Universidad Carlos Albizu, Inc.

Financial Statements and Supplemental Schedule of Expenditures of Federal Awards

June 30, 2018 and 2017

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FPV & GALINDEZ LLC

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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

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<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, 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.

FPV & Galindez

San Juan, Puerto Rico
October 18, 2018
License No. LLC-322
Expires December 1, 2020

Universidad Carlos Albizu, Inc.

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 3,193,103	$ 3,901,871
Restricted cash	286,517	430,587
Accounts receivable, net	3,652,416	1,361,209
Prepaid expenses and other assets	733,941	540,622
Investments	19,797,925	18,897,285
Investments, restricted	982,150	943,505
Property and equipment, net	22,228,257	20,621,009
Total assets	50,874,309	46,696,088
Liabilities and Net Assets		
Liabilities:		
Accounts payable	1,250,030	895,643
Accrued expenses	2,668,393	2,587,749
Deferred revenues	1,842,872	1,853,334
Derivative financial instrument	665,536	977,879
Obligations under capital leases	2,636	18,403
Long term-debt	7,404,679	7,771,272
Total liabilities	13,834,146	14,104,280
Net assets:		
Unrestricted	32,104,832	28,197,798
Temporarily restricted	4,935,331	4,394,010
Total net assets	37,040,163	32,591,808
Total liabilities and net assets	$ 50,874,309	$ 46,696,088

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Tuition and fees	$ 25,026,231	$ -	$ 25,026,231
Less scholarships	(677,147)	-	(677,147)
Net tuition and fees	24,349,084	-	24,349,084
Contributions and contracts	43,535	39,560	83,095
Private gifts and grants	884,943	1,170,208	2,055,151
Other sources	2,671,747	600	2,672,347
Contributed services	213,577	-	213,577
Net assets released from restrictions	838,537	(838,537)	-
Total revenues, gains and other support	29,001,423	371,831	29,373,254
Educational and general expenses:			
Instruction	9,189,578	-	9,189,578
Research	577,952	-	577,952
Public services	4,831,381	-	4,831,381
Academic support	4,235,326	-	4,235,326
Student services	2,464,683	-	2,464,683
Institutional support	6,903,216	-	6,903,216
Contributed services	213,577		213,577
Bad debts expense	269,328	-	269,328
Depreciation expense	953,577	-	953,577
Total educational and general expenses	29,638,618	-	29,638,618
Income (loss) before non-operating income (expenses)	(637,195)	371,831	(265,364)
Non-operating income (expenses):			
Unrealized gain on fair value of derivative financial instrument	312,343	-	312,343
Interest and dividend income	592,540	25,064	617,604
Net realized and unrealized gain on investments	1,491,408	144,426	1,635,834
Rental income, net	1,239,494	-	1,239,494
Insurance claim recovery due to Hurricane Maria, net of related expenses	1,340,150	-	1,340,150
Interest expense	(431,706)	-	(431,706)
Total non-operating income (expenses), net	4,544,229	169,490	4,713,719
Change in net assets	3,907,034	541,321	4,448,355
Net assets, beginning of year	28,197,798	4,394,010	32,591,808
Net assets, end of year	$ 32,104,832	$ 4,935,331	$ 37,040,163

(Continues)

Universidad Carlos Albizu, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Tuition and fees	$ 23,811,822	$ -	$ 23,811,822
Less scholarships	(540,152)	-	(540,152)
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	684,548	(684,548)	-
Total revenues, gains and other support	27,710,252	54,869	27,765,121
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	816,969	-	816,969
Total educational and general expenses	29,185,706	-	29,185,706
Income (loss) before non-operating income (expenses)	(1,475,454)	54,869	(1,420,585)
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	(412,313)	-	(412,313)
Total non-operating income (expenses), net	259,399	(68,961)	190,438
Change in net assets	(1,216,055)	(14,092)	(1,230,147)
Net assets, beginning of year	29,413,853	4,408,102	33,821,955
Net assets, end of year	$ 28,197,798	$ 4,394,010	$ 32,591,808

See notes to financial statements

Universidad Carlos Albizu, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	2018	2017
Change in net assets	$ 4,448,355	$ (1,230,147)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	953,577	816,969
Provision for bad debts	269,328	227,620
Net realized and unrealized (gain) loss on investments	(1,635,834)	1,486,615
Unrealized (gain) on derivative financial instrument	(312,343)	(424,760)
Insurance claim recovery due to Hurricane Maria	(1,340,150)	-
Amortization of debt issuance costs	12,573	12,573
Changes in operating assets and liabilities:		
Accounts receivable	(1,220,385)	916,169
Prepaid expenses and other assets	(193,319)	(89,613)
Due from affiliates	-	20,814
Accounts payable	354,387	(407,077)
Accrued expenses	80,644	(138,792)
Deferred revenues	(10,462)	(274,199)
Total adjustments	(3,041,984)	2,146,319
Net cash provided by operating activities	1,406,371	916,172
Cash flows from investing activities:		
Net decrease (increase) in restricted cash	144,070	(5,859)
Acquisition of property and equipment	(2,560,825)	(2,144,175)
Purchases of investments	-	(9,000,446)
Proceeds from sale and redemtion of investments	696,549	7,290,756
Net cash used in investing activities	(1,720,206)	(3,859,724)
Cash flows from financing activities:		
Payments of long-term debt	(379,166)	(650,000)
Payments of obligations under capital lease	(15,767)	(15,505)
Net cash used in financing activities	(394,933)	(665,505)
Net decrease in cash and cash equivalents	(708,768)	(3,609,057)
Cash and cash equivalents, beginning of year	3,901,871	7,510,928
Cash and cash equivalents, end of year	$ 3,193,103	$ 3,901,871
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 431,706	$ 412,313
Supplemental disclosure of non-cash investing activities:		
Retirement of fully depreciated property and equipment	$ 796,160	$ -

See notes to financial statements

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 Mayagüez, 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 conformity 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 (FASB), 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.

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.

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, 2018 and 2017.

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.

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, 2018 and 2017, there were undistributed loans and other program funds amounting to $122,860 and $365,810, 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, 2018 and 2017, the advertising expense amounted to approximately $578,000 and $601,500, 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.

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

Debt issuance costs

Debt issuance costs are deferred and amortized, using the straight-line method, over the term of the related debt. As of June 30, 2018 and 2017, the University follows the requirements of the FASB *Accounting Standards Update* No. 2015-03 *Interest- Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The standard update requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from that debt liability, consistent with the presentation of a debt discount. Also, amortization of debt issuance costs shall be reported as interest expense in the statements of activities and changes in net assets.

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, 2018 and 2017 consist of the following:

	2018	2017
Students	$ 883,273	$ 990,386
Grants receivable	236,973	247,247
Contracts receivable	246,228	219,313
Professional services for Promoting Safe and Stable Families	961,682	-
Insurance claim recovery receivable	1,249,478	-
Other receivables	663,988	409,513
	4,241,622	1,866,459
Less allowance for doubtful accounts	589,206	505,250
Accounts receivable, net	$ 3,652,416	$ 1,361,209

Note 3 - Accounts receivable – (continued)

During the years ended June 30, 2018 and 2017, the University accounted for $204,468 and $181,938, respectively, for accounts written-off. Also, during the years ended June 30, 2018 and 2017, the University accounted for recoveries of bad debts written-off in prior years amounting to $19,096 and $19,227, respectively.

Note 4 - Investments

Investments at June 30, 2018 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
U.S. Government and agencies obligations	$ 341,451	$ 303,438	$ 38,013
Corporate bonds	3,566,126	3,410,340	155,786
Mutual funds	2,660,504	3,735,090	(1,074,586)
Municipal bonds	9,253,906	13,106,612	(3,852,706)
Asset backed securities	207,172	210,125	(2,953)
Exchange-traded funds	3,076,302	2,504,807	571,495
Money market	692,464	692,464	-
Total	$ 19,797,925	$ 23,962,876	$ (4,164,951)

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	816,156	816,156	-
Total	$ 18,897,285	$ 24,692,299	$ (5,795,014)

Note 4 - Investments – (continued)

Restricted investments at June 30, 2018 consist of the following:

	Fair Market Value	Cost	Unrealized Gain (Loss)
Corporate bonds	$ 167,338	$ 165,127	$ 2,211
Municipal bonds	410,014	668,583	(258,569)
Asset backed securities	404,798	423,375	(18,577)
Total	$ 982,150	$ 1,257,085	$ (274,935)

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	480,527	483,646	(3,119)
Total	$ 943,505	$ 1,316,410	$ (372,905)

Investment return

Investment gain (loss) for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	$ 617,604	$ 981,436
Net realized and unrealized gain (loss) on investments	1,635,834	(1,486,615)
Investment gain (loss), net	$ 2,253,438	$ (505,179)

Note 5 - Property and equipment

Property and equipment at June 30, 2018 and 2017 consist of the following:

	2018	2017
Land	$ 7,200,000	$ 7,200,000
Building and improvements	16,245,882	10,099,823
Equipment	2,702,332	2,763,150
Furniture and fixtures	332,690	399,580
Library books	676,358	568,290
Vehicles	210,231	210,231
Software	1,866,979	1,819,258
Total	29,234,472	23,060,332
Less accumulated depreciation and amortization	(10,124,880)	(9,967,463)
	19,109,592	13,092,869
Construction in progress	3,118,665	7,528,140
Property and equipment, net	$ 22,228,257	$ 20,621,009

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 $816,000 at June 30, 2018.

Also, during the year ended June 30, 2018, the University retired fully depreciated property and equipment amounting to $796,160. There were no retirements of property and equipment for the year ended June 30, 2017.

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Note 6 - Long-term debt

Long-term debt as of June 30, 2018 and 2017 consists of the following:

	2018	2017
Mortgage loan, due on September 30, 2019, 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% (3.19% and 2.32% at June 30, 2018 and 2017, respectively).	$7,495,834	$7,875,000
Less: unamortized debt issuance costs	91,155	103,728
Long-term debt, net	$7,404,679	$7,771,272

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, 2018, the University was in compliance with the restrictive covenants in the loan agreement. 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.

The principal amount of the mortgage loan amounting to $7,495,834 matures during the fiscal year ending June 30, 2020.

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 by $312,343 and $424,760, respectively, during the years ended June 30, 2018 and 2017.

Note 7 - Derivative financial instrument – (continued)

The University's interest-rate swap agreement outstanding as of June 30, 2018 and 2017 was as follows:

Year ending:	Notional Amount	Fixed Rate	Variable Rate	Maturity Date	Fair Value
June 30, 2018	$ 5,000,000	5.12 %	LIBOR + 1.10%	December 1, 2025	$ (665,536)
June 30, 2017	$ 5,500,000	5.12 %	LIBOR + 1.10%	December 1, 2025	$ (977,879)

The fair value of the interest rate swaps as of June 30, 2018 and 2017 is presented as a liability from derivative financial instrument in the accompanying statement of financial position.

Interest expense for the years ended June 30, 2018 and 2017, include interest from this swap agreement amounting to approximately $269,000 and $292,000, 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, 2018 are approximately as follows:

Years Ending June 30,	Amount
2019	1,605,000
2020	1,605,000
2021	133,750
Total	$ 3,343,750

Rental income, before deducting related expenses of $406,854 and $387,504 for the years ended June 30, 2018 and 2017, respectively, amounted to $1,646,348 and $1,627,894, respectively.

Note 9 - 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 10 – 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 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2 — Inputs to the valuation methodology include,
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

Note 10 – Fair value of financial instruments – (continued)

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, 2018.

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.

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.

Note 10 – Fair value of financial instruments – (continued)

The following table sets forth by level, within the fair value hierarchy, the University's unrestricted and measured at fair value on a recurring basis as of June 30, 2018 and 2017, respectively:

2018

Description	Level 1	Level 2	Level 3	Total
U.S. Government and agencies obligations	$ -	$ 341,451	$ -	$ 341,451
Corporate bonds	-	3,733,464	-	3,733,464
Mutual funds	1,358,727	1,301,777	-	2,660,504
Municipal bonds	-	9,663,920	-	9,663,920
Asset backed securities	-	611,970	-	611,970
Exchange-traded funds	3,076,302	-		3,076,302
Money market	-	692,464	-	692,464
Total	$ 4,435,029	$ 16,345,046	$ -	$ 20,780,075

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	$ 4,183,765	$ 15,657,025	$ -	$ 19,840,790

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Note 10 – 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 $665,536 and $977,879 at June 30, 2018 and 2017, 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 11 - 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, 2018 and 2017 were $470,874 and $465,032, respectively.

Note 12 - 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.

Note 12 - Concentrations of credit risk – (continued)

The University's investment portfolio is diversified and includes high quality securities. In previous years, 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. The University is working towards the diversification of the investment portfolio in order to restore the positive financial results of the investments.

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 13 - Commitments and contingencies

Facilities lease agreements

Up to March 19, 2018, the University leased its administration facilities under a cancellable operating lease agreement. Rent expense under this agreement for the years ended June 30, 2018 and 2017 amounted to approximately $43,000 and $134,000, respectively. Because of significant damages in the leased administration facilities caused by Hurricane María, further discussed in Note 14, during the year ended June 30, 2018 the University ended the lease and moved the administration facilities to a building owned by the University. Also, the University leases the facilities of the Mayaguez Learning Center under an operating lease agreement that expired on September 2017. As of June 30, 2018, the University leases the Mayaguez Learning Center facilities on a month-to-month basis. Rent expense under this agreement for the years ended June 30, 2018 and 2017 amounted to approximately $120,000, in both years.

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, 2018 and 2017 was approximately $66,200 and $73,000, respectively.

Future minimum rentals under existing operating leases at June 30, 2018 amounts to $53,016 for the years ending June 30, 2019 through June 30, 2022 and $28,424 for the year ending June 30, 2023.

Note 13 - Commitments and contingencies – (continued)

Government contracts and grants

As of June 30, 2018 and 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 expired on September 30, 2018 and 2017, respectively. 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.

Because of administrative difficulties caused by Hurricane María, further discussed in Note 14, the DFPR renewed the program contract on January 31, 2018. Since October 1, 2017 through January 30, 2018 the University provided the abovementioned clinical services through billings for professional services. As of June 30, 2018, the University had an account receivable related to these professional services amounting to $961,682. After June 30, 2018 and through the date the financial statements were available to be issued, the University is undergoing the process of collection of the billings and, as of June 30, 2018, estimates that the billings for the professional services are fully collectible and thus, no allowance for bad debts has been provided at that date.

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.

Note 13 - Commitments and contingencies – (continued)

Government contracts and grants – (continued)

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.

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.

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Note 14 - Hurricane María

On September 20, 2017, Hurricane María impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island.

As a result of the natural disaster, during the year ended June 30, 2018, the University retired fully depreciated property and equipment with a cost of approximately $796,160. The University has insurance coverage and during the year ended June 30, 2018, the insurance company paid the University an advance, amounting to $200,000, for its insurance claim of property damage and extra-expenses incurred in the aftermath of the hurricane. Also, on August 15, 2018, the University obtained a final settlement for its insurance claim, net of insurance deductible, amounting to $1,449,478. As a result, as of and for the year ended June 30, 2018, the University recorded an insurance claim receivable, amounting to $1,249,478, which is included in accounts receivable, net, in the accompanying balance sheet and insurance claim recovery income amounting to $1,340,150, net of related expenses amounting to $109,328, in the accompanying statement of activities and changes in net assets.

For the year ended June 30, 2018, no impairment losses have been recognized as a result of Hurricane María, since management believes that the potential long-term impact of Hurricane María on the University's ongoing operations will not have a significant effect on the recoverability of the University's assets.

Note 15 - Subsequent events

As fully disclosed in Note 14, on August 15, 2018, the University obtained a final settlement for its insurance claim for property damages and extra-expenses incurred from Hurricane María.

Management has evaluated subsequent events through October 18, 2018, 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.

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Universidad Carlos Albizu, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Agency/(Pass-Through Agency) and Program Tittle	Federal CFDA Number	Other Award Number	Federal Expenditures: From Direct Awards	From Pass-Through Awards	Total Expenditures
Student Financial Assistance Program Cluster (Title IV):					
U.S. Department of Education:					
Federal Supplemental Educational Opportunity Grant Program	84.007		$ 46,005	$ -	$ 46,005
Federal Work-Study Program	84.033		287,849	-	287,849
Federal Pell Grant Program	84.063		2,086,268	-	2,086,268
Federal Direct Student Loan Program	84.268		35,121,955	-	35,121,955
U.S. Department of Health and Human Services:					
Scholarship for Health Professions Students from Disadvantage Backgrounds	93.925		617,837	-	617,837
Total Student Financial Assistance Program			38,159,914	-	38,159,914
Higher Education - Institutional Aid Programs:					
U.S. Department of Education:					
Higher Education-Institutional Aid (84.031):					
Higher Education-Institutional Aid	84.0315		725,392	-	725,392
U.S. Departmenet of Health and Human Services:					
Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals	93.732		454,410	-	454,410
(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		-	872,978	872,978
Total Other Programs			1,179,802	872,978	2,052,780
Total Expenditures of Federal Awards			$ 39,339,716	$ 872,978	$ 40,212,694

See accompanying notes to schedule of expenditures of federal awards

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 Federal Direct Student Loan Program) 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 minims 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.

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, 2018 were $35,121,955.

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, 2018 and 2017, 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 October 18, 2018.

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.
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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.

FPV & Galindez

San Juan, Puerto Rico
October 18, 2018
License No. LLC-322
Expires December 1, 2020

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, 2018. 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, 2018.

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 2018-001, 2018-002, and 2018-003. 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, material weaknesses may exist that have not been identified.

We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002 and 2018-003.

The University's response to the deficiencies in internal control over compliance identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

FPV & Galindez

San Juan, Puerto Rico
October 18, 2018
License No. LLC-322
Expires December 1, 2020

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, 2018

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 weaknesses 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) Are 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 2018-001 through 2018-003.

b) Major programs:

Name of Federal Program or Cluster	CFDA Number
U.S. Department of Education:	
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
U.S. Department of Health and Human Services:	
Promoting Safe and Stable Families	93.556

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? No

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.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding No. 2018-001 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

Criteria

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's (USDE) central database for federal student aid disbursed under Title IV of the Higher Education Act of 1965 (HEA), as amended. Among other things, NSLDS monitors the programs of attendance and the enrollment status of Title IV aid recipients. The institution determines how often it receives the Enrollment reporting roster file with the default set at a minimum of every 60 days. 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, as stated in 34 CFR Section 674.19 for Federal Perkin Loans, 34 CFR 690.83 (b)(2) for Federal Pell Grant Program and 34 CFR section 685.309 for Federal Direct Student Loan Program.

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

Finding No. 2018-001 Special Tests and Provisions – Enrollment reporting – (continued)

Criteria – (continued)

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to Federal Direct Student Loan Program loan holders by USDE. Enrollment reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

Condition Found

During our test, we noted four (4) students, or 16% of the sample selected, for which the University did not report to the National Student Loan Data System (NSLDS) the students' status changes within the required 60 days period.

Cause

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

Effect

As a result of this condition, the USDE was prevented the use of accurate reporting data, which is critical for the effective administration of the Federal Direct Student Loan Program and for USDE budgetary policy analysis.

Questioned Cost

None.

Context

Of the 481 cases of status changes for 2018, we selected twenty-five (25) students for testing and noted four (4) instances, or 16% of the sample selected, in which the University did not comply with the enrollment reporting requirements.

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

Finding No. 2018-001 Special Tests and Provisions – Enrollment reporting – (continued)

Identification of a repeat finding

This is a repeat finding from the immediate previous audit, Finding No. 2017-001.

Views of responsible officials and planned corrective actions

The University management agrees with this finding. Please refer to the corrective action plan on pages 44-45.

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.

Finding No. 2018-002 Special Tests and Provisions – Disbursements to or on behalf of students, title IV, HEA credit balances

Federal Program

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

Category

Compliance/Internal Control

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

Finding No. 2018-002 Special Tests and Provisions – Disbursements to or on behalf of students, title IV, HEA credit balances – (continued)

Compliance Requirements

Special tests and provisions – Disbursements to or on behalf of Students

Criteria

34 CFR Section 668.164 (h) states that: Whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but--

(1) No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or

(2) No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period

34 CFR 668.164 (d) (2) (i&ii) states that an institution issues a check on the date that it –

(i) Mails the check to the student or parent; or

(ii) Notifies the student or parent that the check is available for immediate pick-up at a specified location at the institution. The institution may hold the check for no longer than 21 days after the date it notifies the student or parent. If the student or parent does not pick up the check, the institution must immediately mail the check to the student or parent, pay the student or parent directly by other means, or return the funds to the appropriate title IV, HEA program.

Condition Found

During our evaluation of compliance with these requirements, we noted five (5) instances, or 26% of the sample selected, in which the University failed to return the corresponding refund within 14 days from the date the University determined that the student had a Federal Student Aid credit balance.

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

Finding No. 2018-002 Special Tests and Provisions – Disbursements to or on behalf of students, title IV, HEA credit balances – (continued)

Cause

The condition was mainly caused by administrative difficulties triggered by the sudden relocation of employees and files to a different location because of the damages produced by Hurricane María on the finance department facilities.

Effect

As a result of this condition, the USDE may issue warnings and/or impose penalties to the University.

Questioned Cost

None.

Context

In testing compliance with the requirements for disbursements under the Federal Pell Grant and Federal Supplemental Educational Opportunity Grants programs, we selected nine-teen (19) participants from a total population of three hundred and seventy (370) students who received Pell and FSEOG and found five (5) instances of noncompliance.

Identification of a repeat finding

This is not a repeat finding from the immediate previous audit.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 44-45.

Recommendation

The University must reinforce its procedures to ascertain that all FSA disbursement of credit balances to students comply with time frame criteria for refunds. Also, the University should establish contingency plans to prepare and react to changes caused by natural disasters.

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

Finding No. 2018-003 Special Tests and Provisions – Disbursements to or on behalf of students, notices and authorizations

Federal Program

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

Category

Compliance/Internal Control

Compliance Requirements

Special tests and provisions – Disbursements to or on behalf of Students

Criteria

34 CFR Section 668.165 (a) 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:

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

Finding No. 2018-003 Special Tests and Provisions – Disbursements to or on behalf of students, notices and authorizations – (continued)

Criteria – (continued)

- 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.

Condition Found

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we selected sixty (60) participants from a total population of one thousand three hundred and eighty-six (1,386) students who received Direct Loans.

During our evaluation of compliance with these requirements, we noted thirty four (34) instances, or 57% of the sample selected, 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.

Cause

The condition was caused by a failure in the information system that prevented the notifications to be properly sent to the students.

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.

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

Finding No. 2018-003 Special Tests and Provisions – Disbursements to or on behalf of students, notices and authorizations – (continued)

Questioned Cost

None

Context

Of the one thousand three hundred and eighty-six (1,386) students that received direct loans, we examined sixty (60) and observed thirty-four (34) instances of non-compliance with the abovementioned criteria.

Identification of a repeat finding

This is not a repeat finding from the immediate previous audit.

Views of responsible officials and planned corrective actions

Management of the University agrees with this finding. Please refer to the corrective action plan on pages 44-45.

Recommendation

The University should establish monitoring procedures to prevent and detect in a timely manner errors in the delivery of the notifications to the students.

PART V

Universidad Carlos Albizu, Inc.

Corrective Action Plan

Finding No. 2018-001 Special Tests and Provisions – Enrollment Reporting

Condition:

In testing compliance and internal control over compliance with special tests and provisions-enrollment reporting, we noted four (4) students, or 16% of the sample selected, for which the University did not report to the National Student Loan Data System (NSLDS) the students' status changes within the required 60 days period.

Institution Response:

The Institution accepts the finding. The reason for the finding is attributed to the fact that there were staff changes in the Registrar's Office: a new employee was assigned to process the enrollment report, as the former employee assigned was transferred to another department. The new staff did not have all the required access to the National Student Clearinghouse (NSC) emails at the time the school received the report updates. Therefore, the error report notification file was bounced to the new staff junk mail box. When the staff finally reviewed the junk mail file, the Institution proceeded to correct the file and resubmitted on August 21, 2018 to NSC the file which was finally accepted by NSLDS on September 5, 2018.

Corrective Action Plan:

The Institution has designed a corrective action plan to improve the internal controls over the enrollment report of the campus.

- Improve communication with NSC ensuring that our reporting submission dates are in line with both, what is required of NSC and with our academic calendar. For instance, ensuring we are submitting enrollment reports after the add/drop and no-show period has concluded. New dates are being set up to include all non-returning students.

- Maintain contact with NSC to help determine what students did not return for the next regularly scheduled term by automatically withdrawn on the school's First-of-Term transmission. As they will compare the First-of-Term file for the new term to the last, file for the previous term to identify missing students. Once missing students are identified, NSC will generate a "Withdrawal" status on their record, which is effective on each student's last reported date of attendance. According to NSC "This edit has been put in place to assist schools in order to remain in compliance with NSLDS."

- Providing prompt and timely information to confirm that we are sending the graduates only reports before the 60-day grace period. All academic programs will be required to submit all documents and clear necessary to process graduation in the system.

Finding No. 2018-001 Special Tests and Provisions – Enrollment Reporting – (continued)

- The Office of the Registrar has started a review process every two weeks after having received a confirmation from NSC that the graduate report has been successfully received. After that process, the school focuses on how these students were reported to NSLDS, as withdrawn and/or graduate.

- Conduct internal audits to ensure we are in compliance. For instance, comparing the NSLDS information with our departmental reports to ensure all information is accurate.

- Cross training the staff working in both campuses with the enrollment report process.

Finding No. 2018-002 Special Tests and Provisions – Disbursements to or on behalf of students, title IV, HEA credit balances

Condition:

In testing compliance with the requirements for disbursements under the Federal Pell Grant and Federal Supplemental Educational Opportunity Grants programs, we noted five (5) instances, or 26% of the sample selected, in which the University failed to return the corresponding refund within 14 days from the date the University determined that the student had a FSA credit balance.

Institutional Response:

The Institution accepts the finding regarding the refund within the 14 days' disbursement. Due to the disaster events of Hurricanes Irma and María, the finance staff and offices were forced to physically relocate to new facilities in the San Juan Campus. This temporary relocation brought up issues related to the business continuity of our normal processes. Securing a stable telecommunication system as well as a stable energy supply were some of the major issues faced during the award year 2017-2018 that affected our normal operations and performance.

Corrective Action Plan:

The Institution recognizes that regulations clearly stated that all credit balance disbursements should be process within 14 days. The Finance Office with the assistance of the IT Department has developed an alternate emergency response plan to automate the process in student's services areas and maximize our resources to comply with existing regulations related to the timely reimbursement of student refunds.

Finding No. 2018-003 Special Tests and Provisions – Disbursements to or on behalf of students, notices and authorizations

Condition:

In testing compliance with the requirements for disbursements under the Federal Direct Student Loan program (Direct Loans), we noted thirty four (34) instances, or 57% of the sample selected, 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.

Institution Response:

The Institution accepts the finding regarding the notifications. This process is performed by the Bursar's Office using our Information System. However, the system did not process the transmition of the notifications to students due to a technical error discovered during the Award Year.

Corrective Action Plan:

After correcting the technical error in our business solution software, the IT Department provided additional guidance and training to the Bursar's Office staff on the notification automated process.

Concurrently, the Bursar's Office procedure to notify students of their disbursements has been reviewed and the staff has been re-trained. Additional follow up has been incorporated to the process to review that all students received their notifications.

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, 2018

Finding Number	Program	Fiscal Year	Noncompliance Condition:	Corrective Action	Questioned Costs	Status	Comments
2017-001	CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2017	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)	The institution will continue to conduct periodic internal audits in order to identify similar cases and to correct any error in time, if any.	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, 2018.
2017-002	CFDA 84.007 Federal Supplemental Educational Opportunity Grants CFDA 84.063 Federal Pell Grant Program CFDA 84.268 Federal Direct Student Loans Program	Year ended June 30, 2017	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.	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.	None.	Corrected.	This matter was resolved.