

Universidad Carlos Albizu, Inc.

Financial Statements and Supplemental Schedule
of Expenditures of Federal Awards

June 30, 2017 and 2016

Table of Contents

Part I

Financial Statements as of and for the years ended June 30, 2017 and 2016, Supplemental Schedule of Expenditures of Federal Awards for the year ended June 30, 2017 and Independent Auditors' Report	1-27
--	------

Part II

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon the Audit Performed in Accordance with Government Auditing Standards	28-29
---	-------

Part III

Independent Auditors' Report on Compliance with requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with Uniform Guidance	30-32
---	-------

Part IV

Schedule of Findings and Questioned Costs	33-39
---	-------

Part V

Corrective Action Plan	40-41
------------------------	-------

Part VI

Summary Schedule of Prior Year Audit Findings and Questioned Costs	42-43
--	-------

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Universidad Carlos Albizu, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years 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 audits. We conducted our audits 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 auditors consider 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.

Board of Trustees
Universidad Carlos Albizu, Inc.
Page 2

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, 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.

This space was intentionally left in blank

Board of Trustees
Universidad Carlos Albizu, Inc.
Page 3

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of Universidad Carlos Albizu, Inc.'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 Universidad Carlos Albizu, Inc.'s internal control over financial reporting and compliance.



San Juan, Puerto Rico
November 29, 2017

Universidad Carlos Albizu, Inc.

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 3,901,871	\$ 7,510,928
Restricted cash	430,587	424,728
Accounts receivable, net	1,361,209	2,504,998
Due from affiliate	-	20,814
Prepaid expenses and other assets	540,622	451,009
Investments	18,897,285	18,973,821
Investments, restricted	943,505	643,894
Property and equipment, net	<u>20,621,009</u>	<u>19,293,803</u>
Total assets	<u><u>46,696,088</u></u>	<u><u>49,823,995</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	895,643	1,302,720
Accrued expenses	2,587,749	2,726,541
Deferred revenues	1,853,334	2,127,533
Derivative financial instrument	977,879	1,402,639
Obligations under capital leases	18,403	33,908
Long term-debt	<u>7,771,272</u>	<u>8,408,699</u>
Total liabilities	<u>14,104,280</u>	<u>16,002,040</u>
Net assets:		
Unrestricted	28,197,798	29,413,853
Temporarily restricted	<u>4,394,010</u>	<u>4,408,102</u>
Total net assets	<u>32,591,808</u>	<u>33,821,955</u>
Total liabilities and net assets	<u><u>\$ 46,696,088</u></u>	<u><u>\$ 49,823,995</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Tuition and fees	\$ 23,811,822	\$ -	\$ 23,811,822
Less scholarships	<u>(540,152)</u>	<u>-</u>	<u>(540,152)</u>
Net tuition and fees	23,271,670	-	23,271,670
Contributions and contracts	70,702	45,000	115,702
Private gifts and grants	1,735,529	694,417	2,429,946
Other sources	1,571,715	-	1,571,715
Contributed services	376,088	-	376,088
Net assets released from restrictions	<u>684,548</u>	<u>(684,548)</u>	<u>-</u>
Total revenues, gains and other support	<u>27,710,252</u>	<u>54,869</u>	<u>27,765,121</u>
Educational and general expenses:			
Instruction	8,959,592	-	8,959,592
Research	499,963	-	499,963
Public services	3,804,006	-	3,804,006
Academic support	4,119,834	-	4,119,834
Student services	2,527,431	-	2,527,431
Institutional support	7,854,203	-	7,854,203
Contributed services	376,088	-	376,088
Bad debts expense	227,620	-	227,620
Depreciation expense	<u>816,969</u>	<u>-</u>	<u>816,969</u>
Total educational and general expenses	<u>29,185,706</u>	<u>-</u>	<u>29,185,706</u>
Income (loss) before non-operating income (expenses)	<u>(1,475,454)</u>	<u>54,869</u>	<u>(1,420,585)</u>
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	424,760	-	424,760
Interest and dividend income	932,242	49,194	981,436
Net realized and unrealized loss on investments	(1,368,460)	(118,155)	(1,486,615)
Rental income, net	1,240,390	-	1,240,390
Provision for claim losses and related expenses	(557,220)	-	(557,220)
Interest expense	<u>(412,313)</u>	<u>-</u>	<u>(412,313)</u>
Total non-operating income (expenses) net	<u>259,399</u>	<u>(68,961)</u>	<u>190,438</u>
Change in net assets	(1,216,055)	(14,092)	(1,230,147)
Net assets, beginning of year	<u>29,413,853</u>	<u>4,408,102</u>	<u>33,821,955</u>
Net assets, end of year	<u>\$ 28,197,798</u>	<u>\$ 4,394,010</u>	<u>\$ 32,591,808</u>

(Continues)

Universidad Carlos Albizu, Inc.
Statement of Activities and Changes in Net Assets (continued)
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Tuition and fees	\$ 25,126,410	\$ -	\$ 25,126,410
Less scholarships	<u>(745,285)</u>	<u>-</u>	<u>(745,285)</u>
Net tuition and fees	24,381,125	-	24,381,125
Contributions and contracts	73,992	41,250	115,242
Private gifts and grants	1,092,405	1,061,614	2,154,019
Other sources	771,972	2,000	773,972
Contributed services	277,194	-	277,194
Net assets released from restrictions	<u>875,302</u>	<u>(875,302)</u>	<u>-</u>
Total revenues, gains and other support	<u>27,471,990</u>	<u>229,562</u>	<u>27,701,552</u>
Educational and general expenses:			
Instruction	8,569,285	-	8,569,285
Research	340,321	-	340,321
Public services	3,350,462	-	3,350,462
Academic support	3,401,901	-	3,401,901
Student services	2,233,526	-	2,233,526
Institutional support	8,293,676	-	8,293,676
Contributed services	277,194	-	277,194
Bad debts expense	183,902	-	183,902
Depreciation expense	<u>819,880</u>	<u>-</u>	<u>819,880</u>
Total educational and general expenses	<u>27,470,147</u>	<u>-</u>	<u>27,470,147</u>
Income before non-operating income (expenses)	<u>1,843</u>	<u>229,562</u>	<u>231,405</u>
Non-operating income (expenses):			
Unrealized loss on fair value of derivative financial instrument	(12,758)	-	(12,758)
Interest and dividend income	894,869	49,159	944,028
Net realized and unrealized gain on investments	215,835	11,014	226,849
Rental income, net	1,236,265	-	1,236,265
Provision for claim losses and related expenses	(684,578)	-	(684,578)
Interest expense	<u>(426,413)</u>	<u>-</u>	<u>(426,413)</u>
Total non-operating income net	<u>1,223,220</u>	<u>60,173</u>	<u>1,283,393</u>
Change in net assets	1,225,063	289,735	1,514,798
Net assets, beginning of year	<u>28,188,790</u>	<u>4,118,367</u>	<u>32,307,157</u>
Net assets, end of year	<u>\$ 29,413,853</u>	<u>\$ 4,408,102</u>	<u>\$ 33,821,955</u>

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	2017	2016
Change in net assets	\$ (1,230,147)	\$ 1,514,798
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	816,969	819,880
Provision for bad debts	227,620	183,902
Net realized and unrealized loss (gain) on investments	1,486,615	(226,849)
Unrealized (gain) loss on derivative financial instrument	(424,760)	12,758
Provision for legal contingencies	-	195,000
Amortization of debt issuance costs	12,573	12,573
Changes in operating assets and liabilities:		
Accounts receivable	916,169	(1,273,580)
Prepaid expenses and other assets	(89,613)	78,676
Due from affiliates	20,814	57,527
Accounts payable	(407,077)	234,528
Accrued expenses	(138,792)	610,847
Deferred revenues	(274,199)	(179,576)
Total adjustments	<u>2,146,319</u>	<u>525,686</u>
Net cash provided by operating activities	<u>916,172</u>	<u>2,040,484</u>
Cash flows from investing activities:		
Net (increase) decrease in restricted cash	(5,859)	878,728
Acquisition of property and equipment	(2,144,175)	(1,498,332)
Purchases of investments	(9,000,446)	(4,221,756)
Proceeds from sale and redemption of investments	<u>7,290,756</u>	<u>700,650</u>
Net cash used in investing activities	<u>(3,859,724)</u>	<u>(4,140,710)</u>
Cash flows from financing activities:		
Payments of long-term debt	(650,000)	(600,000)
Payments of obligations under capital lease	<u>(15,505)</u>	<u>(15,356)</u>
Net cash used in financing activities	<u>(665,505)</u>	<u>(615,356)</u>
Net decrease in cash and cash equivalents	(3,609,057)	(2,715,582)
Cash and cash equivalents, beginning of year	<u>7,510,928</u>	<u>10,226,510</u>
Cash and cash equivalents, end of year	<u>\$ 3,901,871</u>	<u>\$ 7,510,928</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 412,313</u>	<u>\$ 426,413</u>

See notes to financial statements

Universidad Carlos Albizu, Inc.
Notes to the Financial Statements
June 30, 2017 and 2016

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 Standards Board, Accounting Standards 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, 2017 and 2016

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, Accounting for Certain Investments Held by Non-for-Profit Organizations*. 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.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

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

Property and equipment

Property and equipment are recorded 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 reviews 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 years ended June 30, 2017 and 2016.

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 financial 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, 2017 and 2016

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.

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, 2017 and 2016, there were undistributed loans and other program funds amounting to \$365,810 and \$11,183, respectively, which are included as part of restricted cash in the accompanying statements of financial position.

Advertising

The University expenses the costs of all advertising campaigns and promotions as these are incurred. During the years ended June 30, 2017 and 2016, the advertising expense amounted to approximately \$601,500 and \$1,212,100, respectively.

Contributed services

The University accounts for contributed services pursuant to FASB ASC No. 958-605, *Not-for-Profit Entities-Revenue Recognition*, which requires that contributions of services be recognized if the services received either: create or enhance a nonfinancial asset or; they require specialized skills, provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are reported as revenue and expenses in the period received.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

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

Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the related debt. Prior to the issuance of ASU No. 2015-03, debt issuance costs were required to be presented as an asset.

ASU No. 2015-03 was effective for the University on July 1, 2016 and was retrospectively adopted as of June 30, 2016, accordingly, debt issuance costs of \$116,301 as of such date have been reclassified from prepaid expenses and other assets to long-term debt in the accompanying 2016 statement of financial position.

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.

Note 3 - Accounts receivable

Accounts receivable at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Students	\$ 990,386	\$ 1,767,660
Grants receivable	247,247	179,179
Contracts receivable	219,313	758,294
Other receivables	<u>409,513</u>	<u>240,206</u>
	1,866,459	2,945,339
Less allowance for doubtful accounts	<u>505,250</u>	<u>440,341</u>
Accounts receivable, net	<u>\$ 1,361,209</u>	<u>\$ 2,504,998</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 3 - Accounts receivable – (continued)

During the years ended June 30, 2017 and 2016, the University accounted for \$181,938 and \$265,838, respectively, for accounts written-off. Also, during the years ended June 30, 2017 and 2016, the University accounted for recoveries of bad debts written-off in prior years amounting to \$19,227 and 40,867, respectively.

Note 4 - Investments

Investments at June 30, 2017 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations	\$ 353,855	\$ 303,584	\$ 50,271
Corporate bonds	3,870,492	3,665,452	205,040
Mutual funds	2,557,443	3,735,090	(1,177,647)
Municipal bonds	7,964,061	13,139,389	(5,175,328)
Asset backed securities	542,662	527,821	14,841
Exchange-traded funds	2,792,616	2,504,807	287,809
Money market	<u>816,156</u>	<u>816,156</u>	<u>-</u>
Total	<u>\$ 18,897,285</u>	<u>\$ 24,692,299</u>	<u>\$ (5,795,014)</u>

Investments at June 30, 2016 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations	\$ 373,119	\$ 303,723	\$ 69,396
Corporate bonds	4,053,061	3,837,575	215,486
Mutual funds	2,665,808	3,685,088	(1,019,280)
Municipal bonds	8,964,782	12,684,794	(3,720,012)
Asset backed securities	389,375	366,903	22,472
Exchange-traded funds	1,807,203	1,802,909	4,294
Money market	<u>720,473</u>	<u>720,473</u>	<u>-</u>
Total	<u>\$ 18,973,821</u>	<u>\$ 23,401,465</u>	<u>\$ (4,427,644)</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 4 - Investments – (continued)

Restricted investments at June 30, 2017 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	\$ 172,337	\$ 165,337	\$ 7,000
Municipal bonds	290,641	667,427	(376,786)
Asset backed securities	<u>480,527</u>	<u>483,646</u>	<u>(3,119)</u>
Total	<u>\$ 943,505</u>	<u>\$ 1,316,410</u>	<u>\$ (372,905)</u>

Restricted investments at June 30, 2016 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	\$ 243,394	\$ 228,177	\$ 15,217
Municipal bonds	399,139	667,298	(268,159)
Asset backed securities	<u>1,361</u>	<u>1,240</u>	<u>121</u>
Total	<u>\$ 643,894</u>	<u>\$ 896,715</u>	<u>\$ (252,821)</u>

Investment return

Investment income (loss) for the years ended June 30, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	\$ 981,436	\$ 944,028
Net realized and unrealized gain (loss) on	<u>(1,486,615)</u>	<u>226,849</u>
Investment gain (loss), net	<u>\$ (505,179)</u>	<u>\$ 1,170,877</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 5 - Property and equipment

Property and equipment at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 7,200,000	\$ 7,200,000
Building and improvements	10,099,823	10,043,939
Equipment	2,763,150	2,753,279
Furniture and fixtures	399,580	399,580
Library books	568,290	463,630
Vehicles	210,231	210,231
Software	<u>1,819,258</u>	<u>1,749,645</u>
Total	23,060,332	22,820,304
Less accumulated depreciation and amortization	<u>(9,967,463)</u>	<u>(9,150,494)</u>
	13,092,869	13,669,810
Construction in progress	<u>7,528,140</u>	<u>5,623,993</u>
Property and equipment, net	<u><u>\$ 20,621,009</u></u>	<u><u>\$ 19,293,803</u></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 \$400,000 at June 30, 2017.

The Remainder of This Page Was Left in Blank Intentionally

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 6 - Long-term debt

Long-term debt as of June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
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% (2.32% and 1.57% at June 30, 2017 and 2016, respectively).	\$7,875,000	\$8,525,000
Less: unamortized debt issuance costs	<u>103,728</u>	<u>116,301</u>
Long-term debt, net	<u>\$7,771,272</u>	<u>\$8,408,699</u>

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. As of June 30, 2017, the University was not in compliance with some of the restrictive covenants in the loan agreement. However, the bank waived the compliance with such requirements on December 4, 2017. As of June 30, 2016, the University was in compliance with the covenants.

The principal amount of the mortgage loan amounting to \$7,875,000 matures during the fiscal year ending June 30, 2018.

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 increased (decreased) by \$424,760 and (\$12,758), respectively, during the years ended June 30, 2017 and 2016.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 7 - Derivative financial instrument – (continued)

The University's interest-rate swap agreement outstanding as of June 30, 2017 and 2016 was as follows:

<u>Year ending:</u>	<u>Notional Amount</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Maturity Date</u>	<u>Fair Value</u>
June 30, 2017	\$ 5,500,000	5.12 %	LIBOR + 1.10%	December 1, 2025	\$ (977,879)
June 30, 2016	\$ 5,900,000	5.12 %	LIBOR + 1.10%	December 1, 2025	\$ (1,402,639)

The fair value of the interest rate swaps as of June 30, 2017 and 2016 is presented as a liability from derivative financial instrument in the accompanying statement of financial position.

Interest expense for the years ended June 30, 2017 and 2016, include interest from this swap agreement amounting to approximately \$292,000 and \$312,000, respectively.

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.

Future minimum rentals under this operating lease as of June 30, 2017 are approximately as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	1,605,000
2019	1,605,000
2020	1,605,000
2021	<u>133,750</u>
Total	<u>\$ 4,948,750</u>

Rental income, before deducting related expenses of \$387,504 and \$391,149 for the years ended June 30, 2017 and 2016, respectively, amounted to \$1,627,894 and \$1,627,414, respectively.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

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. During 2017 and 2016, the University had transactions with the Clinic at terms and conditions arranged by management of the affiliated group. Effective October 1, 2016, the University entered into a contract, which was previously managed by the Clinic, with the Department of Family of the Commonwealth of Puerto Rico (DFPR). Also, effective June 26, 2017 the Clinic was legally dissolved in the State Department of the Commonwealth of Puerto Rico.

Due from affiliate at June 30, 2016 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.

Note 11 – Fair value of financial instruments

ASC 820, *Fair Value Measurement*, 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.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 11 – Fair value of financial instruments – (continued)

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, 2017.

U.S. Government and agencies 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.

Exchange-traded funds (ETF) – Valued at daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. These investments are classified as Level 1.

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.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 11 – Fair value of financial instruments – (continued)

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, 2017 and 2016, respectively:

2017

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	\$ -	\$ 353,855	\$ -	\$ 353,855
Corporate bonds	-	4,042,829	-	4,042,829
Mutual funds	1,391,149	1,166,294	-	2,557,443
Municipal bonds	-	8,254,702	-	8,254,702
Asset backed securities	-	1,023,189	-	1,023,189
Exchange-traded funds	2,792,616	-	-	2,792,616
Money market	-	816,156	-	816,156
Total	<u>\$ 4,183,765</u>	<u>\$ 15,657,025</u>	<u>\$ -</u>	<u>\$ 19,840,790</u>

2016

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	\$ -	\$ 373,119	\$ -	\$ 373,119
Corporate bonds	-	4,296,455	-	4,296,455
Mutual funds	1,381,177	1,284,631	-	2,665,808
Municipal bonds	-	9,363,921	-	9,363,921
Asset backed securities	-	390,736	-	390,736
Exchange-traded funds	1,807,203	-	-	1,807,203
Money market	-	720,473	-	720,473
Total	<u>\$ 3,188,380</u>	<u>\$ 16,429,335</u>	<u>\$ -</u>	<u>\$ 19,617,715</u>

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 11 – Fair value of financial instruments – (continued)

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 \$977,879 and \$1,402,639 at June 30, 2017 and 2016, respectively, and has been presented as a liability in the accompanying statements of financial position. Such derivative financial instrument is classified as Level 2, within the fair value hierarchy.

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 years ended June 30, 2017 and 2016 were \$465,032 and \$405,582, respectively.

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 per financial institution. The University normally maintains bank accounts balances in excess of \$250,000, nevertheless, 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, 2016, 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.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 13 - Concentrations of credit risk – (continued)

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.

Note 14 - Commitments and contingencies

Facilities lease agreements

The University leases its administration facilities under a cancellable operating lease agreement. Rent expense under this agreement for the years ended June 30, 2017 and 2016 amounted to approximately \$134,000 and \$148,000, respectively. Also, the University leases the facilities of the Mayaguez Learning Center under an operating lease agreement expiring on December 2018. Rent expense under this agreement for the years ended June 30, 2017 and 2016 amounted to approximately \$120,000, in both years, and future minimum rent payments under this agreement amount to approximately \$60,000, for the year ending June 30, 2018.

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.

Operating leases

The University leases miscellaneous office equipments under operating leases. Also, the University contracts with various lessors for the maintenance of the equipments under lease. Rent and maintenance expense under the terms of such leases and agreements during the years ended June 30, 2017 and 2016 was approximately \$73,000, in both periods.

Future minimum rentals under existing operating leases at June 30, 2017 amounts to \$55,035 for the year ending June 30, 2018.

Government contracts and grants

As of June 30, 2017, the University had a significant contract with the Department of Family of the Commonwealth of Puerto Rico (DFPR) to provide clinical services to victims of abuse and their families, among other services, which expires on September 30, 2017. The contract is a pass-through from the DFPR for funds received under the program *Promoting Safe and Stable Families* of the US Department of Health and Human Services.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 14 - Commitments and contingencies – (continued)

Government contracts and grants – (continued)

Also, the University participates in various federally funded programs of the USDE, including student financial assistance under Title IV Programs. The contract with the DFPR and Title IV Programs are routinely subject to financial and compliance audits in accordance with the provisions of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) 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) and the Florida Department of Education Office of Student Financial Assistance (Florida DE), 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 and the Instructions for Program Compliance Audits of States Student Financial Assistance Programs issued by the Florida DE, respectively. 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.

The Health Insurance Portability and Accountability Act

Because of the nature of the services provided under the contract with the DFPR mentioned above, the University is subject to the Health Insurance Portability and Accountability Act (HIPAA) provisions. HIPAA was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Health care providers are required to be in compliance with HIPAA provisions and are subject to significant fines and penalties if found not to be in compliance with the provisions outlined in the regulations. The University believes to be in compliance with such provisions.

Universidad Carlos Albizu, Inc.

Notes to the Financial Statements – (Continued)

June 30, 2017 and 2016

Note 14 - Commitments and contingencies – (continued)

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.

Note 15 - Reclassifications

Certain reclassifications were made to the 2016 financial statements to conform them to the current year presentation.

Note 16 - Subsequent events

On September 20, 2017, Hurricane Maria impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. As of the date the financial statements were available to be issued, management was in the process of evaluating the damages caused by Hurricane Maria and what potential effects it may have, if any, on the operations of the University.

Management has evaluated subsequent events through November 29, 2017, which is the date the financial statements were available to be issued. Except as disclosed above, no events have occurred subsequent to the statement of financial position date and through the date the financial statements were available to be issued, that would require additional adjustment to or disclosure in the financial statements.

Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Agency/(Pass-Through Agency) and Program Title	Federal CFDA Number	Other Award Number	Federal Expenditures		
			From Direct Awards	From Pass- Through Awards	Total Expenditures
Student Financial Assistance Program Cluster:					
U.S. Department of Education:					
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 46,918	\$ -	\$ 46,918
Federal Work-Study Program	84.033		173,897	-	173,897
Federal Pell Grant Program	84.063		1,241,225	-	1,241,225
Federal Direct Loan Program	84.268		33,390,546	-	33,390,546
U.S. Department of Health and Human Services:					
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925		541,022	-	541,022
Total Student Financial Assistance Program			35,393,608	-	35,393,608
Higher Education - Institutional Aid Programs:					
U.S. Department of Education:					
Higher Education-Institutional Aid (84.031):					
Higher Education-Institutional Aid	84.031S		250,576	-	250,576
U.S. Departmenet of Health and Human Services:					
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	93.243		370,318	-	370,318
(Pass-Through from families and Children Administration of the Department of Family of the Commonwealth of Puerto Rico) Promoting Safe and Stable Families	93.556		-	1,376,326	1,376,326
Total Other Programs			620,894	1,376,326	1,997,220
Total Expenditures of Federal Awards			\$ 36,014,502	\$ 1,376,326	\$ 37,390,828

See accompanying notes to schedule of expenditures of federal awards

Universidad Carlos Albizu, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The University does not use the 10-percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

Note 3 - Catalog of Federal Domestic Assistant (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.

Universidad Carlos Albizu, Inc.

Notes to Schedule of Expenditures of Federal Awards – (Continued)

Year Ended June 30, 2017

Note 4 - Loan Program

The University participates in the Federal Direct Student Loan Program (Direct Loans) (CFDA 84.268). Loans made through the Direct Loans program are provided by the federal government; accordingly, the disbursements under the program and the outstanding loan balances are excluded from the financial statements of the University. However, such program is considered a component of the student financial assistance program at the University. Federal expenditures for these loans are determined when loans are made to students. The balance of loans for previous years is not considered federal expenditures of the current year because the lender accounts for them. Direct Loans are made by the Secretary of Education. The Student's Aid Reports (SAR) or Institutional Student Information Record (ISIR), along with other information, is used by the University to originate a student's loan. New loans processed for students during the year ended June 30, 2017 were \$33,390,546.

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

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on the Financial Statements

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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Universidad Carlos Albizu, Inc.'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 Universidad Carlos Albizu, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Universidad Carlos Albizu, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Board of Trustees
Universidad Carlos Albizu, Inc.
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Universidad Carlos Albizu, Inc.'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.



San Juan, Puerto Rico
November 29, 2017

PART III

Universidad Carlos Albizu, Inc.

Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with
Uniform Guidance

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Universidad Carlos Albizu, Inc.

Report on Compliance for Each Major Federal Program

We have audited Universidad Carlos Albizu, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universidad Carlos Albizu, Inc.'s major federal programs for the year ended June 30, 2017. Universidad Carlos Albizu, Inc.'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Universidad Carlos Albizu, Inc.'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Universidad Carlos Albizu, Inc.'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 Universidad Carlos Albizu, Inc.'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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

Universidad Carlos Albizu, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Universidad Carlos Albizu, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Universidad Carlos Albizu, Inc. 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 Universidad Carlos Albizu, Inc.'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 the Uniform Guidance, 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 Universidad Carlos Albizu, Inc.'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.

Board of Trustees
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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be significant deficiencies.

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Juan, Puerto Rico
November 29, 2017

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, 2017

Part I - Summary of Auditors' Results

Financial Statements

- a) Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified opinion
- b) Material weaknesses in internal control over financial reporting identified: No material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) Significant deficiencies in internal control over financial reporting identified that are not considered to be material weaknesses: No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- d) Noncompliance that is material to the financial statements: None

Federal Awards

- a) Any there any reportable findings under Uniform Guidance § 200.516: Yes, there are reportable findings, and such are included in the Schedule of Findings and Questioned Costs as items 2017-001 through 2017-002.
- b) Major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
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
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925
Department of Health and Human Services:	
Promoting Safe and Stable Families	93.556

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Part I - Summary of Auditors' Results – (continued)

- c) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- d) Auditee qualified as a low-risk auditee under Uniform Guidance § 200.520: No.
- e) Internal control over compliance with major programs:
 - i. Material weaknesses identified? No
 - ii. Significant deficiencies identified? Yes
- f) Type of auditor's report issued on compliance for major programs: Unmodified opinion.

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, 2017

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2017-001 Special Tests and Provisions – Enrollment Reporting

Federal Program

Students Financial Assistance Programs Cluster

CFDA 84.063 Federal Pell Grant Program

CFDA 84.268 Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

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, 2017.

During our test, we noted that in one (1) case, or 4% 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:

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2017-001 Special Tests and Provisions – Enrollment Reporting – (continued)

Condition Found – (continued)

Student ID	Change of Status Date	Date Reported (Web)	Days Elapsed	Deadline	Days in Excess
218578	1/2/2017	3/29/2017	86	60	26

Criteria

34 CFR 685.309 (b)(2)(ii) states that unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that; a loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or a student who is enrolled at the school and who received a loan under title IV of the Act has changed his or her permanent address.

Cause

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

Questioned Cost

None.

Context

Of the 324 cases of status changed, we examined twenty-five (25) and determined that one (1) case did not comply with the Enrollment Reporting requirements.

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.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2017-001 Special Tests and Provisions – Enrollment Reporting – (continued)

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.

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, 2016-002.

Views of responsible officials and planned corrective actions

Please refer to the corrective action plan on pages 40-41.

Finding No. 2017-002 Special Tests and Provisions – Timely Return on Title IV Funds

Federal Program

Students Financial Assistance Programs Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants
CFDA 84.063	Federal Pell Grant Program
CFDA 84.268	Federal Direct Student Loans Program

Name of Federal Agency

U.S. Department of Education

Pass-through Entity

N/A

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2017-002 Special Tests and Provisions – Timely Return of Title IV Funds – (continued)

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 68 students who withdrew, dropped-out, or failed to attend to the University. During our evaluation of compliance with these requirements, we noted one (1) case, or (4%) of the sample selected, in which the University failed to return the total 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 student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or (iv) the institution issues check no later than 45 days after the date it determines that the student withdrew.

Universidad Carlos Albizu, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Part III - Findings and Questioned Costs Relating to Federal Awards – (continued)

Finding No. 2017-002 Special Tests and Provisions – Timely Return of Title IV Funds – (continued)

Cause

The condition was mainly caused by an information system error in the data gathering and processing of grants disbursed to student, which included a negative symbol in a grant amount, resulting in a lower amount to be returned to the Title IV programs.

Questioned Cost

None.

Context

Of the 68 cases of students who withdrew, dropped-out, or failed to attend to the University, we examined twenty-five (25) and determined that one (1) case did not comply with the timely return of funds requirements.

Effect

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

Recommendation

The University must ascertain that the students' information in their computerized systems is complete and correct. Also, personnel assigned to such processes should carefully revise the accuracy of the automated computation of the return of Title IV funds performed by their system to decrease the risk of error.

Identification of a repeat finding

This is not a repeat finding.

Views of responsible officials and planned corrective actions

Please refer to the corrective action plan on pages 40-41.

PART V

Universidad Carlos Albizu, Inc.

Corrective Action Plan

Corrective Action Plan

For the Year Ended June 30, 2017

Finding No. 2017-001 Special Tests and Provisions – Enrollment Reporting

Condition:

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, 2017. During our test, we noted that in one (1) case, or 4% of the sample selected, the University did not report to the National Student Loan Data System (NSLDS) the student's status changes within the time prescribed by the Code of Federal Regulations (CFR).

Institution Response:

The institution agrees with the Auditors findings. However, is important to note that this was an isolated case. In prior years, similar findings have been noted and the Institution has reduced the incidence of this finding from a 25% to a 4%, for the current audited award year with only 1 incidence out of 25 cases.

We were able to recognize this problem on time. During the institutional process, we reported the students as a withdrawal until we certified that the students had all the requirements needed for completion; then the student's status will be change from withdrawal to graduate.

Corrective Action Plan:

The institution will continue to conduct periodic internal audits in order to identify similar cases and to correct any error in time, if any.

Finding No. 2017-002 Special Tests and Provisions – Timely Return of Title IV Funds

Condition:

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 68 students who withdrew, dropped-out, or failed to attend to the University. During our evaluation of compliance with these requirements, we noted one (1) case, or (4%) of the sample selected, in which the University failed to return the total corresponding refund within 45 days from the date the University determined that the student withdrew, dropped-out, or failed to attend to the University.

Corrective Action Plan (Continued)

For the Year Ended June 30, 2017

Finding No. 2017-002 Special Tests and Provisions – Timely Return of Title IV Funds – (continued)

Institution Response:

The condition noted in the Return of Title IV funds calculation for the student # 220197, was caused by a software error in the data compilation and processing of grants disbursed to student, this resulted in a miscalculation of a lower amount to be returned to the Department of Education. The original calculated amount to be returned to the Department of Education was \$ 1,345.01 and it was returned on 11/16/2016. During the Single Audit 2017, it was brought the fact that the return of Title IV Funds Federal Worksheet Data screen (ROFW) in our system Datatel was showing a negative amount (\$ - 45.00) for the FSEOG. Immediately, our IT Department established a communication with Ellucian Customer Support to find out about this situation; being this case the first time this negative amount showed in this screen. Ellucian Customer Support Specialist mentioned that it was an information system error.

The return of Title IV funds calculation was recalculated again and the amount to be returned to the Department of Education was \$1,364.90 instead of the original amount of \$1,345.01. This created a difference of \$19.89, this difference was returned to the Department of Education on 8/28/2017.

Corrective Action Plan:

The Financial Aid Office understands the importance to be in compliance with federal regulations. In order to avoid similar occurrences with the process of Return of Title IV Funds, the Financial Aid Department implemented the use of the web tool offered in the FAA Access website by the Department of Education for the Return of Title IV Funds. This process is concurrent to the tool offered by the Ellucian system for confirmation of the same results. The goal is to verify the calculated amounts to avoid any conditions during this process.

PART VI

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2017

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2016-001	N/A	Year ended June 30, 2016	During the audit of cash and cash equivalents area, we noted that six (6), of a total of nineteen (19), bank statements of the University as of June 30, 2016, were not properly reconciled to the general ledger cash balance.	The Finance Office has instituted various measures and processes in order to address the matter. First, of all, the Accounting Supervisor will be responsible for all cash reconciliations each month. A process has been developed by which by the tenth day of each month, the supervisor will be responsible for presenting all cash reconciliations, together with the report from the general ledger, present it for review and approval to the Finance Director. Also, as part of the monthly reporting of institutional interim statements, to be submitted to the Executive Director of Finance and Administration, a certification from the Director of Finance will be required to the effects of stating that cash reconciliations and major adjustments needed to present fairly the financial condition of the university for the reported period, were part of the monthly closing process.	None.	Corrected	This matter was resolved.
2016-002	CFDA 84.063 Pell Grant Program CFDA 84.268 Federal Direct Student Loan Program	Year ended June 30, 2016	In testing compliance and internal control over compliance with Special Test and Provisions-Enrollment Reporting, we selected twenty-five (25) participants of Federal Pell Grant Program and of Federal Direct Loan Program from the total population who withdrew, graduated, dropped-out or fail to attend to the university during the year ended in June 30, 2016. During our test, we noted that in six (6) cases, or 24% of the sample selected, the University did not report to the National Student Loan Data System (NSLDS) the student status changes within the time prescribed by the Code of Federal Regulations (CFR).	With these situations in mind, beginning this academic year the Registrar Office will classify students with a "W" status (withdrawal) until completion of the certification process. When the Registrar Office completes the evaluation, it will change the students' status to "G" (graduate). (This process is explained in the NSLDS Enrollment Reporting Guide). The Institution initiated and implemented a re-training program for all staff members assigned to the Enrollment Reporting Process. The training included: •Review of the Student Enrollment Report Calendar and the dates for transmission. •Review and training of each element within the report. •Review of the source data for the modification and completion of each element of the report. As part of the efforts for compliance the Institution has established a monitor calendar in which at the end of each term the students classified as "W", "G" and "A" will be audited to determine if they were correctly reported in the NSLDS.	None.	Not corrected.	The Institution implemented the Corrective Action Plan as described in the Prior Year Audit. However, a similar finding was identified in the year ended on June 30, 2017. Nevertheless, the condition repeated in less instances than in prior year, which shows that the Corrective Action Plan was implemented and that such implementation improved the monitoring over the Enrollment Reporting process.

Universidad Carlos Albizu, Inc.

Schedule of Prior Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2017

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2016-003	CFDA 84.007 Federal Supplemental Educational Opportunity Frants CFDA 84.063 Pell Grant Program CFDA 84.268 Federal Direct Student Loan Program	Year ended June 30, 2016	In testing compliance with the disbursements to or behalf of the students requirement, we selected sixty-five (65) participants of the Title IV Federal Students Financial Assistance (SFA) programs from a total populations of 2,127 students who received Federal Financial Assitance. During our evaluation of compliance with this requirements, we noted ten (10) cases, or 15% of the sample slected, in which the University failed to notify the students, which payment was made using checks, that the corresponding refund was available for pickup with 14 days from the date the University determined that the student had a SFA credit balance.	The Institution notified its students of the checks availability through the Collection Office. However, in the 10 isolated cases in this finding, the Institution cannot substantiate a copy of the notifications to the auditor. The Institution will discuss with the officials in charge of the notification process on how to proceed and will emphasize the importance of sustaining evidence of these communications.	None.	Corrected.	The matter was resolved.
2016-004	CFDA 93.556 - Promoting Safe and Stable Families	Year ended June 30, 2016	As a result of a clerical error, the University incorrectly reported the expenses incurred for a three-month period instead of expenses incurred for the six-month period and, as a result, the expenses reported in the quarterly report for the six-month period ended March 31, 2016 did not match the accounting record by \$336,767. Also, the University sent all quarterly reports after the ten days subsequently to the end of the quarter, as required by the grant contract.	Due to an involuntary error, the worksheet used to prepare the quarterly report did not add expenses from the previous quarter to the Total Expenses column of the report each period. This was already corrected on the worksheets used to generate the information, and formulas were reviewed. From July 2016, the Institution has submitted the reports showing cumulative expenses as required. Also, as a method of strengthening internal control, the report is reviewd by the grant accountant once it is prepared by the fiscal agent to verify data included in the report and ensure proper recognition. Also, a process was established and discussed with the grant's administrative staff in order to comply with required submittal date. Administrative staff has been instructed to submit all invoices and/or requisitions for the period by the 5th date of the end of the quarter. This will allow the grants fiscal agent to have necessary information to submit the report by the required date. The report will be reviewed and sent by the grant accountant, responsible of overseeing process related to this grant and of making sure grant award is administered correctly.	None.	Corrected.	The matter was resolved.