

FINANCIAL STATEMENTS AND  
OMB CIRCULAR A-133 REPORT ON  
FEDERAL FINANCIAL ASSISTANCE  
PROGRAMS

University of the Virgin Islands  
Year Ended September 30, 2015

Ernst & Young LLP



University of the Virgin Islands

Financial Statements and OMB Circular A-133 Report  
on Federal Financial Assistance Programs

Year Ended September 30, 2015

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# Financial Statements



Ernst & Young LLP  
Plaza 273, 10<sup>th</sup> Floor  
273 Ponce de León Avenue  
San Juan, PR 00917-1951

Tel: +1 787 759 8212  
Fax: +1 787 753 0808  
ey.com

## Report of Independent Auditors

Board of Trustees  
University of the Virgin Islands

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of the Virgin Islands (the University), a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the University as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date***

As described in Note 14 to the financial statements, the University of the Virgin Islands adjusted its financial statements as a result of the adoption of Government Auditing Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 18 and the Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of the University's Contributions on pages 56 and 57, respectively be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated June 27, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Ernst & Young LLP*

June 27, 2016

# University of the Virgin Islands

## Management's Discussion and Analysis

Year Ended September 30, 2015

The following discussion presents an overview of the financial position and activities of the University of the Virgin Islands (the University) for the fiscal year ended September 30, 2015, with selected comparative information for the year ended September 30, 2014. This discussion also includes some of management's insights and analysis of the University's financial performance for the year. The discussion and analysis is designed to focus on current activities, resulting changes and current known facts. The financial statements, footnotes and this discussion are the responsibility of management.

The financial reporting entity consists of the University and its component units which are legally separate organizations for which the University is financially accountable. The primary government consists of the University, and its discretely presented component unit.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. The primary government may also be financially accountable for organizations that are fiscally dependent on it if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the primary government regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The University is financially accountable for all of its component units.

The financial operations and position of two institutional cooperative organizations: Foundation for the University of the Virgin Islands (the Foundation) and Foundation for the Reichhold Center for the Arts (the Reichhold Foundation), are considered component units of the University and are included by blended and discrete presentation, respectively, in the University's financial statements.

*Blended Component Unit:* The Foundation, a blended component unit, although legally separate, is reported as if it was part of the primary government because it operates for the sole purpose of assisting and supporting the University in accomplishing its charitable and educational mission, engages collaboratively with the University in its fundraising efforts, and provides services entirely to the University. Complete financial statements of the Foundation can be obtained by contacting the University's administrative offices.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

*Discretely Presented Component Unit:* The Reichhold Foundation is a not-for-profit corporation organized exclusively for charitable and educational purposes with its principal emphasis on the arts in the Virgin Islands. The resources (and income thereon), which the Reichhold Foundation holds and invests, are restricted to the activities of the University. Since the University does not appoint a voting majority of the Reichhold Foundation's governing body nor is the Reichhold Foundation fiscally dependent on the University, the University is not considered to be financially accountable for the Reichhold Foundation. However, as the resources held by the Reichhold Foundation can only be used by, or for the benefit of the University, the Reichhold Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial statements of the discretely presented component unit have a September 30 year-end, the same as the University's financial statements year-end. Complete financial statements of the Reichhold Foundation can be obtained by contacting the Reichhold Foundation's administrative offices.

The financial statements encompass the University of the Virgin Islands and its component units; however, Management's Discussion and Analysis focuses only on the operations of the University, including the Foundation, which is treated as a blended component unit. It excludes its discretely presented component unit.

### **Reporting Entity**

The University is an instrumentality of the Government of the U.S. Virgin Islands (the Government). It was organized under Act 852 of March 16, 1962, in accordance with Section 16(a) of the revised Organic Act of the U.S. Virgin Islands of 1954, as amended.

The University is not organized as a self-sustaining entity and, therefore, receives substantial financial and other support from the Government. In addition, the University is exempt from all taxes and special assessments of the U.S. Virgin Islands or any taxing authority or body thereof. The University is a discretely presented component unit in the basic financial statements of the Government.

### **Overview of the Basic Financial Statements**

This discussion and analysis is required supplementary information to the basic financial statements of the University and is intended to serve as introduction to the basic financial statements of the University. The basic financial statements present information about the University as a primary government, which includes the University's blended component unit. This information is presented separately from the University's discretely presented component unit.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, and institutional computing, as well as, inter-fund receivable and payable balances and transactions, have been eliminated where appropriate.

The basic financial statements of the University include the following: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the Financial Statements. The first two statements are further discussed in the next sections. The statement of cash flows shows changes in cash and cash equivalents, resulting from operating, non-capital and capital financing and investing activities, which include cash receipts and cash disbursements information, and the notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

### *New Accounting Standards Adopted*

The following statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) were effective during the University's fiscal year 2015:

- GASB 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* (GASB Statement No. 67)
- GASB 68, *Allocation of employer's proportionate shares of the collective pension amount based on the percentage of actual employer contribution* (GASB Statement No. 68)



# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

- GASB 69, *Government Combinations and Disposals of Government Operation (GASB Statement No. 69)*
- GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (GASB Statement No. 71)*

In fiscal year 2015, the University implemented a significant statement, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No 27. Additionally, GASB Statement No. 68 was amended by GASB Statement No. 71, Pension Transition for contributions Made Subsequent to the Measurement date. The University's fiscal year 2014 net position has been restated due to this implementation. Additional information is provided in Note 14 to the financial statements. Below is the restatement of the Net Position as of October 1, 2014:

Net position, October 1, 2014, as previously reported	\$66,616,567
Adjustment required to adopt GASB Nos. 68 and 71	(56,516,326)
Net position, October 1, 2014, <i>as restated</i>	<u>\$10,100,241</u>

### Statement of Net Position

The statement of net position presents information on all the University's assets and liabilities. Net position (deficit) is the difference between: (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the University is improving or deteriorating. The net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and are those assets that are restricted by law on third-party agreements or by an external donor. Unrestricted net position, while it is generally designated for specific purposes, is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service to the University, regardless of when cash is exchanged. Assets and liabilities included in the statements of net position are classified as current or noncurrent.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

The difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources, net position, is one indicator of the current financial condition of the University.

	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>	<b>\$ Change</b>
	<i>(As restated)</i>		
<b>Assets</b>			
Current assets	<b>\$ 14,259,581</b>	\$ 19,745,559	\$ (5,485,978)
Noncurrent assets:			
Capital assets, less accumulated depreciation	<b>71,551,735</b>	69,542,797	2,008,938
Other	<b>60,342,982</b>	40,525,075	19,817,907
Total assets	<b>146,154,298</b>	129,813,431	16,340,867
<b>Deferred outflows of resources</b>			
Deferred loss resulting from debt refinancing	<b>5,313,686</b>	5,564,049	\$ (250,363)
Deferred outflows of resources related to pension	<b>6,527,197</b>	1,398,159	5,129,038
Total deferred outflows	<b>11,840,883</b>	6,962,208	4,878,675
<b>Liabilities</b>			
Current liabilities	<b>11,719,114</b>	11,472,837	246,277
Noncurrent liabilities	<b>143,392,467</b>	115,202,561	28,189,906
Total liabilities	<b>155,111,581</b>	126,675,398	28,436,183
<b>Deferred inflows of resources</b>			
Deferred inflows related to pension	<b>364,962</b>	-	364,962
Total net position	<b>\$ 2,518,638</b>	\$ 10,100,241	\$ (7,581,603)

### ***Current Assets***

Current assets consist primarily of cash, cash equivalents and receivables. The University considers all cash held in banks and investments with a maturity of three months or less from the date of purchase as cash and temporary investments for financial reporting purposes.

The University's current assets of \$14.3 million cover the current liabilities of \$11.7 million. The current ratio of 1.2 for fiscal year 2015 is a 0.5 decrease from 1.7 in fiscal year 2014. The reason for this decrease is primarily due to the reduction in cash on hand.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

### *Noncurrent Assets*

Noncurrent assets include restricted cash and cash equivalents, restricted deposits with trustee, students' loans receivables, endowment investments at fair value and capital assets. There was an increase of \$22.0 million in the noncurrent assets primarily due to the acquisition of the medical school new endowment investments at fair value of approximately \$22.0 million.

### *Capital Assets*

One of the critical factors in continuing the quality of the University's academic and research programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older buildings along with a balanced investment in new construction. Capital assets additions totaled \$5.0 million in fiscal year 2015 and \$3.4 million in fiscal year 2014.

During fiscal year 2015, the University had construction in progress of \$1.8 million which is activity associated with the construction of the Medical School. The \$5.0 million in capital assets additions includes \$1.8 in construction in progress or CIP.

Capital asset additions primarily represent replacement and improvements to existing buildings, as well as significant investments in equipment. Depreciation expense was \$3.0 and 3.1 million for fiscal years 2015 and 2014.

### *Deferred outflows of resources*

The adoption of GASB Statement No. 65 required that the deferred loss on refunding, previously reported as a reduction to the long-term debt, should be presented as a deferred outflow of resource in the statement of net position. In 2015, the adoption of GASB Statement No. 68 and 71 required that all agencies record their proportionate share of the pension liability, and the deferred outflow of resources including contributions made after the measurement date and before the year ended, in the statement of net position.

### *Current Liabilities*

Current liabilities consist primarily of accounts payable and accrued liabilities, deferred revenue and the current portion of the long-term liabilities. Current liabilities totaled \$11.7 million on September 30, 2015, as compared to \$11.5 million on September 30, 2014. The overall increase of \$0.2 million in current liabilities is mainly related to the new debt for the medical school.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

### ***Noncurrent Liabilities, including Long-Term Debt***

Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net position date. Noncurrent liabilities increased by \$26.8 million in fiscal year 2015. The increase occurred mainly from the \$23.0 million debt incurred from First Bank for the medical school endowment included within long-term debt of the statement of net position.

Under the loan agreements, the University could request advances up to \$44.0 million under the Series 2011-2 loan and up to \$16.0 million under the Series 2011-3 loan. All funds were drawn from both loan agreements during fiscal year 2013; therefore no advances were requested on any of the Series 2011-2 or 2011-3 loans in fiscal year 2015.

In 2015, the University increased its long-term debt by adding two new loans in support of the development of the new School of Medicine. In February 2015, the University entered into a \$19 million loan with the US Department of Education against which \$1.8 million was drawn down in 2015. A General Obligation Note in the amount of \$30 million was executed with First Bank Puerto Rico in September 2015 and \$23 million was drawn down in 2015.

### **Deferred inflows of resources**

In 2015, GASB Statement No 68 and 71 required that all agencies record their proportionate share of the net pension liability, pension expense and the deferred inflows of resources, including changes in the proportionate share and differences between contributions and the proportionate share of contributions, in the statement of net position.

### **Net Position**

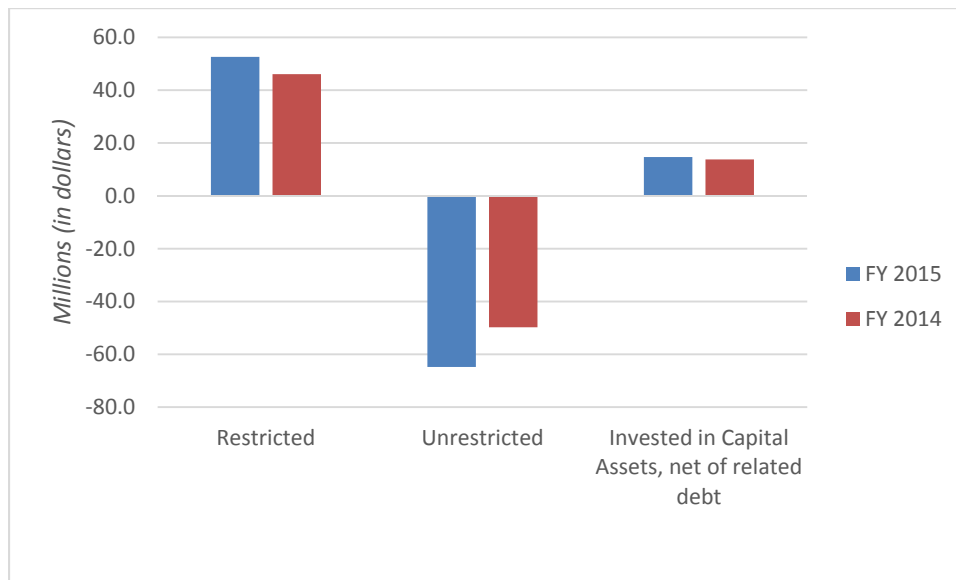
Net position represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Total net position at September 30, 2015 and 2014 were \$2.5 million and \$10.1 (*as restated*), respectively. The University's net positions at September 30, 2015 and 2014 are summarized as follows:

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>
Net position:		<i>(As restated)</i>
Restricted	\$ 52,578,205	\$ 46,121,720
Unrestricted	(64,767,558)	(49,793,107)
Net investment in capital assets	<b>14,707,991</b>	13,771,628
Total net position	<b>\$ 2,518,638</b>	<b>\$ 10,100,241</b>



Restricted, nonexpendable net position consists of assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net position consists of restricted, expendable assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

Unrestricted net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, local government appropriations, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose. For FY 2015, the University shows a negative unrestricted net position due to the implementation of GASB 68, therefore, no positive net position is available for use.

Net investment in capital assets consists of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position.

### **Statement of Revenues, Expenses and Changes in Net Position**

The statement of revenues, expenses and changes in net position presents information on how the University's net position changed during the reporting periods. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The purpose of this statement is to present the revenues earned, both operating and non-operating, and the expenses paid and accrued and any other revenues, expenses, gains and losses earned or spent by the University during the reporting periods. Generally, operating revenues are used to provide goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Non-operating revenues are revenues received for which goods and services are not provided.

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30, 2015 and 2014, follows:

	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>	<b>\$ Change</b>
	<i>(As restated)</i>		
<b>Operating revenues:</b>			
Tuition and fees net of scholarship allowance	\$ 14,506,949	\$ 14,323,732	\$ 183,217
Grants and contracts	20,367,171	18,688,324	1,678,847
Auxiliary enterprises	2,887,638	3,040,995	(153,357)
Other operating revenues	1,453,372	447,334	1,006,038
Total operating revenues	39,215,130	36,500,385	2,714,745
<b>Operating expenses</b>	82,579,626	78,643,325	3,936,301
<b>Operating loss</b>	(43,364,496)	(42,142,940)	(1,221,556)
<b>Nonoperating revenues (expenses):</b>			
Local government appropriation	25,658,250	26,524,621	(866,371)
Federal Pell Grant Program	5,404,681	5,182,654	222,027
Other non-operating income	2,303,877	6,562,313	(4,258,436)
Interest on indebtedness	(2,276,120)	(2,195,696)	(80,424)
<b>Net non-operating revenues</b>	31,090,688	36,073,892	(4,983,204)
<b>Loss before other revenues</b>	(12,273,808)	(6,069,048)	(6,204,760)
Capital appropriations	4,692,205	3,992,205	700,000
Capital contribution	-	1,300,000	(1,300,000)
<b>Change in net position</b>	(7,581,603)	(776,843)	(6,804,760)
<b>Net position:</b>			
Net position at beginning of year, <i>as restated</i>	10,100,241	10,877,084	(776,843)
Net position at end of year	\$ 2,518,638	\$ 10,100,241	\$ (7,581,603)

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

The University supplements the funds it receives for student tuition and fees with local government appropriations, federal and local sponsored programs, private gifts and grants, and investment income. The fiscal year 2015 appropriations decreased by 3% from that of the previous fiscal year. The University continues to aggressively seek funding from all possible sources consistent with its mission. The University prudently manages the financial resources from these efforts to fund its operating activities.

Tuition and local government appropriations are the primary source of funding for the University's academic programs. There is a direct relationship between the growth or reduction in local government support and the University's ability to restrain tuition and fee increases. The University strives to provide students with access to a quality education at an affordable cost. The fiscal year 2015 had an increase in net tuition and fees of \$0.2 million. Local government appropriations decreased by \$0.9 million due mainly to the reduction in appropriation from the local government which is a direct result of the economy. The University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

The \$0.3 million decrease in grants and contracts is related to a decrease in the number of grants awarded and received during fiscal year 2015, when compared to fiscal year 2014. The largest increase in grants was due to the \$20 million EPSCoR grant awarded and spent in FY 2015.

Auxiliary enterprises include the revenue derived from bookstores sales, residence halls and campus housing fees, Wellness Center membership fees, and ticket and concession stand sales. There was no significant change in this area.

Other non-operating revenues consist of investment income and gifts. Other revenues consist mainly of capital appropriations received from the Government to meet outstanding capital debt obligations.

For fiscal year 2015, operating expenses totaled \$82.6 million including compensation and benefits of \$42.3 million, supplies and other expenditures of \$24.6 million, depreciation expense of \$3.0 million, scholarships of \$8.7 million, and utilities of \$4.0 million.



## University of the Virgin Islands

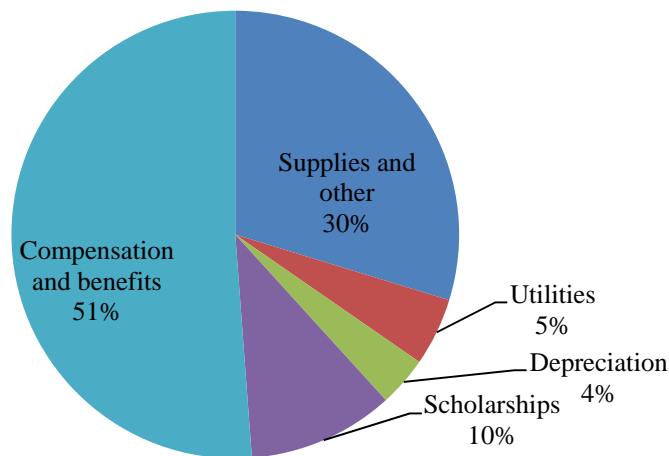
### Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

A comparative summary of the University's operating expenses by object categories for the years ended September 30, 2015 and 2014 is as follows:

	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>
Compensation and benefits	\$ 42,265,715	\$ 40,235,083
Supplies and other	24,557,208	20,737,536
Depreciation	2,982,890	3,051,168
Scholarships	8,728,197	9,121,012
Utilities	4,045,616	5,498,526
<b>Total operating expenses</b>	<b>\$ 82,579,626</b>	<b>\$ 78,643,325</b>

### Comparative Summary of Operating Expenses



University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

Compensation and benefits is the largest category of expenses. The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. Effective July 2011, employees' salaries in excess of \$26,000 were reduced by 8% in accordance with local law. The local law was rescinded in July of 2013, therefore, all employees' salaries are back to 100% of their negotiated salary package. The increase in compensation and benefits was due to the Career Advancement Action Policy (CAAP) put into effect in FY 2015 and a one-time salary bonus for all other employees.

Supplies and other expenses increased due to the funds associated with the establishment of the medical school.

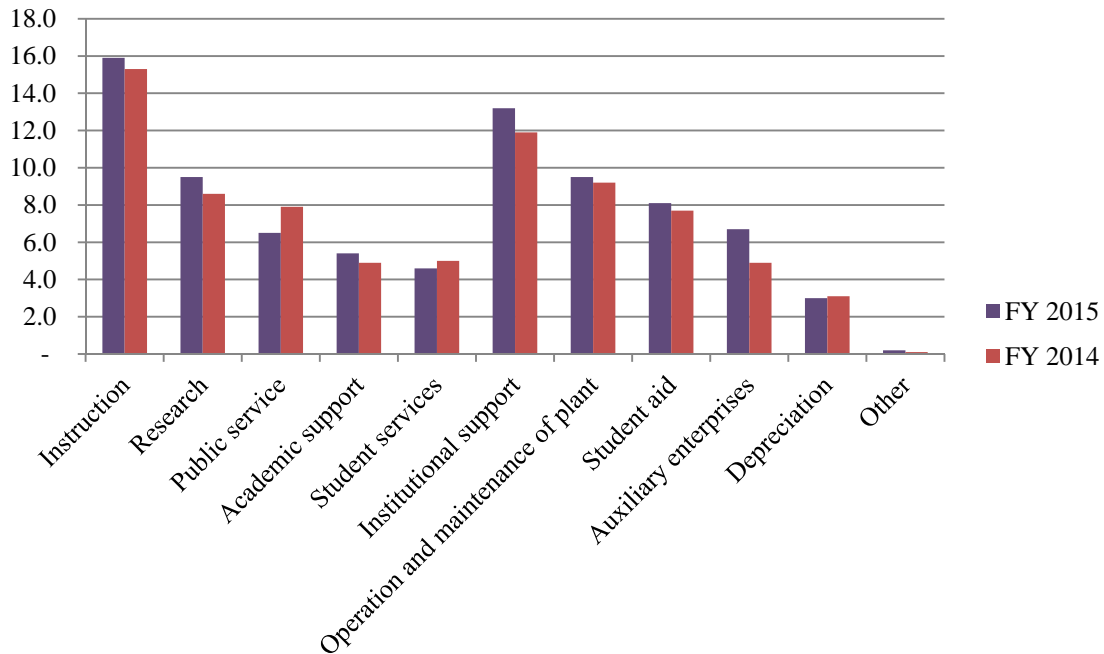
A comparative summary of the University's total operating expenses by functional classification for the years ended September 30, 2015 and 2014, is as follows:

	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>
<b>Function:</b>		
Instruction	\$ 15,883,647	\$ 15,281,065
Research	9,508,661	8,578,479
Public service	6,485,891	7,929,719
Academic support	5,408,984	4,943,794
Student services	4,633,800	4,979,476
Institutional support	13,202,009	11,905,007
Operation and maintenance of plant	9,478,025	9,216,787
Student aid	8,062,013	7,737,420
Auxiliary enterprises	6,759,491	4,901,246
Depreciation	2,982,890	3,051,168
Other	174,215	119,164
<b>Total expenses by function</b>	<b>\$ 82,579,626</b>	<b>\$ 78,643,325</b>

# University of the Virgin Islands

## Management's Discussion and Analysis (continued)

Year Ended September 30, 2015



Expenditure programs with the increases were the instruction, research, academic support, institutional support, operation and maintenance of plant, student aid, and auxiliary enterprises. The expenditures with decreases were public service, student services and depreciation.

### Factors Impacting Future Periods

During fiscal year 2015, the University continued to feel the impact of the negative global economy. The University's President and his Cabinet continue to explore new ways to address the reduction in revenue and decline in student enrollment.

## University of the Virgin Islands

### Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

The University continues to make great strides on the Pathways to Greatness with focus on the goals and objectives of the Strategic Plan 2017. The University continues to use its resources effectively to promote academic quality and excellence, student development and success, organizational and human development, modern and safe university environment, financial sustainability and growth, and community engagement and globalization. The more significant accomplishments of the strategic plan during the 2014-2015 period that will impact future periods include:

- The Comprehensive Recruitment Plan began in 2014 continued in fiscal year 2015. The University continued its efforts by collaborating with other island universities and governments.
- The School of Education received initial accreditation for its program. The Board approved the creation of a medical school to be accredited by the Liaison Committee for Medical Education (LCME) accredited medical school. If successful, the University would have the only English speaking accredited medical school in the Caribbean.
- The University received a successful Middle States Commission on Higher Education (MSCHE) periodic review, with no requests for more information or corrective actions.
- In an effort to develop a system of benchmarks and metrics for program rationalization and assessment of academic, administrative, and support units, a consultant was retained to conduct the UVI-Next: Academic Programs and Administrative Programs Transformation Study with the assistance of two internal taskforces. The report was submitted and circulated through the shared governance process for review. The initial draft of the report was reviewed by the faculty and staff and appropriate adjustments were made to the document. The final report, together with recommendations for consideration and implementation, were submitted to the full Board at the June 2015 Annual Board Retreat.
- The Purchase Power Agreement (PPA), which permits UVI to purchase 50% of its energy needs from solar energy, saving the University approximately \$1.3 million per year in the early years of this twenty year agreement, is scheduled to begin in 2016.
- Secured a \$30 million Gift Agreement for the development of a Medical School at the University (the largest gift in the history of the University). The gift allowed the University to enter into a loan agreement with a local bank to establish the School of Medicine endowment.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2015

**Request for Information**

This financial report is designed to provide a general overview of the University's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President for Administration and Finance. The executive offices of the University are located at #2 John Brewer's Bay, St. Thomas, Virgin Islands 00802-9990.

University of the Virgin Islands

Statement of Net Position

September 30, 2015

	<b>University</b>	<b>Component Unit</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,623,657	\$ 42,178
Accounts receivable, net of allowance for doubtful accounts of \$1,352,966	8,363,516	-
Inventories	756,820	-
Prepaid expenses and other current assets	515,588	-
Total current assets	14,259,581	42,178
Noncurrent assets:		
Restricted cash and cash equivalents	121,629	-
Restricted deposits with trustee	4,792,993	-
Students loans receivable, net of allowance for doubtful accounts of \$336,144	257,433	-
Investments at fair value	-	10,535,472
Restricted investments at fair value	55,170,927	-
Capital assets, net	71,551,735	-
Total noncurrent assets	131,894,717	10,535,472
Total assets	146,154,298	10,577,650
<b>Deferred outflows of resources</b>		
Deferred loss resulting from debt refinancing	5,313,686	-
Unrealized pension contributions and losses	6,527,197	-
Total deferred outflows of resources	11,840,883	
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	4,178,168	-
Unearned revenue	4,261,156	-
Current portion of long-term liabilities	3,279,790	-
Total current liabilities	11,719,114	-
Noncurrent liabilities:		
Long-term debt	76,815,167	-
Accrued vacation	3,160,125	-
Net pension liability	63,173,875	-
Other long-term liabilities	243,300	-
Total noncurrent liabilities	143,392,467	-
Total liabilities	155,111,581	-

*(Continued)*

University of the Virgin Islands  
Statement of Net Position (continued)

September 30, 2015

	<b>University</b>	<b>Component Unit</b>
<b>Deferred inflow of resources</b>		
Deferred amounts related to pension	364,962	–
Total deferred inflows of resources	364,962	–
<b>Net position</b>		
Invested in capital assets, net of related debt	14,707,991	–
Restricted nonexpendable	8,732,346	–
Restricted expendable:		
Grants	25,320,415	–
Scholarships	7,991,217	–
Loans	882,963	–
Debt service	6,436,319	–
Other	3,214,945	–
Unrestricted (deficit)	(64,767,558)	10,577,650
Total net position	\$ 2,518,638	\$ 10,577,650

*See accompanying notes.*

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2015

	<b>University</b>	<b>Component Unit</b>
<b>Revenues</b>		
Operating revenues:		
Tuition and fees (net of scholarship allowance of \$331,214)	\$ 14,506,949	\$ —
Federal grants and contracts	17,024,036	—
State grant and contracts	3,343,135	—
Auxiliary enterprises	2,887,638	—
Other	1,453,372	—
In-kind contribution	—	175,459
Total operating revenues	<u>39,215,130</u>	<u>175,459</u>
<b>Expenses</b>		
Salaries:		
Faculty	9,759,617	—
Exempt staff	13,195,218	—
Nonexempt wages	8,577,449	—
Benefits	10,733,431	—
Scholarships	8,728,197	—
In-kind contribution	—	175,459
Contributions to the University	—	1,300,000
Utilities	4,045,616	—
Supplies and other services	23,590,498	130,430
Depreciation	2,982,890	—
Other expenses	966,710	—
Total operating expenses	<u>82,579,626</u>	<u>1,605,889</u>
Operating loss	(43,364,496)	(1,430,430)

(Continued)



University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Position (continued)

Year Ended September 30, 2015

	<u>University</u>	<u>Component Unit</u>
Nonoperating revenues (expenses):		
Local government appropriation	25,658,250	–
Federal Pell Grant Program	5,404,681	–
Gifts	3,106,140	–
Net investment loss	(802,263)	(163,745)
Interest on indebtedness	(2,276,120)	–
Total nonoperating revenues, net	<u>31,090,688</u>	<u>(163,745)</u>
Decrease in net position before capital appropriations	(12,273,808)	(1,594,175)
Capital appropriations	<u>4,692,205</u>	–
Decrease in net position	(7,581,603)	(1,594,175)
Net position at beginning of year, <i>as restated</i>	10,100,241	12,171,825
Net position at end of the year	<u>\$ 2,518,638</u>	<u>\$ 10,577,650</u>

*See accompanying notes.*

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2015

	<b>University</b>
<b>Cash flows from operating activities</b>	
Tuition and fees	\$ 15,229,366
Grants and contracts	19,361,224
Auxiliary enterprises and other	1,105,996
Payments to suppliers and vendors	(23,455,275)
Payments to employees	(31,579,207)
Payments for utilities	(4,045,616)
Payments for benefits	(10,733,431)
Payments for scholarships	(8,729,493)
Net cash used in operating activities	(42,846,436)
<b>Cash flows from noncapital financing activities</b>	
Local government appropriations	25,658,250
Federal Pell Grant Program	4,743,996
Endowment gifts	3,106,140
Gifts and grants for other than capital purposes	868,014
Net cash provided by noncapital financing activities	34,376,400
<b>Cash flows from capital and related financing activities</b>	
Capital appropriations	4,692,205
Purchases of capital assets	(5,031,352)
Principal paid on capital debt	(2,461,816)
Interest paid on capital debt	2,276,120
Increase in deposits held with bond trustees	(556,092)
Net cash used in capital and related financing activities	(1,080,935)
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	30,199,817
Investment income	(590,060)
Purchases of investments	(27,780,885)
Net cash provided by investing activities	1,828,872
Net change in cash and cash equivalents	(7,722,099)
Cash and cash equivalents at beginning of year	12,467,385
Cash and cash equivalents at end of year	\$ 4,745,286

*(Continued)*

University of the Virgin Islands  
Statement of Cash Flows (continued)  
Year Ended September 30, 2015

	<b>University</b>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>	
Operating loss	\$ (43,364,496)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	2,982,890
Bad debt Expenses	(386,208)
Changes in assets and liabilities, net:	
Grants and contracts receivables	(1,005,947)
Student receivables	374,269
Other accounts receivables	(1,781,642)
Inventories	(62,225)
Prepaid expenses and other current assets	169,251
Accounts payable and accrued liabilities	3,722,759
Excess of outstanding checks over bank balance	(3,796,312)
Deferred revenue	348,148
Accrued vacation	(46,923)
Net cash used in operating activities	\$ (42,846,436)

*See accompanying notes.*

# University of the Virgin Islands

## Notes to Financial Statements

September 30, 2015

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

#### **Reporting Entity**

The University of the Virgin Islands (the University) is a component unit of the Government of the U.S. Virgin Islands (the Government). It was organized under Act 852 of March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of the U.S. Virgin Islands of 1954, as amended.

The University is not organized as a self-sustaining entity and, therefore, receives substantial financial and other support from the Government. In addition, the University is exempt from all taxes and special assessments of the U.S. Virgin Islands or any taxing authority or body thereof. The University is a discretely presented component unit in the basic financial statements of the Government.

The University is a higher education institution that offers four-year liberal arts degree and master degree programs in teacher education, business and public administration and associates degree in arts and occupational programs. The University operates through two campuses on the islands of St. Thomas and St. Croix. In 2011, the University expanded to St. John, with the dedication of the University of the Virgin Islands St. John Academic Center in Cruz Bay.

The financial reporting entity consists of the University and its component units which are legally separate organizations for which the University is financially accountable. Primary government consists of the University and its blended component unit.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. The primary government may also be financially accountable for organizations that are fiscally dependent on it if there is a potential for the organizations to provide specific financial benefits to the primary government or impose specific financial burdens on the primary government regardless of whether the organizations have separate elected governing boards, governing boards appointed by higher levels of government or jointly appointed boards. The University is financially accountable for all of its component units.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### Reporting Entity (continued)

The financial statements encompass the University and its two component units, the Foundation for the University of the Virgin Islands (the Foundation) and the Foundation for the Reichhold Center for the Arts (Reichhold Foundation), included by blended and discrete presentation, respectively.

#### Component Units

A component unit is reported as blended when either (1) the component unit's governing body is substantively the same as the University, and (a) there is a financial benefit or burden relationship between the University and the component unit, or (b) management of the University has operational responsibility for the component unit, or (2) the component unit provides services entirely, or almost entirely, to the University or otherwise exclusively, or almost exclusively, benefits the University, or (3) the component unit's outstanding debt is expected to be repaid entirely or almost entirely with resources of the University.

**Blended Component Unit:** The following component unit, although, legally separate, is reported as if it was part of the primary government because it operates for the sole purpose of assisting and supporting the University in accomplishing its mission:

#### *Foundation for the University of the Virgin Islands*

The Foundation is a legally separate entity from the University, and is governed by a separate board. The Foundation is a not-for-profit corporation organized for the sole purpose of assisting and supporting the University in accomplishing its charitable and educational mission. Because the Foundation was established for the purpose of supporting the core mission and purposes of the University, engages collaboratively with the University in its fundraising efforts, and provides services entirely to the University, the Foundation has been determined to be a blended component unit. Complete financial statements of the Foundation can be obtained by contacting the University's administrative offices.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### Reporting Entity (continued)

**Discretely Presented Component Unit:** The discretely presented component unit is legally separate from the primary government. This entity is reported as a discretely presented component unit because a financial benefit/burden situation exists. The following is presented as a discrete component unit:

##### Foundation for the Reichhold Center for the Arts

The Reichhold Foundation is a not-for-profit corporation organized exclusively for charitable and educational purposes with its principal emphasis on the arts in the Virgin Islands. The Reichhold Foundation provides financial assistance incidental to maintaining and operating the Reichhold Center for the Arts located on the St. Thomas campus. The resources (and income thereon), which the Reichhold Foundation holds and invests, are restricted to the activities of the University.

Since the University does not appoint a voting majority of the Reichhold Foundation's governing body nor is the Reichhold Foundation fiscally dependent on the University, the University is not considered to be financially accountable for the Reichhold Foundation. However, as the resources held by the Reichhold Foundation can only be used by, or for the benefit of the University, the Reichhold Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial statements of the discretely presented component unit have a September 30 year-end, as the University's financial statements year-end.

The Reichhold Foundation conforms to the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, (ASC 958). ASC 958 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories according to externally (donor) imposed restrictions: unrestricted, temporarily restricted and permanently restricted net assets. However, when the Reichhold Foundation is incorporated in the financial statements of the University, it conforms to the requirements of Governmental Accounting Standards. Complete financial statements of the Reichhold Foundation can be obtained by contacting the Reichhold Foundation's administrative offices.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### **Reporting Entity (continued)**

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

#### **Measurement Focus and Basis of Accounting**

The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant transactions related to internal service activities such as publications, telecommunications and institutional computing have been eliminated where appropriate.

#### **Cash and Cash Equivalents**

The University considers all cash held in banks and investments with a maturity of three months or less from the date of purchase as cash and cash equivalents for financial reporting purposes.

#### **Investments**

Investments in marketable securities are reported at fair value, which is based upon values provided by the University's custodians or current market quotations. Investment income, including changes in fair value of investments, is recognized as gain (loss) in the accompanying statement of revenues, expenses, and changes in net position.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### **Investments (continued)**

Investments in alternative strategies are reported at fair value, whose fair values have been estimated by management in the absence of readily determinable fair values. The estimated fair value of alternative strategies is based on valuations provided by the external investment managers as of September 30. Because investments in alternative strategies are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed.

#### **Students and Other Receivables, and Allowance for Doubtful Accounts**

Students and other receivables are reported at the estimated net realizable amount. 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 of the receivables and prior credit loss experience.

#### **Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market, and consist primarily of books.

#### **Capital Assets**

The University's capital assets consist of land, buildings, infrastructure and improvements, furniture and equipment, library resources, and construction in progress. Capital assets are recorded at cost or, if donated, at fair value at the date of donation. It is the policy of the University to capitalize expenditures according to the Board-approved thresholds by category (see below) and to remove from the accounts major items retired. Net interest costs on debt related to construction in progress are capitalized. No interest cost was capitalized for the year ended September 30, 2015. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment and library materials, including computer and computer software, and 7 to 30 years for land improvements. Renovations to buildings and other capital assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.



University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

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

**Capital Assets (continued)**

<b>Description</b>	<b>Capitalization Threshold</b>
Land	\$ 1
Land improvements	1
New buildings	1
Betterment and improvement of buildings	10,000
Infrastructure	10,000
Machinery and equipment	2,500
Library collection	1
Computer software	50,000

**Deferred Outflows of Resources**

Under GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the University reports separate sections in the Statement of Net Position for Deferred Inflows of Resources and Deferred Outflows of Resources. These separate financial statement elements represents a consumption or receipt of resources that applies to a future period and therefore will not be recognized as an inflow or outflow of resources until then. The University includes in the Deferred Outflows of Resources reporting category the deferred charges on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price.

Under GASBS Statement 68, *Accounting and Financial Reporting for Pensions*, differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources related to pensions. The University reports in the Deferred Outflows of Resources the deferred components which are amortized over the average of the expected remaining service lives of its employees, and pension contributions made after the measurement date of September 30, 2014, and before October 1, 2015.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### Unearned Revenues

Unearned revenue consists primarily of cash received in advance of an event, such as student tuition and fees related to tuition for future fiscal years. At September 30, 2015, approximately \$4,260,000 of tuition and fees collected that relate to the remainder of the fall semester are deferred.

#### Pension

For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the University reports amounts on the same basis as reported by the Government Employees Retirement System (GERS). For information about the fiduciary net position of GERS, recognition of benefit payments, and additions to deductions from fiduciary net position, see GERS's separately issued audit report available at [www.usvigiers.com/Reports/AuditedFinancialReports.aspx](http://www.usvigiers.com/Reports/AuditedFinancialReports.aspx). GERS investments are reported at fair value.

#### Net Position

The University's net position is classified as follows:

*Net investment in capital assets* represents the University's capital assets, net of accumulated depreciation, reduced by outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are required to be included in this component of net position. To the extent proceeds from issuance of debt has been received but not yet expended for capital assets or deferred inflow of resources attributable to the unspent amount, such amounts are not included as a component of net investment in capital assets.

*Restricted, nonexpendable* net position consists of restricted, nonexpendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, nonexpendable assets include endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### Net Position (continued)

*Restricted, expendable* net position consists of restricted, expendable assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted, expendable assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted* net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by actions of management or the Board of Trustees, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose. Substantially, all unrestricted net position are designated for academic and research programs and initiatives, and capital programs. For FY 2015, the University shows a negative unrestricted net position due to the implementation of GASB 68, therefore, no positive net position is available for use.

When an expense is incurred that can be paid using either restricted or unrestricted resources, it is generally the University's practice to use restricted resources first to the extent permissible, then unrestricted resources when they are needed.

#### Classification of Revenues and Expenses

The University has classified its revenues and expenses as either operating or non-operating.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises; and some Federal, state and local grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, such as state appropriations, Federal Pell grants, gifts and investment income. Gifts to the endowment fund are classified as other non-operating revenues.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### **Classification of Revenues and Expenses (continued)**

The University classifies all expenses as operating, except for interest expense and losses on disposal of capital assets, if any, which are classified as non-operating.

#### **Gifts and Pledges**

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowments pledges generally do not meet eligibility requirements, as defined, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. No amount of the pledge donation for the medical school has been received as of today. Therefore nothing is recorded in the financial statements.

#### **Grants and Contracts**

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

#### **Scholarship Discount and Allowances**

Student tuition and fee revenues are reported net of scholarship discounts and allowances in the accompanying statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the University, and the amount that is paid by students and third parties making payments on behalf of students.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

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

#### **Effect of Recent GASB Statements**

Effective October 1, 2014, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which establishes accounting and financial reporting standards for measuring and recognizing the net pension liabilities of the University, deferred outflows and inflows of resources and recognition of pension expense. As described further in Note 13, the University employees are participants in the Government of the Virgin Islands defined benefit pension plan, which is administered by the Government Employees Retirement System of the United States Virgin Islands (the "System"). This Statement requires all component units participating in the Government's retirement plan to report their proportionate share of net pension liabilities and pension expenses based on actuarial valuations using a measurement date of September 30, 2014. Pension expenses and deferred outflows and inflows of resources from changes in the components of the proportionate share of net pension liability are also reported.

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

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

**Effect of Recent GASB Statements (continued)**

Following are statements issued by GASB that are effective in the University's subsequent fiscal year:

<b>Statement Number</b>		<b>Adoption Required in Fiscal Year</b>
72	Fair Value Measurement and Application	2016
73	Accounting and Financial Reporting for Pension and Related Assets That are not within the scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	2017
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
77	Tax Abatement Disclosures	2017
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pensions Plans	2017
79	Certain External Investment Pools and Pool Participants	2016
80	Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 14	2017
81	Irrevocable Split-Interest Agreements	2018
82	Pension Issues – an amendment of GASB Statement 67, 68 and 73	2017

The impact of the adoption of these statements has not been determined by management.

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**2. Blended Component Unit Condensed Financial Information**

Following is the Foundation's condensed financial information for fiscal year 2015:

**Condensed information from Statement of Net Position**

Current assets	\$ 2,034,162
Non-current assets excluding capital assets	55,292,556
Capital assets, less accumulated depreciation	113,000
Total assets	57,439,718
Current liabilities	—
Total liabilities	31,936,110
Net position:	
Restricted nonexpendable	16,673,014
Restricted expendable	8,830,595
Total net position	\$ 25,503,609

**Condensed information from Statement of Revenue, Expenses and Changes in Net Position**

Operating expenses	\$ (2,604,474)
Operating loss	(2,604,474)
Non-operating revenues	324,879
Change in net position	(2,279,595)
Net position:	
Net position at beginning of year	27,783,204
Net position at end of year	\$ 25,503,609

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**2. Blended Component Unit Condensed Financial Information (continued)**

**Operating activities**

Payments to suppliers and vendors	\$ (68,605)
Payments for scholarships	(2,535,869)
Net cash used in operating activities	(2,604,474)

**Noncapital financing activities**

Endowment gifts	1,262,053
Net cash provided by noncapital financing activities	1,262,053

**Investing activities**

Loan to RT Park	(1,424,620)
Loan to Medical School	(100,000)
Proceeds from sales and maturities of investments	30,199,817
Investment income	(590,060)
Purchases of investments	(27,780,885)
Net cash provided by investing activities	304,252
Net change in cash and cash equivalents	(1,038,169)

Cash and cash equivalents at beginning of year	1,669,341
Cash and cash equivalents at end of year	\$ 631,172

**Reconciliation of net operating loss to net cash used in operating activities**

Operating loss	\$ (2,604,474)
Adjustments to reconcile operations loss to net cash used in operating activities:	
Due to UVI	—
Net cash used in operating activities	\$ (2,604,474)



University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**3. Cash and Cash Equivalents**

All the operating cash of the University is pooled into one bank account. Cash balances by funds represent the cash that is allocated to each fund of the University. By law, banks or trust companies designated as depository of public funds of the Government and its various agencies, authorities and instrumentalities, are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance of the Government to secure all governmental funds deposited.

At September 30, 2015, the University's carrying amounts of cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds or by collateral held by the Government.

As of September 30, 2015, cash and cash equivalents amounted to approximately \$4.7 million and restricted cash and cash equivalents amounted to approximately \$0.1 million.

**4. Accounts Receivable**

The University's accounts receivable as of September 30, 2015, are composed of the following:

U.S. Virgin Islands Government	\$ 541,898
U.S. Federal Government	3,041,189
Students	1,927,979
Due from related party (Tech Park), <i>see Note 16</i>	1,375,992
Other	<u>2,829,424</u>
	9,716,482
Less allowance for doubtful accounts	<u>(1,352,966)</u>
Accounts receivable, net	<u>\$ 8,363,516</u>

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### 5. Investments

The Board of Trustees (the Board), as the governing Board, is responsible for the management of the University's investments and establishes investment policy, which is carried out by the Vice President for Administration and Finance. The University and the Reichhold Foundation have a formal investment policy approved by their corresponding Board of Trustees, which contains a requisite section on addressing risks.

In fiscal year 2014, the Board passed a resolution to transfer all of the University's investments to the Foundation's investments portfolio for management and investment purposes. All investments held by the Foundation will be shown within the University's schedules included below.

The University's restricted investments as of September 30, 2015, consist of the following:

	<u>Fair Value</u>
Corporate bonds	\$ 60,155
Equities	2,370,101
Mutual funds	525,815
Alternative strategies	52,214,856
	<u>\$ 55,170,927</u>

The Reichhold Foundation's investments are carried at fair value and consist of corporate bonds, equities and mutual funds.

The Reichhold Foundation's investments as of September 30, 2015, consist of:

	<u>Fair Value</u>
Corporate bonds	\$ 3,626,035
Equities	6,909,437
	<u>\$ 10,535,472</u>

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**5. Investments (continued)**

**Risk**

There are many factors that can affect the value of investments. Some, such as custodial credit risk or concentration of credit risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risk and changes in interest rates.

**Interest-Rate Risk**

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of fixed income securities with longer maturity time tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Below is a table showing the University's fixed income investments maturity dates in years:

Years until maturity	<1	1-2	3-5	6-10	11-15	16+	Total
Corporate bonds	\$ 20,156	\$ 39,999	\$ -	\$ -	\$ -	\$ -	\$ 60,155
Total	<u>\$ 20,156</u>	<u>\$ 39,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,155</u>

**Credit Risk**

Credit risk is the risk that the University and the Reichhold Foundation will not recover their investment due to the ability of the counterparty to fulfill its obligation. The University's and the Reichhold Foundation's investments issued or explicitly guaranteed by the United States Government are not considered to be exposed to credit risk.

As of September 30, 2015, the University's credit quality distribution for securities was as follows:

	<b>Carrying Value</b>	<b>Standard &amp; Poor's Ratings</b>
Corporate bonds	\$ 60,155	Not rated
Total corporate bonds	<u>\$ 60,155</u>	

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### **5. Investments (continued)**

#### **Custodial Credit Risk**

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and the Reichhold Foundation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At September 30, 2015, the custody of these investments is held by the trust department of a commercial bank in the name of the University and the Reichhold Foundation, and the portfolio is managed by a brokerage firm.

### **6. Donor-Restricted Endowments**

The University's endowment consists of donations from individuals, private corporations and the Federal government. The fund was established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net position associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions

The University classifies as restricted nonexpendable net position (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted nonexpendable net position is classified as restricted expendable net position.

The University has a spending policy that establishes specific terms under which endowment funds can be spent. The Board must consider the use of funds for spending on a year to year basis. The policy spending rate per annum shall be not more than 5% on the entire value of the donor-restricted endowment fund, unless the donor stipulates otherwise.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### 7. Student Loans Receivable

Student loans receivable are generally repayable over a maximum period of 10 years and bear interest at varying rates, as required by Governmental and University regulations, once the loan is classified as repayment status. Student loans receivable are normally classified in repayment status at the time a recipient no longer maintains student status in the University, but such classification may be further extended in certain cases.

### 8. Capital Assets

Changes in capital assets for the year ended September 30, 2015, are as follows.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 7,485,112	\$ —	\$ —	\$ 7,485,112
Construction-in-progress	—	1,805,219	—	1,805,219
Total capital assets not being depreciated	<u>7,485,112</u>	<u>1,805,219</u>	<u>—</u>	<u>9,290,331</u>
Capital assets being depreciated:				
Land improvements	2,799,247	24,881	—	2,824,128
Buildings, fixed equipment, improvements and infrastructure	89,898,082	2,330,819	—	92,228,901
Equipment and library materials	13,076,817	870,433	—	13,947,250
Total capital assets being depreciated	<u>105,774,146</u>	<u>3,226,133</u>	<u>—</u>	<u>109,000,279</u>
Less accumulated depreciation:				
Land improvements	(1,968,720)	(61,041)	—	(2,029,761)
Buildings, fixed equipment, improvements and infrastructure	(34,451,084)	(1,838,405)	—	(36,289,489)
Equipment and library materials	(7,296,657)	(1,122,968)	—	(8,419,625)
Total accumulated depreciation	<u>(43,716,461)</u>	<u>(3,022,414)</u>	<u>—</u>	<u>(46,738,875)</u>
Total capital assets being depreciated, net	<u>62,057,685</u>	<u>203,719</u>	<u>—</u>	<u>62,261,404</u>
Total capital assets, net	<u>\$ 69,542,797</u>	<u>\$ 2,008,938</u>	<u>\$ —</u>	<u>\$ 71,551,735</u>

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**9. Noncurrent Liabilities**

Changes in noncurrent liabilities for the year ended September 30, 2015, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Less amounts due within one year	Noncurrent liabilities
Notes payable - HBCU	\$ 54,591,587	\$ 1,745,249	\$ 1,803,187	\$ 54,533,649	\$ 1,876,987	\$ 52,656,662
Notes payable - First Bank	-	23,224,192	-	23,224,192	-	23,224,192
Notes payable - other	1,229,588	-	143,684	1,085,904	151,591	934,313
Total notes payable	55,821,175	24,969,441	1,946,871	78,843,745	2,028,578	76,815,167
Accrued vacation	4,458,261	-	46,924	4,411,337	1,251,212	3,160,125
Other long-term liabilities	316,750	26,300	99,750	243,300	-	243,300
Total	\$ 60,596,186	\$ 24,995,741	\$ 2,093,545	\$ 83,498,382	\$ 3,279,790	\$ 80,218,592

Notes payable are further disclosed below in Note 10.

**10. Notes Payable**

During the Fiscal year 2015, the University entered into two capital project loan agreements for the medical school with HBCU under Series 2015 3-1 and Series 2015 3-2. The University also entered into a loan agreement with First Bank of Puerto Rico for a Medical School Loan. A variable rate was assigned to all the loans.

During fiscal year 2011, the University entered into two capital project loan agreements (loan agreements). Under the loan agreements, the University can request advances up to \$44,000,000 under the Series 2011-2 Bonds and up to \$16,000,000 under the Series 2011-3 Bonds. As of September 30, 2013, the University has requested the maximum allowed therefore no advances were requested under the Series 2011-2, and under the Series 2011-3. The 2011-2 Bonds have serial maturity dates through August 1, 2034, and the 2011-3 Bonds have maturity dates through August 1, 2040. Interest payments are due February and August. Interest on the 2011-2 Bonds is calculated at 3.48% and interest on the 2011-3 Bonds is calculated from the date of each advance using the long-term U.S. Treasury Rate on that day plus 22.5 basis points.

In January 2007, the University entered into an agreement with a vendor to pay for services incurred during the research of a Wind Turbine project. The original amount of the note was \$450,000 payable in 120 equal monthly installments of \$4,828 including interest at 5.25% per annum. As of September 30, 2015, the amount outstanding was \$74,451.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2015

**10. Notes Payable (continued)**

During 1994, the construction of certain academic facilities and a water distribution system was completed by the University. The amounts originally advanced by the United States Department of Education were converted to a note payable at that time. As of September 30, 2015, the amount outstanding was \$1,085,904. The note is payable, along with the related interest, in semi-annual installments of \$75,584, including interest, over a term of 30 years, and bears interest at an annual rate of 5.5%. The note is secured by a general obligation of the Government of the Virgin Islands.

For the year ended September 30, 2015, the interest expense was \$2,276,120. This amount is included in the accompanying statement of revenues, expenses and changes in net position.

Future principal and interest payments on notes payables follow:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending September 30,			
2016	\$ 2,028,578	\$ 2,698,665	\$ 4,727,243
2017	2,076,161	2,634,187	4,710,348
2018	2,148,444	2,563,827	4,712,271
2019	3,379,266	2,470,111	5,849,377
2020	3,489,075	2,360,303	5,849,378
2021-2025	19,273,183	9,747,860	29,021,043
2026-2030	22,382,670	5,811,379	28,194,049
2031-2035	19,620,869	2,001,972	21,622,841
2036-2040	4,073,737	339,395	4,413,132
2041-2045	371,761	24,590	396,351
Total	\$ 78,843,745	\$ 30,652,289	\$ 109,496,034

The loan and reimbursement agreements contain various covenants which, among other things, require the University to comply with certain affirmative and negative covenants. At September 30, 2015, the University was in compliance with the required covenants.

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**11. Leases**

The University has several non-cancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center, Virgin Islands Development and Disabilities (VIUCEDD) and the University's Academic Center in St. John, which expire over the next four years. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments under non-cancelable operating leases as of September 30, 2015, are as follows:

Year ending September 30,	
2016	263,709
2017	271,351
2018	280,647
2019	290,268
2020	300,226
Total minimum lease payments	\$ 1,406,201

Total rent expense related to these agreements amounted to approximately \$257,964 for the year ended September 30, 2015.

**12. Accrued Vacation**

The University pays vacation time to all eligible employees. Vacation time is accrued based on years of service. Accruals are made based on the following:

Length of service	Hours/week	Rate of accrual	Annual accrual
0-3 years	35	8.75 hours per month	15 days
3+ years	35	12.25 hours per month	21 days
0-3 years	40	10 hours per month	15 days
3+ years	40	14 hours per month	21 days

As of September 30, 2015, the University had accrued \$4,411,337 for vacation.



# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### 13. Retirement Plans

The University has two retirement plans in which all eligible employees are required to participate. The following is a brief description of each plan.

#### *(a) Teachers Insurance and Annuity Association- College Retirement Equities Fund (TIAA-CREF)*

The TIAA-CREF plan is a defined contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. The University's Board of Trustees administers, establishes and amends benefit provisions of the TIAA-CREF.

Plan members are required to contribute 8.0% of their annual covered salary, and the University is required to contribute 14.5% of the annual covered payroll. The University and the plan member's contributions to TIAA-CREF for the years ended September 30, 2015, 2014, and 2013 were \$2,3114,476, \$2,336,456, and \$2,198,662, respectively.

#### *(b) Employees' Retirement System of the Government of the Virgin Islands (GERS)*

Effective October 1, 2014, the University implemented GASBS 68, *Accounting and Financial Reporting for Pensions*, as amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Following is a description of the pension plan and the accounting for pension expense, liabilities and deferred outflows of resources in accordance with GASBS 68 as amended.

#### **Plan Description**

Full time employees of the University are members of the Employees' Retirement System of the Government of the Virgin Islands (GERS), a cost-sharing, single-employer, defined benefit pension plan ("the plan") established as of October 1, 1959 under Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death and disability benefits.

The plan covers all employees of the Government and its component units except employees compensated on a contract, fee basis, casual, per diem or provisional and part-time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### **13. Retirement Plans (continued)**

#### **Plan Description (continued)**

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005

Tier II: Employees hired on or after October 1, 2005

Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of salary the member earned within the last ten years of service, subject to the maximum salary limitation in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose actual annual salary is used.

#### **Contribution Information**

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members through December 31, 2014 was 17.5% of the member's annual salary. Effective January 1, 2015, the Government's required contribution was increased to 20.5% of the Tier I and Tier II member's annual salary. Contributions to the pension plan from the University were \$1,531,375 for the year ended September 30, 2015.

Effective January 1, 2015, Tier I member contributions increased by 1% to 9% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2016 and January 1, 2017.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2015

**13. Retirement Plans (continued)**

**Contribution Information (continued)**

Effective February 5, 2015, Tier II member contributions increased by 1% to 9.5% of annual salary for regular employees, and will increase an additional 1% on January 1, 2016 and January 1, 2017.

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum.

**Additional Information Regarding the Pension Plan**

To obtain additional information regarding the audited financial statements of the pension plan, requests for information may be made to:

<http://www.usvigers.com/reports/auditedfinancialreports.aspx>

**Pension Plan Expense**

The University's proportionate share of pension expense is computed based on the percentage of actual employer contributions to total contributions to the plan for the previous year ended September 30, 2014 determined in accordance with Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Pension expense, reported for the year ended September 30, 2015, amounted to \$1,531,380.

**Pension Liability**

The net pension liability of the University reported as of September 30, 2015, was as follows:

<b>Total Net Pension Liability of the Plan</b>	<b>University Proportionate Share Percentage</b>	<b>University Pension Liability</b>
\$3,086,018,012	2.0471%	\$63,173,875

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2015

**13. Retirement Plans (continued)**

**Pension Liability (continued)**

The net pension liability at September 30, 2015 was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportionate share of the net pension liability was \$63.2 million or 2.0471% of the system-wide liability. At September 30, 2015, the University's proportion decreased 0.0666% from its proportion reported as of September 30, 2014.

**Deferred Outflows and Inflows of Resources**

In computing the net pension liability, consideration was given to differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources related to pensions.

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the University in the computation of net pension liability:

<i>University</i>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 588,220	\$ –
Net difference between projected and actual investment earnings on pension plan investments	452,157	–
Changes in assumptions	3,955,445	–
Changes in proportion and differences between contributions and proportionate share of contributions	–	364,962
Contributions subsequent to measurement date	1,531,375	–
	\$6,527,197	\$364,962

University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**13. Retirement Plans (continued)**

**Deferred Outflows and Inflows of Resources (continued)**

Amounts of \$1,531,375 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended September 30:**

2016	\$1,157,715
2017	1,157,715
2018	1,157,715
2019	1,157,715

**Actuarial Assumptions**

Actuarial Assumptions used in the computation of the total pension liability were as follows:

Inflation:	2.85%
Salary Increases:	4.00% including inflation
Investment rate of return:	4.42% net of pension plan investment expense, including inflation
Mortality rates:	RP-2000 Healthy Annuitant Mortality Table set forward 2 years
Funding method:	Entry Age Normal Cost using the level percent of salary funding method

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2015

**13. Retirement Plans (continued)**

**Investment Rate of Return**

The long-term expected rate of return of 7.5% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2014, are summarized in the following table:

<i>Asset Class</i>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Inflows</b>
Domestic Equity	45%	6.99%
International Equity	10%	7.49%
Fixed Income	40%	2.59%
Alternatives	5%	4.29%
Total Asset Class	100%	

**Discount Rate**

The discount rate used to measure total pension liability was 4.42% as of September 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2015, 2016 and 2017. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members. The plan has used a long-term expected rate of return on pension plan investments of 7.5% that was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2014, that rate was 4.11%.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2015

**13. Retirement Plans (continued)**

**Sensitivity to Changes in the Discount Rate**

Following is a schedule of net pension liability for the University calculated using the discount rate of 4.42%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.42%) or one percentage point higher (5.42%) than the current rate:

<b>Proportionate Share for University</b>	<b>1% Decrease (3.42%)</b>	<b>Current Discount (4.42%)</b>	<b>1% Increase (5.42%)</b>
Net pension liability	\$73,351,833	\$63,173,875	\$54,568,268

Detailed information about the pension plan’s fiduciary net position is available in the separately issued GERS financial report at <http://www.usvigiers.com/benefits/actuarialreport.aspx>.

**14. Restatements to Beginning Net Position**

Beginning unrestricted net position was restated as follows (expressed in thousands):

Net position, October 1, 2014, as previously reported	\$66,616,567
Adjustment required for GASB 68	(57,914,485)
Adjustment required for GASB 71 adoption	1,398,159
Net position, October 1, 2014, as restated	\$10,100,241

The adjustments to the beginning position was to account for the effect of the adoption of GASB Statement No. 68 (“GASBS 68”), *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 (“GASBS 71”), *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The primary objective of this Statement is to improve accounting and financial reporting for pensions.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### 15. Functional Information

The University's operating expenses by functional classification as of September 30, 2015, were as follows:

Functional classification	Salaries and benefits	Supplies and other services	Scholarships and other services	Utilities	Depreciation	Other expenditures	Total
Instruction	\$ 13,691,817	\$ 1,944,343	\$ 85,489	\$ 35,469	\$ –	\$ 126,529	\$ 15,883,647
Research	4,341,440	4,524,990	346,188	118,805	–	177,238	9,508,661
Public service	4,335,519	1,937,108	77,620	65,820	–	69,824	6,485,891
Academic support	3,944,639	1,277,806	130,165	886	–	55,488	5,408,984
Student services	2,545,567	1,442,633	–	588,693	–	56,907	4,633,800
Institutional support	7,948,705	5,036,492	–	108,461	–	108,351	13,202,009
Operation and maintenance of plant	4,123,659	2,717,942	–	2,562,386	–	74,038	9,478,025
Student aid	182,686	60,660	7,809,580	–	–	9,087	8,062,013
Auxiliary enterprises	1,151,685	4,648,522	279,155	565,096	–	115,033	6,759,491
Depreciation	–	–	–	–	2,982,890	–	2,982,890
Other	–	–	–	–	–	174,215	174,215
	<u>\$ 42,265,717</u>	<u>\$ 23,590,496</u>	<u>\$ 8,728,197</u>	<u>\$ 4,045,616</u>	<u>\$ 2,982,890</u>	<u>\$ 966,710</u>	<u>\$ 82,579,626</u>

### 16. Related Party Transactions

The University is owed approximately \$1,375,992 from the University of the Virgin Islands Research and Technology Park Corporation (RT Park) for payroll paid on its behalf. The RT Park is a public corporation and an autonomous governmental instrumentality of the Government of the United States Virgin Islands (the Government). The RT Park is a component unit of the Government.

### 17. Contingencies

The University participates in various federally funded programs including the U.S. Department of Education and student financial assistance under Title IV of the Higher Education Act of 1965, as amended. These financial assistance programs are routinely subject to compliance audits by the grantor and/or federal agency. Such grantor and/or federal agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federal student financial assistance programs.

Other federal programs are also subject to audits. Such audits could result in claims against the resources of the University. No provision has been made for any liabilities, which may arise from such audits since the amount, if any, cannot be determined at this date.



University of the Virgin Islands  
Notes to Financial Statements (continued)

September 30, 2015

**17. Contingencies (continued)**

In addition, the University is a defendant in various lawsuits arising from its normal operations. It is management's opinion, after consulting with its legal counsels, that any losses resulting from these lawsuits will not have a significant effect on the University's financial position and operations.

**Risk Management**

The University has commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims.

Each commercial insurance policy maintained by the University contains specific policy limits and deductibles. A summary of the commercial insurance maintained by the University is as follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Policy Limit</u>
Real and personal property:		
Windstorm	\$500,000 per event	\$40.0 million per event
Flood	\$500,000 per event	\$40.0 million per event
Earthquake	\$500,000 per event	\$40.0 million per event
All other	\$10,000 per event	\$40.0 million per event
Automobile	—	\$1.0 million per event
Comprehensive general liabilities	—	\$1.0 million per event
Professional liability	—	\$1.0 million per event
First excess general liability	—	\$900,000
Officers and Directors	—	\$1.0 million

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past fiscal years.

# University of the Virgin Islands

## Notes to Financial Statements (continued)

September 30, 2015

### **18. Subsequent Events**

The University's Board of Trustees approved the creation of a Liaison Committee on Medical Education (LCME) accredited medical school and, if successful, the University's School of Medicine would be the only English speaking accredited medical school in the Caribbean. The University submitted its application for accreditation in November 2014 and the accreditation agency performed a site visit during the summer of 2015. The University received notice in October 2015, that it was not successful with its application for accreditation of the medical school. The University is continuing its quest for accreditation.

# Required Supplementary Information

University of the Virgin Islands

Schedule of the University's Proportionate Share of the Net Pension Liability

September 30, 2015

	<b>2015*</b>	<b>2014*</b>
University's proportion of the Net Pension Liability	<b>2.0471%</b>	2.1137%
University's proportionate share of the Net Pension Liability	<b>\$63,173,875</b>	\$57,914,485
University's covered-employee payroll	<b>\$6,526,549</b>	\$6,245,067
University's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	<b>968%</b>	927%
Plan fiduciary net position as percentage of the total pension liability	<b>27%</b>	31%

*\* The amounts presented for each fiscal year are as of the measurement date (September 30) of the previous year. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

University of the Virgin Islands

Schedule of the University's Contributions

September 30, 2015

	<b>2015*</b>	<b>2014*</b>	<b>2013*</b>
Contractually required contributions	<b>\$1,531,380</b>	\$1,401,719	\$1,372,722
Contributions in relation to the contractually required contributions	<b>1,531,380</b>	1,401,719	1,372,722
Contribution deficiency (excess)			
Covered-employee payroll	<b>7,230,037</b>	6,526,549	6,245,067
Contributions as a percentage of covered-employee payroll	<b>21%</b>	21%	22%

*\* The amounts presented are for the fiscal year noted. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

# University of the Virgin Islands

## Notes to Required Supplementary Information

September 30, 2015

Valuation Date: October 1, 2014

Measurement Date: September 30, 2014

Actuarially determined contribution rates are calculated as of September 30, 2014, one year prior to the end of the fiscal year in which contributions are reported, and applied to all periods included in the measurement.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost using the level percent of salary funding method
Amortization method	Level percentage of payroll
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.85%
Salary increases	4% including inflation
Investment rate of return	4.42%, net of pension plan investment expense, including inflation
Retirement age	65 for inactive vested participants
Mortality rates	RP-2000 Combined Healthy Mortality Table set forward 2 years

## Report of Independent Auditors 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  
University of the Virgin Islands

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the University of the Virgin Islands (the University) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated June 27, 2016.

### **Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 we have not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 result of that testing, and not to provide an opinion on the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

June 27, 2016



# Single Audit Report



Ernst & Young LLP  
Plaza 273, 10<sup>th</sup> Floor  
273 Ponce de León Avenue  
San Juan, PR 00917-1951

Tel: +1 787 759 8212  
Fax: +1 787 753 0808  
ey.com

**Report of Independent Auditors  
on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance and  
Report on Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133**

Board of Directors  
University of the Virgin Islands

**Report on Compliance for Each Major Federal Program**

We have audited the University of the Virgin Islands (the University)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2015. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the University's 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 September 30, 2015.

### **Report on Internal Control Over Compliance**

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

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

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

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

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the University as of and for the year ended September 30, 2015, and have issued our report thereon dated June 27, 2016, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information 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. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst & Young LLP*

June 30, 2016

University of the Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2015

Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant Program	Head Start	Higher Education Institutional Aid	21st Century Community Learning Center	Small Business Development Center	Other Programs	Total Federal Expenditures
<b>US Department of Health Human Services</b>											
Minority Health and Health Disparities Research	93.307	Yes	\$ 701,049	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 701,049
1 Minority Health and Health Disparities Research	93.307	No	208,174	-	-	-	-	-	-	-	208,174
<i>Total Minority Health and Health Disparities Research</i>			<u>909,222</u>	-	-	-	-	-	-	-	<u>909,222</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Yes	358,355	-	-	-	-	-	-	-	358,355
2 Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	No	41,638	-	-	-	-	-	-	-	41,638
<i>Total Substance Abuse and Mental Health Services</i>			<u>399,993</u>	-	-	-	-	-	-	-	<u>399,993</u>
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	Yes	-	-	-	-	-	-	-	505,981	505,981
Head Start	93.600	Yes	-	-	-	147,469	-	-	-	-	147,469
Biomedical Research and Research Training	93.859	Yes	482,198	-	-	-	-	-	-	-	482,198
3 Biomedical Research and Research Training	93.859	No	15,159	-	-	-	-	-	-	-	15,159
<b>Total US Department of Health and Human Services</b>			<b>1,806,572</b>	-	-	<b>147,469</b>	-	-	-	<b>505,981</b>	<b>2,460,022</b>
<b>US Department of Agriculture</b>											
4 Specialty Crop Block Grant Program - Farm Bill	10.170	No	4,068	-	-	-	-	-	-	-	4,068
Cooperative Forestry Research	10.202	Yes	42,768	-	-	-	-	-	-	-	42,768
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	Yes	1,225,111	-	-	-	-	-	-	-	1,225,111
5 Sustainable Agriculture Research and Education	10.215	No	130,359	-	-	-	-	-	-	-	130,359
Resident Instruction Grants for Insular Area Activities	10.308	Yes	566,502	-	-	-	-	-	-	-	566,502
6 Resident Instruction Grants for Insular Area Activities	10.308	No	74,686	-	-	-	-	-	-	-	74,686
<i>Total Resident Instruction Grants for Insular Area Activities</i>			<u>641,188</u>	-	-	-	-	-	-	-	<u>641,188</u>
7 Specialty Crop Research Initiative	10.309	No	46,880	-	-	-	-	-	-	-	46,880
Cooperative Extension Service	10.500	Yes	-	-	-	-	-	-	-	109,266	109,266
8 Cooperative Extension Service	10.500	No	-	-	-	-	-	-	-	7,167	7,167
Cooperative Extension Service	10.500	Yes	1,200,409	-	-	-	-	-	-	-	1,200,409
<i>Total Cooperative Extension Service</i>			<u>1,200,409</u>	-	-	-	-	-	-	<u>116,433</u>	<u>1,316,842</u>

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2015

Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant Program	Head Start	Higher Education Institutional Aid	21st Century Community Learning Center	Small Business Development Center	Other Programs	Total Federal Expenditures
Rural Business Enterprise Grants	10.769	Yes	-	-	-	-	-	-	-	455	455
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	Yes	58,339	-	-	-	-	-	-	-	58,339
Plant Materials for Conservation	10.905	Yes	4,029	-	-	-	-	-	-	-	4,029
<b>Total US Department of Agriculture</b>			<b>3,353,150</b>	-	-	-	-	-	-	<b>116,888</b>	<b>3,470,038</b>
<i>US Department of Energy</i>											
National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	9 81.123	No	115,626	-	-	-	-	-	-	-	115,626
<b>Total US Department of Energy</b>			<b>115,626</b>	-	-	-	-	-	-	-	<b>115,626</b>
<i>US Department of Education</i>											
Federal Supplemental Educational Opportunity Grants	84.007	Yes	-	62,813	-	-	-	-	-	-	62,813
Federal Work-Study Program	84.033	Yes	-	81,617	-	-	-	-	-	-	81,617
Federal Pell Grant Program	84.063	Yes	-	5,404,681	-	-	-	-	-	-	5,404,681
Federal Direct Student Loans	84.268	Yes	-	2,964,485	-	-	-	-	-	-	2,964,485
Federal Direct Student Loans	84.268	Yes	-	2,195,550	-	-	-	-	-	-	2,195,550
Federal Perkins Loans Program	84.038	Yes	-	129,094	-	-	-	-	-	-	129,094
Assistive Technology	84.224	Yes	-	-	-	-	-	-	-	123,621	123,621
Higher Education Institutional Aid	84.031	Yes	-	-	-	-	2,394,543	-	-	-	2,394,543
College Access Challenge Grant Program	84.378	Yes	-	-	379,360	-	-	-	-	-	379,360
10 21st Century Community Learning Center	84.287	No	-	-	-	-	-	218,278	-	-	218,278
11 Improving Teacher Quality State Grants	84.367	No	-	-	-	-	-	-	-	20,000	20,000
<b>Total US Department of Education</b>			-	<b>10,838,240</b>	<b>379,360</b>	-	<b>2,394,543</b>	<b>218,278</b>	-	<b>143,621</b>	<b>13,974,042</b>
<i>US Department of Labor</i>											
Consultation Agreements	17.504	Yes	-	-	-	-	-	-	-	363,484	363,484
<b>Total US Department of Labor</b>			-	-	-	-	-	-	-	<b>363,484</b>	<b>363,484</b>
<i>US Department of the Interior</i>											
Assistance to State Water Resources Research Institutes	15.805	Yes	61,838	-	-	-	-	-	-	-	61,838
Coastal Programs	15.630	Yes	3,938	-	-	-	-	-	-	-	3,938
Fish and Wildlife Service - Partners for F&W	15.631	Yes	1,329	-	-	-	-	-	-	-	1,329
Economic, Social, and Political Development of the Territories	15.875	Yes	-	-	-	-	-	-	-	31,784	31,784
12 Economic, Social, and Political Development of the Territories	15.875	No	-	-	-	-	-	-	-	464	464
<b>Total US Department of the Interior</b>			<b>67,105</b>	-	-	-	-	-	-	<b>32,248</b>	<b>99,353</b>
<i>National Aeronautics and Space Administration</i>											
13 Education	43.008	No	167,635	-	-	-	-	-	-	-	167,635
<b>Total National Aeronautics and Space Administration</b>			<b>167,635</b>	-	-	-	-	-	-	-	<b>167,635</b>

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2015

Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant Program	Head Start	Higher Education Institutional Aid	21st Century Community Learning Center	Small Business Development Center	Other Programs	Total Federal Expenditures
<b>National Science Foundation</b>											
14 Mathematical and Physical Science	47.049	No	16,492								16,492
15 Geosciences	47.050	No	9,541	-	-	-	-	-	-	-	9,541
Geosciences	47.050	Yes	56,858	-	-	-	-	-	-	-	56,858
<i>Total Geosciences</i>			<u>66,400</u>	-	-	-	-	-	-	-	<u>66,400</u>
Education and Human Resources	47.076	Yes	476,894	-	-	-	-	-	-	-	476,894
Office of Experimental Program to Stimulate Competitive Research	47.081	Yes	435,001	-	-	-	-	-	-	-	435,001
16 Office of International Science and Engineering	47.079	No	57,812	-	-	-	-	-	-	-	57,812
Office of International Science and Engineering	47.079	Yes	3,226,320	-	-	-	-	-	-	-	3,226,320
<i>Total Office of International Science and Engineering</i>			<u>3,284,133</u>	-	-	-	-	-	-	-	<u>3,284,133</u>
<b>Total National Science Foundation</b>			<b>4,278,919</b>	-	-	-	-	-	-	-	<b>4,278,919</b>
<b>Small Business Administration</b>											
Small Business Development Centers	59.037	Yes	-	-	-	-	-	-	594,477	-	594,477
			-	-	-	-	-	-	<b>594,477</b>	-	<b>594,477</b>
<b>US Department of Commerce</b>											
17 Integrated Ocean Observing System	11.012	No	3,882	-	-	-	-	-	-	-	3,882
18 Sea Grant Support	11.417	No	77,860	-	-	-	-	-	-	-	77,860
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478	Yes	149,588	-	-	-	-	-	-	-	149,588
19 Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478	No	75,283	-	-	-	-	-	-	-	75,283
Marine Fisheries Initiative	11.433	Yes	194,654	-	-	-	-	-	-	-	194,654
Coral Reef Conservation Program	11.482	Yes	28,679	-	-	-	-	-	-	-	28,679
<b>Total US Department of Commerce</b>			<u>529,947</u>	-	-	-	-	-	-	-	<u>529,947</u>
<b>Total Federal Expenditures</b>			<b>\$ 10,318,954</b>	<b>\$ 10,838,240</b>	<b>\$ 379,360</b>	<b>\$ 147,469</b>	<b>\$ 2,394,543</b>	<b>\$ 218,278</b>	<b>\$ 594,477</b>	<b>\$ 1,162,222</b>	<b>\$ 26,053,543</b>

See accompanying notes to schedule of expenditures of federal awards.

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Index represents funds that were received as a subrecipient  
from the corresponding institution:

<b>Pass-through Entity</b>	<b>Amount</b>
<b>1</b> Yale University	\$ 5,901
Yale University	162,023
Yale University	40,249
<b>2</b> V.I Dept. of Health	18,168
V.I Dept. of Health	23,470
<b>3</b> Brown University	15,159
<b>4</b> V.I. Dept. of Agriculture	4,068
<b>5</b> University of Georgia	92,875
University of Georgia	3,196
University of Georgia	21,484
University of Georgia	12,804
<b>6</b> University of Puerto Rico	5,075
University of Puerto Rico	69,611
<b>7</b> University of Florida	46,880
<b>8</b> University of Arkansas	7,167
<b>9</b> Norfolk State University	115,626
<b>10</b> V.I. Dept. of Education	218,278
<b>11</b> University of California	20,000
<b>12</b> University of North Carolina-Wilmington	464
<b>13</b> College of Charleston	16,268
College of Charleston	151,366
<b>14</b> Columbia University	16,492
<b>15</b> Cornell University	7,661
University of Mississippi	1,880
<b>16</b> University of South Florida	57,812
<b>17</b> University of Puerto Rico	3,882
<b>18</b> University of Puerto Rico	13,042
University of Puerto Rico	64,818
<b>19</b> University of Puerto Rico	33,769
University of Puerto Rico	41,514
	\$ 1,291,005

*See accompanying notes to schedule of expenditures of federal awards.*



# University of the Virgin Islands

## Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2015

### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the University of the Virgin Islands (the University), and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Grant revenues are recorded for financial reporting purposes when the University has met the eligibility requirements for the respective grants.

### 2. Loan Programs

During the fiscal year ended September 30, 2015, the University processed \$8,750 of new loans under the Federal Perkins Loan Program (CFDA No. 84.038), which are considered current year federal expenditures and reported in the Schedule of Expenditures of Federal Awards. The outstanding beginning loan balances (as presented below) are considered current federal expenditures and also reported in the Schedule of Expenditures of Federal Awards due to the fact that, while the program is administered by a third party, the University is the one that makes the loans.

Federal Perkins Loan Program (CFDA No. 84.038) Balance:

Beginning Balance at October 1, 2014	\$120,344
Current year expenditures	8,750
Current year collections	(4,989)
Ending Balance at September 30, 2015	<u>\$124,105</u>

During the fiscal year ended September 30, 2015, the University processed \$5,160,035 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Since this program is administered by a third-party, the new loans made in the fiscal year ended September 30, 2015, relating to this program are considered current year federal expenditures. The new loans made in the fiscal year ended September 30, 2015, are reported in the Schedule of Expenditures of Federal Awards.

# University of the Virgin Islands

## Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2015

### 3. Subrecipients

The University provided federal awards to subrecipients as follows:

<b>Program Title</b>	<b>CFDA Number</b>	<b>Amount disbursed in fiscal year 2015</b>
21 <sup>st</sup> Century Community Learning Program	84.287	\$218,277
Research and Development Cluster	Various	436,866
Total		<u>\$655,143</u>

### 4. Contingencies

The University participates in various federally funded programs including the U.S. Department of Education, including programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended. These financial assistance programs are routinely subject to compliance audits by the grantor and/or federal agency. Such grantor and/or federal agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federal student financial assistance programs.

Other federal programs are also subject to audits. Such audits could result in claims against the resources of the University. No provision has been made for any liabilities, which may arise from such audits since the amount, if any, cannot be determined at this date.

University of the Virgin Islands

Schedule of Findings and Questioned Costs

Year Ended September 30, 2015

Section I - Summary of Auditor's Results

**Financial Statements Section**

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

           **yes**        **x**   **no**

Significant deficiency(ies) identified?

  **x**   **yes**                 **none reported**

Noncompliance material to financial statements noted?

           **yes**        **x**   **no**

**Federal Awards Section**

Internal control over major federal programs:

Material weakness(es) identified?

           **yes**        **x**   **no**

Significant deficiency(ies) identified?

           **yes**        **x**   **none reported**

Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):

Unmodified

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

           **yes**        **x**   **no**

Identification of major programs:

**CFDA number**

**Name of federal program or cluster**

84.287

21<sup>st</sup> Century Community Learning Program

Various

Student Financial Assistance Cluster

Various

Research and Development Cluster

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

**\$781,606**

Auditee qualified as low-risk auditee?

  **x**   **yes**                 **no**

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2015

Section II- Financial Statements Findings

**This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.**

# University of the Virgin Islands

## Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2015

### Section II- Financial Statements Findings (continued)

#### **Finding Number: 2015-001**

##### ***Criteria***

A fundamental element of a sound system of internal controls is an effective financial statement close process. Such a process is essential in enabling organizations to prepare timely and accurate financial statements. This process helps the University ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the University's general ledger and culminates in the preparation of the University's financial statements, including identification and documentation of relevant disclosures that are required under generally accepted accounting principles.

##### ***Condition***

As part of our 2015 audit procedures for the University, we noted deficiencies in the University's financial statement close process as follow:

- The Statement of Cash Flows prepared by the University included several errors and required significant re-work. Multiple changes to line items in the Statement of Cash Flows prepared by the University management were needed in order to be presented in accordance with US Generally Accepted Accounting Principles.
- The University's footnote disclosures and Required Supplementary Information in connection with GASB Statement No. 68 were incomplete. Several pieces of information required to be disclosed were not included in the University's draft of the financial statements and were only included after these were identified by the University's auditor.

##### ***Cause***

The University does not have effective controls or procedures in place to compile and review the Statement of Cash Flows. In addition, the University's procedures to implement a new GASB standard should be improved in order to ensure all required disclosures are considered.

##### ***Effect***

The lack of adequate internal control procedures over its financial reporting processes led to significant changes to the University's financial statements.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2015

**Finding Number: 2015-001 (continued)**

***Recommendation***

Management should improve the annual closing process, including more effective monitoring controls over financial statements compilation in order to detect and correct errors on timely basis in the Statement of Cash Flows. Additionally, different levels of review needs to be enforced when implementing a new accounting standard prior to its presentation to the auditors to ascertain that all required disclosures and schedules are properly presented. This may include holding internal training programs for the preparers and first level reviewers related to the financial statement close process.

These procedures will enhance the University's year-end reporting and as a result, it will improve the efficiency of the audit process at year-end.

An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be reinforced.

***Management's Response***

The University concurs with the finding and will implement the recommendation.

Contact person for corrective action: Associate Vice President  
Anticipated completion date: September 30, 2016

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2015

Section III- Federal Award Findings and Questioned Costs

**This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.**

None reported.

University of the Virgin Islands

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2015

<b>Finding 2013-02</b>	
<b>CFDA</b>	84.378
<b>Name of Federal Program</b>	Various College Access Challenge Grant Research and Development Cluster
<b>Type of Compliance Requirement</b>	Subrecipient Monitoring
<b>Amount of Questioned Cost</b>	CFDA 84.378 - \$1,000,000 R&D Cluster - \$372,730
<b>Contact Person Responsible for Corrective Action Plan</b>	Controller
<b>Status</b>	Corrected



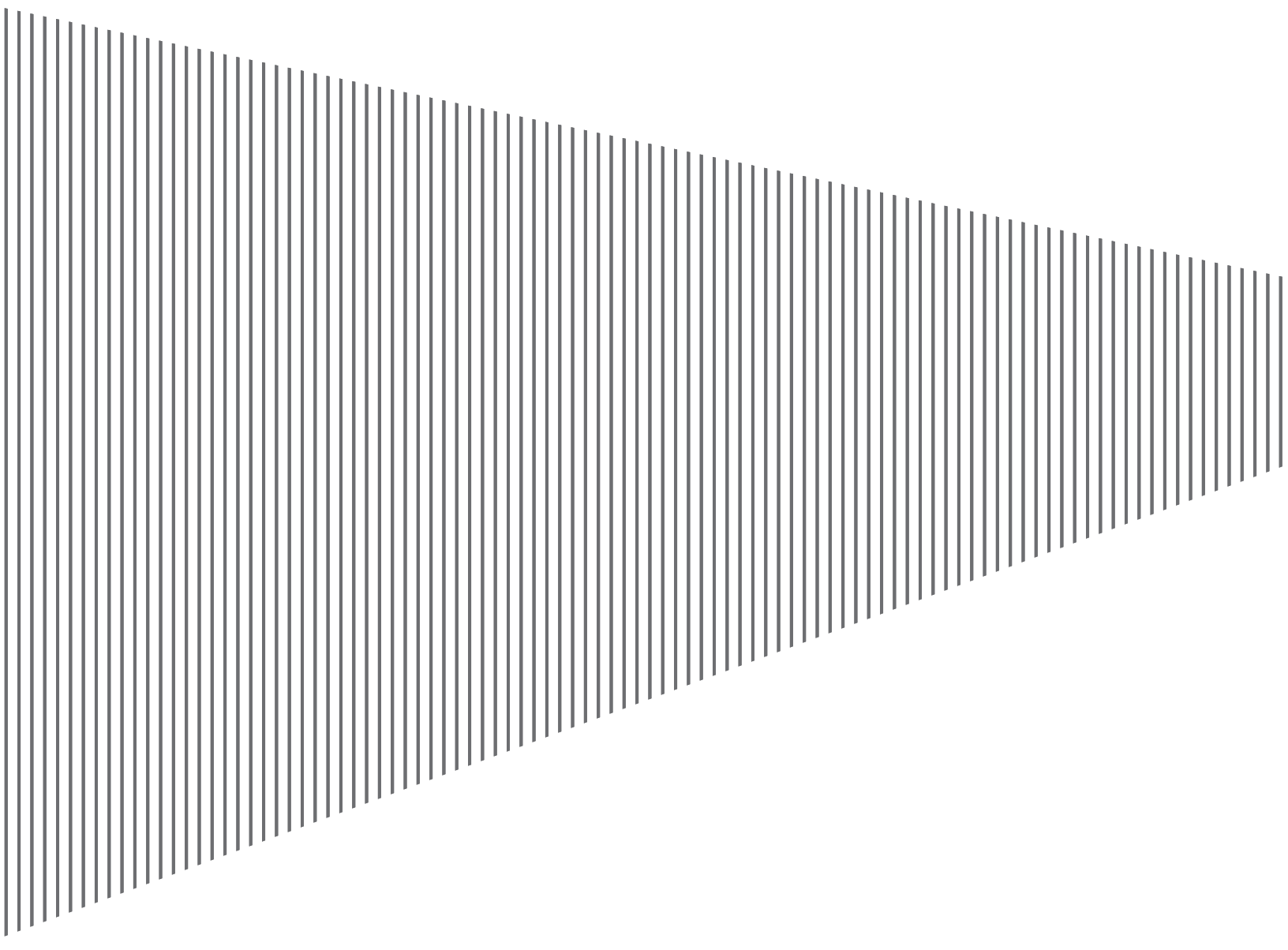
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***Accounting Department***

## Corrective Action Plan

Fiscal year ending September 30, 2016

Management will improve the annual closing process, including more effective monitoring controls over financial statements compilation in order to detect and correct errors on timely basis in the Statement of Cash Flows. Additionally, different levels of review will be enforced when implementing a new accounting standard prior to its presentation to the auditors to ascertain that all required disclosures and schedules are properly presented. This will include holding internal training programs for the preparers and first level reviewers related to the financial statement close process.

These procedures will enhance the University's year-end reporting and as a result, it will improve the efficiency of the audit process at year-end.

The University recognizes that an effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be reinforced.

**Contact person for corrective action:** Associate Vice President

**Anticipated completion date:** September 30, 2016