

**UNIVERSITY OF PUERTO RICO
MAYAGUEZ CAMPUS
OFFICE OF INSTITUTIONAL RESEARCH AND PLANNING**

**MIDDLE STATES COMMISSION ON HIGHER EDUCATION
INSTITUTIONAL PROFILE 2009-2010
& REQUIRED ATTACHMENTS**

- **IPEDS Spring Collection: Finance Survey 2009-2010**
- **Audited Financial Statements University of Puerto Rico
Year Ended June 30, 2008 With Report of Independent Auditors**

Submitted April 30, 2010

Middle States Commission on Higher Education Institutional Profile 2009-10

[0618] UPR - Mayaguez

A. General Information

	Data on File (2008-09)	IP Data (2009-10)
Institution Name	UPR - Mayaguez	UPR - Mayaguez
Address	P. O. Box 9000 Mayaguez, PR 00681	P. O. Box 9000 Mayaguez, PR 00681
Telephone	787 832 4040	787 832 4040
Fax	787 834 3031	787 834 3031
Website	www.uprm.edu	www.uprm.edu
Control	Public	Public
Carnegie Classification	Baccalaureate - Diverse Fields	Baccalaureate - Diverse Fields
Affiliation	State	State
Calendar	Semester	Semester
Degree Granting Authority	Puerto Rico	Puerto Rico
Licensed to Operate in	PR	PR
Programs		
How many degree/certificate programs (distinct CIP codes) does your institution offer?	0	3
Degrees/Certificates Offered		
Certificate/Diploma	no	no
Associate's	no	no
Bachelor's	yes	yes
Master's	yes	yes
Doctor's - Professional Practice	no	no
Doctor's - Research/Scholarship	yes	yes
Doctor's - Other	no	no
Related Institutions		
Name, State, Country	none	none
Next Self-Study Visit	2014-15	2014-15
Next Periodic Review Report (PRR)	June 2010	June 2010
CHE Staff Liaison	Dr. Luis G. Pedraja	Dr. Luis G. Pedraja

Notes

Middle States Commission on Higher Education Institutional Profile 2009-10

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B. Key Contacts

Key Contact	Data on File (2008-09)	IP Data (2009-10)
System/District Chief Exec Officer	Dr. Jose Ramon de la Torre <i>President</i> G.P.O. Box 4984-G San Juan, PR 00936 Phone: none Fax: none Email: jose.delatorre@upr.edu	Dr. Jose Ramon de la Torre <i>President</i> G.P.O. Box 4984-G San Juan, PR 00936 Phone: 787 250 0000 Fax: none Email: jose.delatorre@upr.edu
Chief Executive Officer	Dr. Jorge Rivera-Santos <i>Acting Chancellor</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 265 3807 Fax: 787 831 2085 Email: Rector.uprm@upr.edu	Dr. Jorge Rivera-Santos <i>Acting Chancellor</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 265 3807 Fax: 787 831 2085 Email: Rector.uprm@upr.edu
Chief Academic Officer	Dr. Jorge Ortiz Alvarez <i>Acting Dean for Academic Affairs</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 265 4059 Fax: none Email: jortiz@ece.uprm.edu	Dr. Jorge Ortiz Alvarez <i>Acting Dean for Academic Affairs</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 265 4059 Fax: none Email: jortiz@ece.uprm.edu
Chief Financial Officer	none	Mr. Jose E. Aviles <i>Acting Director, Finance Office</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 832 4040 ex. 2150 Fax: none Email: jose.aviles5@upr.edu
Accreditation Liaison Officer	Dr. Pedro Resto <i>Director</i> Office of Continuous Improvement and Assessment PO Box 9049 Mayaguez, PR 00681 Phone: 787 832 4040ex. 2998 Fax: none Email: presto@uprm.edu	Dr. Pedro Resto <i>Director</i> Office of Continuous Improvement and Assessment PO Box 9049 Mayaguez, PR 00681 Phone: 787 832 4040 ex. 2998 Fax: none Email: presto@uprm.edu
Director of the Library	Dr. Jose Mari Mutt <i>Director, General Library</i> P. O. Box 9022 Mayaguez, PR 00681 Phone: 787 832 4040ex. 3810 Fax: none Email: jmari@uprm.edu	Prof. Wanda Perez <i>Acting Director, General Library</i> P. O. Box 9000 Mayaguez, PR 00681 Phone: 787 832 4040 ex. 3810 Fax: none Email: wanda.perez5@upr.edu
Coordinator of Outcomes Assessment	Dr. Pedro Resto <i>Director</i>	Dr. Pedro Resto <i>Director</i>

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PO Box 9049
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Office of Continuous Improvement and Assessment
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Phone: 787 832 4040 ex. 2998
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Coordinator of Institutional Research Functions Dr. Antonio A. Gonzalez-Quevedo
Director, Institutional Research and Planning
P. O. Box 9000
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Phone: 787 266 3877
Fax: 787 831 2085
Email: antonio@uprm.edu

Dr. Noel Artilles Leon
Acting Director, Institutional Research and Planning
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Chair: Self-Study Steering Committee

Dr. Pedro Resto
Director
Office of Continuous Improvement and Assessment
PO Box 9049
Mayaguez, PR 00681

Phone: 787 832 4040ex. 2998
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Email: presto@uprm.edu

Dr. Pedro Resto
Director
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Mayaguez, PR 00681

Phone: 787 832 4040 ex. 2998
Fax: none
Email: presto@uprm.edu

Co-Chair: Self-Study Steering Committee

none

none

Person in the President's Office To Whom MSCHE Invoices Should be Sent

none

Dr. Jorge Rivera-Santos
Acting Chancellor
P. O. Box 9000
Mayaguez, PR 00681

Phone: 787 265 3807
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Person Completing IP Financials

Mrs. Carmen T. Padovani
Director of Budgeting Office
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Mrs. Madeleine Lopez
Director of Budgeting Office
P. O. Box 9000
Mayaguez, PR 00681

Phone: 787 832 4040 ex. 2250
Fax: 787 265 1594
Email: madeleine@rectoria.urm.edu

Person Completing IP (Key User)

Mrs. Sheila Marty-Rodriguez
Statistics Officer, Institutional Research and Planning
P. O. Box 9000
Mayaguez, PR 00681

Phone: 787 265 5465
Fax: none
Email: sheila.marty-rodriguez@upr.edu

Mrs. Sheila Marty-Rodriguez
Statistics Officer, Institutional Research and Planning
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Phone: 787 265 5465
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C. Graduation Data

Awards Granted

Report all degrees or other formal awards conferred by your institution between July 1, 2008, and June 30, 2009. If an individual received two degrees at different levels during the specified time period, report each degree in the appropriate category.

Include earned degrees and awards conferred by branches of your institution located within or outside the Middle States region, including foreign countries.

Exclude honorary degrees and awards.

Awards	Data on File (2008-09)	IP Data (2009-10)
Diploma/Certificate	0	0
Associate's	0	0
Bachelor's	1481	1514
Master's	179	182
Doctor's - Professional Practice	0	0
Doctor's - Research/Scholarship	19	24
Doctor's - Other	0	0
Does your institution have undergraduate programs?	yes	yes
Do your undergraduate programs serve only transfer students? See instructions if the answer is yes.	no	no

Completers

Provide the total number of students in the relevant cohort who received their awards no later than 2008-09 (which would be within 150 percent of the time expected for them to receive the degree/certificate for which they matriculated). Also provide the total number of students who transferred out of your institution before completing their programs.

2-year Institutions only	Data on File (2008-09)	IP Data (2009-10)
Total Number of students in the cohort	0	0
Number completed within 150% of time to degree	0	0
Total transfers out	0	0
4-year Institutions w/ Baccalaureate Programs		
Total Number of students in the cohort	2052	2265
Number completed within 150% of time to degree	916	997
Total transfers out	0	0

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D. Enrollment

	Data on File (2008-09)		IP Data (2009-10)	
	Undergraduate	Graduate	Undergraduate	Graduate
Total credit hours of all part-time students	6582	671	6171	589
Minimum credit load to be considered a full time student	12	9	12	9
Full-Time Head Count	11374	931	11903	954
Part-Time Head Count	860	159	831	140

Credit Enrollment

	Data on File (2008-09)	IP Data (2009-10)
Number of Students matriculated, enrolled in degree programs (Undergraduate + Graduate)	13077	13561
Number of Students not matriculated, enrolled in credit-bearing courses	247	267

Non-Credit Enrollment

	Data on File (2008-09)	IP Data (2009- 10)
Number of Students enrolled in non-credit, graduate level courses	0	0
Number of Students enrolled in non-credit, undergraduate level and other continuing education (excluding avocational) courses	0	0
Number of Students in non-credit avocational continuing education courses	2572	2398

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E. Distance Education

Distance education means education that uses one or more technologies to deliver instructions to students who are separated from the instructor and to support regular and substantive interaction between the students and the instructor. See the Instructions for a full explanation.

	Data on File (2008-09)	IP Data (2009-10)
Did your institution, in the most recent prior year (2008-09), offer distance education or correspondence courses?	Yes	Yes

Provide: (a) the unduplicated headcount of all students in the most recent prior year 2008-09 who took distance education courses for credit by your institution; and (b) the total number of registrations of all students. The registrations may be duplicated if a student enrolls in more than one course.

See the Instructions for important caveats from federal regulations that may affect your responses. Explain in the Notes if prior year's total is expected to be 50% greater in 2009-10.

	Data on File (2008-09)	IP Data (2009-10)
Headcount	0	1488
Total Registrations	219	1707

Programs

Programs. Report the number of degree or certificate programs offered during the previous year (2008-09) for which students could meet at least 50% of their requirements for any of the programs by taking distance education or correspondence courses.

	Data on File (2008-09)	IP Data (2009-10)
Programs	0	0

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F. Regional, National, and Specialized Accreditation

Please list the name of the regional, national, and specialized accrediting organizations that accredit your institution or its programs. *It is not necessary to report the Middle States Commission on Higher Education, and it is excluded from this list.*

Data on File (2008-09)

- Accrediting Board for Engineering and Technology (ABET)
- National League for Nursing (NLN), Accrediting Commission

IP Data (2009-10)

Accreditors Recognized by U.S. Secretary of Education

- National League for Nursing Accrediting Commission

Other Accreditors

Please list any other accrediting organizations that accredit your institution or its programs. *Please separate each accreditor by semi-colon (;).*

Our Institution is licensed by the PR Council for Higher Education (PR-CHE). Our Chemistry programs are recognized by the American Chemical Society. The Engineering programs are accrediting by the Board for Engineering and Technology (ABET).

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G. Instructional Personnel (as of Fall 2009)

	Data on File (2008-09)		IP Data (2009-10)	
	Full-Time Headcount	Part-Time Headcount	Full-Time Headcount	Part-Time Headcount
Tenured Faculty	508	0	537	0
Non-Tenured Faculty <i>(On Tenure Track)</i>	120	0	130	0
Non-Tenured Faculty <i>(Not On Tenure Track)</i>	26	42	23	23

Notes

Instructional personnel not including those in any kind of leaves.

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H. Related Educational Activities

H-1. Study Abroad

This section is only required if your institution's Self-Study Visit is scheduled for 2010-11 or 2011-12, or if your institution's Periodic Review Report (PRR) is due to be submitted in June 2011.

Note:

Your institution's next Self-Study Visit is scheduled for 2014-15.

Your institution's next Periodic Review Report (PRR) is due to be submitted in June 2010.

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H-2. Branch Campuses (as of Fall 2009)

**Data on File
(2008-09)**

No Branch Campuses.

**IP Data
(2009-10)**

No Branch Campuses.

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H-3. Additional Locations (as of Fall 2009)

Name	Data on File (2008-09)	IP Data (2009-10)
Name	Magueyes Island, Marine Science Dept.	Magueyes Island, Marine Science Dept.
Street Address, City, State, Postal	PO Box 908 Lajas, PR 00667	PO Box 908 Lajas, PR 00667
Status	Active	Active
Number of degree programs for which 50% of the program may be completed at this location		
Certificate/Diploma	0	0
Associate's	0	0
Bachelor's	0	0
Master's	1	1
Doctor's - Professional Practice	0	0
Doctor's: Research/Scholarship	1	1
Doctor's: Other	0	0
Full-time Headcount at this location		
Graduate	67	59
Undergraduate	0	0
Part-time Headcount at this location		
Graduate	1	1
Undergraduate	0	0

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H-4. Other Instructional Sites (as of Fall 2009)

	Data on File (2008-09)	IP Data (2009-10)
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Adjuntas, PR	Adjuntas, PR
Headcount (For Credit)	90	29
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Corozal, PR	Corozal, PR
Headcount (For Credit)	8	12
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Lajas, PR	Lajas, PR
Headcount (For Credit)	507	808
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Isabela, PR	Isabela, PR
Headcount (For Credit)	110	237
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Juana Díaz, PR	Juana Díaz, PR
Headcount (For Credit)	135	0
Name of the site or facility at which courses are being offered	Agricultural Experiment Station	Agricultural Experiment Station
City/State/Country	Río Piedras, PR	Río Piedras, PR
Headcount (For Credit)	9	0
Name of the site or facility at which courses are being offered	Alzamora Farm	Alzamora Farm
City/State/Country	Mayaguez, PR	Mayaguez, PR
Headcount (For Credit)	745	849
Name of the site or facility at which courses are being offered	La Montaña Farm	La Montaña Farm
City/State/Country	Aguadilla, PR	Aguadilla, PR
Headcount (For Credit)	256	451

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I. Financial Information

Report the same data for Educational and General (E&G) expenses and assets on the Institutional Profile that your institution reports to the Integrated Postsecondary Higher Education Data Systems (IPEDS).

Verify the beginning and ending date for your institution's fiscal year. The default dates are 7/1/2008 through 6/30/2009 (the most recent year for which you would have an audited financial report). If your institution uses different dates, please change the default dates accordingly.

Report financial data in whole dollars. Round cents to the nearest whole dollar. For example, enter 124, not 123.65. Do not enter data in thousands of dollars. For example, enter 1,250,000 not 1,250.

Report educational and general expenses by expense category (e.g., instruction, research, public service, etc.). The expense for each category is the sum of restricted and unrestricted expenses.

	Data on File (2008-09)	IP Data (2009- 10)
Which reporting standard is used to prepare your institution's financial statements? Your selection determines the value in the column IPED-Line below.		GASB
FASB (Financial Accounting Standard Board)		
GASB (Government Accounting Standard Board)		

Note: For Private Institutions the value is set automatically and the field is disabled.

Is your institution's audited Financial Report Qualified or Unqualified?	Unqualified	Unqualified
Fiscal Year Begin	7/1/2007	7/1/2008
Fiscal Year End	6/30/2008	6/30/2009
Does your institution allocate Operation & Maintenance of Plant expense?	No	No
Does your institution allocate Depreciation Expense?	Yes	Yes

	IPEDS Part-Line	Data on File (2008-09) Expenses	IP Data (2009-10) Expenses
1. Instruction	C-01	\$97,011,862	\$115,338,067
2. Research	C-02	\$36,146,232	\$52,767,907
3. Public Services	C-03	\$27,631,189	\$29,580,232
4. Academic Services	C-05	\$15,143,774	\$15,099,318
4a. Included Library Expense		\$6,903,720	\$0
5. Student Services	C-06	\$12,928,860	\$11,504,394
6. Institutional Support	C-07	\$21,987,585	\$55,238,464
7. Scholarships and Fellowships	C-10	\$35,920,900	\$29,388,010
8. Operation and Maintenance of Plant	C-08	\$34,753,687	\$0
Total E&G Expenses		\$281,524,089	\$308,916,392
Net Assets (Beginning of Year)	D-04	\$41,447,239	\$40,785,391
Change in Net Assets	D-03	(\$661,848)	(\$22,682,067)
Net Assets (End of Year)	D-06	\$40,785,391	\$18,103,324

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J. Significant Developments

Please provide the Commission with early notice of any significant developments your institution is considering for academic years 2010-11 or 2011-12, limited to the topics listed below.

Include potential changes that:

- significantly alter the mission, goals, or objectives of the institution;
- alter the legal status, form of control, or ownership;
- establish instruction constituting at least 50% of a degree program in a significantly different format/method of delivery;
- establish instruction at a new degree or credential level;
- replace clock hours with credit hours;
- increase substantially the number of clock or credit hours awarded for successful completion of a program;
- establish instruction constituting at least 50% of a degree program at a new geographic location;
- relocate the primary campus or an existing branch campus (See definition in Section H, above);
- otherwise affect significantly the institution's ability to continue the support of existing and proposed programs.

In addition, please describe any other major developments taking place at the institution. The information provided should focus on important institutional issues (e.g., development of a new strategic plan, initiation of a capital campaign, establishment of a new academic unit such as a school or college, significant shifts in institutional enrollment or finances, etc.) Please DO NOT include matters related to the day-to-day operation of the institution.

Three of our four colleges have ongoing curricular revision processes, both at undergraduate and graduate level. Some have been already presented to upper-level decision making entities within the University system. Various new doctoral and master level programs are in different stages of development and approval as well. Programs which can be accredited by external entities have submitted themselves to the process, stages varying conforming to specific regulations per program. The Campus is in the process of revising its strategic plan and developing strategies to confront the economic limitations imposed by both, internal and external factors. This includes, but is not limited to, reorganization of programs and departments within the different faculties.

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K. Required Attachments

Please mail the entire package of required attachments **as soon as all of the items are available** but no later than **May 1, 2010**.

- A copy of the institution's most recent audited financial statement, including any management letter that the auditors may have attached to the statement.
- Provide the exact web address for the home page of the catalog. If the catalog is not available on-line provide a digital copy of the catalog on a CD/DVD or a printed version if a digital copy does not exist.
- If you submit annual financial data to IPEDS provide a copy of the financial section of the IPEDS submission.

Uploaded Files (*Optional*)

File Name	File Type	File Size	Last Updated
IPDES Finance Updated at April 30 2010.pdf	Adobe Acrobat Document	96.39 KB	4/30/2010 3:30:40 PM

Mail the required attachments to:

Mr. Tze Joe
Information Associate
Middle States Commission on Higher Education
3624 Market Street, Philadelphia, PA 19104

**IPEDS SPRING COLLECTION
FINANCE 2009-2010**

Finance 2009-10

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Finance - Public institutions**Reporting Standard****Please indicate which reporting standards are used to prepare your financial statements:**

- GASB (Governmental Accounting Standards Board), using standards of GASB 34 & 35
- FASB (Financial Accounting Standards Board)

Please consult your business officer for the correct response before saving this screen. Your response to this question will determine the forms you will receive for reporting finance data.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Finance - Public institutions**Form Version****Finance - Public Institutions**

The survey for GASB has been realigned to improve commonality and comparability of the finance data, however reporting in the new format is **OPTIONAL** for Fiscal Year 2008-09. Please indicate in which version you will report finance data:

- GASB, using standards of GASB 34 & 35
- Aligned GASB, using standards of GASB 34 & 35 (OPTIONAL in Fiscal Year 2008-09)

Please consult your business officer for the correct response before saving this screen. Your response to this question will determine the forms you will receive for reporting finance data.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Finance - Public institutions**General Information****GASB-Reporting Institutions (aligned form)**

To the extent possible, the finance data requested in this report should be provided from your institution's audited General Purpose Financial Statements (GPFS). Please refer to the instructions specific to each screen of the survey for details and references.

1. Fiscal Year Calendar

This report covers financial activities for the 12-month fiscal year: (The fiscal year reported should be the most recent fiscal year ending before October 1, 2009.)

Beginning: month/year (MMYYYY)

Month: Year:

And ending: month/year (MMYYYY)

Month: Year: **2. Audit Opinion**

Did your institution receive an unqualified opinion on its General Purpose Financial Statements from your auditor for the fiscal year noted above? (If your institution is audited only in combination with another entity, answer this question based on the audit of that entity.)

 Unqualified Qualified
(Explain in
box below) Don't know
(Explain in
box below)**3. Reporting Model**

GASB Statement No. 34 offers three alternative reporting models for special-purpose governments like colleges and universities. Which model is used by your institution ?

 Business Type Activities Governmental Activities Governmental Activities with Business-Type Activities**4. Intercollegiate Athletics**

If your institution participates in intercollegiate athletics, are the expenses accounted for as auxiliary enterprises or treated as student services?

 Auxiliary enterprises Student services Does not participate in intercollegiate athletics Other (specify in box below)**5. Endowment Assets**

Does this institution or any of its foundations or other affiliated organizations own endowment assets ?

 Yes - (report endowment assets) No

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009
is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part A - Statement of Net Assets**Fiscal Year 2009**

Line no.		Current year amount	Prior year amount
	<u>Current Assets</u>		
01	Total <u>current assets</u>	38,556,874	40,699,425
	<u>Noncurrent Assets</u>		
31	Depreciable <u>capital assets</u> , net of depreciation	124,570,488	125,711,187
04	Other noncurrent assets CV =[A05-A31]	18,528,001	44,971,388
05	Total noncurrent assets	143,098,489	170,682,575
06	Total assets CV =(A01+A05)	181,655,363	211,382,000
	<u>Current Liabilities</u>		
07	<u>Long-term debt, current portion</u>	3,956,750	4,291,000
08	Other <u>current liabilities</u> CV =(A09-A07)	15,803,165	13,208,781
09	Total current liabilities	19,759,915	17,499,781
	<u>Noncurrent Liabilities</u>		
10	<u>Long-term debt</u>	114,437,088	124,235,142
11	Other noncurrent liabilities CV =(A12-A10)	29,355,036	28,861,686
12	Total noncurrent liabilities	143,792,124	153,096,828
13	Total liabilities CV =(A09+A12)	163,552,039	170,596,609
	<u>Net Assets</u>		
14	<u>Invested in capital assets, net of related debt</u>	15,792,264	27,954,904
15	<u>Restricted-expendable</u>	2,311,059	12,830,487
16	<u>Restricted-nonexpendable</u>	0	0
17	<u>Unrestricted</u> CV =[A18-(A14+A15+A16)]	1	0
18	Total net assets CV =(A06-A13)	18,103,324	40,785,391

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part A - Statement of Net Assets (Page 2)

Fiscal Year 2009

Line No.	Description	Ending balance	Prior year Ending balance
Capital Assets			
21	<u>Land & land improvements</u>	6,668,277	6,659,560
22	<u>Infrastructure</u>	5,323,865	5,092,155
23	<u>Buildings</u>	147,723,727	146,945,908
32	Equipment, including art and <u>library collections</u>	50,042,316	46,121,382
27	<u>Construction in progress</u>	4,365,869	4,314,642
	Total for Plant, Property and Equipment CV = (A21+ .. A27)	214,124,054	209,133,647
28	<u>Accumulated depreciation</u>	89,553,567	83,422,461
33	Intangible assets, net of accumulated amortization	0	
34	Other capital assets	0	

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part B - Revenues and Other Additions**Fiscal Year 2009**

Line No.	Source of Funds	Current year amount	Prior year amount
<u>Operating Revenues</u>			
01	<u>Tuition & fees, after deducting discounts & allowances</u>	8,178,365	8,975,462
<u>Grants and contracts - operating</u>			
02	Federal operating grants and contracts	23,045,981	24,012,937
03	State operating grants and contracts	1,259,078	3,704,684
04	Local government/private operating grants and contracts	7,581,171	5,588,234
	04a Local government operating grants and contracts	0	
	04b Private operating grants and contracts	7,581,171	
05	<u>Sales & services of auxiliary enterprises, after deducting discounts & allowances</u>	3,110,768	2,810,113
06	<u>Sales & services of hospitals, after deducting patient contractual allowances</u>	0	0
26	<u>Sales & services of educational activities</u>	1,601,191	
07	<u>Independent operations</u>	0	0
08	Other sources - operating CV=[B09-(B01++B07)]	856,763	2,664,320
09	Total operating revenues	45,633,317	47,755,750

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part B - Revenues and Other Additions**Fiscal Year 2009**

Line No.	Source of funds	Current year amount	Prior year amount
Nonoperating Revenues			
10	<u>Federal appropriations</u>	0	0
11	<u>State appropriations</u>	208,994,719	184,074,053
12	<u>Local appropriations, education district taxes, & similar support</u>	0	0
Grants-nonoperating			
13	Federal nonoperating grants	30,273,167	25,550,362
14	State nonoperating grants	0	0
15	Local government nonoperating grants	0	0
16	<u>Gifts, including contributions from affiliated organizations</u>	6,035,135	2,664,104
17	<u>Investment income</u>	242,474	22,239
18	Other nonoperating revenues CV=[B19-(B10+...+B17)]	338,270	185,000
19	Total nonoperating revenues	245,883,765	212,495,758

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part B - Revenues and Other Additions

Fiscal Year 2009

Line No.	Source of funds	Current year amount	Prior year amount
	Other Revenues and Additions		
20	<u>Capital appropriations</u>	0	0
21	<u>Capital grants & gifts</u>	0	0
22	<u>Additions to permanent endowments</u>	1	0
23	Other revenues & additions CV=[B24-(B20+...+B22)]	0	0
24	Total other revenues and additions	1	0
25	Total all revenues and other additions CV=(B09+B19+B24)	291,517,083	260,251,508

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part C - Expenses and Other Deductions

Fiscal Year 2009								
Line No.	Description	1 Total amount	2 Salaries & wages	3 Employee fringe benefits	4 Operation and maintenance of plant	5 Depreciation	6 Interest	7 All other
Expenses and Deductions								
01	Instruction	115,338,067	70,942,206	21,707,174	12,500,996	3,131,724		7,055,967
02	Research	52,767,907	18,758,634	5,284,517	6,025,694	1,509,545		21,189,517
03	Public service	29,580,232	16,382,845	5,225,566	3,377,838	846,209		3,747,774
05	Academic support	15,099,318	5,588,464	1,794,358	1,724,227	431,950		5,560,319
06	Student services	11,504,394	5,052,845	1,668,554	1,440,591	360,894		2,981,510
07	Institutional support	55,238,464	33,126,483	11,730,049	4,655,531	1,166,294		4,560,107
08	Operation & maintenance of plant (see instructions)	0	14,606,502	5,513,892	-30,080,927			9,960,533
10	Scholarships and fellowships expenses, excluding discounts & allowances	29,388,010						29,388,010
11	Auxiliary enterprises	3,117,987	386,030	133,123	356,050	89,197		2,153,587
12	Hospital services	0	0	0	0	0	0	0
13	Independent operations	0	0	0	0	0	0	0
14	Other expenses & deductions CV=[C19-(C01+...+C13)]	2,164,771	0	0	0	0	0	2,164,771
19	Total expenses & deductions	314,199,150	164,844,009	53,057,233	0	7,535,813		88,762,095
	Prior year amount	276,074,637	143,964,452	49,379,687		7,326,502		75,403,996

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part D - Summary of Changes In Net Assets**Fiscal Year 2009**

Line No.	Description	Current year amount	Prior year amount
01	Total revenues & other additions (from B25)	291,517,083	260,251,508
02	Total expenses & deductions (from C19)	314,199,150	276,074,637
03	Change in net assets during year CV=(D01-D02)	⚠ -22,682,067	-15,823,129
04	<u>Net assets</u> beginning of year	40,785,391	41,447,239
05	<u>Adjustments to beginning net assets</u> CV=[D06-(D03+D04)]	0	15,161,281
06	Net assets end of year (from A18)	18,103,324	40,785,391

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part E - Scholarships and Fellowships

Fiscal Year 2009

Line No.	Source	Current year amount	Prior year amount
01	<u>Pell grants</u> (federal)	30,273,167	25,550,362
02	<u>Other federal grants</u>	4,663,281	4,245,498
03	<u>Grants by state government</u>	2,418,546	2,732,931
04	<u>Grants by local government</u>	0	0
05	<u>Institutional grants from restricted resources</u>	786,712	625,273
06	<u>Institutional grants from unrestricted resources</u> CV=[E07-(E01+...+E05)]	0	42,480
07	Total gross scholarships and fellowships	38,141,706	33,196,544
<u>Discounts and Allowances</u>			
08	<u>Discounts & allowances</u> applied to <u>tuition & fees</u>	8,753,696	8,473,054
09	<u>Discounts & allowances</u> applied to sales & services of <u>auxiliary enterprises</u> CV= (E10-E08)	0	0
10	Total discounts & allowances CV=(E07-E11)	8,753,696	8,473,054
11	Net scholarships and fellowships expenses after deducting discount & allowances (from C10)	29,388,010	24,723,490

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part J - Revenue Data for Bureau of Census

Fiscal Year 2009

Source and type	Amount				
	Total for all funds and operations (includes endowment funds, but excludes component units)	Education and general/independent operations	Auxiliary enterprises	Hospitals	Agriculture extension/experiment services
	(1)	(2)	(3)	(4)	(5)
01 Tuition and fees	16,932,061	16,932,061			
02 Sales and services	4,711,959	1,601,191	3,110,768	0	0
03 Federal grants/contracts (excludes Pell Grants)	23,045,981	13,751,193	0	0	9,294,788
Revenue from the state government:					
04 State appropriations, current & capital	208,994,719	208,994,719	0	0	0
05 State grants and contracts	1,259,078	1,096,859	0	0	162,219
Revenue from local governments:					
06 Local appropriation, current & capital	0	0	0	0	0
07 Local government grants/contracts	0	0	0	0	0
08 Receipts from property and non-property taxes	0				
09 Gifts and private grants, including capital grants	13,616,306				
10 Interest earnings	242,474				
11 Dividend earnings	0				
12 Realized capital gains	0				

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part K - Expenditure Data for Bureau of Census

Fiscal Year 2009

Category	Amount				
	Total for all funds and operations (includes endowment funds, but excludes component units)	Education and general/independent operations	Auxiliary enterprises	Hospitals	Agriculture extension/experiment services
	(1)	(2)	(3)	(4)	(5)
01 Salaries and wages	164,844,009	140,370,007	386,030	0	24,087,972
02 Employee benefits, total	53,057,233	45,154,149	133,123	0	7,769,961
03 Payment to state retirement funds (maybe included in line 02 above)	15,373,252	11,599,994	77,867	0	3,695,391
04 Current expenditures other than salaries	39,077,546	31,433,857	2,710,888	0	4,932,801
Capital outlay:					
05 Construction	1,757,584	1,757,584	0	0	0
06 Equipment purchases	5,263,140	5,221,861	41,279	0	0
07 Land purchases	0	0	0	0	0
08 Interest on debt outstanding, all funds & activities	4,514,728				
09 Scholarships/fellowships	38,141,706	38,141,706			

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part L - Debt and Assets, page 1

Fiscal Year 2009

Debt		Amount
Category		
01	Long-term debt outstanding at beginning of fiscal year	127,580,966
02	Long-term debt issued during fiscal year	0
03	Long-term debt retired during fiscal year	28,592,554
04	Long-term debt outstanding at end of fiscal year	98,988,412
05	Short-term debt outstanding at beginning of fiscal year	0
06	Short-term debt outstanding at end of fiscal year	0

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Part L - Debt and Assets, page 2

Fiscal Year 2009

Assets

Category	Amount
07 Total cash and security assets held at end of fiscal year in sinking or debt service funds	<input type="text" value="0"/>
08 Total cash and security assets held at end of fiscal year in bond funds	<input type="text" value="1,487,181"/>
09 Total cash and security assets held at end of fiscal year in all other funds	<input type="text" value="2,143,896"/>

You may use the space below to provide context for the data you've reported above.

The information provided for year end June 30, 2009 is unaudited.

Institution: University of Puerto Rico-Mayaguez (243197)

User ID: P92431971

Explanation Report

There are no explanations for selected survey and institution

Print Form(s)

Go Back

**Audited Financial Statements University of Puerto Rico
Year Ended June 30, 2008
with Report of Independent Auditors**



AUDITED FINANCIAL STATEMENTS

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

University of Puerto Rico
 Audited Financial Statements
 Years Ended June 30, 2008 and 2007

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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, and this raises 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.

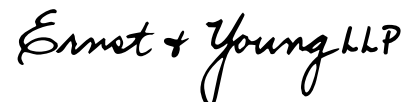
As discussed in Note 1 to the financial statements, effective July 1, 2007, the University changed its accounting policy related to accounting for its other post-employment benefits to comply with the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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, this raises 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 5, 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 58 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of changes in sinking fund reserves has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

June 9, 2009

Stamp No. 2410340
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:

Condensed Statements of Net Assets			
	June 30		
	2008	2007	2006
Assets			
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	1,495,128,612	1,483,229,447	1,138,476,196
Liabilities			
Current liabilities	144,435,900	133,037,509	199,479,385
Noncurrent liabilities	924,670,647	923,472,066	552,867,652
Total liabilities	1,069,106,547	1,056,509,575	752,347,037
Net assets			
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	\$ 426,022,065	\$ 426,719,873	\$ 386,129,159



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
Operating revenues			
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>
Operating expenses	<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)
Nonoperating revenues and expenses			
State appropriations	935,880,735	896,492,596	854,981,674
Other nonoperating revenues and expenses, including interest on indebtedness	116,162,315	104,908,125	125,315,363
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
Capital appropriations	17,576,892	12,607,556	10,160,608
Addition to permanent endowment	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.

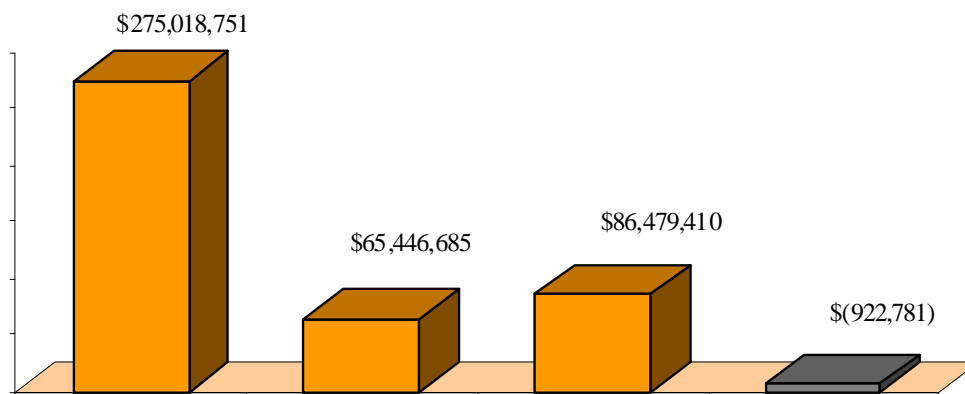
Current liabilities consist primarily of accounts payable and accrued liabilities and the current portion of long-term debt. Accounts payable and accrued liabilities increased from \$85,079,562 to \$93,117,021 between June 30, 2007 and 2008. Non-current liabilities consist primarily of bonded indebtedness. 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)**

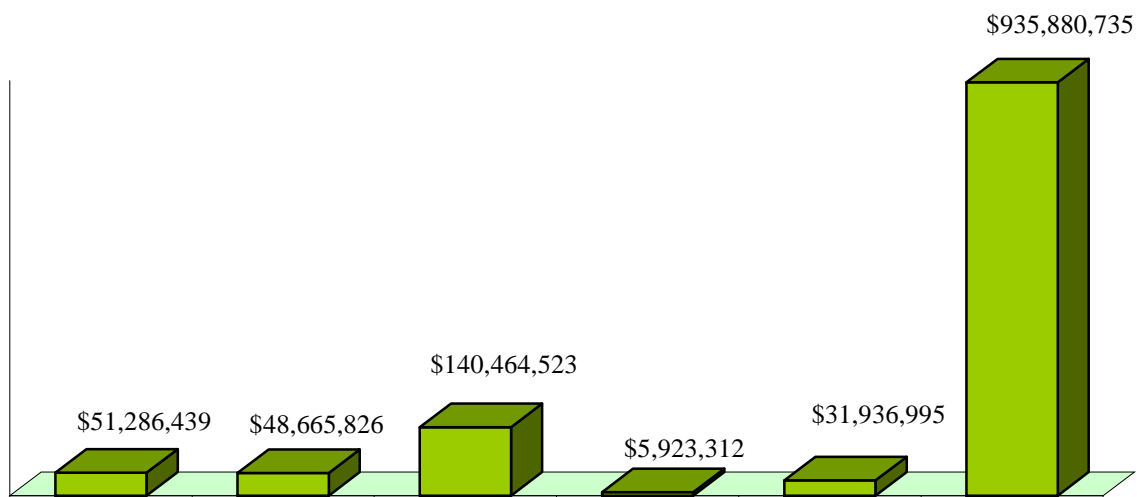
these statements are to present the revenues earned by the University, both operating and nonoperating, and the expenses paid and accrued by the University and any other revenues, expenses, gains and losses received or spent by the University.

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

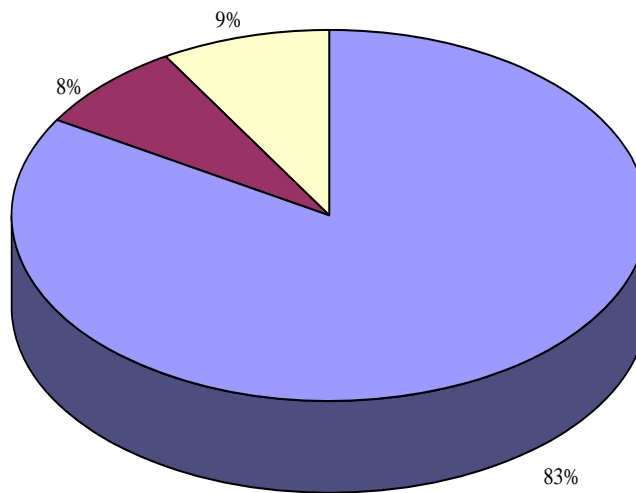
Tuitions & Fees (net of scholarship)	\$	51,286,439
Patient services		48,668,826
State and Federal Grants & Contracts		140,464,523
Auxiliary Enterprises		5,923,312
Other Operating Revenues		31,936,995
Commonwealth Appropriations		935,880,735



**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%

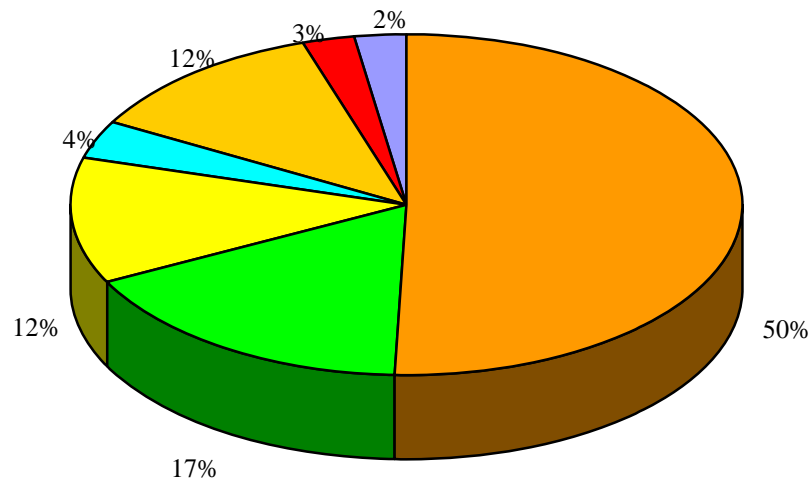
University expenses are presented using natural expense classifications. Salaries and benefits represent 69% of the University's operating expenses.



**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

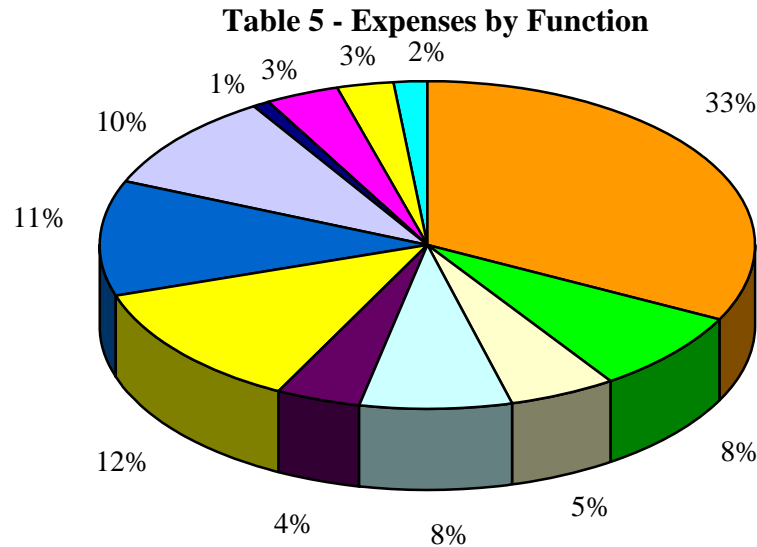


Salaries	\$	682,306,485	50%
Benefits		230,017,087	17%
Scholarship and other services		160,492,568	12%
Utilites		49,147,600	4%
Supplies and other services		160,098,118	12%
Depreciation		37,125,069	3%
Other expenditures		32,096,640	2%



**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

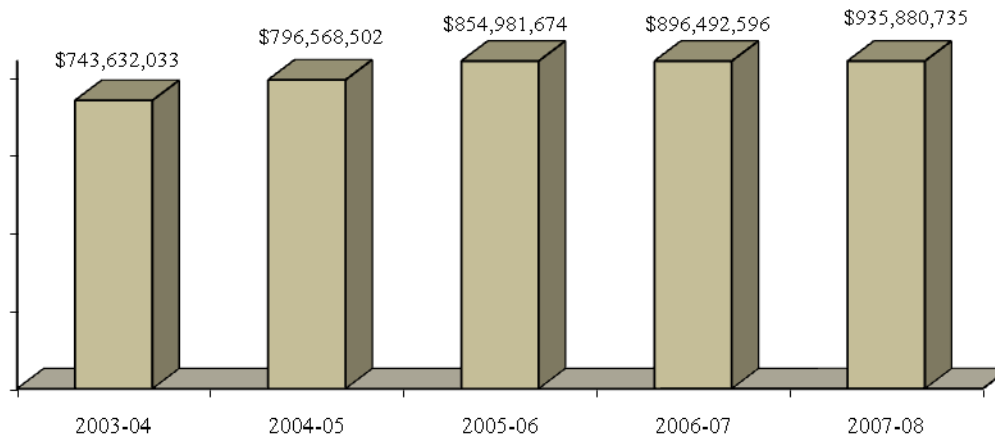
The economy of Puerto Rico must be analyzed as a region within the U.S. economy, since it is part of the U.S. monetary and banking system, as well as within its territorial boundaries. The main drive of the Puerto Rican economy is a huge external sector closely tied to the flow of merchandise, tourists,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

	June 30	
	2008	2007
Assets		
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	<u>299,997,233</u>	<u>352,251,226</u>
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	<u>1,195,131,379</u>	<u>1,130,978,221</u>
Total assets	<u>1,495,128,612</u>	<u>1,483,229,447</u>
Liabilities		
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	<u>144,435,900</u>	<u>133,037,509</u>
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	<u>924,670,647</u>	<u>923,472,066</u>
Total liabilities	<u>1,069,106,547</u>	<u>1,056,509,575</u>

(Continues)



University of Puerto Rico
Statements of Net Assets (continued)

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

See accompanying notes.



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

	June 30	
	2008	2007
Revenues		
Operating revenues:		
Tuitons 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
Operating Expenses		
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
Net Assets		
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**

	Year Ended June 30	
	2008	2007
Cash flows from operating activities		
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	(912,763,263)	(704,607,577)
Cash flows from noncapital financing activities		
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	942,469,288	910,441,927
Cash flows from capital and related financing activities		
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	(88,734,566)	(59,250,865)
Cash flows from investing activities		
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	29,882,483	(183,567,503)
Net change in cash and cash equivalents	(29,146,058)	(36,984,018)
Cash and cash equivalents:		
Beginning of year	54,140,722	91,124,740
End of year	\$ 24,994,664	\$ 54,140,722

(Continues)



University of Puerto Rico
Statements of Cash Flows (continued)

	Year Ended June 30	
	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used in operating activities		
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	<u>\$ (912,763,263)</u>	<u>\$ (704,607,577)</u>

See accompanying notes.



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

	June 30	
	<u>2008</u>	<u>2007</u>
Assets		
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	<u>17,285,625</u>	<u>16,388,126</u>
Property and equipment, net	4,677,296	3,660,070
Total assets	<u>\$ 21,962,921</u>	<u>\$ 20,048,196</u>
Liabilities and deficiency in unrestricted net assets		
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	<u>48,711,744</u>	<u>47,149,186</u>
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	<u>87,300,456</u>	<u>84,062,054</u>
Deficiency in unrestricted net assets	<u>(65,337,535)</u>	<u>(64,013,858)</u>
Total liabilities and deficiency in unrestricted net assets	<u>\$ 21,962,921</u>	<u>\$ 20,048,196</u>

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



	Year Ended June 30	
	2008	2007
Unrestricted revenues and other support		
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	49,042,009	41,593,788
Expenses		
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	50,365,686	49,964,999
Excess of expenses over revenue	(1,323,677)	(8,371,211)
Deficiency in unrestricted net assets, at beginning of year	(64,013,858)	(55,642,647)
Deficiency in unrestricted net assets, at end of year	\$ (65,337,535)	\$ (64,013,858)

See accompanying notes.



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

	Year Ended June 30	
	2008	2007
Cash flows from operating activities		
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	2,944,025	6,234,953
Net cash provided by (used in) operating activities	1,620,348	(2,136,258)
Cash flows from investing activities		
Purchase of property and equipment	(2,022,319)	(657,968)
Cash flows from financing activities		
Net advances from University of Puerto Rico and other related parties	1,044,625	2,245,668
Net cash provided by financing activities	1,044,625	2,245,668
Net increase (decrease) in cash	642,654	(548,558)
Cash and cash equivalents, at beginning of year	32,062	580,620
Cash and cash equivalents, at end of year	\$ 674,716	\$ 32,062
Supplemental disclosures of cash flows information		
Cash paid for interest	\$ 91,395	\$ 78,762

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
Assets		
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
 Liabilities and net assets		
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

	Year Ended March 31	
	2008	2007
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**

	Year Ended March 31	
	2008	2007
Cash flows from operating activities		
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)
Cash flows from investing activities		
Net proceeds from release of restricted funds held by trustee	554,600	4,097,134
Cash flows from financing activities		
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 an 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:

	2008	2007
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
	290,622,347	266,036,815
Less allowance for doubtful accounts	(132,409,296)	(106,514,050)
Accounts receivable, net	\$ 158,213,051	\$ 159,522,765

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:

Fiscal Year	Amount
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
	\$ 40,430,127



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
	140,146,300	60,199,286	(21,573,166)	(1,297,172)	177,475,248
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
	1,067,863,637	16,254,516	21,573,166	(7,087,098)	1,098,604,221
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)
	(411,324,335)	(37,125,069)	-	6,768,128	(441,681,276)
Other capital assets, net of accumulated depreciation	656,539,302	(20,870,553)	21,573,166	(318,970)	656,922,945
Capital assets, net	\$ 796,685,602	\$ 39,328,733	\$ -	\$ (1,616,142)	\$ 834,398,193
	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
	172,024,113	52,364,572	(83,249,351)	(993,034)	140,146,300
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
	871,699,582	120,196,452	83,249,351	(7,281,748)	1,067,863,637
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)
	(384,397,167)	(33,774,910)	-	6,847,742	(411,324,335)
Other capital assets, net of accumulated depreciation	487,302,415	86,421,542	83,249,351	(434,006)	656,539,302
Capital assets, net	\$ 659,326,528	\$ 138,786,114	\$ -	\$ (1,427,040)	\$ 796,685,602



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
Total long-term	\$ 675,779,072	\$ 18,542,649	\$ (19,760,000)	\$ (595,173)	\$ 673,966,548	\$ 21,455,000	\$ 652,511,548
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
Total other long-term liabilities	\$ 295,650,941	\$ 37,785,817	\$ (27,699,499)	\$ (2,072,388)	\$ 303,664,871	\$ 30,122,164	\$ 273,542,707
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
Total long-term	\$ 462,094,889	\$ 569,359,527	\$ (402,632,169)	\$ 46,956,825	\$ 675,779,072	\$ 19,760,000	\$ 656,019,072
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
Total other long-term liabilities	\$ 205,402,908	\$ 139,872,716	\$ (49,624,683)	\$ -	\$ 295,650,941	\$ 28,197,947	\$ 267,452,994

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:

Series	Balance as of June 30, 2008	Annual Interest Rate (%)	Due Date
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
	615,787,000		
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)		
	\$ 637,904,831		

Series	Balance as of June 30, 2007	Annual Interest Rate (%)	Due Date
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
	635,547,000		
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)		
	\$ 655,507,668		



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)

Pledged Revenues:	2008	2007
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
	<u>\$ 134,754,511</u>	<u>\$ 132,621,031</u>

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:

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



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:

Future Minimum Lease Payments	
Year	Amount
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	(32,235,670)	(30,551,103)
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

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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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
Schedule of Funding Progress
(Unaudited)

Employees Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Excess of Assets over AAL (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	Excess as a Percentage of Covered (b - a) / c)
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

Actuarial Valuation Date	Actual Value of Assets (a)	Actual Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a - b)	Funded Ratio (a / 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

Stamp No. 2410341
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original of
this report.

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