, 08-08, 08-09, 08-10, 08-11.

## Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses and defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 08-05 and 08-09 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



The University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

June 30, 2009

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original of  
this report.

University of Puerto Rico  
 Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
<i>Federal Pass-Through Funds</i>						
10.558 - CHILD AND ADULT CARE FOOD PROGRAM	\$ -	\$ -	\$ -	\$ -	\$ 59,236	\$ 59,236
11.609 - MEASUREMENT AND ENGINEERING RESEARCH AND STANDARDS	19,437	-	-	-	-	19,437
14.231 - EMERGENCY SHELTER GRANTS PROGRAM	-	-	-	-	40,964	40,964
16.541 - PART E - DEVELOPING, TESTING AND DEMONSTRATING PROMISING NEW PROGRAMS	-	-	-	-	131,973	131,973
16.579 - EDWARD BYRNE MEMORIAL FORMULA GRANT PROGRAM	-	-	-	-	5,151	5,151
20.600 - STATE AND COMMUNITY HIGHWAY SAFETY	-	-	-	-	124,353	124,353
45.024 - PROMOTION OF THE ARTS GRANTS TO ORGANIZATIONS AND INDIVIDUALS	-	-	-	-	3,636	3,636
47.041 - ENGINEERING GRANTS	29,989	-	-	-	-	29,989
47.074 - BIOLOGICAL SCIENCES	53,138	-	-	-	-	53,138
47.076 - EDUCATION AND HUMAN RESOURCES	145,144	-	-	-	-	145,144
66.950 - ENVIRONMENTAL EDUCATION AND TRAINING PROGRAM	-	-	-	-	1,797	1,797
84.031 - HIGHER EDUCATION INSTITUTIONAL AID	-	-	-	324,954	-	324,954
84.153 - BUSINESS AND INTERNATIONAL EDUCATION PROJECTS	-	-	-	-	38,572	38,572
84.243 - TECH-PREP EDUCATION	-	-	-	-	382,360	382,360
84.287 - TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	-	-	-	-	551,821	551,821
84.298 - STATE GRANTS FOR INNOVATIVE PROGRAMS	-	-	-	-	1,054,582	1,054,582
84.336 - TEACHER QUALITY ENHANCEMENT GRANTS	-	-	-	-	1,175,942	1,175,942
84.366 - MATEMATICS AND SCIENCE PARTNERSHIP	-	-	-	-	2,706	2,706
84.367 - IMPROVING TEACHER QUALITY STATE GRANTS	-	-	-	-	881,314	881,314
93.110 - MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	-	-	-	-	210,611	210,611
93.217 - FAMILY PLANNING SERVICES	-	-	-	-	19,605	19,605
93.242 - MENTAL HEALTH RESEARCH GRANTS	151,598	-	-	-	-	151,598
93.398 - CANCER RESEARCH MANPOWER	2,352	-	-	-	-	2,352
93.575 - CHILD CARE AND DEVELOPMENT BLOCK GRANT	-	-	-	-	1,457,030	1,457,030
93.632 - UNIVERSITY CENTERS FOR EXCELLENCE IN DEVELOPMENT DISABILITIES EDUCATION, RESEARCH, AND SERVICES	269,752	-	-	-	-	269,752
93.837 - HEART AND VASCULAR DISEASES RESEARCH	6,715	-	-	-	-	6,715
93.853 - EXTRAMURAL RESEARCH PROGRAMS IN THE NEUROSCIENCES AND NEUROLOGICAL DISORDERS	59,473	-	-	-	-	59,473
93.855 - ALLERGY, IMMUNOLOGY AND TRANSPLANTATION RESEARCH	260,796	-	-	-	-	260,796
93.856 - MICROBIOLOGY AND INFECTIOUS DISEASES RESEARCH	24,594	-	-	-	-	24,594
93.859 - BIOMEDICAL RESEARCH AND RESEARCH TRAINING	-	-	-	-	-	-
93.865 - CHILD HEALTH AND HUMAN DEVELOPMENT EXTRAMURAL RESEARCH	266,492	-	-	-	-	266,492
93.880 - MINORITY ACCESS TO RESEARCH CAREERS	13,230	-	-	-	-	13,230
93.910 - FAMILY AND COMMUNITY VIOLENCE PREVENTION PROGRAM	-	-	-	-	165,572	165,572
93.959 - BLOCK GRANTS FOR PREVENTION AND TREATMENT FOR SUBSTANCE ABUSE	-	-	-	-	169	169
93.977 - PREVENTIVE HEALTH SERVICES SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	-	-	-	-	85,735	85,735
97.029 - FLOOD MITIGATION ASSISTANCE	-	-	-	-	35,000	35,000
	1,302,710	-	-	324,954	6,428,129	8,055,793

University of Puerto Rico

Schedule of Expenditures of Federal Awards (continued)

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
<b>Direct Funds</b>						
<b>United States Department of Agriculture (USDA)</b>						
10.001 - AGRICULTURAL RESEARCH_BASIC AND APPLIED RESEARCH	19,298	-	-	-	-	19,298
10.156 - FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM	-	-	-	-	3,215	3,215
10.200 - GRANTS FOR AGRICULTURAL RESEARCH, SPECIAL RESEARCH GRANTS	1,157,099	-	-	-	-	1,157,099
10.202 - COOPERATIVE FORESTRY RESEARCH	80,295	-	-	-	-	80,295
10.203 - AGRICULTURAL EXPERIMENT STATIONS UNDER HATCH ACT	5,141,109	-	-	-	-	5,141,109
10.206 - GRANTS FOR AGRICULTURAL RESEARCH_COMPETITIVE RESEARCH GRANTS	44,380	-	-	-	-	44,380
10.215 - SUSTAINABLE AGRICULTURE RESEARCH AND EDUCATION	233	-	-	-	-	233
10.223 - HISPANIC SERVING INSTITUTIONS EDUCATION GRANTS	-	-	-	-	361,068	361,068
10.250 - AGRICULTURAL AND RURAL ECONOMIC RESEARCH	210,602	-	-	-	-	210,602
10.303 - INTEGRATED PROGRAMS	22,652	-	-	-	-	22,652
10.304 - HOMELAND SECURITY_AGRICULTURAL	-	-	-	-	48,318	48,318
10.308 - RESIDENT INSTRUCTION GRANTS FOR INSULAR AREA ACTIVITIES	-	-	-	-	8,175	8,175
10.500 - COOPERATIVE EXTENSION SERVICE	7,477,765	-	-	-	-	7,477,765
10.652 - FORESTRY RESEARCH	30,771	-	-	-	-	30,771
10.664 - COOPERATIVE FORESTRY ASSISTANCE	-	-	-	-	27,717	27,717
10.680 - FOREST HEALTH PROTECTION	15,772	-	-	-	-	15,772
10.902 - SOIL AND WATER CONSERVATION	-	-	-	-	22,150	22,150
10.912 - ENVIRONMENTAL QUALITY INCENTIVES PROGRAM	-	-	-	-	94,459	94,459
10.960 - TECHNICAL AGRICULTURAL ASSISTANCE	126,536	-	-	-	-	126,536
10.962 - COCHRAN FELLOWSHIP PROGRAM-INTERNATIONAL TRAINING-FOREING PARTICIPANT	-	-	-	-	12,100	12,100
	14,326,512	-	-	-	577,202	14,903,714
<b>Department of Commerce (DOC)</b>						
11.303 - ECONOMIC DEVELOPMENT_TECHNICAL ASSISTANCE	-	-	-	-	217,174	217,174
11.413 - FISHERY PRODUCTS INSPECTION AND CERTIFICATION	-	-	-	-	7,663	7,663
11.417 - SEA GRANT SUPPORT	1,013,797	-	-	-	-	1,013,797
11.420 - COASTAL ZONE MANAGEMENT ESTUARINE RESEARCH RESERVES	22,628	-	-	-	-	22,628
11.426 - FINANCIAL ASSISTANCE FOR NATIONAL CENTERS FOR COASTAL OCEAN SCIENCE	394,564	-	-	-	-	394,564
11.432 - OFFICE OF OCEANIC AND ATMOSPHERIC RESEARCH (OAR) JOINT AND COOPERATIVE INSTITUTES	234,731	-	-	-	-	234,731
11.435 - SOUTHEAST AREA MONITORING AND ASSESSMENT PROGRAM	-	-	-	-	23,166	23,166
11.463 - HABITAT CONSERVATION	-	-	-	-	46,549	46,549
11.468 - APPLIED METEOROLOGICAL RESEARCH	65,424	-	-	-	-	65,424
11.472 - UNALLIED SCIENCE PROGRAM	-	-	-	-	-	-
11.473 - COASTAL SERVICES CENTER	316,333	-	-	-	-	316,333
11.478 - CENTER FOR SPONSORED COASTAL OCEAN RESEARCH_COASTAL OCEAN PROGRAM	563,828	-	-	-	-	563,828
11.481 - EDUCATIONAL PARTNERSHIP PROGRAM	-	-	-	-	-	-
	2,611,305	-	-	-	294,552	2,905,857

University of Puerto Rico

Schedule of Expenditures of Federal Awards (continued)

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
<b>Department of Defense (DoD)</b>						
12.300 - BASIC AND APPLIED SCIENTIFIC RESEARCH	342,439	-	-	-	-	342,439
12.420 - MILITARY MEDICAL RESEARCH AND DEVELOPMENT	275,768	-	-	-	-	275,768
12.431 - BASIC SCIENTIFIC RESEARCH	1,663,369	-	-	-	-	1,663,369
12.609 - SELECTED RESERVE EDUCATIONAL ASSISTANCE PROGRAM	-	-	-	-	23,414	23,414
12.630 - BASIC, APPLIED, AND ADVANCED RESEARCH IN SCIENCE AND ENGINEER	92,369	-	-	-	-	92,369
12.800 - PHOTOFRAGMENTATION SPECTROSCOPIC AND PHOTODISSOCIATION DYNA	22,187	-	-	-	-	22,187
12.901 - MATHEMATICAL SCIENCES GRANTS PROGRAMS	-	-	-	-	230,216	230,216
12.910 - RESEARCH AND TECHNOLOGY DEVELOPMENT	23,381	-	-	-	-	23,381
	<u>2,419,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,630</u>	<u>2,673,143</u>
<b>Department of Housing and Urban Development (HUD)</b>						
14.511 - COMMUNITY OUTREACH PARTNERSHIP CENTER PROGRAM	-	-	-	-	57,661	57,661
14.514 - HISPANIC-SERVING INSTITUTIONS ASSISTING COMMUNITIES	-	-	-	-	48,101	48,101
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,762</u>	<u>105,762</u>
<b>Department of the Interior (DOI)</b>						
15.632 - CONSERVATION GRANTS PRIVATE STEWARDSHIP FOR IMPERILED SPECIES	-	-	-	-	21,151	21,151
15.805 - ASSISTANCE TO STATE WATER RESOURCES RESEARCH INSTITUTES	87,475	-	-	-	-	87,475
15.807 - EARTHQUAKE HAZARDS REDUCTION PROGRAM	-	-	-	-	20,235	20,235
15.808 - U.S. GEOLOGICAL SURVEY-RESEARCH AND DATA ACQUISITION	508	-	-	-	-	508
	<u>87,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,386</u>	<u>129,369</u>
<b>Department of Justice (DOJ)</b>						
16.525 - GRANTS TO REDUCE VIOLENT CRIMES AGAINST WOMEN ON CAMPUS	-	-	-	-	113,435	113,435
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,435</u>	<u>113,435</u>
<b>Department of Labor (DOL)</b>						
17.502 - OCCUPATIONAL SAFETY AND HEALTH_SUSAN HARWOOD TRAINING GRANTS	-	-	-	-	188,149	188,149
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,149</u>	<u>188,149</u>
<b>Department of Transportation (DOT)</b>						
20.215 - HIGHWAY TRAINING AND EDUCATION	-	-	-	-	38,479	38,479
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,479</u>	<u>38,479</u>
<b>National Aeronautics and Space Administration (NASA)</b>						
43.001 - AEROSPACE EDUCATION SERVICES PROJECT	-	-	-	-	2,184,594	2,184,594
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,184,594</u>	<u>2,184,594</u>

University of Puerto Rico

Schedule of Expenditures of Federal Awards (continued)

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
<b>National Science Foundation</b>						
47.041 - ENGINEERING GRANTS	1,201,322	-	-	-	-	1,201,322
47.049 - MATHEMATICAL AND PHYSICAL SCIENCES	-	-	-	-	1,611,068	1,611,068
47.050 - GEOSCIENCES	401,670	-	-	-	-	401,670
47.070 - COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	354,478	-	-	-	-	354,478
47.074 - BIOLOGICAL SCIENCES	2,491,892	-	-	-	-	2,491,892
47.075 - SOCIAL, BEHAVIORAL AND ECONOMIC SCIENCES	-	-	-	-	290,500	290,500
47.076 - EDUCATION AND HUMAN RESOURCES	12,230,322	-	-	-	-	12,230,322
47.079 - INTERNATIONAL SCIENCE AND ENGINEERING (OISE)	6,204	-	-	-	-	6,204
	16,685,888	-	-	-	1,901,568	18,587,456
<b>Veterans Affairs</b>						
64.116 - VOCATIONAL REHABILITATION FOR DISABLED VETERANS	-	-	-	-	1,433	1,433
64.117 - SURVIVORS AND DEPENDENTS EDUCATIONAL ASSISTANCE	-	-	-	-	1,754	1,754
64.124 - ALL-VOLUNTEER FORCE EDUCATIONAL ASSISTANCE	-	-	-	-	75	75
64.125 - VOCATIONAL AND EDUCATIONAL COUNSELING FOR SERVICEMEMBERS AND VETERANS	-	-	-	-	1,067	1,067
	-	-	-	-	4,329	4,329
<b>Environmental Protection Agency (EPA)</b>						
66.034 - SURVEYS, STUDIES, INVESTIGATION, DEMONSTRATIONS, AND SPECIAL PURPOSE ACTIVITIES RELATING TO THE CLEAN AIR ACT	50,389	-	-	-	-	50,389
66.436 - SURVEYS, STUDIES, INVESTIGATION, DEMONSTRATIONS, AND TRAINING GRANTS AND COOPERATIVE AGREEMENTS - SECTION 104 (b)(3) OF THE CLEAN WATER ACT	10,439	-	-	-	-	10,439
66.513 - GREATER RESEARCH OPPORTUNITIES (GRO) FELLOWSHIPS FOR UNDERGRADUATE/GRADUATE ENVIRONMENTAL STUDY	1,189	-	-	-	-	1,189
66.714 - PESTICIDE ENVIRONMENTAL STEWARDSHIP REGIONAL GRANTS	15,311	-	-	-	-	15,311
	77,328	-	-	-	-	77,328
<b>Department of Energy (DOE)</b>						
81.041 - STATE ENERGY CONSERVATION	-	-	-	-	188,525	188,525
81.049 - OFFICE OF SCIENCE FINANCIAL ASSISTANCE PROGRAM	-	-	-	-	204,169	204,169
81.089 - FOSsing ENERGY RESEARCH AND DEVELOPMENT	40,323	-	-	-	-	40,323
	40,323	-	-	-	392,694	433,017

University of Puerto Rico

Schedule of Expenditures of Federal Awards (continued)

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
<b>Department of Education (ED)</b>						
84.007 - SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	-	2,780,807	-	-	-	2,780,807
84.010 - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	-	-	-	-	295,490	295,490
84.031 - HIGHER EDUCATION_INSTITUTIONAL AID	-	-	-	3,618,622	-	3,618,622
84.033 - COLLEGE WORK-STUDY PROGRAM	-	4,829,362	-	-	-	4,829,362
84.042 - STUDENT SUPPORT SERVICES	-	-	1,725,860	-	-	1,725,860
84.044 - TALENT SEARCH	-	-	913,682	-	-	913,682
84.047 - UPWARD BOUND	-	-	1,213,513	-	-	1,213,513
84.063 - PELL GRANT PROGRAM	-	121,374,529	-	-	-	121,374,529
84.120 - MINORITY SCIENCE IMPROVEMENT	-	-	-	-	673,292	673,292
84.129 - REHABILITATION TRAINING	-	-	-	-	156,869	156,869
84.164 - EISENHOWER MATHEMATICAL AND SCIENCE EDUCATION STATE GRANT	-	-	-	-	433,012	433,012
84.186 - DRUG-FREE SCHOOLS AND COMMUNITIES_STATE GRANTS	-	-	-	-	5,527	5,527
84.217 - RONALD E. MCNAIR POST-BACCALAUREATE ACHIEVEMENT	-	-	212,006	-	-	212,006
84.224 - STATE GRANTS FOR TECHNOLOGY-RELATED ASSISTANCE TO INDIVIDUALS	-	-	-	-	461,275	461,275
84.342 - PREPARING TOMORROW'S TEACHERS TO USE TECHNOLOGY	3,603	-	-	-	-	3,603
84.375 - ACADEMIC COMPETITIVENESS GRANT	-	4,975,554	-	-	-	4,975,554
84.376 - NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT (SMART) GRANTS	-	5,557,842	-	-	-	5,557,842
	3,603	139,518,094	4,065,061	3,618,622	2,025,465	149,230,845
<b>Department of Health and Human Services (HHS)</b>						
93.013 - AMBASSADORS FOR CHANGE PROGRAM	-	-	-	-	2,959	2,959
93.110 - MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	-	-	-	-	72,985	72,985
93.121 - ORAL DISEASES AND DISORDERS RESEARCH	487,090	-	-	-	-	487,090
93.127 - EMERGENCY MEDICAL SERVICES FOR CHILDREN	156,920	-	-	-	-	156,920
93.145 - AIDS EDUCATION AND TRAINING CENTERS	-	-	-	-	496,530	496,530
93.157 - PROGRAMS FOR EXCELLENCE IN HEALTH PROFESSIONS EDUCATION FOR M	-	-	-	-	181,515	181,515
93.215 - HANSEN'S DISEASE NATIONAL AMBULATORY CARE PROGRAM	76,243	-	-	-	-	76,243
93.217 - FAMILY PLANNING_SERVICES	-	-	-	-	2,655,913	2,655,913
93.226 - HEALTH SERVICES RESEARCH AND DEVELOPMENT GRANTS	325,165	-	-	-	-	325,165
93.236 - GRANTS FOR DENTAL PUBLIC HEALTH RESIDENCY TRAINING	-	-	-	-	131,068	131,068
93.242 - MENTAL HEALTH RESEARCH GRANTS	1,750,086	-	-	-	-	1,750,086
93.243 - SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES_PROJECTS OF REGION	-	-	-	-	89,351	89,351
93.247 - ADVANCED EDUCATION NURSING GRANT PROGRAM	-	-	-	-	787,613	787,613
93.262 - OCCUPATIONAL SAFETY AND HEALTH PROGRAM	67,995	-	-	-	-	67,995
93.278 - DRUG ABUSE NATIONAL RESEARCH SERVICE AWARDS FOR RESEARCH TRAI	6,835	-	-	-	-	6,835
93.279 - DRUG ABUSE RESEARCH PROGRAMS	294,595	-	-	-	-	294,595
93.281 - MENTAL HEALTH RESEARCH CAREER/SCIENTIST DEVELOPMENT AWARDS	23,275	-	-	-	-	23,275
93.282 - MENTAL HEALTH NATIONAL RESEARCH SERVICE AWARDS FOR RESEARCH T	221,578	-	-	-	-	221,578
93.283 - CENTERS FOR DISEASE CONTROL_INVESTIGATIONS AND TECHNICAL ASSI	-	-	-	-	448,490	448,490
93.306 - LABORATORY ANIMAL SCIENCES AND PRIMATE RESEARCH	158	-	-	-	-	158
93.307 - MINORITY HEALTH AND HEALTH DISPARITIES RESEARCH	1,778,706	-	-	-	-	1,778,706



University of Puerto Rico

Schedule of Expenditures of Federal Awards (continued)

CFDA - Program Title	Research and Development Cluster	Student Financial Assistance Cluster	TRIO Cluster	Higher Education Institutional Aid	Other Federal Expenditures	Total Expenditures
93.333 - GENERAL CLINICAL RESEARCH CENTERS	69,029	-	-	-	-	69,029
93.358 - PROFESSIONAL NURSE TRAINEESHIPS	-	-	-	-	57,565	57,565
93.361 - NURSING RESEARCH	45,368	-	-	-	-	45,368
93.375 - MINORITY BIOMEDICAL RESEARCH SUPPORT	1,243,384	-	-	-	-	1,243,384
93.389 - RESEARCH CENTERS IN MINORITY INSTITUTIONS	14,230,273	-	-	-	-	14,230,273
93.397 - CANCER CENTERS SUPPORT	799,975	-	-	-	-	799,975
93.398 - CANCER RESEARCH MANPOWER	162,689	-	-	-	-	162,689
93.399 - CANCER CONTROL	59,769	-	-	-	-	59,769
93.591 - FAMILY VIOLENCE PREVENTION AND SERVICES/GRANTS FOR BATTERED WOMEN'S SHELTERS_ GRANTS TO STATE DOMESTIC VIOLENCE COALITIONS	-	-	-	-	6,664	6,664
93.632 - ADMINISTRATION ON DEVELOPMENTAL DISABILITIES_ UNIVERSITY AFFIL	457,920	-	-	-	-	457,920
93.838 - LUNG DISEASES RESEARCH	188,154	-	-	-	-	188,154
93.846 - ARTHRITIS, MUSCULOSKELETAL AND SKIN DISEASES RESEARCH	29,297	-	-	-	-	29,297
93.853 - EXTRAMURAL RESEARCH PROGRAMS IN THE NEUROSCIENCES AND NEUROLOGICAL DISORDERS	3,430,294	-	-	-	-	3,430,294
93.855 - ALLERGY, IMMUNOLOGY AND TRANSPLANTATION RESEARCH	2,449,818	-	-	-	-	2,449,818
93.859 - BIOMEDICAL RESEARCH AND RESEARCH TRAINING	13,878,470	-	-	-	-	13,878,470
93.865 - CHILD HEALTH AND HUMAN DEVELOPMENT EXTRAMURAL RESEARCH	889,229	-	-	-	-	889,229
93.880 - MINORITY ACCESS TO RESEARCH CAREERS	2,355	-	-	-	-	2,355
93.884 - GRANTS FOR RESIDENCY TRAINING IN GENERAL INTERNAL MEDICINE	-	-	-	-	397,233	397,233
93.925 - SCHOLARSHIPS FOR HEALTH PROFESSIONS STUDENTS FROM DISADVANTAG	-	1,053,371	-	-	-	1,053,371
93.964 - TRAINEESHIPS FOR STUDENTS IN SCHOOLS OF PUBLIC HEALTH	-	-	-	-	24,026	24,026
	43,124,670	1,053,371	-	-	5,351,912	49,529,953
<b>Department of Homeland Security (DHS)</b>						
97.062 - SCHOLARS AND FELLOWS	-	49,689	-	-	-	49,689
	-	49,689	-	-	-	49,689
<b>Total Expenditures of Federal Awards</b>	<b>\$ 80,679,835</b>	<b>\$ 140,621,154</b>	<b>\$ 4,065,061</b>	<b>\$ 3,943,576</b>	<b>\$ 19,787,851</b>	<b>\$ 249,097,477</b>

# University of Puerto Rico

## Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

### **1. General**

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

### **2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

### **3. Matching Costs**

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 8.

### **4. Relationship to Federal Financial Reports**

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

Office of Management and Budget (OMB) Circular A-133 requires that Federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The University's prepares the Federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the respective Campuses.

### **5. Relationship to Financial Statements**

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

University of Puerto Rico

Notes to Schedule of Expenditures of Federal Awards (continued)

**6. Program Clusters**

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, the TRIO programs, Research and Development programs, and the Student Financial Assistance programs were identified as clusters.

**7. Federal Student Loan Program**

**Direct Loan Programs**

The Federal Perkins Loan, Health Professions Student Loan (HPSL), and Nursing Student Loan (NSL) are administered directly by the University and balances and transactions related to these programs are included in the University's basic financial statements.

The balances of loans outstanding at June 30, 2008, and funds advanced by the University to eligible students during the year ended June 30, 2008, under the federal student loan programs are summarized as follows:

	<b>Federal Perkins Loan Program</b>	<b>HPSL Program</b>	<b>NSL Program</b>	<b>Total</b>
Student loans receivable, June 30, 2007	\$ 1,696,259	\$ 245,960	\$ 158,071	\$ 2,100,290
Less:				
Collections	(145,059)	–	(860)	(145,919)
Cancellations	(25,627)	–	–	(25,627)
Student loans receivable, June 30, 2008	<b>\$ 1,525,573</b>	<b>\$ 245,960</b>	<b>\$ 157,211</b>	<b>\$ 1,928,744</b>

University of Puerto Rico

Notes to Schedule of Expenditures of Federal Awards (continued)

**7. Federal Student Loan Programs (continued)**

Federal Family Education Loan - The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan. Accordingly, balances and transactions relating to this loan program are not included in the University's basic financial statements. No new loans were originated or disbursed during 2007-2008. Therefore, it is not practical to determine the balance of loans outstanding to students and former students of the University at June 30, 2008.

Federally guaranteed loans issued to students of the University during the year ended June 30, 2008, are summarized as follows:

	<u>CFDA#</u>	<u>2008</u>
Federal Family Education Loan	84.032	<u>\$ 44,698,513</u>

University of Puerto Rico

Summary of Schedule of Prior Audits Findings

June 30, 2008

Finding 07-01

<b>CFDA Number</b>	84.032
<b>Name of Federal Program</b>	Federal Family Education Loan
<b>Major Program</b>	Yes
<b>Topic</b>	Failure to timely notify change in the student's enrollment status
<b>Type of Compliance Requirement</b>	Status Reporting
<b>Amount of Questioned Cost</b>	Could not be determined
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mrs. María M. Otero
<b>Status</b>	Not corrected

Finding 07-02

<b>CFDA Number</b>	84.032
<b>Name of Federal Program</b>	Federal Family Education Loan
<b>Major Program</b>	Yes
<b>Topic</b>	Failure to notify change in the student's enrollment status
<b>Type of Compliance Requirement</b>	Status Reporting
<b>Amount of Questioned Cost</b>	Could not be determined
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Juan M. Aponte
<b>Status</b>	Not corrected

Finding 07-03

<b>CFDA Number</b>	84.038
<b>Name of Federal Program</b>	Federal Perkins Loans
<b>Major Program</b>	Yes
<b>Topic</b>	Specific collection procedures not performed
<b>Type of Compliance Requirement</b>	Collection procedures on Federal Perkins Loan Program
<b>Amount of Questioned Cost</b>	None
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Héctor Rivera
<b>Status</b>	Corrected

University of Puerto Rico

Summary of Schedule of Prior Audits Findings (continued)

Finding 07-04

<b>CFDA Number</b>	84.038
<b>Name of Federal Program</b>	Federal Perkins Loans
<b>Major Program</b>	Yes
<b>Topic</b>	Additional attempts to collect default accounts not performed
<b>Type of Compliance Requirement</b>	Collection and litigation procedures on Federal Perkins Loan Program
<b>Amount of Questioned Cost</b>	None
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Nelson Santos and Mr. Livette Reyes
<b>Status</b>	Corrected

Finding 07-05

<b>CFDA Number</b>	All Title IV Funds included in the Schedule of Expenditures of Federal Awards
<b>Name of Federal Program</b>	All Title IV Funds included in the Schedule of Expenditures of Federal Awards
<b>Major Program</b>	Yes
<b>Topic</b>	Failure to comply with admissions policies related to transfers of students (SFA Cluster)
<b>Type of Compliance Requirement</b>	Administrative Capability/Eligibility
<b>Amount of Questioned Cost</b>	Approximately \$96,000
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Hernán Vazquezteñell
<b>Status</b>	Not corrected

University of Puerto Rico

Summary of Schedule of Prior Audits Findings (continued)

Finding 07-06

<b>CFDA Number</b>	12.431 47.041
<b>Name of Federal Program</b>	Basic Scientific Research Engineering Grants
<b>Major Program</b>	Yes
<b>Topic</b>	Incorrect equipment management
<b>Type of Compliance Requirement</b>	Equipment management
<b>Amount of Questioned Cost</b>	None
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Alejandro Sánchez
<b>Status</b>	Corrected

Finding 07-07

<b>CFDA Number</b>	10.200
<b>Name of Federal Program</b>	Grants for Agricultural Research
<b>Major Program</b>	Yes
<b>Topic</b>	Financial report was submitted with incorrect information
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Cost</b>	None
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Alejandro Sánchez
<b>Status</b>	Corrected

University of Puerto Rico

Summary of Schedule of Prior Audits Findings (continued)

<u>Finding 07-08</u>	
<b>CFDA Number</b>	47.076, 93.121, 93.127, 93.375, 93.389, 93.398, 93.853, 93.855, 93.859, 93.865
<b>Name of Federal Program</b>	Education and Human Resources, Oral Diseases and Disorders Research, Emergency Medical Services for Children, Minority Biomedical Research Support, National Center for Research Resources, Cancer Research Manpower, Extramural Research Programs in the Neurosciences and Neurological Disorders, Allergy, Immunology and Transplantation Research, Biomedical Research and Research Training, Child Health and Human Development Extramural Research
<b>Major Program</b>	Yes
<b>Topic</b>	Is not properly monitored
<b>Type of Compliance Requirement</b>	Level of effort
<b>Amount of Questioned Cost</b>	Could not be determined
<b>Internal Control Finding</b>	No
<b>Contact Person Responsible for Corrective Action Plan</b>	Mr. Alejandro Sánchez
<b>Status</b>	Not corrected



University of Puerto Rico  
 Schedule of Findings and Questioned Costs

June 30, 2008

Part I—Summary of Auditor’s Results

**Financial Statements Section**

Type of auditor’s report issued (unqualified, qualified, adverse, or disclaimer):

Unqualified

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Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**      X   **No**

Significant deficiency(ies) identified that are not considered to be material weaknesses?

\_\_\_\_\_ **Yes**      X   **None reported**

Noncompliance material to financial statements noted?

\_\_\_\_\_ **Yes**      X   **No**

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**      X   **No**

Significant deficiency(ies) identified that are not considered to be material weaknesses?

  X   **Yes**    \_\_\_\_\_

Type of auditor’s report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):

Unqualified

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Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

  X   **Yes**    \_\_\_\_\_ **No**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster
Various	Trio Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

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Auditee qualified as low-risk auditee?

  X   **Yes**    \_\_\_\_\_ **No**

University of Puerto Rico  
Schedule of Findings and Questioned Costs (continued)

Part II—Findings Related to the Financial Statements Which Are Required to be  
Reported in Accordance With Generally Accepted Government Auditing  
Standards

No

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

**Finding Number: 08-01**

**Program:**

**84.032 FFEL**

**Topic:**

Failure to timely notify change in the student's enrollment status

**Category:**

Compliance / Control

**Compliance Requirement:**

FFEL Status Reporting

**Condition Found:**

In testing compliance with the requirements of notification in enrollment status change in students' recipients of Federal loans, the Registrar's Office did not notify the change in the enrollment status on a timely manner on students who withdrew during the year 2007-2008. This condition was noted from a sample of 25 students on the following campuses:

<b>Campus</b>	<b>No. of Cases</b>
✓ Carolina	1
✓ Río Piedras	2
✓ Mayagüez	1

There was an internal control deficiency noted related to the absence of effective communication procedures among the internal offices involved in the students enrollment procedure in order to timely report to the NSLDS those students with federal loans transferred to the Campus and those who withdrew from their courses. This condition was noted on the following campuses.

<b>Campus</b>
✓ Carolina
✓ Río Piedras

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-01 (continued)**

#### **Criteria or Specific Requirement:**

34 CFR 682.610, 685.309

#### **Underlying Cause:**

The Registrar's Office internal control procedures established to ascertain the timely notification of a change in student status needs to be improved in order to ascertain that changes in enrollment status are informed on a timely basis.

#### **Effect:**

Failure to notify a change in enrollment status on a timely basis preclude the lender from obtaining the necessary student's information in order to determine his/her status for billing and other required procedures.

#### **Known Questioned Cost:**

None.

#### **Recommendation:**

The Registrar's Office must improve the procedures to ascertain the timely notification of any change in status of students' recipients of Federal loans.

#### **Management's Response:**

#### **Carolina Campus:**

Relating to a student, the student was reported on January 24, March 18 and May 23, 2008. Therefore, we complied with the reporting requirement of the National Student Loan Data System (NSLDS).

The Carolina Campus strengthened its internal controls by means of a modification of the student transfer application. The newly transfer form provides a space to include if he/she has taken federal loans before. With this information the receiving campus can update the enrollment status in the SSCR as required.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-01 (continued)**

#### **Management's Response: (continued)**

Contact Person: Mr. Abelardo Martínez  
Registrar  
(787) 276-8240

Supervisor: Dr. Luis Torres  
Dean of Academic Affairs  
(787) 769-2043

#### **Rio Piedras Campus:**

We are reviewing our procedures to be able to make more frequent interventions on total withdraws for students with participation in loans programs. We will ask our Computer Division for ways to identify and examine these cases on a monthly basis in order to monitor these changes of status.

Contact Person: Mr. Juan M. Aponte  
Registrar  
(787) 764-0225

Supervisor: Prof. Sonia Balet  
Dean of Academic Affairs  
(787) 763-3605

#### **Mayaguez Campus:**

As a corrective action we have written to Dr. Carlos Rios Director of the Exchange Program Ole-Rum informing him of the importance of notifying us on a timely manner the changes on enrollment status of the students participating in the program. Also, we have requested the Computer Center for a change in the program that evaluates the students for SSCR purposes so it can identify the students withdrawals first and then if they are participating in an exchange program. This will allow us to identify a change in enrollment status of those students participating in exchange programs.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-01 (continued)**

**Management's Response: (continued)**

Contact Person:	Mrs. Briseida Meléndez Registrar (787) 832-4040 ext. 3240
Supervisor:	Dra. Mildred Chaparro Dean of Academic Affairs (787) 832-4040 ext. 3808

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-02**

**Program:**

84.032 FFEL

**Topic:**

Failure to notify change in the student's enrollment status

**Category:**

Compliance

**Compliance Requirement:**

FFEL Status Reporting

**Condition Found:**

In testing compliance with the requirements of notification in enrollment status change in students' who are recipients of Federal loans, from a total sample of 25 students, the Registrar's Office did not notify the change in enrollment status in three students who withdrew during the year 2007-2008. This condition was noted in the following campuses:

Campus	No. of Cases
✓ Carolina	1
✓ Arecibo	2

**Criteria or Specific Requirement:**

34 CFR 682.610, 685.309

**Underlying Cause:**

The Registrar's Office internal control procedures established to ascertain the notification of a change in student status needs to be improved. Changes in enrollment status need to be notified.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-02 (continued)**

**Effect:**

Failure to notify a change in enrollment status would preclude a lender from obtaining the necessary student's information in order to determine his/her status for billing and other required procedures.

**Known Questioned Cost:**

None.

**Recommendation:**

The Registrar's Office should improve the procedures to ascertain the notification of any change in status of students' recipients of Federal loans.

**Management's Response:**

**Carolina Campus:**

In the case of a student, the error was the result of a system program failure. This program is no longer used. We will continue processing the information on a manual basis.

Contact Person: Mr. Abelardo Martínez  
Registrar

(787) 276-8240

Supervisor: Dr. Luis Torres  
Dean of Academic Affairs  
(787) 769-2043



University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-02 (continued)**

**Management's Response: (continued)**

**Arecibo Campus:**

The SFA Office, each semester sends a list of the students that have federal loans to be included or updating their enrollment status in the National Student Loan Data System (NSLDS). With this process the files that are not received in the Student Status Confirmation Report (SSCR), are to be included by the Registrar's Office.

Contact Person:	Mrs. Widilia Rodríguez Registrar (787) 815-0000 ext. 3051
Supervisor	Prof. Otilio González Dean of Academic Affairs (787) 878-9218

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-03**

**Program:**

84.032 FWS

**Topic:**

Evidence of job description for FWS positions were not found

**Category:**

Compliance

**Compliance Requirement:**

Fiscal Procedures and Records

**Condition Found:**

In testing compliance with the documentation requirements for the FWS positions assigned to the students, we noted that from a total sample of 25 students, 5 students did not have a job description as a written record, for both student and employer, of the job's duties and responsibilities in the Rio Piedras Campus.

**Criteria or Specific Requirement:**

34 CFR 668.24, 675.19

**Underlying Cause:**

The Student Financial Aid Office internal control procedures established to ascertain that the FWS students' files have the physical documentation of the job description need to be improved.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-03 (continued)**

##### **Effect:**

As a result of the situation, the Campus does not have written records that clearly define the qualifications of the job of the students' recipients of FWS funds, and clearly establish the duties and responsibilities of the students and the Campus as employer.

##### **Known Questioned Cost:**

None.

##### **Recommendation:**

The Student Financial Aid Office should improve the procedures to ascertain the record retention of job description in the students' files of each student's recipient of FWS funds.

##### **Management's Response:**

##### **Rio Piedras Campus:**

A communication has been sent to all the supervisors of the FWS (Federal Work Study Program) requesting them to prepare and submit a document including the job description for every position, signed by the student and supervisor. This document should be submitted to the Financial Aid Office at the beginning of each working period in order for the students to be assigned.

Contact Person: Mrs. Awilda Vélez  
Financial Aid Director  
(787) 764-0000 ext. 86199

Supervisor: Dr. Ivonne Moreno  
Dean of Students Affairs  
(787) 767-0344

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-04**

**Program:**

**All Title IV Funds included in the accompanying Schedule of Federal Awards.**

**Topic:**

Failure to properly monitor the withdrawals report.

**Category:**

Control

**Compliance Requirement:**

Return of Title IV/Special Tests and Provisions

**Condition Found:**

There was an internal control deficiency noted in the design of an internal control to monitor those students who withdrew from their course in order to perform the corresponding refund calculation as applicable. We noted that there is no documentation supporting the procedures performed during the monthly verification of withdrawal cases. This situation was noted on the following campuses.

<b>Campus</b>
✓ Mayagüez
✓ Arecibo
✓ Bayamón

**Criteria or Specific Requirement:**

34 CFR 668.22 (j)

**Underlying Cause:**

There was no documentation of the Fiscal Office's control procedures to document the return Title IV funds were ineffective for the fiscal year 2008.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-04 (continued)**

#### **Effect:**

Failure to notify the Federal Government the return of Title IV funds for applicable students may implicate the University's retention of unused funds which may deprive other eligible students from receiving those funds. The verification procedure should be properly documented in order to ascertain that the calculation made are correct.

#### **Known Questioned Cost:**

None.

#### **Recommendation:**

The Fiscal's Office should improve the procedures to ascertain that all withdrawals students are identified and refunds of Title IV funds are returned to the Federal Government.

#### **Management's Response:**

#### **Mayaguez Campus:**

When the last date to process the withdrawals is reached, our office (Fiscal Office) will request the Registrar's Office a listing with all the withdrawals processed during the semester. Once this documents are received we will proceed to revise them against our files in order to assure that all withdrawals students are taken into consideration as required.

Contact Person: Mr. José E. Avilés  
Fiscal Officer  
(787) 832-4040 ext. 3150

Supervisor: Dr. José Frontera  
Dean of Administrative Affairs  
(787) 265-3869

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-04 (continued)**

#### **Management's Response: (continued)**

##### **Arecibo Campus:**

The Fiscal Office receives a report submitted by the Registrar's Office, which includes all students withdrawals processed each semester. Accordingly, this report will be used to verify and to ascertain that all students that withdrew and were recipients of Title IV funds comply with the R2T4 requirements.

Contact Person: Mrs. Elizabeth Cortés  
Fiscal Officer  
(787) 815-0000 ext. 5024

Supervisor: Prof. Silka Torres  
Dean of Administrative affairs  
(787) 880-6577

##### **Bayamón Campus:**

The Fiscal office strengthened their internal control measures by requesting to the Registrar's office the report WBA250\_86\_RBR802T. Once the report is received the fiscal officer will verify and assign a specific code to each case: B= Scholarship, NB=No Scholarship, CM=Enrollment Cancellation, √= withdrawal form in our files, (√)= it does not mark visible the withdrawal form and the document is in the registrar's office. After the report requested is received, the registrar's office adds by hand any withdraw that was not included on such but appears after the report production. The fiscal officer will request the withdrawal form of those students that their file is lacking of it. Mr. Edgar Torres Mena, Fiscal Officer is the person in charge of compliance with the required procedures.

Contact Person: Mr. Edgar Torres  
Fiscal Officer  
(787) 993-8882

Supervisor: Mr. José Rodríguez  
Dean of Administrative Affairs  
(787) 993-8881

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-05**

**Programs:**

**CFDA 11.417 Sea Grant Support**  
**CFDA 47.074 A Biological Sciences**  
**CFDA 10.500 Cooperative Extension Services**  
**CFDA 66.436 Surveys, Studies, Investigation, Demonstrations, and Training Grants and Cooperative Agreements – Section 104 (b)(3) of the Clean Water Act**  
**CFDA 93.121 Oral Diseases and Disorders Research**  
**CFDA 93.127 Emergency Medical Services for Children**  
**CFDA 11.478 Centers for Sponsored Coastal Ocean Research\_ Coastal Ocean Program**  
**CFDA 10.200 Grants for Agricultural Research, Special Research Grants**  
**CFDA 10.203 Agricultural Experiment Stations under Hatch Act**  
**CFDA 47.076 Education and Human Resources**  
**CFDA 93.375 Minority Biomedical Research Support**  
**CFDA 93.859 Biomedical Research and Research Training**  
**CFDA 93.389 Research Center in Minority Institutions**  
**CFDA 93.865 Child Health and Human Development Extramural Research**

**Topic:**

Time and Effort is not properly monitored.

**Category:**

Control / Compliance

**Compliance Requirement:**

Allowable Costs

**Condition Found:**

When performing test over Time and Effort, we noted that various time and effort reports were never submitted and that several time and effort reports were submitted late. Time and Effort reports that presented a compliance exception totaled eighteen out of a total of seventy-six reports tested. Time and Effort reports that presented a control exception totaled seventeen out of twenty five reports tested.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-05 (continued)**

#### **Criteria or Specific Requirement:**

Circular A-87

#### **Underlying Cause:**

The program managers did not comply with the requirement of preparing Time and Effort reports. We noted that University officials and principal investigators are not being held accountable for the missing Time and Effort reports. Therefore it is difficult to ascertain that time incurred in a given project is the actual time spent on that project and that the time spent on a project meets the level of effort requirements of a given grant award.

#### **Effect:**

Inadequate reporting of Time and Effort by employees could lead to overcharging salary expenses to the federal Government.

#### **Known Questioned Cost:**

Known questioned costs are \$15,317, the error rate in our compliance test amounted to 35% and in our test of controls it amounted to 49%.

#### **Recommendation:**

The University's management should develop a tracking system which reminds project staff of the reports due dates and tracks time per project. Proper supervision and monitoring should be taking place to ascertain that Time and Effort is being accounted for as incurred. The institution should monitor that Time and Effort is being incurred as established by the grant agreement.



## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-05 (continued)**

#### **Management's Response:**

##### Efforts at the Campus Level: The Medical Sciences Campus

The University recognizes the importance of complying with the effort reporting requirement of federal agencies. In this regard, the Medical Sciences Campus (MSC) has taken several corrective measures to improve time and effort certification issues. Under the leadership of the Office of Sponsored Programs (OSP), the MSC now sends two notifications per fiscal year, to each Principal Investigator (PI), Program Director (PD) or responsible person, reminding them that the Time and Effort Certification reports need to be submitted on time. In addition, each trimester OSP sends a report to the deans detailing the names of employees who have not submitted their effort certifications in a timely fashion.

In January 2009, it was also required that each PI or PD generated a certification which indicates that the time and effort reports related to the accounts they manage was submitted prior to crediting those accounts with the indirect costs they generated. This action has improved the percentage of effort certifications completed on time.

In February 2009, time and effort certifications were linked to changes in salary administration performed by the Office of Human Resources. This way, salaries will not be charged or requested changes will not be completed until the Effort Certification is submitted to OSP.

In September 2009, the MSC will perform an auto-evaluation of the effort certifications submitted either on time or late to determine the effectiveness of these measures and the need for additional measures to fulfill applicable statues and regulations.

Consistent with federal requirements, the University of Puerto Rico (UPR) requires that all salaries and wages charged to sponsored projects are certified. As a condition to receiving federal funding, UPR is required to maintain and certify the percentage of time that employees devote to federally-funded sponsored projects.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-05 (continued)**

#### **Management's Response: (continued)**

##### Systemic Efforts: The Vice Presidency for Research and Technology

At the systemic level, the University fulfills the effort reporting requirement through the use of a time and effort certification process. This process provides verification of salaries, wages, as well as the time and effort charged to sponsored projects which are funded by federal agencies. The Office of Sponsored Programs, or its equivalent, at each campus is responsible for implementing this requirement. The University Community has been informed that compliance with this procedure is necessary to prevent cost disallowances and penalties by the federal government and other sponsoring agencies.

A link to OMB Circular A-21, *Principles for Determining Costs Applicable to Grants, Contract, and Other Agreements with Educational Institutions* which outlines the regulations governing time and effort reporting and the verification of salary distributions is available on the website of the VP for Research and Technology (<http://acweb.upr.edu/vpit/researchd/timeeffort.pdf>). The document clearly states “how individuals spend time on federally sponsored projects is subject to federal audit and can be cause for institutional or individual disallowances”. The document also explains the importance of time and effort reporting, as well as the risks of not complying with the federal requirements.

Finally, the VPRT also intends to create a special Ad-Hoc Committee. Among the tasks assigned to this Committee will be: evaluate the certification process that the MSC is currently implementing to determine its applicability to the University System; present for the approval of the Board of Trustees a new Certification outlining the objectives and an applicable policies in compliance with OMB A-21 regarding Time & Effort; and the actualization of all internal policy and procedures regarding Time & Effort reporting in the University of Puerto Rico.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number:** 08-06

**Program:**

**All Research and Development Programs**

**Topic:**

Unidentified Controls over the Cash Management and Matching compliance requirements.

**Category:**

Control

**Compliance Requirement:**

Cash Management/Matching

**Condition Found:**

When walking through the University's procedure for the request of reimbursements and the matching compliance requirement, we could not identify:

- (a) An internal control that served as evidence of the review and approval of funds before they were requested for reimbursement.
- (b) An internal control that required the review and approval of the appropriate matching for programs that required matching of funds from University sources.

**Criteria or Specific Requirement:**

OMB Circular A-110 (§\_\_.22)

OMB Circular A-110 (§\_\_.23)

**Underlying Cause:**

The result of our audit procedures indicates that there are deficiencies in the internal control structure such as lack of review and approval

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-06 (continued)**

#### **Effect:**

Failure to establish controls over these compliance requirements could result in funds being requested for reimbursement by the University when they have yet to be paid or non compliance with matching requirements established by grant awards.

#### **Known Questioned Cost:**

None.

#### **Recommendation:**

The UPR Finance Office should establish tangible controls that evidence a review and approval process for the requests for reimbursements made by the University.

The University's financial department should also establish tangible controls that evidence a review and approval process to ensure compliance with the matching requirements established by the grant awards.

#### **Management's Response:**

The University of Puerto Rico acknowledges that no systematic procedure has been approved for the process of Cash Management. Despite the absence of this written procedure each federal reimbursement is done only after a careful analysis by the corresponding officials and authorized by the supervisor or office director. The common practice has been that the requests for reimbursement of funds occur weeks or even months after the disbursements were done using operating funds. Additionally, during 2009 the University finalized the implementation of its new financial system, named University Integrated Financial System "UFIS". As part of this project the University is on the way of reviewing its basic operational manuals and procedures. As part of the review of the manuals and procedures, new financial reports have been already developed using UFIS tools which will provide a more systematic procedure to the University campuses in order to request the reimbursement of funds on a timely and systematic manner.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-07**

**Program:**

**Sub-recipient Monitoring**

**Topic:**

Failure to provide population of sub awards.

**Category:**

Control/Compliance

**Compliance Requirement:**

Sub-Recipient Monitoring

**Condition Found:**

During our procedures over sub-recipients for the UPR we requested a list of all sub-recipients from the Mayagüez and Medical Sciences Campuses and they were not provided.

**Criteria or Specific Requirement:**

Circular A-133 (§\_\_.210)

**Underlying Cause:**

The Mayagüez and Medical Sciences Campuses do not keep a list of sub-recipients.

**Effect:**

As a result of the situation, inadequate handling of sub-recipient awards may have taken place as the Campuses were not able to properly account for all of its sub-recipients.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-07 (continued)**

**Known Questioned Cost:**

None.

**Recommendation:**

The Mayagüez and Medical Sciences Campuses should improve their procedures over the tracking of their sub-awards so that they can make sure that they are complying with the requirements set forth by the Federal Government Agencies.

**Management's Response:**

The management from University of Puerto Rico Mayaguez Campus and Medical Science Campus acknowledges that the information was not provided to the auditor for its review on a timely manner. Accordingly instructions will be given in order to reinforce its record keeping procedures in order to prevent future occurrence of the situation.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-08**

**Program:**

**CFDA 93.853 Specialized Program in Cellular and Molecular Biology  
CFDA 93.859 MBRS Score Program at the UPR Medical Sciences Campus**

**Topic:**

Equipment selected for fixed asset observation was not appropriately tagged.

**Category:**

Compliance

**Compliance Requirement:**

Equipment Management

**Condition Found:**

During internal audit's inspection of property, plant and equipment, it was noted that two out of five items selected for testing were not appropriately tagged.

**Criteria or Specific Requirement:**

**Underlying Cause:**

The result of the equipment observation performed by the University's internal audit department indicates that there are deficiencies in the equipment management procedures for the UPR Medical Sciences campus.

**Effect:**

As a result of the equipment not being appropriately tagged, the University will not be able to account for it properly making this equipment more susceptible to theft or misplacement.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-08 (continued)**

#### **Known Questioned Cost:**

None.

#### **Recommendation:**

The Medical Sciences of the UPR should take measures in order to ensure that all of its equipment is appropriately tagged.

#### **Management's Response:**

The Medical Science Campus personnel immediately proceeded to tag the equipments. Additionally the Finance Director and the Dean of Administration of the Medical Science Campus gave specific instructions regarding the required procedures in order to prevent future occurrence of the situation. As part of the corrective action plan the Medical Science Campus has acquired bar-coding equipment in order to facilitate the identification, distribution, location and tagging of all equipment purchased by the Campus.



University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-09**

**Program:**

**CFDA 84.042 Student Support Services**

**CFDA 84.044 Talent Search**

**CFDA 84.047 Upward Bound**

**CFDA 84.217 McNair Post-Baccalaureate Achievement**

**Topic:**

Time and Effort is not monitored properly.

**Category:**

Control/Compliance

**Compliance Requirement:**

Allowable Costs

**Condition Found:**

When performing test over level of Time and Effort we noted that various time and effort reports were never submitted and that several time and effort reports were submitted late. Time and Effort reports that presented a compliance exception totaled eight out of a total of twenty-four reports tested. Time and Effort reports that presented a control exception totaled four of twenty-four reports.

**Criteria or Specific Requirement:**

Circular A-87

**Underlying Cause:**

The program managers did not comply with the requirement of preparing Time and Effort reports. We noted that the University's official and principal investigators are not being held accountable for the missing Time and Effort reports. Therefore, it is difficult to ascertain that time incurred in a given project is the actual time and that it agrees with the grant agreement.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-09 (continued)**

##### **Effect:**

Inadequate reporting of Time and Effort by employees could lead to overcharging salary expenses to the Federal Government.

##### **Known Questioned Cost:**

None.

##### **Recommendation:**

The University's management should develop a tracking system which reminds project staff of the reports due dates and tracks time per project. Proper supervision and monitoring should take place to ascertain that Time and Effort is being accounted for as incurred. The institution should monitor that Time and Effort is being incurred as established by the grant agreement.

##### **Management's Response:**

###### Efforts at the Campus Level: The Medical Sciences Campus

The University recognizes the importance of complying with the effort reporting requirement of federal agencies. In this regard, the Medical Sciences Campus (MSC) has taken several corrective measures to improve time and effort certification issues. Under the leadership of the Office of Sponsored Programs (OSP), the MSC now sends two notifications per fiscal year, to each Principal Investigator (PI), Person whose salary is fully or partially funded by supported with federal funds, Program Director (PD) or responsible person, reminding them that the Time and Effort Certification reports need to be submitted on time. In addition, each trimester OSP sends a report to the deans detailing the names of employees who have not submitted their effort certifications in a timely fashion.

Consistent with federal requirements, the University of Puerto Rico (UPR) requires that all salaries and wages charged to sponsored projects are certified. As a condition to receiving federal funding, UPR is required to maintain and certify the percentage of time that employees devote to federally-funded sponsored projects.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-09 (continued)**

#### **Management's Response: (continued)**

##### Systemic Efforts: The Vice Presidency for Research and Technology

At the systemic level, the University fulfills the effort reporting requirement through the use of a time and effort certification process. This process provides verification of salaries, wages, as well as the time and effort charged to sponsored projects which are funded by federal agencies. The Office of Sponsored Programs, or its equivalent, at each campus is responsible for implementing this requirement. The University Community has been informed that compliance with this procedure is necessary to prevent cost disallowances and penalties by the federal government and other sponsoring agencies.

A link to OMB Circular A-21, *Principles for Determining Costs Applicable to Grants, Contract, and Other Agreements with Educational Institutions* which outlines the regulations governing time and effort reporting and the verification of salary distributions is available on the website of the VP for Research and Technology (<http://acweb.upr.edu/vpit/researchd/timeeffort.pdf>). The document clearly states “how individuals spend time on federally sponsored projects is subject to federal audit and can be cause for institutional or individual disallowances”. The document also explains the importance of time and effort reporting, as well as the risks of not complying with the federal requirements.

Finally, the VPRT also intends to create a special Ad-Hoc Committee. Among the tasks assigned to this Committee will be: evaluate the certification process that the MSC is currently implementing to determine its applicability to the University System; present for the approval of the Board of Trustees a new Certification outlining the objectives and an applicable policies in compliance with OMB A-21 regarding Time & Effort; and the actualization of all internal policy and procedures regarding Time & Effort reporting in the University of Puerto Rico.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-10**

**Program:**

**CFDA 84.042 Student Support Services**  
**CFDA 84.044 Talent Search**  
**CFDA 84.047 Upward Bound**  
**CFDA 84.217 McNair Post-Baccalaureate Achievement**

**Topic:**

Unidentified controls over the cash management and matching compliance requirements.

**Category:**

Control

**Compliance Requirement:**

Cash Management/Matching

**Condition Found:**

For the cash Management and Matching compliance requirements the University has not established a control that evidences a review and approval process. This is evidence of an internal control deficiency.

**Criteria or Specific Requirement:**

OMB Circular A-110 (§\_\_.22)  
OMB Circular A-110 (§\_\_.23)

**Underlying Cause:**

The result of our audit procedures indicates that there are deficiencies in the internal control structure such as lack of review and approval.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

#### **Finding Number: 08-10 (continued)**

##### **Effect:**

Failure to establish controls over these compliance requirements could result in funds being requested for reimbursement by the University when they have yet to be paid or non compliance with matching requirements established by grant awards.

##### **Known Questioned Cost:**

None.

##### **Recommendation:**

The UPR Finance Office should establish tangible controls that evidence a review and approval process for the requests for reimbursements by the University.

The University's financial department should also establish tangible controls that evidence a review and approval process to ensure compliance with the matching requirements established by the grant awards.

##### **Management's Response:**

The University of Puerto Rico acknowledges that no systematic procedure has been approved for the process of Cash Management. Despite the absence of this written procedure each federal reimbursement is done only after a careful analysis by the corresponding officials and authorized by the supervisor or office director. The common practice has been that the requests for reimbursement of funds occur weeks or even months after the disbursements were done using operating funds. Additionally, during 2009 the University finalized the implementation of its new financial system, named University Integrated Financial System "UFIS". As part of this project the University is on the way of reviewing its basic operational manuals and procedures. As part of the review of the manuals and procedures, new financial reports have been already developed using UFIS tools which will provide a more systematic procedure to the University campuses in order to request the reimbursement of funds on a timely and systematic manner.

University of Puerto Rico

Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-11**

**Program:**

**CFDA 84.044 Talent Search**

**Topic:**

Lack of sufficient documentation to support student's eligibility.

**Category:**

Control

**Compliance Requirement:**

Eligibility

**Condition Found:**

As a result of our audit procedures we discovered that a control established by the University in order to determine eligibility for the Talent Search program was ineffective for one student file out of the twenty five student files tested.

**Criteria or Specific Requirement:**

34 CFR sections 646.3 and 646.7

34 CFR sections 643.3

**Underlying Cause:**

The result of our audit procedures indicates that there are deficiencies in the control structure established by the University and that the process of awarding stipends and granting entrance into a program needs to be improved.

## University of Puerto Rico

### Part III—Schedule of Findings and Questioned Costs (continued)

**Finding Number: 08-11 (continued)**

**Effect:**

Failure to improve on the internal control process and recordkeeping of documents regarding the determination of student eligibility could result in allowing students who are not eligible for the program to partake in the program, therefore incurring in a violation of federal compliance requirements.

**Known Questioned Cost:**

None.

**Recommendation:**

The University should improve their control already established regarding eligibility for students. The University should also look to improve on the decision making process for student eligibility and benefits paid by creating more accountability for these procedures.

**Management's Response:**

The management from UPR-Utuado acknowledges that the required information was not in the student file. This situation was corrected immediately. Accordingly instructions will be given in order to reinforce its record keeping procedures in order to prevent future occurrence of the situation. Despite this situation UPR-Utuado certifies that the student was an eligible student according to the federal regulations.

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