

Universidad Carlos Albizu, Inc.

Financial Statements and Supplemental Schedule  
of Expenditures of Federal Awards

June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Universidad Carlos Albizu, Inc.

We have audited the accompanying financial statements of Universidad Carlos Albizu, Inc., (the University), which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and changes in net assets, and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Universidad Carlos Albizu, Inc. as of June 30, 2015 and the related changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 14 to the financial statements, the University has commissioned certain investigations regarding costs incurred in the renovation of a building facility located at Luna Street in San Juan, Puerto Rico. As of the date the financial statements were available to be issued, these investigations were still in process, accordingly, the accompanying financial statements do not include any adjustment or provision that may result from this matter. Our opinion is not modified with respect to this matter.

### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2015, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.



FPV, GALINDO=2

San Juan, Puerto Rico  
November 20, 2015

Universidad Carlos Albizu, Inc.

Statement of Financial Position

June 30, 2015

Assets:

Cash and cash equivalents	\$ 10,226,510
Restricted cash	1,303,456
Accounts receivables, net	1,050,788
Due from affiliates	73,852
Prepaid expenses and other assets	658,559
Investments	15,163,526
Investments, restricted	706,234
Property and equipment, net	<u>18,615,351</u>
Total assets	<u><u>47,798,276</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable	699,171
Accrued expenses	1,920,694
Deferred revenues	2,307,109
Derivative financial instrument	1,389,881
Obligations under capital leases	49,264
Long term-debt	<u>9,125,000</u>
Total liabilities	<u>15,491,119</u>

Net assets:

Unrestricted	28,188,790
Temporarily restricted	<u>4,118,367</u>
Total net assets	<u>32,307,157</u>
Total liabilities and net assets	<u><u>\$ 47,798,276</u></u>

See notes to financial statements

Universidad Carlos Albizu, Inc.  
Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Tuition and fees	\$ 21,885,882	\$ -	\$ 21,885,882
Less scholarships	<u>(531,905)</u>	<u>-</u>	<u>(531,905)</u>
Net tuition and fees	21,353,977	-	21,353,977
Contributions and contracts	3,076,916	-	3,076,916
Private gifts and grants	-	998,974	998,974
Other sources	354,257	82,313	436,570
Net assets released from restrictions	<u>674,078</u>	<u>(674,078)</u>	<u>-</u>
Total revenues, gains and other support	<u>25,459,228</u>	<u>407,209</u>	<u>25,866,437</u>
Educational and general expenses:			
Instruction	7,913,664	-	7,913,664
Research	229,382	-	229,382
Public services	681,846	-	681,846
Academic support	3,187,685	-	3,187,685
Student services	2,052,432	-	2,052,432
Institutional support	10,805,248	-	10,805,248
Bad debts expense	211,953	-	211,953
Depreciation expense	<u>785,845</u>	<u>-</u>	<u>785,845</u>
Total educational and general expenses	<u>25,868,055</u>	<u>-</u>	<u>25,868,055</u>
Income (loss) before non-operating income (expenses)	<u>(408,827)</u>	<u>407,209</u>	<u>(1,618)</u>
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	156,997	-	156,997
Interest and dividend income	1,010,924	58,794	1,069,718
Net realized and unrealized loss on investments	(2,412,009)	(159,714)	(2,571,723)
Rental income	1,471,246	-	1,471,246
Interest expense	<u>(446,340)</u>	<u>-</u>	<u>(446,340)</u>
Total non-operating expenses, net	<u>(219,182)</u>	<u>(100,920)</u>	<u>(320,102)</u>
Change in net assets	(628,009)	306,289	(321,720)
Net assets, beginning of year	<u>28,816,799</u>	<u>3,812,078</u>	<u>32,628,877</u>
Net assets, end of year	<u>\$ 28,188,790</u>	<u>\$ 4,118,367</u>	<u>\$ 32,307,157</u>

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2015

Change in net assets	\$ (321,720)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	785,845
Provision for bad debts	211,953
Net realized and unrealized loss on investments	2,571,723
Unrealized gain on derivative financial instrument	(156,997)
Provision for legal contingencies	457,885
Changes in operating assets and liabilities:	
Accounts receivable	(410,545)
Prepaid expenses and other assets	57,981
Due from affiliates	100,685
Accounts payable	(75,342)
Accrued expenses	308,583
Deferred revenues	494,242
Total adjustments	4,346,013
Net cash provided by operating activities	4,024,293
Cash flows from investing activities:	
Net increase in restricted cash	(769,950)
Acquisition of property and equipment	(1,677,115)
Purchases of investments	(513,667)
Proceeds from sale and redemption of investments	2,132,031
Net cash used in investing activities	(828,701)
Cash flows from financing activities:	
Payments of long-term debt	(475,000)
Payments of obligations under capital lease	(15,857)
Net cash used in financing activities	(490,857)
Net increase in cash and cash equivalents	2,704,735
Cash and cash equivalents, beginning of year	7,521,775
Cash and cash equivalents, end of year	\$ 10,226,510
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest	\$ 446,340

See notes to financial statements



Universidad Carlos Albizu, Inc.  
Notes to the Financial Statements  
June 30, 2015

Note 1- Nature of business

Organization

Universidad Carlos Albizu, Inc. (the University) is a not-for-profit institution incorporated under the laws of the Commonwealth of Puerto Rico. The University offers PhD, master and bachelor degrees, which include among others, psychology, and speech and language therapy. The University operates two campuses located in San Juan, Puerto Rico and Miami, Florida, respectively, and a Learning Center in Mayaguez, Puerto Rico.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of presentation

The accompanying financial statements have been prepared in accordance with Financial Accounting Standard Board, Accounting Standard Codification (ASC) No. 958, *Not-for-Profit Entities*, which requires that all not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. It also requires presentation of net assets in the statement of financial position based on the existence of donor-imposed restrictions, as permanently restricted, temporarily restricted, and unrestricted, and that the change of the amounts in each of those classifications be presented in the statement of activities and changes in net assets.

Accordingly, the net assets of the University are classified and reported as follows:

- Permanently restricted – Net assets subject to donor-imposed stipulations to be maintained permanently by the University to use all or part of the income earned on related assets for general or specific purposes.
- Temporarily restricted – Net assets subject to donor-imposed stipulations that might or will be met with either by actions of the University and/or the passage of time.
- Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 2 - Summary of significant accounting policies - (continued)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted cash

Restricted cash consists of the undisbursed balance of federal and state grants with donor imposed stipulations. These balances are restricted until the applicable contractual provisions are satisfied.

Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability, aging of the receivables, prior credit loss experience and other relevant factors. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the outstanding receivables and the related allowance may change as a result of future developments. Accounts receivable write-offs and recoveries are charged to the allowance for doubtful accounts.

Investments

The University accounts for its investments under the provisions of ASC No. 958-320, *Investments in Debt and Equity Securities*. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities and changes in net assets.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 2 - Summary of significant accounting policies - (continued)

Property and equipment

Property and equipment are carried at cost, or if donated, at fair value when received. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, ranging from 3 to 39 years. Equipment under capital leases is amortized over the estimated useful life of the respective assets or lease term, whichever is shorter.

Maintenance and repairs, if any, are charged to operations as incurred. Major renewals and improvements are capitalized. Construction in progress is carried in a temporary account until the related project is completed, at which time, a transfer is made to the corresponding property and equipment account.

Impairment of long-lived assets

The University periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may be not recoverable. No impairment charges were recorded during the year ended June 30, 2015.

Derivative financial instruments

The University has entered into an interest rate swap agreement to manage its interest rate exposure. Interest rate swap contracts generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal. Entering into interest-rate swap contracts involves not only the risk of dealing with counterparties and their ability to meet the terms of the contracts, but also the interest rate risk associated with unmatched positions.

The University accounts its derivative instrument pursuant to ASC No. 815, *Derivatives and Hedging*. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. ASC 815 also requires that all derivative instruments be recognized as assets and liabilities at fair value.

The University's interest rate swap agreement has not been designated as a hedging instrument, accordingly, the changes in fair value of the derivative financial instrument are recorded in earnings.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 2 - Summary of significant accounting policies - (continued)

Income taxes

The University is exempt from the payment of income taxes and other state and municipal taxes under the provisions of the Puerto Rico Income Tax Code. The University is also exempt from federal income taxes under the U.S. Internal Revenue Code.

The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The University records interest related to unrecognized tax benefits in interest expense and penalties under institutional support expenses.

Management has analyzed the tax positions taken by the University and has concluded that there were no unrecognized tax benefits that would require recognition or disclosure in the accompanying financial statements.

On May 29, 2015, the Governor of the Commonwealth of Puerto Rico signed into law House Bill 2482, known as the Act 72-2015 to provide additional sources of revenues to balance the fiscal budget of the Commonwealth. The Act made significant changes to the Sales and Use Tax (IVU), added the new Value Added Tax (IVA) and new tax measures. These amendments are effective on July 1 and October 1, 2015 for the IVU, and the IVA from April 1, 2016.

Tuition and fees

Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Stipends and other payments made directly to students are presented as scholarships and fellowship expenses.

Government grants, contracts revenues and deferred revenues

Revenues from United States government and Commonwealth of Puerto Rico grants and contracts are recognized as revenue as it is earned through expenditures in accordance with the grant agreements. Funds received for student financial assistance (principally Pell Grant and Direct Loans) that are awarded directly to students are excluded from revenues and expenses. Unexpended grants and contracts received, if any, are recognized as deferred revenues until realization. As of June 30, 2015, there were undistributed loans and other program funds amounting to \$1,191,220, which are included as part of restricted cash in the accompanying statement of financial position.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 2 - Summary of significant accounting policies - (continued)

Advertising

The University expenses the costs of all advertising campaigns and promotions as these are incurred. During the year ended June 30, 2015, the advertising expense amounted to approximately \$1,106,000.

Functional expenses allocation

Expenses are reported in the statement of activities and changes in net assets in categories recommended by the National Association of College and University Business Officers (NACUBO). The University's primary program services are instruction and public service. Expenses reported as academic support and student services are incurred in support of the University's primary program. Institutional support mainly includes management and general expenses.

Certain expenses, such as operation and maintenance of facilities, depreciation and interest costs, which are related to more than one category, are allocated among the appropriate categories based primarily on equipment usage and building square footage.

Subsequent events

Management has evaluated subsequent events through October 23, 2015, which is the date the financial statements were available to be issued. Except as disclosed in Note 14, no events have occurred subsequent to June 30, 2015 and through the date the financial statements were available to be issued that would require additional adjustment to or disclosure in the financial statements.

Note 3 - Accounts receivable

Accounts receivable at June 30, 2015 consist of the following:

Students	\$ 1,022,235
Grants receivable	170,007
Other receivables	<u>339,956</u>
Total accounts receivable	1,532,198
Less allowance for doubtful accounts	<u>(481,410)</u>
Accounts receivable, net	<u>\$ 1,050,788</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 4 - Investments

Investments at June 30, 2015 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agency obligations	\$ 437,717	\$ 404,021	\$ 33,696
Corporate bonds	4,342,545	4,134,703	207,842
Mutual funds	2,687,861	3,585,086	(897,225)
Municipal bonds	6,801,740	10,804,435	(4,002,695)
Asset backed securities	379,750	366,903	12,847
Money market	<u>513,913</u>	<u>513,913</u>	<u>-</u>
Total	<u>\$ 15,163,526</u>	<u>\$ 19,809,061</u>	<u>\$ (4,645,535)</u>

Restricted investments at June 30, 2015 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	\$ 326,363	\$ 309,183	\$ 17,180
Municipal bonds	377,635	667,176	(289,541)
Asset backed securities	<u>2,236</u>	<u>2,100</u>	<u>136</u>
Total	<u>\$ 706,234</u>	<u>\$ 978,459</u>	<u>\$ (272,225)</u>

Investment return

Investment income (loss) for the year ended June 30, 2015, consists of the following:

Interest and dividends	\$ 1,069,718
Net realized and unrealized loss on investments	<u>(2,571,723)</u>
Investment loss, net	<u>\$ (1,502,005)</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 5 - Property and equipment

Property and equipment at June 30, 2015 consist of the following:

Land	\$ 7,200,000
Building and improvements	10,820,810
Equipment	3,902,447
Library books	66,543
Vehicles	128,294
Software	1,742,144
Construction in progress	<u>3,085,728</u>
Total property and equipment	26,945,966
Less accumulated depreciation and amortization	<u>(8,330,615)</u>
Property and equipment, net	<u>\$ 18,615,351</u>

The University is currently undergoing certain construction and improvement projects. As a part of such projects, the University has entered into certain agreements with various independent contractors which had remaining commitments of approximately \$777,800 at June 30, 2015.

Note 6 - Long-term debt

Long-term debt of \$9,125,000 at June 30, 2015 consists of a mortgage loan, due on January 31, 2018 to a financial institution, payable in variable monthly installments, including principal and interest, plus a final installment for the remaining outstanding principal. Interest is due monthly at the applicable LIBOR (1-month) rate, plus 1.10% (1.28% at June 30, 2015). The loan is collateralized by the land and building of the Miami campus. Borrowings under the mortgage loan payable are subject to an interest rate swap agreement (see Note 7).

Under the terms of the loan, the University is required to comply with certain financial and restrictive covenants, including maintaining a debt service coverage ratio of 1.30 to 1.0 and a liquidity to debt ratio of .30 to 1.0. As of June 30, 2015, the University was in compliance with such covenants.



Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 6 - Long-term debt – (continued)

Future annual maturities under the mortgage loan at June 30, 2015, are as follows:

Year Ending June 30,	Amount
2016	\$ 550,000
2017	650,000
2018	<u>7,925,000</u>
Total	<u>\$ 9,125,000</u>

Note 7 - Derivative financial instrument

On September 11, 2000, the University entered into a variable-to-fixed interest rate swap agreement to manage its exposure to changes in variable interest rates related to its mortgage loan payable. Such interest rate swap agreement was not designated as a hedging instrument, accordingly, changes in its fair value are recorded in earnings. The fair value of the interest rate swap agreement liability decreased by \$156,997 during the year ended June 30, 2015.

The University's interest-rate swap agreement outstanding as of June 30, 2015 was as follows:

	Notional Amount	Fixed Rate	Variable Rate	Maturity Date	Fair Value
Interest rate swap	\$ 6,300,000	5.12%	LIBOR + 1.10%	December 1, 2025	\$ (1,389,881)

The fair value of the interest rate swaps as of June 30, 2015 is presented as a liability from derivative financial instrument in the accompanying statement of financial position.

Interest expense for the year ended June 30, 2015, includes interest from this swap agreement amounting to approximately \$323,000.

Note 8 - Rental income

The University leases a portion of the Miami campus facilities to an unrelated third party under operating lease agreement, expiring on July 30, 2020.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 8 - Rental income – (continued)

Future minimum rental payments required under this operating lease as of June 30, 2015 are approximately as follows:

Year Ending June 30,	Amount
2016	\$ 1,553,000
2017	1,560,000
2018	1,560,000
2019	1,560,000
2020	1,560,000
Thereafter	<u>130,000</u>
Total	<u>\$ 7,923,000</u>

Rental income for the year ended June 30, 2015 amounted to \$1,471,246.

Note 9 - Related party transactions

The University is affiliated with Clínica de Salud Mental de la Comunidad, Inc. (the Clinic), a not-for-profit organization that provides health care services to the community. The University has significant transactions with the Clinic at terms and conditions arranged by management of the affiliated group.

Due from affiliates at June 30, 2015 results mainly from payments made by the University on behalf of the Clinic. Amounts due from/to affiliates are non-interest bearing and have no formal repayment terms, however, they are expected to be settled in the normal course of business.

Note 10 - Temporarily restricted net assets

Temporarily restricted net assets consist mainly of federal grants received from the U.S. Department of Education (USDE) under the Title V program, Endowment Challenge Grant, together with the income earned on the grants' amount. The University matches these grants dollar for dollar. The federal grants and the University's contribution constitute the Endowment Fund Corpus. The University must invest and shall not expend the Endowment Fund Corpus for a period of 20 years. Afterwards, the Endowment Fund Corpus can be used for any educational purpose.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 11 – Fair value of financial instruments

ASC 820, *Financial Instruments*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 — Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- Level 2 — Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- Level 3 — Certain inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2015:

*U.S. Government and agency obligations, municipal bonds and asset backed securities* — Valued using pricing models maximizing the use of observable inputs for similar securities. Examples of inputs that are commonly relevant for valuing particular classes of fixed-income securities, include prepayment speeds, actual pool, and collateral information for mortgage-backed securities and standard inputs and treasury curves and spreads for U.S. government securities. These investments are classified as Level 2.

*Corporate bonds* — Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available. These investments are classified as Level 2.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 11 – Fair Value Measurement – (continued)

*Mutual funds* — Mutual funds classified as Level 1 are valued at the daily closing price as reported by the fund. These funds are open-ended mutual funds that are registered with the Securities and Exchange Commission. These mutual funds are required to publish their daily net asset value (NAV) and to transact at that price.

Level 2 mutual funds are valued based on NAV quotes provided by the broker-dealers and the market makers for these funds.

*Money market funds* — Valued at cost, plus accrued interest, which approximates fair value. Money market funds are classified as Level 2.

*Interest rate swap contracts* — The fair value of the University's interest rate swap agreement is determined using market observable inputs, including interest rate curves and widely published market observable indexes. Interest rate swap agreements are classified as Level 2.

The following table sets forth by level, within the fair value hierarchy, the University's assets measured at fair value on a recurring basis as of June 30, 2015:

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	\$ -	\$ 437,717	\$ -	\$ 437,717
Corporate bonds	-	4,668,908	-	4,668,908
Mutual funds	1,305,370	1,382,491	-	2,687,861
Municipal bonds	-	7,179,375	-	7,179,375
Asset backed securities	-	381,986	-	381,986
Money market	-	513,913	-	513,913
Total	<u>\$ 1,305,370</u>	<u>\$ 14,564,390</u>	<u>\$ -</u>	<u>\$ 15,869,760</u>

The University's derivative financial instrument consists of an interest rate swap agreement, which is recorded at fair value on a recurring basis. The fair value of this derivative financial instrument was \$1,389,881 at June 30, 2015 and has been presented as a liability in the accompanying statement of financial position. Such derivative financial instrument is classified as Level 2, within the fair value hierarchy.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 11 – Fair Value Measurement – (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 12 – Employee benefit plans

Substantially all employees of the University participate in two separate retirement plans (the Plans), covering the employees of the Puerto Rico and Miami operations, respectively. Participants are allowed to make contributions to the Plans, not exceeding the maximum deferral amount specified by law. The University contributions are based on a percentage of the participants' compensation. These plans are subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the Plans for the year ended June 30, 2015 were \$311,575.

Note 13 – Concentrations of credit risk

Approximately 95% of the University's students participate in student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended, ("Title IV Programs") of the USDE.

Financial instruments, which potentially expose the University to concentrations of credit risk, consist primarily of cash and cash equivalents, investments securities and receivables. The University's cash and cash equivalents are deposited with federally insured financial institutions. Cash balances at banks are insured for up to \$250,000. The University normally maintains bank accounts balances in excess of \$250,000, however, it has not experienced any credit losses on such balances.

The University's investment portfolio is diversified and includes high quality securities, however, during the year ended June 30, 2015, the University incurred in net unrealized losses on fair value of investments, mainly due to the downgrade of the Commonwealth of Puerto Rico (the Commonwealth) related debt.

Concentration of credit risk with respect to accounts receivable is relatively limited because a substantial portion of these balances is due from U.S. Federal and Commonwealth government agencies.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 14 - Commitments and contingencies

Lease agreements

The University leases its administration facilities under an operating lease agreement, expiring on May 1, 2016. Minimum lease payments under this agreement amounts to \$112,030 for the year ending June 30, 2016. Rent expense under this agreement for the year ended June 30, 2015 amounted to approximately \$134,000.

In addition, the University entered into an agreement with the Commonwealth on December 21, 2012 in which the Commonwealth ceded to the University the use of certain facilities for a period of 30 years, after which it reverts to the Commonwealth.

Government grants

The University participates in various federally funded programs of the USDE, including student financial assistance under Title IV Programs. Title IV Programs are routinely subject to financial and compliance audits in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133 Audit of States, Local Government, and Non Profit Organizations (Circular A-133) or to compliance audits by the grantors and/or federal agencies. The reports on the audits of these programs, which are conducted pursuant to regulatory requirements by external auditors of the University, are required to be submitted to the USDE.

The University also participates in other state grants awarded by the Higher Educational Council of Puerto Rico (HECPR), the uses of which are also subject to financial and compliance audits in accordance with the provisions of the audit guide for financial assistance state programs issued by the HECPR. Monies received under U.S. federal and local programs are subject to regulatory requirements and can only be expended for the purposes established in the grant or programs. Federal and state agencies have the authority to determine liabilities, if any, as well as, to limit, suspend, or terminate the federal and state student financial assistance programs. No provision has been made for any liability, which may arise from such audits since the amounts, if any, cannot be determined at this date.

Legal contingencies

The University is subject to legal proceedings and claims arising in the ordinary course of its business. In the opinion of management, appropriate provisions have been made for such claims in the accompanying financial statements and the ultimate resolution of these matters will not have a significant effect on the financial position or the results of operations of the University.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2015

Note 14 - Commitments and contingencies – (continued)

Luna street project

The University has performed and is still performing certain investigations regarding costs incurred in the renovation of a building facility located at Luna Street in San Juan, Puerto Rico. Such investigations were assigned to various consulting and legal firms. As of the date the financial statements were available to be issued, these investigations were still in process, accordingly, the accompanying financial statements do not include any adjustment or provision that may result from this matter.



Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Student Financial Assistance Program Cluster:		
U.S. Department of Education and U.S. Department of Health and Human Services:		
Federal Supplemental Educational Opportunity Grant Program	84.007	\$ 43,732
Federal Work-Study Program	84.033	221,308
Federal Pell Grant Program	84.063	1,203,429
Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379	3,964
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925	<u>528,706</u>
Total Student Financial Assistance Program		<u>2,001,139</u>
Higher Education - Institutional Aid Programs:		
U.S. Department of Education:		
Higher Education-Institutional Aid (84.031):		
Promoting Post Baccalaureate Opportunities for Hispanic Americans	84.031M	597,795
Higher Education-Institutional Aid	84.031S	293,523
U.S. Department of Health and Human Services:		
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	93.243	<u>183,384</u>
Total Other Programs		<u>1,074,702</u>
Total Programs		<u>\$ 3,075,841</u>

Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Note 1 - Basis of Presentation

The accompanying supplementary Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Universidad Carlos Albizu, Inc. (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-for-Profit Organizations. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Because the Schedule presents only a selected portion of the activities of the University, it is not intended to, and does not present the financial position, changes in net assets, and cash flows of the University. Funds received for students' financial assistance (principally Pell Grant and FFEL Loans) that are awarded directly to students for educational purposes are excluded from revenues and expenses. These grants are applied to the students' tuition and fees and any excess is paid to the students.

Note 2 - Summary of Significant Accounting Policies

- a. The Schedule is prepared from the University's accounting records.
- b. The financial transactions are recorded by the University in accordance with the terms and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- c. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Number

The CFDA numbers included in the Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance. CFDA numbers are presented for those programs for which such numbers were available.

Note 4 - Loan Program

The University participates in the Federal Direct Student Loan Program (CFDA 84.268). The University is responsible only for the performance of certain administrative duties and, accordingly, these loans are not included in its financial statements. The dollar amounts are not listed in the Schedule as the University is not the recipient of the funds. However, such program is considered a component of the student financial assistance program at the University. New loans processed for students during the year ended June 30, 2015 were \$29,171,831.

## **PART II**

Universidad Carlos Albizu, Inc.

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

To the Board of Trustees of  
Universidad Carlos Albizu, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Universidad Carlos Albizu, Inc. (the University), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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.

### Purpose of this Report

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



FPV : GALINDO

San Juan, Puerto Rico  
November 20, 2015

### **PART III**

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Compliance for  
Each Major Program  
and on Internal Control Over Compliance in Accordance with  
OMB Circular A-133



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of  
Universidad Carlos Albizu, Inc.

Report on Compliance for Each Major Federal Program

We have audited Universidad Carlos Albizu, Inc.'s (the University) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.



### Opinion on Each Major Federal Program

In our opinion, Universidad Carlos Albizu, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-01, 2015-02 and 2015-03. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

To the Board of Trustees of  
Universidad Carlos Albizu, Inc.  
Page 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



FPVÉ GALIN D=2

San Juan, Puerto Rico  
November 20, 2015

## **PART IV**

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part I - Summary of Auditors' Results

Financial Statements

- Type of auditors' report issued: Unmodified
- Internal control over financial reporting:
  - Material weaknesses identified? ☐ Yes ☒ No
  - Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ No
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

- Internal control over major programs:
  - Material weakness identified? ☐ Yes ☒ No
  - Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ No
- Type of auditors' report issued on compliance for major programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ☒ Yes ☐ No
- Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

Student Financial Assistance Program Cluster (Title IV):	
Federal Pell Grant Program	84.063
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grant Program	84.007
Federal Direct Student Loan Program	84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH)	84.379
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925
Higher Educational Institutional Aid (Title V):	
Promoting Postbaccalaureate Opportunities for Hispanic Americans	84.031M

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

- Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes X No

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part II— Findings Relating to the Financial Statements that are Required to be Reported in Accordance with Government Auditing Standards

None.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III— Findings and Questioned Cost Relating to Federal Awards

Finding No. 2015-01 Special Tests and Provisions – Enrollment Reporting

Federal Program

CFDA 84.063 Federal Pell Grant Program  
CFDA 84.268 Federal Direct Student Loans Program

Category

Compliance/Internal Control

Compliance Requirements

Special tests and provisions – Enrollment Reporting

Condition Found

In testing compliance and internal control over compliance with Special Test and Provisions- Enrollment Reporting, we selected twenty-five (25) participants of the Federal Pell Grant Program and/or the Federal Direct Student Loans Program from the total population who withdrew, graduated, dropped-out or failed to attend to the University during the year ended in June 30, 2015.

During our test, we noted that in eight (8) cases, or (32%) of the sample selected, the University did not report to the National Student Loan Data System (NSLDS) the students status changes within the time prescribed by the Code of Federal Regulations (CFR), as follows:

Student ID	Change of Status Date	Date Reported (Web)	Days Elapsed	Deadline	Days in Excess
212879	1/1/2015	11/12/2015	315	60	255
214515	4/18/2015	7/8/2015	81	60	21
215093	4/18/2015	7/8/2015	81	60	21
205927	4/18/2015	7/8/2015	81	60	21
209738	4/18/2015	7/8/2015	81	60	21
218648	4/18/2015	7/8/2015	81	60	21
194031	4/18/2015	11/12/2015	208	60	148
209564	12/4/2014	11/12/2015	343	60	283



Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-01 Special Tests and Provisions – Enrollment Reporting – (continued)

Criteria

Under the Pell grant and U.S. Department of Education (USDE) loan programs, institutions must complete and return within 30 days the Enrollment Reporting roster file (formerly the Student Status Confirmation Report (SSCR)) placed in their Student Aid Internet Gateway (SAIG) (OMB No. 1845-0002) mailboxes sent by the USED via NSLDS (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Cause

The condition was mainly due to an administrative error in the monitoring of the information to be reported.

Effect

The late enrollment reporting may be considered by the grantor as a noncompliance with the above mentioned criteria and could lead to administrative sanctions by the grantor.

Questioned Cost

None.

Recommendation

The University must ascertain that students' documentation and other information necessary to comply with the federal funds enrollment reporting requirements are readily available and up to date, and that all personnel assigned to such processes has the necessary knowledge and experience to ensure full compliance with the applicable regulations.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-01 Special Tests and Provisions – Enrollment Reporting – (continued)

Management Response

The University considers these instances of noncompliance as isolated events, however, in order to strengthen controls over enrollment reporting, the University will change its reporting cycle to a monthly reporting cycle. This change will ensure that the University complies with the 60-day requirement set in the regulations.

Also, the University will provide additional training to all staff with responsibilities over the Student Status Report to ensure the timely identification of potential instances of noncompliance in the reporting and recording process.

Finally, in addition to the regularly scheduled monitoring reviews over the applicable controls and procedures, periodic unannounced reviews have been incorporated to the standard operational and internal audit procedures to identify possible deficiencies in the internal reporting and recording processes.

Finding No. 2015-02 Special Tests and Provisions – Timely Return of Title IV Funds

Federal Program

CFDA 84.063	Federal Pell Grant Program
CFDA 84.268	Federal Direct Student Loans Program

Category

Compliance/Internal Control

Compliance Requirements

Special tests and provisions – Timely Return of Title IV Funds

Condition Found

In testing compliance with the return of Title IV funds requirement, we selected twenty-five (25) participants of the Title IV Federal Student Financial Assistance (SFA) programs from a total population of 63 students who withdrew, dropped-out, or failed to attend to the University.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-02 Special Tests and Provisions – Timely Return of Title IV Funds (continued)

During our evaluation of compliance with these requirements, we noted five (5) cases (20%) in which the University failed to return the corresponding refund within 45 days from the date the University determined that the student withdrew, dropped-out, or failed to attend to the University.

Criteria

34 CFR Section 668.22(a) states that: when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of the Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of such section. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs.

Also, 34 CFR Section 668.173 (b) states that: an institution returns unearned Title IV, HEA program funds timely if; (i) the institution deposits or transfers the fund into the bank account it maintains under Section 668.163 no later than 45 days after the date it determines that the student withdrew; (ii) the institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the students withdrew; (iii) the institution initiates an electronic transaction, no later than 45 days after the date it determines that the withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (iv) the institution issues check or an electronic transfer no later than 45 days after the date it determines that the students withdrew.

Cause

This condition was mainly due to an error in the dates used in the initial calculations to determine the earned/unearned amounts by the University.

Effect

Although the University subsequently corrected these errors, the related Title IV funds were returned to the lender after the required 45-day period. Such late returns may be considered by the grantor as a noncompliance with the above mentioned criteria and could lead to administrative sanctions by the grantor.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-02 Special Tests and Provisions – Timely Return of Title IV Funds – (continued)

Questioned Cost

None.

Recommendation

The University must ascertain that the students' documentation and other information necessary to comply with the timely return of Title IV funds requirement are readily available and up to date, and that all personnel assigned to such processes has the necessary knowledge and experience to ensure full compliance with the applicable regulations.

Management Response

The University accepts the finding and has reviewed its procedures for the recording of students' withdrawal dates and has proceeded to retrain the staff in charge of providing and recording the dates, including faculty, to ensure that they are performing their tasks in accordance with the University's prescribed policies and procedures. Also, the University verified 100% of the 2014-2015 academic year withdrawals to ascertain the correct application of the return of Title IV funds policies. In addition, the Title IV Compliance Officer will oversee such processes and procedures to ensure compliance with the applicable requirements.

Finding No. 2015-03 Special Tests and Provisions – Disbursements to or on behalf of students

Condition Found

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we selected sixty-one (61) participants from a total population of 2,071 students who received Direct Loans.

During our evaluation of compliance with these requirements, we noted seven (7) cases (11%) in which the University failed to properly notify the anticipated date and amount of disbursement, the student's or parent's right to cancel all or a portion of that loan, and the procedures and time by which the student or parent must notify the University that he or she wishes to cancel the loan.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-03 Special Tests and Provisions – Disbursements to or on behalf of students

Criteria

34 CFR Section 668.165 states that: Before an institution disburses Title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, HEA program, and how and when those funds will be disbursed. If those funds include Direct Loans or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. Except in the case of a post-withdrawal disbursement made in accordance with 34 CFR Section 668.22(a)(5), if an institution credits a student's account at the institution with Direct Loans, FFEL, Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education Grants (TEACH) Grant Program funds, the institution must notify the student or parent of:

- The anticipated date and amount of the disbursement;
- The student's right or parent's right to cancel all or a portion of the Direct Loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary. However, if the institution releases a check provided by a lender under the FFEL Program, the institution is not required to provide this information; and
- The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the Direct Loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

The institution must provide the notice described in writing:

- No earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation from the student; or
- No earlier than 30 days before, and no later than seven days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student.

Cause

The condition was caused by an administrative error.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-03 Special Tests and Provisions – Disbursements to or on behalf of students – (continued)

Effect

Failure to make the required notifications may be considered by the grantor as a noncompliance with the above mentioned criteria and could lead to administrative sanctions by the grantor.

Questioned Cost

None.

Recommendation

The University must ascertain that the students' documentation and other information necessary to comply with the Direct Loans and other grants notification requirements are readily available and up to date, and that all personnel assigned to such processes has the necessary knowledge and experience to ensure full compliance with the applicable regulations.

Management Response

The University accepts the finding and proceeded to review the related controls to ensure the required notifications are properly performed and to maintain the necessary documentation on file. Specifically, the notification process has been revised and strengthened, not limited to the notification document, but also, on the process itself. The University has revised all records in order to be certain that all students and/or parents will receive the timely notification of:

- The anticipated date and amount of the disbursement;
- The student's right or parent's right to cancel all or a portion of the Direct Loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary. However, if the institution releases a check provided by a lender under the FFEL Program, the institution is not required to provide this information; and
- The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the Direct Loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Part III – Federal Award Findings and Questioned Costs – (continued)

Finding No. 2015-03 Special Tests and Provisions – Disbursements to or on behalf of students –  
(continued)

Also, personnel responsible for these requirements, including the Bursar Office and Financial Aid personnel, as well as the Counseling Staff, have received additional training on the applicable regulations for student's disbursements, including required notifications.

**PART V**

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs



Universal Carlos Albizu, Inc.

Summary Schedule of Prior year Audit Findings

For the Year Ended June 30, 2015

Summary of prior year audit finding

None noted as a result of prior year's audit.